ALASKA STATE LEGISLATURE
SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE
May 27, 2021
1:31 p.m.

MEMBERS PRESENT

Senator Shelley Hughes, Chair
Senator Robert Myers, Vice Chair
Senator David Wilson
Senator Elvi Gray-Jackson (via teleconference)

MEMBERS ABSENT

Senator Lyman Hoffman

COMMITTEE CALENDAR

PRESENTATION: Comprehensive Fiscal Plan for Alaska By Department of Revenue

- HEARD

PRESENTATION: Comprehensive Fiscal Plan for Alaska: Budget Implications for Communities and Regions in Alaska by Office of Management and Budget

- HEARD

PRESENTATION: Part I Economic Impacts of Fiscal Options; Part II Economic Impacts of Fiscal Certainty by UAA Institute of Social and Economic Research

- HEARD

PRESENTATION: PFD Certainty and Impacts to Small Business by UAA Business Enterprise Institute and Kenai Peninsula Economic Development District

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

LUCINDA MAHONEY, Commissioner
Department of Revenue (DOR)
Anchorage, Alaska
POSITION STATEMENT: Presented an overview of the governor's intent for fiscal sustainability.

MIKE BARNHILL, Deputy Director
Department of Revenue
Juneau, Alaska
POSITION STATEMENT: Answered questions regarding Alaska Permanent Fund draw calculations.

NEIL STEININGER, Director
Office of Management and Budget
Office of the Governor
Juneau, Alaska
POSITION STATEMENT: Discussed the updated annual 10-year plan of the governor's budget policies to show the impact on the state's long term fiscal picture.

MOUHCINE GUETTABI, PhD., Associate Professor of Economics
Institute of Social and Economic Research
University of Alaska Anchorage
Anchorage, Alaska
POSITION STATEMENT: Delivered a presentation on the Economic Impacts of Fiscal Options and the Economic Impacts of Fiscal Certainty.

CHRISTI BELL, Associate Vice Chancellor and Executive Director
Business Enterprise Institute
University of Alaska Anchorage
Anchorage, Alaska
POSITION STATEMENT: Co-presented a PowerPoint on PFD Certainty and Impacts to Small Business.

TIM DILLION, Executive Director
Kenai Peninsula Economic Development District
POSITION STATEMENT: Co-presented a PowerPoint on PFD Certainty and Impacts to Small Business.

ACTION NARRATIVE

1:31:54 PM
CHAIR SHELLEY HUGHES called the Senate Community and Regional Affairs Standing Committee meeting to order at 1:31 p.m. Present

at the call to order were Senators Myers, Wilson, Senator Grey-Jackson (via teleconference), and Chair Hughes.

PRESENTATION: COMPREHENSIVE FISCAL PLAN FOR ALASKA

1:32:55 PM
CHAIR HUGHES stated the purpose of the meeting is to explore the governor's proposal for a 50:50 split of the percent of market value (POMV) draw as part of an overall fiscal plan. While there has been considerable discussion about the permanent fund dividend (PFD) itself, it has not been in the context of an overall fiscal plan. She said it is important for this committee to understand that because individual Alaskans and Alaskan communities are affected.

1:36:50 PM
CHAIR HUGHES listed the targeted topics of the five presenters and announced the committee would first hear from Commissioner Lucinda Mahoney.

1:36:58 PM
LUCINDA MAHONEY, Commissioner, Department of Revenue (DOR), Anchorage, Alaska, stated her goal was to provide details about the fiscal plan the governor submitted to the legislature in the form of constitutional amendments. She described the governor's proposal as a structured, disciplined fiscal plan that provides a framework for fiscal certainty. She stated the administration does not believe a broad-based tax is needed. Rather, the administration believes transferring $3 billion from the Earnings Reserve Account (ERA) into the Constitutional Budget Reserve (CBR), supplemented with new revenues and reductions in FY2023 and FY2024, will achieve a framework for fiscal sustainability into the future.

COMMISSIONER MAHONEY stated the first component of the fiscal plan is to protect the permanent fund by creating an endowment.

1:38:56 PM
At ease

1:39:59 PM
CHAIR HUGHES reconvened the meeting.

1:40:22 PM
COMMISSIONER MAHONEY restated that the first goal of the governor's structured fiscal plan is to constitutionalize a more modern endowment style permanent fund and enshrine the dividend

into the constitution. The idea is to protect the permanent fund dividend (PFD) for future generations. The second goal is to establish a consistent PFD. This will provide certainty for Alaskans and government can plan on a certain and sustainable level of government services. The third goal is to establish strong reserves, starting with $1 billion in the CBR. She noted she would discuss those details later in the presentation. She said realizing goals one through three will result in a sustainable balanced budget going forward, which is the fourth goal in the governor's comprehensive fiscal plan.

1:42:03 PM
COMMISSIONER MAHONEY discussed the governor's next steps in the comprehensive fiscal plan. During the First Special Session, the intent is to start working on the structural fix she just described. The governor also called a Second Special Session, the objective of which is to discuss with the legislature ideas for new revenue measures and reductions in spending to achieve a balanced budget.

COMMISSIONER MAHONEY advised she next would focus on converting the Permanent Fund to an endowment structure, which is more modern and is nationally and internationally recognized as best practice. The distributions from the Permanent Fund would be based on a five percent POMV draw and the governor proposes spending 50 percent of the draw on government services and 50 percent on the PFD. The objective is to constitutionalize both the draw and split. She opined that draws based on the five-year rolling average stabilize revenues. Another component of the plan would be to protect the $1.1 billion Power Cost Equalization (PCE) endowment by depositing it into the permanent fund. She said this would protect both the permanent fund and the PCE for future generations.

1:44:22 PM
SENATOR WILSON asked if the PCE endowment would be kept in a separate account so the draw would only be based on the PCE balance or if it would be mingled in the corpus of the Permanent Fund.

COMMISSIONER MAHONEY answered the PCE would be deposited into the corpus of the Permanent Fund. There are no plans currently for separate accounting.

SENATOR WILSON observed the PCE would continue to be subject to appropriation by the legislature, which may or may not happen.

COMMISSIONER MAHONEY advised the [constitutional] amendment was written for the $30-40 million annual contribution to communities to have first call on the 50 percent split for government services.

1:45:26 PM
SENATOR WILSON pointed out that the five-year rolling average for the POMV draw provides more predictability, but it does not guarantee that the draw would be stable.

COMMISSIONER MAHONEY acknowledged the potential for market corrections and related the administration's belief that the five-year average provides more consistency and certainty for the near future.

1:46:27 PM
CHAIR HUGHES said one reason for this meeting is to help Alaskans understand the governor's proposal. Listening to some of the testimony in House Judiciary, she said it was clear there is a need to understand this together. She recalled the misunderstanding and frustration when Senate Bill 26, the POMV statute, passed at the same time that the statutory formula for the PFD was not followed. There was animosity toward the POMV even though it is just a calculation for the draw.

She observed that if the traditional statutory calculation for the draw were used now that government is using part of the draw, it would exceed the amount that would allow the permanent fund to grow. She asked Commissioner Mahoney if she recalled what percent was in statute to calculate the draw before Senate Bill 26 passed. She offered her understanding that some years it could be 7-8 percent; if the average growth is 6.5 percent, the draw would be higher than the earnings.

COMMISSIONER MAHONEY deferred the question to Mike Barnhill.

1:49:39 PM
MIKE BARNHILL, Deputy Director, Department of Revenue, Juneau, Alaska, after the question was clarified, advised the draw based on the statutory net income formula varies dramatically year over year. He offered to share a spreadsheet.

He explained the definition of net income includes cash in the form of dividend from stocks, coupons from fixed income, rents from real estate, and net realized gains from changes in the portfolio. When the managers of the Permanent Fund Corporation change managers or liquidate an investment, it can potentially generate net realized gains, he said. Those decisions are based on internal investment considerations and some years there is a considerable amount of realized gains through management and portfolio changes and other years not. He said there is of volatility in those investment decisions so there is not consistency over time with respect to the percentage of statutory net income vis a vie the total value of the portfolio. He reiterated he had a spreadsheet to share.

1:52:52 PM
CHAIR HUGHES posed a hypothetical of a $6 billion draw with 50 percent to each the PFD and government services, which would far exceed the five percent POMV draw. She said the point is that a smaller draw is needed now that government is using part of the draw instead of leaving it in the fund to grow like it did for about 30 years. The five percent POMV draw will better ensure growth of the fund than the more variable draws prior to passage of Senate Bill 26. She asked Mr. Barnhill if he would agree.

MR. BARNHILL answered yes, and stated his preference for the committee to wait for the data in the forthcoming spreadsheet, rather than relying on his recollections of the numbers.

1:54:09 PM
CHAIR HUGHES said the public is concerned about fairness, so it is important they understand why the legislature is trying to find a different formula for the draw. She pointed out that the 50:50 split between government and the PFD has not changed. The difference is the size of the draw, and that government is now using its share. She asked if he agreed that the split between the PFD program and government had not changed in the 30 years since the PFD program began.

MR. BARNHILL replied that the statutory net income formula is a 50:50 split of the five-year average of the earnings, and the governor is proposing a 50:50 split with five-percent draw of the market average. He said they're both 50:50 but of different things.

CHAIR HUGHES asked if the PCE endowment would potentially earn more if it were mingled with the corpus of the permanent fund or if the current investments were substantially similar.

1:56:09 PM
COMMISSIONER MAHONEY replied the investments in both funds are similar, except for the private equity investments. The PCE is invested for moderate risk, so it has a smaller market share of

private equity investments. She said that sector is currently outperforming the rest of the market and if that continues, it is fair to say the PCE would generate higher earnings.

CHAIR HUGHES said that is helpful for both the public and legislators to know. She recalled the PCE was initially funded with a $300 million appropriation that has grown to $1.1 billion, and that since inception about $12 billion has been spent on power infrastructure in the Railbelt. She asked if that sounded right and if DOR could provide documentation.

1:58:11 PM
MR. BARNHILL offered to follow up with the information.

CHAIR HUGHES asked Commissioner Mahoney to continue the presentation.

1:58:31 PM
COMMISSIONER MAHONEY displayed the line graph on slide 5 that shows the dividend payments since 1982. The line splits in 2016 with the green line showing what the dividend calculation under the statutory formula and the orange lines showing the amounts of the PFD that were paid from 2016 to 2020. The dotted line in between the green and orange lines represents the dividend with the 50:50 split. She described it as a half way point between the PFD payments the last six years and the statutory dividend.

She paraphrased the text on slide 5 that read as follows: [Current punctuation provided.]

Current Challenge:

- Public Mistrust: Too much spending on Government
- Political Impasse: Results in a PFD Based on Politics - Not Laws

Solution:

- Restore Public Trust: Consistent PFDs and Spending Limits
- Establish a Fair Resolution: 50/50 Split
- Constitutionalize PFD

2:00:38 PM
COMMISSIONER MAHONEY displayed the table on slide 6 that uses Callan's 6.25 percent earnings assumption for FY2022 through FY2052. She noted Callan is a consultant for both the Permanent Fund Corporation and the Alaska Retirement Management (ARM)

Board. With a 50:50 split of the POMV draw, the FY2022 dividend would be $2,354. Using the investment methodology, she said the dividend would be $4,452 by FY2052.

CHAIR HUGHES asked what the $4,476 would be equivalent to in today's dollars. She recalled that a $1,000 PFD in 1982 was equivalent to about $3,000 in today's dollars.

COMMISSIONER MAHONEY replied it is fairly constant. Adjusted for inflation, it is just under $2,400.

2:02:21 PM
SENATOR WILSON asked what the growth of the permanent fund has been over the last 30 years, exclusive of inflation proofing.

COMMISSIONER MAHONEY answered the permanent fund has grown an average of 8.6 percent over the last 45 years, which includes inflation proofing that was added to the corpus. She acknowledged they did not run the calculation without inflation proofing. She offered to follow up with the calculation.

2:03:09 PM
COMMISSIONER MAHONEY explained that slide 7 is intended to generate discussion about the importance of consistency in the dividend program. She paraphrased the text that read as follows:

- Alaskans deserve certainty concerning annual PFD payment.
- State needs PFD consistency to attain budget stability and sustainability.
- Absent certainty, determining future achievable revenues/reductions is difficult and may result in over/under collecting/taxing.
- 50% POMV dividend is an equitable distribution of Alaska's wealth between its citizens and government.
- Resolving the PFD allows a discussion of required revenues/reductions to close the remaining budget gap (August Special Session)
- Redirects the legislative conversation to growing Alaska vs. debating PFD.

2:05:07 PM
CHAIR HUGHES added that the time spent debating the PFD has been at the expense of other important topics. She pointed out that Alaska has the highest rate of sexual crime in the nation as

well as serious academic achievement gaps. If the dividend were settled there would be time to devote to some very serious needs in other policy areas.

2:06:30 PM
COMMISSIONER MAHONEY said the details of the governor's comprehensive fiscal plan include using [$3] billion from the ERA as bridge funding for the CBR. The administration believes the fiscal gap can be managed to zero in FY2025 with a $1 billion reserve balance. Using the $3 billion, provides time for the governor and legislature to work together to identify new revenue measures and place them in statute or identify and implement expenditure reductions.

To the question of whether the $3 billion is appropriate, she pointed out that other endowments are making one-time increased draws. She cited the example of the Harvard endowment. That draw will be increased from 5 percent to 7.5 percent to take advantage of exceptional market performance.

She said the administration believes the proposed $3 billion draw would avoid the need for a new broad-based tax. She continued: "We believe $300 million is an achievable new revenue number or reduction to the budget that can result in smaller components of new revenue measures that could fill the gap." Furthermore, constitutionalizing the five percent POMV prevents future overdraws.

2:09:33 PM
CHAIR HUGHES asked if the draw would be 7.5 percent per year if the $3 billion were drawn over two years.

COMMISSIONER MAHONEY replied the $3 billion draw would increase the 5-percent POMV to 7.8 percent. She pointed out that while the budget request is for $3 billion effective at the end of 2022, the administration would work with the Permanent Fund Corporation to structure the transfers based on when the funds are needed. This would maximize earnings in the permanent fund.

2:10:47 PM
CHAIR HUGHES asked if the administration would support legislation that adjusts the statutory 5-percent POMV draw to 7.7 percent for two years.

COMMISSIONER MAHONEY answered that would need to be discussed with the governor.

CHAIR HUGHES said she would like to know the governor's position, because overdrawing the 5-percent POMV draw would be contrary to the law.

2:11:59 PM
SENATOR WILSON referenced the fifth bullet on slide 7 and asked what combination of revenue measures and spending reductions she was referring to and why the administration did not include those proposals in the presentation.

COMMISSIONER MAHONEY replied the Department of Revenue will release two to three new revenue measures in August. The governor is soliciting input from the legislature, and he would like new revenue measures and potential reductions to be the sole focus.

SENATOR WILSON stated his preference to have the governor's entire comprehensive plan before the legislature now instead of waiting into the future for something that may or may not be tangible. He referenced the governor's plan to constitutionalize the five percent POMV draw and asked how the legislature can know this is a good standard for a draw and if there might be scenarios where five percent is too little or too much.

COMMISSIONER MAHONEY deferred the question to Mr. Barnhill.

2:14:46 PM
MR. BARNHILL said the standard draw for endowments over the last 30 years has been five percent of average market value. The idea is if nominal returns are in excess of five percent plus inflation...

SENATOR WILSON interjected to ask if the five-percent draw and a 50:50 split between government and the dividend had been stress tested so the legislature would know that is the right number.

2:16:09 PM
MR. BARNHILL answered five percent could be the right number, but the legislation says "not more the five percent" in case five percent is too high. To the question about whether the 50:50 split is the right number, he said the administration is presenting a scenario based on what is happening today, but nobody knows if 50 percent will be enough to cover state expenses in 10 or 20 years. The governor's proposal settles the issue of the permanent fund and the dividend today so the legislature can focus on revenues and spending.

2:17:34 PM
SENATOR WILSON asked why he keeps mentioning taxes in the future when the governor's proposal is supposedly to avoid taxes in the future.

MR. BARNHILL replied this is a scenario based on what is happening today, but circumstances could be better or worse in 20 years. He added that if the governor's proposal passes it narrows the question of how much to draw from the permanent fund and how much to allocate for the dividend.

2:18:18 PM
SENATOR WILSON stated the public should understand that the legislature has the ability to focus on multiple policy questions at the same time. This is a very important issue that all legislators care deeply about, but it does not consume the attention of all 60 legislators at all times.

2:18:57 PM
CHAIR HUGHES suggested Mr. Steininger with the Office of Management and Budget also address the question when it is his turn to present.

She referenced the statement that the PCE might earn more if it is mingled with the corpus of the permanent fund. She noted that the concept of the [constitutional] amendment is that funding for the PCE program would receive the first draw on the government half. However, nothing in the amendment prevents a legislature from deciding to use some of that draw to innovate the power infrastructure in rural areas to eliminate the use of diesel. She asked if that was correct.

2:21:08 PM
MR. BARNHILL answered yes, that is correct.

CHAIR HUGHES clarified that the amendment does not constitutionalize the subsidy; it constitutionalizes the fund. She asked if he agreed that using a certain amount of the funding for something related to PCE would not necessarily be a subsidy.

2:21:43 PM
MR. BARNHILL answered the anti-dedication clause in the constitution prohibits statutory dedications for a particular purpose. This proposal dedicates a revenue stream for the purpose of power cost equalization. He did not opine on whether or not that would be characterized as a subsidy.

CHAIR HUGHES offered her interpretation that this does not tie the legislature's hands to make changes to help equalize power costs in rural areas throughout the state.

SENATOR WILSON suggested that since this is a constitutional question that will go before the people, the legislature could make this a dedicated fund in the constitution.

MR. BARNHILL responded this is drafted as a dedication of funds to a purpose.

2:23:25 PM
COMMISSIONER MAHONEY continued the presentation. She explained the graph on slide 9 reflects the $1.4 billion deficit in FY2022 and the glide path for reducing that deficit with the $3 billion deposit to the CBR. A sustainable and balanced budget is achieved beginning in about 2027. She said this can happen because the POMV is forecast to grow from [$3,069.3 billion in 2022 to $4,171.8 billion in 2030].

COMMISSIONER MAHONEY advised the bar graph represented on slide 10 identifies 2024 to 2025 as the point when new revenue measures or budget reductions need to be in place to achieve a $1 billion CBR balance. The red dotted line reflects DOR's recommended $1 billion minimum balance needed to provide liquidity for near-term needs.

2:25:43 PM
COMMISSIONER MAHONEY said the next graphic builds on the last by incorporating $150 million in new revenue measures or reductions in 2024 and 2025. It shows the reserve balance is flat in 2026 but still above $1 billion then gradually increases thereafter. She said that is largely due to the increasing POMV draws but things like the tax certificate payoff in 2027 are also a factor. She noted Mr. Steininger would talk later about the budget impact to the plan

COMMISSIONER MAHONEY advised the graph on slide 12 provides a visual of the proposed budget versus revenues. The solid green line represents the budget from 2021 to 2030 and each multi-colored bar reflects the different types of revenues expected each year. Blue represents traditional UGF revenue, primarily oil and gas taxes; orange represents expected POMV revenue; yellow represents how the $3 billion addition to the CBR would be used from 2022 through 2026; gray represents the expected new revenues/reductions starting in 2024.

2:28:05 PM
CHAIR HUGHES mentioned the news yesterday about a new oil find off the haul road. She asked how and when that might affect traditional UGF revenues in the blue bars.

COMMISSIONER MAHONEY answered DNR Commissioner Feige said she does not have information she can share about that find right now, but the industry standard to bring a prospect to production is 5-7 years. She opined it would be seven years before the blue UGF revenue bars would show an increase based on the find.

COMMISSIONER MAHONEY directed attention to the chart on slide 13 of the details of the 10-year outlook for the governor's proposed fiscal plan. The third line down reflects new revenues/reductions that start in FY2024 with $150 million and increase to $300 million per year in subsequent years. She noted the first budget surplus is projected in FY2027 and that posited the CBR ending balance was more important. It is expected to reach its lowest point in FY2026 and then is projected to grow to over $2 billion in FY2030. The chart also reflects the PFD amounts and the 50-percent POMV needed to fund those. Finally, the chart identifies the projected fiscal year end balances of the permanent fund.

2:31:09 PM
SENATOR WILSON directed attention to the total general fund appropriations line and asked how it accounts for inflation and the value of the dollar.

COMMISSIONER MAHONEY deferred the question to Mr. Steininger who later would provide updated details. [Senator Wilson indicated that was acceptable.]

She articulated the caveat that DOR was making a lot of assumptions in its forecast and could not guarantee the projections. She noted slide 14 outlines the upside fiscal benefits of the proposal that are not incorporated into the numbers. The first of these relate to the PERS and TRS retirement accounts, which have also enjoyed exceptional returns this year. If the market holds, the return will be approximately $5 billion, which may reduce the $6.5 billion unfunded liability and thus decrease the state's assistance contributions in the forecast. She highlighted things that were not included in the forecast numbers but that would improve the fiscal outlook if they were. She listed: the American Rescue Plan (ARP) stimulus funds that if included would increase the annual CBR balances;

lapsing fund balances; potential reductions to programmatic formulas for K-12 and DHSS due to population changes; and projected market returns in excess of 6.25 percent.

2:34:27 PM
COMMISSIONER MAHONEY listed the downside risk considerations that could affect the governor's plan. The first area of concern is inflation. She noted the four percent increase in April and related that Federal Reserve Chair Jerome Powell characterized the current rise as transitory due to the pandemic-related supply/demand disruption. She said there is also risk of a downward market correction, but the POMV smooths the effect over five years. If the market were to continue to drop, the legislature and governor would have time to initiate different revenue measures. She said another downside risk is failure to realize downward pressure on budgets. The governor is encouraging departments to continue to look for efficiencies and cost reductions, some of which is incorporated in the outlook, but there is risk that these may not be implemented. The final downside risk that has been identified is oil price and volume volatility, although the $1 billion reserve should help manage liquidity through a downturn. If the oil price environment were to continue downward, the legislature and governor would have time to initiate additional revenue measures.

2:37:14 PM
SENATOR WILSON referenced the third and fourth bullets of upside fiscal benefits on slide 14. He asked if the $231 million state lapse in 2020 was related to COVID-19 or an issue with the budgeting process over the last decade. He described the lapsed $67 million in 2019 as within a good margin for a $10-13 billion budget. He also expressed concern that no changes could be made to the DHSS program at least until December 2021 and potentially for the next several years until the federal delegation is successful in initiating change.

2:38:47 PM
COMMISSIONER MAHONEY displayed slide 15 and explained that the graph on the left compares the base POMV to the governor's proposal for the 50:50 split and $3.0 billion draw. She said the administration recognizes that the POMV will be smaller in the future because of the draw, but the governor is committed to the short-term benefit.

2:39:48 PM

CHAIR HUGHES asked what the monetary difference will be in 2025 between the blue bar representing POMV (Base) and the orange bar representing POMV (Scenario).

COMMISSIONER MAHONEY replied the difference is $50 million.

CHAIR HUGHES asked if that difference is steady through 2030.

COMMISSIONER MAHONEY replied the maximum difference is expected to be $113 million in 2030.

She stated the graph on the right reflects the estimated permanent fund year-end balances, both for the baseline and with bridge funding.

CHAIR HUGHES asked what the difference is in 2030.

COMMISSIONER MAHONEY answered the difference is $2.4 billion.

2:40:46 PM
SENATOR WILSON asked about the possibility of getting these graphs with a lookback from 2009 to 2017 and 2002 to 2009 to provide a more stress-tested look rather than a glide path.

COMMISSIONER MAHONEY asked him to provide the assumptions and DOR would model the scenarios.

2:41:40 PM
COMMISSIONER MAHONEY displayed a summary of the governor's plan for fiscal and political stability. She paraphrased the text that read as follows: [Original punctuation provided.]

- Constitutionally protect Permanent Fund and PFD
  - Limit annual draw to 5% POMV
  - Dedicate 50% of POMV to PFDs
  - Combine Principal and Earnings Reserve Account into one endowment

- Constitutionally protect Power Cost Equalization
  - Deposit PCE endowment ($1.1B) into Permanent Fund
  - Dedicate revenue to equalize power costs in Alaska

- Provide bridge to balance budgets through FY2025
  - Transfer $3B from ERA to CBR

- Discuss achievable revenues/reductions in August 2021 Special Session

2:42:28 PM
CHAIR HUGHES expressed hope that DOR would release what it planned to propose in August sooner rather than later and asked when that might be.

2:43:04 PM
COMMISSIONER MAHONEY replied she would find out when the package would be available and let the committee know.

COMPREHENSIVE FISCAL PLAN FOR ALASKA: BUDGET IMPLICATIONS FOR COMMUNITIES AND REGIONS IN ALASKA

CHAIR HUGHES welcomed Mr. Steininger.

2:43:56 PM
NEIL STEININGER, Director, Office of Management and Budget, Office of the Governor, Juneau, Alaska, stated he would be speaking to the updated annual 10-year plan of the governor's budget policies to show the impact of the plan on the state's long term fiscal picture. He advised that the near term is more important in the 10-year plan to show how the budget objectives affect the state's fiscal picture, and that more assumptions are made in the out years. The updated data includes the most recent oil price forecast from the Spring Revenue Source Book, the updated outlook on the POMV draws, and updates to the amendments that were introduced through the governor's budget. He continued to say:

> You can really see that first several years where that bridge fund concept in our SJR 6 proposal really starts to make sense and lets us get to that longer term period where you can see that both choices made and spending decisions as well a better outlook in the POMV starts to close that gap over time. So in that short term period as we're getting there, we both have that bridge fund to bridge that gap as well as some spending assumptions that we're making about policy decisions we have to make in the next several years.

2:46:26 PM
MR. STEININGER highlighted some of the assumptions in the OMB document of assumptions in the 10-year outlook for SJR 6. He

pointed to FY2023 and FY2024 and advised the main assumptions to consider are the $150 million baseline capital budget plus inflation and the $100 per year in budget reductions for two years for a total $200 million. He related the reductions are a result of some of the upside items Commissioner Mahoney mentioned and things like anticipated cost increases from bargaining unit negotiations and the governor's budget policy decisions made for FY2023 and FY2024.

He relayed OMB's belief that the $100 million per year in reductions is achievable through budget policy decisions regarding agency programs as well as decreases due to better projections on PERS payments and other policy items that will be phased in over time.

MR. STEININGER stated another assumption related to implementing SJR 6 in FY2024 is the addition of the $32.3 million Power Cost Equalization (PCE) program to UGF expenditures. "With constitutionalization of the Power Cost Equalization fund rolling into the permanent fund, we need to make room in the budget for that program that previously was funded through designated general funds." He noted the projections also account for changing community assistance funding from DGF to UGF spending.

2:48:19 PM
MR. STEININGER stated the assumptions for FY2025 to FY2030 apply 1.5 percent inflation to agency budgets and assume that agencies will not allow growth beyond that rate. Assuming a relatively low rate of inflation is justified by an analysis of budgets in previous years that show growth more often is related to availability of revenue, not inflation.

2:49:09 PM
CHAIR HUGHES mentioned the reduction of $100 million per year for two years and the $300 million Commissioner Mahoney discussed. She asked if the governor intends to have $200 million of the $300 million be reductions.

MR. STEININGER answered the model assumes the $200 million in reductions occur the two years before the $150 million and $300 million in new revenues/reductions Commissioner Mahoney discussed. The baseline assumption is the governor will make $100 million per year policy decisions and proposals to the operating budget in FY2023 and FY2024. Policy discussions and decisions related to the $150 million and $300 million in new revenues/reductions would happen in FY2024 and beyond.

2:50:11 PM

CHAIR HUGHES advised he was invited to speak to the committee in part so the public and people in various communities might gain some understanding of what the proposed reductions might look like on the ground. "When you're talking about $100 million in each of the next two years, how might an Alaskan recognize and see that difference?"

2:50:36 PM

MR. STEININGER answered it is hard to be specific. The administration works with agencies throughout the year on ways to reduce operating costs within agencies without reducing services. For example, the administration currently is looking at how the state occupies facilities since COVID-19 showed that some state work does not require as much physical footprint as has been allocated. Overlapping schedules and sharing work stations over time will save money. The hope is that these modernizing measures that change the way services are performed will not be visible to end users or constituents. He said Medicaid and things that would impact communities are wider policy discussions not necessarily addressed through a line-item reduction in the budget. However, those discussions, which would involve both stakeholders and the legislature, should be expected.

2:53:21 PM

SENATOR WILSON observed that the baseline capital budget is just for the match; it does not address deferred maintenance or the school deferred maintenance list.

MR. STEININGER confirmed the $150 million baseline capital budget primarily it is for the match, but it allows for a small amount of discretionary capital spending such as for school maintenance. However, he said "not necessarily at high amounts or in every year."

2:54:15 PM

SENATOR WILSON asked for a guestimate of the percentage of the $150 million that would be for discretionary capital spending.

MR. STEININGER replied that the baseline match is in the range of $110 to $115 million with the remainder going to discretionary annual recurring projects. He described the capital budget as very constrained and said some proposals such as those related to general obligation bonds or the use of Alaska Housing Finance Corporation bonding that were put forward this year could be discussed in the future if interest rates continue to be low. He said the use of these funds would allow some capital spending that is of interest to policymakers.

2:55:49 PM
SENATOR MYERS asked why the assumption is for 1.5 percent inflation when Callan is telling the Permanent Fund Corporation to assume 2 percent inflation in the next few years.

MR. STEININGER answered the governor's 10-year plan reflects the current policy of the executive branch for downward pressure on operating budgets and the assumption is that future governors and legislatures will continue to place downward pressure on operating budgets. An assumption of 2 percent inflation assumes no downward pressure on budgets in those out years so budgets would grow with inflation. He described the assumption of 2 percent inflation as policy-neutral and advised the governor's document was not necessarily intended to be policy neutral. It has inherent policy in many areas, one of which is continued restraint on operating budgets. The administration believes no constraint on budgets is not a good policy decision for the state.

2:58:34 PM
SENATOR WILSON asked which departments had lapse carryforward funding because he would like to fix it in the next operating cycle. Adding to Senator Myers' question, he asked which departments the administration has identified that can sustain more budget cuts. He recounted the cuts to DOTPF maintenance stations and power on the Parks Highway that were rejected due to core safety issues. He observed the administration's current budget was flat, so it did not reflect any of the downward pressure the governor was proposing. He asked where cuts could be made without triggering additional supplemental budgets.

3:00:09 PM
MR. STEININGER described state spending in FY2020 as particularly odd. About $140 million lapsed from agency operating budgets, primarily from enhanced federal medical assistance percentages (FMAP) participation in the Medicaid program. Some of the lapsed funds resulted from the decision to use the coronavirus relief fund to offset costs within public safety agencies. The conscience decision to generate some of the lapse was to preserve money in the Constitutional Budget Reserve and thus buy time to make these big policy decisions. Some of the lapse also is natural such as when budgets are higher than need be. He noted OMB has started to compare actual rather than

budgeted spending from the previous year when developing next year's budget. This gives a better idea of what was spent and whether unspent dollars were the result of unexpected federal revenue that came in or that the dollar was not needed. He said the budget proposal for FY2022 shows instances where that happened, but the easy reductions are largely gone. Thus, the larger policy questions and discussions are needed to address bigger cost-drivers and continue the downward pressure on budgets.

Responding to the question specifically, he said he could not point to a particular area, but the reductions in the FY2022 budget identified such reductions for FY2023.

3:03:27 PM
SENATOR WILSON asked what reductions or revenues the administration intended to put forward in August 2021 and when the legislature could expect to see those. He remarked that waiting until August would not allow time for the legislature to adequately review the policies.

MR. STEININGER replied, the information will be shared as it is developed, but there was nothing to share at this time.

PRESENTATION: Part I Economic Impacts of Fiscal Options; Part II Economic Impacts of Fiscal Certainty

3:05:29 PM
CHAIR HUGHES welcomed Dr. Guettabi.

3:05:58 PM
MOUHCINE GUETTABI, PhD., Associate Professor of Economics, Institute of Social and Economic Research, University of Alaska Anchorage, Anchorage, Alaska, stated he would first talk about the economic effects of policy uncertainty. He said this has been discussed for the last several years and he wanted to quantify the effects. He advised he would not evaluate the merits of the 50:50 proposal because he was unaware of the details until recently and because none of the assumptions about revenues and reductions have been implemented. That makes modeling any sort of macro-economic consequences very challenging, he said.

3:07:52 PM
DR. GUETTABI advised that in 2015-2016 there was an impression that waiting to solve the fiscal crisis was not costly because the state had ample savings. He said this was a concern and he

decided to look at what the economic literature had to say about how uncertainty affects economic activity. He reviewed the study and findings summarized on slide 4:

> -Baker, Bloom, and Davis (2013) construct a novel index of economic policy based on a diverse array of metrics, performing tests of the index’s validity through a human audit of 3,500 newspaper sources and other commonsense measures.
>
> -They find that the increase in policy uncertainty that followed the onset of the Great Recession had significant negative effects on aggregate investment and on employment as well as on consumption expenditures.
>
> -Matching firm-level data with the data series of this index, Gulen and Ion (2013) find that economic policy uncertainty can explain up to 32% of the drop in corporate investment over the 2007-2009 time period.

DR. GUETTABI said this does not apply directly to Alaska, but it does make the point that private investments and expenditures by private households are not immune to uncertainty at the federal or state level. He noted that uncertainty and budget stability is mentioned on a regular basis in local newspapers.

3:09:48 PM
DR. GUETTABI said slide 5 provides alternative examples. The Gao and Qi paper looked at whether states borrow at a higher rate before gubernatorial elections because of the uncertainty around who will win and what the policies will be. The researchers found that borrowing rates jumped around that time. He noted that since the elections, Alaska has been dealing with higher uncertainty because people do not know if taxes or government cuts will be implemented, and they do not know what will happen to the dividend.

3:11:40 PM
DR. GUETTABI said the last example, Jens 2013, is a convincing analysis of private investment's response to uncertainty. It looked at the effect of an election on state-level corporate investment, which makes it the most similar to how Alaska thinks about uncertainty. That study found that investment dropped between 5 and 15 percent in the quarter the election was held.

[Audio interference]

DR. GUETTABI said he looked to see if this information could be used to look at what Alaska has missed out on and if there is a way to use the estimates to understand the cost of uncertainty.

3:12:29 PM
DR. GUETTABI directed attention to the bar graph on slide 6 that reflects construction spending in Alaska between 2014 and 2019. He highlighted that private construction spending in 2019 was about $4.4 billion and said that raises the question about how much more spending might have occurred if the issues related to taxes, the permanent fund dividend, and spending cuts had been resolved. He discussed the points on slide 7 that reflect the application of the 5-15 percent reduction in state-level investment spending. The slide read as follows:

> -Private Construction spending in 2019 is supposed to be around 4.41 billion dollars. Using the 5 to 15% estimated by Jens (2013), we would conclude that the direct effects of policy uncertainty is costing the state somewhere between $220 and $660 million in private capital spending.
>
> -The decline in spending due to policy uncertainty would indicate that waiting is not a costless option. In fact, the losses due to uncertainty are important and similar in magnitude to the ones the economy would experience due to a tax or further government cuts.

DR. GUETTABI asked if there were any questions or comments on his analysis of the effects of uncertainty.

3:15:24 PM
CHAIR HUGHES asked if the missed opportunity of $220-600 million in private capital spending was exclusive of construction related to the oil industry.

DR. GUETTABI answered it is inclusive; petroleum spending is a subset of private construction spending.

3:16:02 PM
SENATOR MYERS asked if the loss was the same each year or getting worse.

DR. GUETTABI offered his belief that it is the loss each year that will continue as long as the crisis of uncertainty continues. However, he said it could be worse because of reputational and credit rating issues. The point is that the cost of waiting should be part of the conversation.

CHAIR HUGHES agreed.

3:18:29 PM
DR. GUETTABI stated that the balance of the presentation would be devoted to a summary of what he, Gunnar Knapp, and Matthew Berman learned when they assessed the short-term economic effects of the fiscal options being debated in 2016. He emphasized he and his colleagues modeled generic options of the potential economic losses. Because the analysis focused on the short-term effects, it does not translate to long-term effects of any budgetary decisions. He also pointed out that he purposefully did not update the results from 2016 because the state's fiscal situation is very different now. Most savings have been exhausted and the state's economic picture has changed quite a bit. Furthermore, the state was just coming out of a multi-year recession in 2019 and it fell back into recession as a result of COVID-19.

3:21:46 PM
DR. GUETTABI discussed the conclusions from the original study which was that anything that is done to reduce the deficit will take money from some group of people. The decision about which group to raise money from has implications and questions of what is progressive and regressive, which options will affect what communities, how taxes interact with existing taxes, and how cuts affect individuals and communities. He said the question about the permanent fund is important because overdraws clearly have consequences in terms of the ability to grow and continue to pay dividends and government services.

3:22:58 PM
DR. GUETTABI turned to the results of the study starting on slide 14. The graph shows the estimated job losses if $100 million were raised from each of the 11 options for reducing the deficit.

DR. GUETTABI pointed to the top bars that show the high and low estimates for cutting the state workforce. The numbers reflect the loss of the original government jobs and the loss of spending associated with that individual. The job losses associated with initiating a tax result from individuals having less money to spend after paying taxes, and less spending translates to job losses. He explained the low and high scenario for the number of jobs lost depends on how people spend their money. He said the differences between some of the revenue options depend on whether high income or low-income people are being taxed. Low-income people tend to spend more of their disposable income and thus they have greater influence on economic activity. He noted that cutting the PFD results in more job losses because a majority of Alaskans get the dividend. He said the variation in short-term effects come from the number of non-residents that are affected by the tax and whether the tax is progressive or regressive. He said the slide does not indicate one option is better or worse; it tells the short-term effects of removing money by imposing an income tax. He noted that short term is typically defined as within a year so before people and businesses start changing habits.

3:25:48 PM
DR. GUETTABI turned to the graph on slide 15 that shows the high and low estimated income losses per $100 million of deficit reduction for each of the 11 revenue options. He pointed to the income losses that are largely driven by the progressive or regressive nature of the tax and by how much non-residents are participating or paying for the tax. He highlighted the difficulty of getting good numbers to model due to variation by industry in terms of residency and participation by nonresidents. Nonetheless, he said it is an informative exercise to show short-term effects of the fiscal options. He warned it does not talk about what to do five or ten years from now and what is more prudent and what gives the best quality of life.

3:27:22 PM
DR. GUETTABI summarized slide 16 that read as follows:

> • While our analysis does not investigate the regional implications of cuts and taxes, we know the state's boroughs are very different from one another.
>
> • They have varied economic bases, and their government dependence is also very heterogeneous.
>
> • Anything the state does to reduce the deficit will cost the economy jobs and money. But spending some of the Permanent Fund earnings the state currently saves would not have short-run economic effects. Excessive withdrawals, however, have long term implications that are important to consider.

3:28:21 PM

DR. GUETTABI stated he spent the past five years empirically studying the socioeconomic effects of the PFD and if time allowed he would summarize the findings.

CHAIR HUGHES said the committee would like to hear the information.

DR. GUETTABI mentioned Matt Berman's paper that looks at the effects of the PFD on poverty. He found there have been substantial declines in poverty as a result of the PFD and the effects are substantial for the elderly. He said Mr. Berman's paper delves into the question of how much higher would poverty have been in the absence of the PFD.

DR. GUETTABI advised that slide 19 summarizes some of his own work with colleagues Brett Watson and Matt Reimer that looked at the effect of the PFD on childhood obesity. They found that receiving an additional PFD by the mere fact that the birth occurred in December as opposed to January was helpful in maintaining an adequate weight.

3:30:22 PM

DR. GUETTABI directed attention to slide 20 related to employment effects. The slide read as follows:

> Knapp, Berman, and Guettabi (2016) find that a 100 million increase in the aggregate size of the PFD is associated with the creation 725 jobs in the short run.
>
> Bibler, Guettabi, and Reimer (2019) find that for every 100 million dollars in the total PFD distribution, there are approximately 475 jobs created. On the other hand, they find that women who are already employed tend to decrease the number of hours worked in the three months following the distribution.

3:31:28 PM

DR. GUETTABI summarized the findings of the Kueng study. The slide read as follows:

> Kueng (2018) finds that consumption increases by 11 cents for each dollar of PFD received in October, 5 cents in November, and another 7 cents in December. Overall, this points to an increase of between 22 and

24 cents for every PFD dollar in the three months post distribution

3:32:21 PM

CHAIR HUGHES commented on the election year and the cost of delaying a policy decision regarding the PFD.

3:33:24 PM

DR. GUETTABI agreed that uncertainty belongs in the conversation. He said considerations about price, production, returns of the funds, if cuts where, and if taxes where is all important. He said he looks forward to looking more closely at the proposal and developing a better understanding of its consequences in the short run and the long run.

CHAIR HUGHES said the committee would like to hear from him again if he looks at the proposal.

PRESENTATION: PFD CERTAINTY AND IMPACTS TO SMALL BUSINESS

CHAIR HUGHES welcomed Christi Bell.

3:34:36 PM

CHRISTI BELL, Associate Vice Chancellor and Executive Director, University of Alaska Anchorage Business Enterprise Institute (BEI), Anchorage, Alaska, stated the mission of BEI is to diversify the economy of Alaska and better position the university to engage with businesses and communities. Programs like the Small Business Development Center (SMDC), Center for Economic Development (CED), Manufacturing Extension Partnership (MEP), Procurement Technical Assistance Center (PTAC), and the Cooperative Development Center (Coop) all operate through the Business Enterprise Institute. Collectively, the programs serves about 2,500 small businesses and microenterprises each year.

MS. BELL relayed that she was asked to talk about how a consistent and reliable PFD adds certainty to the behavior of small businesses. She agreed with Dr. Guettabi that the jobs that result from the PFD are part time and temporary, generally in the first quarter following the distribution of the PFD. Local businesses benefit from this spending, but buying patterns do not change significantly.

3:36:19 PM

MS. BELL discussed the effects of the COVID stimulus payments in conjunction with the PFD on individuals and businesses. She said anecdotal information from BEI's client base shows that consumer spending has increased which has helped boost labor expenditures. National data shows a result of the pandemic is that savings have increased from 13.9 percent to 30 percent. People are also paying off debt from credit cards, past rent, and overdue mortgage payments.

She said the antidotal information indicates that as new money comes in individuals may pay down debt, put the money towards business investments, or put it in savings. How the money is spent depends on the individual's tolerance for risk or a business owner's view of what they may be able to do with the new capital.

3:38:57 PM
MS. BELL reviewed the definitions for "small businesses," "micro enterprises," and "solo entrepreneurs." She said it is important to understand that the U.S. Small Business Administration definition of "small business" is one that has 500 or fewer employees and annual receipts under $7.5 million, although it does vary by industry sector. She said she has not found a state definition of "micro enterprise," but they tend to have fewer than five employees and a capital need of less than $35,000. Solo entrepreneurs also fit in the small business definitions. She said those individuals run their own operations.

3:40:41 PM
MS. BELL paraphrased the Alaska Small Business Stats on slide 6:

Total number of businesses in Alaska 73,354

- Small Businesses - 4,986 firms

- Micro Enterprises - 16,413, 1 to 10 employees

- Solo Enterprises - 51,955 sole proprietors, <u>no employees</u>
  - o Specialists: freelancers; real estate agent; consultant; handy man; house cleaner; taxi and Uber drivers; commercial fishing crew members; etc. ◦Employed with a “side gig” business license
  - o Less than one percent may be early-stage entrepreneurs

3:41:55 PM
MS. BELL reviewed the Small Business Administration data that compared the number of small businesses in Alaska to all other states:

- 99.9 Percent of all businesses across the US are small businesses
  - 47.3 percent of the workforce
  - 100 employees or less, the majority of these firms

- Alaska
  - Total small businesses: 73,354 (99.1% of businesses)
  - Small business rate: 13,289 per 100k residents 18+ (#11 highest among all states)
  - Total small business employees: 137,271 (#50 highest among all states)
  - Small business share of total employment: 52.4% (#12 highest among all states)
  - Self-employed minorities: 10,413 (#41 among all states)

MS. BELL stated these figures speaks to the entrepreneurial spirit of Alaskans and that this is a business-friendly state. She attributed that to the fact that Alaska typically does not have a sales or income tax.

3:43:37 PM
SENATOR MYERS observed that Alaska is 11th highest among states for its small business rate but 50th highest for small business employees. He asked if that means that Alaska has among the highest rate of sole entrepreneurs.

MS. BELL answered that is correct; of the nearly 75,000 small businesses, 52,000 are solo enterprises. She described that as a critical point for the committee to consider.

3:44:34 PM
CHAIR HUGHES calculated that a solo business owner with a spouse and two children could expect close to $10,000 from the PFD in a year under the 50:50 split. She noted that during the pandemic Gabe Layman with Cook Inlet Housing was managing increments of about $10,000 for small business owners many of whom were solo and low and middle income. She highlighted the certainty that $10,000 would provide for these small business owners. She mentioned the research Dr. Guettabi referenced about people making more prudent decisions when they have a larger sum of money as opposed to a smaller amount. She extrapolated that a family of four that received a total of $2,000 in dividends in a year might buy a big screen television but if they received

$10,000 they might make a decision to invest the money. Knowing how some people spent those $10,000 increments during the pandemic factored into the decision to invite Ms. Bell and Mr. Dillon to speak about what they have seen and the effect it can have on small businesses.

3:47:08 PM
MS. BELL stated agreement and noted the UAA Center for Economic Development conducted research titled "The State of Entrepreneurship." She offered to provide the paper, some of which was summarized on the next slide. She explained the research looked at startups and private sector job growth in Alaska. These new firms had an average of 4.8 employees initially and those that survive, represent 89 percent of job growth in five years. She pointed out that [64 percent] of startup capital comes from personal or family savings. Other sources are 16 percent from business or commercial loans; 12 percent from personal credit cards; 11 percent from personal family assets; 7 percent from personal or family home equity loans; and 6 percent from family or friend investments.

MS. BELL said this data supports what Chair Hughes was saying, which was that large tranches of capital typically are not needed initially. She directed attention to the data on the next slide and highlighted that 35 percent of all farms needed less than $25,000 whereas just 10 percent of all farms required from $250,000 to $3 million. She said those farms that receive the larger tranches of money more often than not are proven businesses that have moved beyond the first stage of business. She said she had not talked with Gabe Layman but the experience in her organization is that firms do not need millions of dollars to launch a business. Rather, she said it is often a matter of bootstrapping and hard work. She shared the example of an individual who used their PFD to purchase construction equipment and incrementally built that up over the decades.

3:51:09 PM
MS. BELL paraphrased her closing thoughts on the final slide:

- Near impossible to predict the behavior of individuals or businesses

- ASSUME, consistently known PFD amount, may see more solo businesses or micro-enterprise plan for a launch or expansion - again, while an assumption, many entrepreneurs bootstrap….

  - 23 percent of entrepreneurs required less than $9,999 to launch in 2016
  - 12 percent of entrepreneurs required between $10,000 and $24,999 in 2016

She said this data demonstrates that entrepreneurs in the state potentially can benefit from some certainty. At the least they can plan to launch their business or business investments.

- Entrepreneurial activity correlated to increased economic growth.

- Supporting small businesses stimulates the economy.

3:52:53 PM
CHAIR HUGHES commented that the take away from Dr. Guettabi is there is a cost to uncertainty and the takeaway from this presentation is the state will likely see some growth in small business activity which will strengthen the state's economy.

She welcomed Tim Dillon.

3:53:49 PM
TIM DILLION, Executive Director, Kenai Peninsula Economic Development District (KPEDD), stated KPEDD is a private non-government resource that is focused on responsible and sustainable economic development for the region. The four staff work closely with the other three economic development districts. KPEDD is one of the nine statewide ARDORS (Alaska regional development organizations). He reported that the Kenai Peninsula has one of the most diverse economies in the state and quality of life is the overarching concern. He maintained that businesses and families are not able to prepare financially for the future without a larger picture statewide fiscal plan.

MR. DILLION pointed to the things listed on slide 3 that a state fiscal plan would provide:

- Down payments and deposits for individuals and businesses
- Collateral for new and emerging businesses
- Financial stability
- Increased private investment
- Help to retain and reopen businesses

MR. DILLION stated agreement with the following quote from Senate President Peter Micciche:

> We need to come together as Alaskans because until we solve a fiscal plan beginning with a Permanent Fund dividend solution, we are stuck in neutral.

He reported hearing from countless people since yesterday who are concerned about both the budget and the permanent fund dividend. But their calls were primarily a reminder about the importance of the PFD. He highlighted that because the state does not have a fiscal plan and because the legislature has not resolved the question of the PFD, it has not had time to focus on other important needs. These include fighting crime, improving Alaska's workforce, bettering Alaska's education system, and addressing community infrastructure needs.

3:56:42 PM
MR. DILLION directed attention to the charts on the next slide. He explained that with help from the Alaska District Office of the U.S. Small Business Administration, KPEDD looked statewide at how individuals and businesses would use additional capital. The top five uses of additional capital are reflected in the bar graph on the left and they confirm statements from both Ms. Bell and Dr. Guettabi. These are: 1) replace lost revenue, 2) paying employees/making payroll, 3) paying bills/accounts payable, 4) rent/mortgage, and 5) infrastructure investments and maintenance.

He pointed to the pie chart on the right side of the slide that shows current employee numbers on the Kenai Peninsula. He noted it confirms what Ms. Bell discussed. This resent survey found that 73 percent of businesses on the Kenai Peninsula have 5 or fewer employees.

3:57:56 PM
MR. DILLION reported that the nine ARDORS recently conducted surveys of Alaska businesses and then met with statewide financial institutions to find out about funding sources for businesses and microloans. The key takeaway was that businesses primarily need help with down payments and collateral. He said there is no guarantee that individuals will spend their dividends in a certain way but there is no doubt that the PFD will improve the financial picture and quality of living for all Alaskans. Further, many businesses will see a revenue boost as Alaskans spend their dividends to increase food security, prepare for the winter, and pay their utilities. He shared that

he heard from ARDOR directors yesterday who reported a number of families pool their PFDs to get through the winter.

3:59:34 PM
MR. DILLION directed attention to the images on the next two slides that depict examples of Alaskans supporting Alaskans. He pointed out that this kind of support takes money. The first slide had snapshots of the most recent Soldotna Wednesday Market when 3,500 people turned out to support 47 vendors and small businesses. The next slide had images of the Homer Winter King Salmon Tournament when 1,562 anglers in 545 boars competed for $238,000 in prize money. He emphasized the need for the legislature to work to ensure that Alaskans can afford to support Alaskans.

4:00:44 PM
MR. DILLION urged the legislature to work with the ARDORS, who are the boots on the ground, to create a sustainable and responsible statewide plan for all Alaskans. ARDORS work throughout the state to help people and they handle outreach and technical assistance for Alaska CARES and other programs. He referenced the help the ARDORS provided last summer to implement the distribution of pandemic relief funds and emphasized the importance of involving ARDORS on the front end.

MR. DILLION concluded the presentation pointing out that 677 Alaska businesses did everything that was required to qualify for the Alaska CARES program, but the money ran out and they received nothing. On behalf of all the ARDORS, he asked the legislature to make sure those 677 businesses that missed out on approximately $32 million receive the help they deserve.

4:02:47 PM
CHAIR HUGHES asked Ms. Bell and Mr. Dillon to pass along examples of what businesses statewide were able to achieve with the smaller increments of supplemental funding that was available last year.

4:04:31 PM
There being no further business to come before the committee, Chair Hughes adjourned the Senate Community and Regional Affairs Standing Committee meeting at 4:04 p.m.