

SENATE FINANCE COMMITTEE
February 1, 2021
9:01 a.m.

[9:01:27 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Bert Stedman, Co-Chair
Senator Lyman Hoffman
Senator David Wilson
Senator Donny Olson (via teleconference)
Senator Bill Wielechowski (via teleconference)

MEMBERS ABSENT

Senator Click Bishop, Co-Chair
Senator Natasha von Imhof

ALSO PRESENT

Neil Steininger, Director, Office of Management and Budget, Office of the Governor; Alexei Painter, Director, Legislative Finance Division.

SUMMARY

OFFICE OF MANAGEMENT and BUDGET - GOVERNOR'S FY 22 BUDGET PROPOSAL - (Continuation)

LEGISLATIVE FINANCE DIVISION - OVERVIEW OF THE GOVERNOR'S FY 22 BUDGET

Co-Chair Stedman noted that Co-Chair Bishop and Senator von Imhof would be attending to other state business and would not be present. The committee would hear a continuation of the governor's proposed FY 22 budget by the Office of Management and Budget (OMB) that had begun the previous Friday. The committee would also hear an overview of the governor's budget from the Legislative Finance Division (LFD). He relayed that later in the week the committee would consider more budget overviews. The subcommittees for

the operating budget would be formed within a couple of days and would hopefully begin meeting by the end of the week. He stated that the committee would diligently work through the budget process to formulate conclusions and solutions for the [state's] structural deficit over the next couple of months.

^OFFICE OF MANAGEMENT and BUDGET - GOVERNOR'S FY 22 BUDGET PROPOSAL - Continuation

[9:04:33 AM](#)

NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, discussed a continuation of the presentation, "State of Alaska, Office of Management and Budget, FY2022 Senate Finance Overview" from Friday, January 29 (copy on file).

Mr. Steininger addressed slide 11, "Commerce, Community, and Economic Development." He reported that the numbers for FY 20 and earlier included appropriated supplementals. He explained that FY 21 was reflective of the current budget departments were operating under without any proposed supplementals (referred to as management plan by OMB). The FY 22 figures reflected the governor's budget proposal. He noted that most of the graphs did not include duplicated funds; however, duplicate funds had been included for a couple departments where duplicate funds were material to the departments' operation.

Mr. Steininger reviewed the high level FY 22 budget changes for the Department of Commerce, Community and Economic Development (DCCED) on slide 11. The governor's budget would transfer the Alaska Development Team to the Office of the Governor, which would eliminate two positions and decrease the budget by \$240,000 in undesignated general funds (UGF). He detailed that the change would elevate the economic development activity to a cabinet level position. The governor's budget would also eliminate the last remaining UGF named recipient grant under DCCED. The dark blue portion of a graph on slide 11 reflected UGF, which had been significantly higher in past years. He explained that in the past there had been substantially more named recipient grants that flowed through DCCED. The last remaining grant was to the Alaska Civil Legal Services. The entity had also received another named recipient grant

funded by a portion of court receipts designated by statute.

Mr. Steininger continued to review budget changes to DCCED on slide 11. The proposed budget deleted a vacant position within the Division of Economic Development. He detailed that OMB had asked agencies to look at positions that had been vacant six to nine months or longer that they did not have plans to fill but were still funded in the budget. The idea was to trim unnecessary unfilled positions that departments did not intend to fill in the future. The budget would also eliminate three vacant Alaska Gasline Development Corporation (AGDC) positions that met similar criteria.

Mr. Steininger continued to review DCCED budget changes on slide 11. The budget would replace UGF authority within the Alaska Energy Authority (AEA) with Power Cost Equalization (PCE) funds. The action would remove the last of the UGF subsidies for AEA. Lastly, the proposed budget would add two Regulatory Commission of Alaska (RCA) master analyst positions, which would allow the RCA to better meet its needs and objectives. He added that the positions would be funded with receipts generated by the RCA.

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Co-Chair Stedman asked if there were any issues related to the proposal to use PCE funds [in place of UGF for AEA] shown in the second to last bullet on slide 11.

Mr. Steininger replied that the proposal reflected the use of designated general funds (DGF) for a purpose that was not specifically designated by statute; however, AEA's broad mission related to PCE's intent to ensure access to energy throughout the state. He noted there was nothing to prevent the appropriation of PCE funds for the specified purpose.

Co-Chair Stedman asked about the bullet regarding deletion of vacant AGDC positions. He asked for verification that there may be an upcoming proposal connected to AGDC.

Mr. Steininger replied in the affirmative. He elaborated that elsewhere in the budget there was authority allowing for AGDC to receive federal or other statutory designated

program receipts for the purpose of the first phase of the Alaska LNG pipeline project.

Co-Chair Stedman stated that the topic represented a much larger policy issue. He believed committee members would want to have a separate discussion on the matter.

[9:10:01 AM](#)

Mr. Steininger highlighted slide 12, "Corrections." The slide showed there had been continued investment in the Department of Corrections (DOC) and all of the public protection related organizations and agencies in the past several years. The proposed budget included approximately \$4 million for the addition of 112 community residential center (CRC) beds and GPS tracking for CRC residents. The budget utilized federal and municipal man-day receipts, a per-day charge assessed for inmates convicted of federal and municipal crimes housed in state facilities. He reported that when the state had reopened the Palmer Correctional Center it had utilized an excess of the federal man-day receipts in order to avoid general fund cost. He elaborated that DOC generally collected more in federal man-days than it had been budgeted in prior years; the budget would shift to utilizing the man-days on an ongoing basis as opposed to building up a surplus. The proposal would use the receipts to offset general fund costs.

Mr. Steininger continued to review the DOC budget on slide 12. The proposed budget would replace insufficient Restorative Justice Account funds with UGF. He elaborated that the annual transaction fluctuated from year-to-year. The account was funded with Permanent Fund Dividends (PFDs) garnished from people with felony convictions. The money was allocated several places in the budget; however, the source was volatile because the number of prisoners and the PFD amount fluctuated annually. He reported that collections in the fund were significantly lower in the current year than in the previous year; however, the collections in the prior year had been substantially higher than they had been historically. The budget included the restoration of positions within the Palmer Correctional Center, which would be necessary when the facility was fully open and operational.

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Senator Wilson asked if the money appropriated through federal/municipality receipts was enough to offset the cost of reopening the Palmer Correctional Center. Alternatively, he asked if additional general funds were needed.

Mr. Steininger stated the federal mandate money had covered a significant portion of the cost. There was some UGF associated with reopening the Palmer Correctional Center, in addition to future operational costs. He would follow up with the information.

Co-Chair Stedman noted that Senator Wilson should chair the DOC budget subcommittee due to his background on the subject.

[9:13:56 AM](#)

Mr. Steininger highlighted slide 13, "Education and Early Development - Non-Formula." He noted the information did not include the K-12 formula, which would be detailed on the following slide. He pointed to a peak in federal receipts shown in light blue in a graph on the left. The money reflected Coronavirus Aid, Relief, and Economic Security (CARES) Act and other COVID-19 relief legislation from the federal government that primarily passed through the Department of Education and Early Development (DEED) to school districts.

Mr. Steininger relayed that the proposed budget reduced long-term vacant staffing due to travel reductions resulting from the expanded use of teleconference meeting technology. The budget would delete several vacant positions within the Division of Libraries, Archives and Museums. Additionally, the budget would eliminate a data assessment contract that DEED had determined it was able to produce in-house. The budget included savings from other miscellaneous travel reductions and increased virtual work.

Co-Chair Stedman commented that when budget subcommittees were underway, the DEED subcommittee would look at the impact in revenue for the Division of Libraries, Archives and Museums due to the lack of tourism in the state the previous year and potentially in 2021. The subcommittee would consider the division's progress in working to increase visitors to the state's museums and libraries once the tourism industry came back.

[9:16:11 AM](#)

Mr. Steininger displayed slide 14, "Education and Early Development - Formula." The funding primarily included K-12 foundation formula that went out to school districts. He noted that the funding also included a couple of smaller formula programs such as the Residential Schools Program. He detailed that the proposed budget would remove funding authority for one school that had been approved for a number of years but had never been implemented within the Anchorage School District. He reported that the budget fully funded the foundation formula. He relayed that changes in student count and demographics had reduced the estimated amount to be paid out in the formula.

Mr. Steininger pointed to a table on the lower right of slide 14, which provided a high level picture of the student count and how it correlated with the basic need requirement and funding levels. He highlighted a significant reduction in the average daily membership (ADM) of students in the classroom. He noted there was a significant increase in the number of students enrolled in correspondence programs, which were funded at a lower level than the standard ADM. The change resulted in a net reduction to the foundation formula of approximately \$20 million, despite being fully funded.

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Senator Hoffman asked if Mr. Steininger knew the decrease in student count for the coming year.

Mr. Steininger replied that the decrease in total ADM was just under 2,000 as shown in the third row, third column in the lower right table on slide 14. He deferred to DEED for more specific details.

Senator Hoffman requested a historical five-year analysis of student population data.

Co-Chair Stedman stated that it would be nice to have the committee briefed on the status of schools and challenges students had passing exams due to the pandemic. He spoke to the concern about students falling back in grade levels or missing substantial portions of their current grade in

K-12. He highlighted that education of children was one of the state's most fundamental constitutional obligations.

[9:19:48 AM](#)

Senator Wilson asked if the regular ADM was determined at a point in time or throughout the year.

Mr. Steininger clarified that the regular ADM was based on fall projection counts. There was also a true-up period conducted by DEED later in the year. He deferred to DEED for any additional detail.

[9:20:24 AM](#)

Mr. Steininger discussed slide 15, "Environmental Conservation." He reported that the Department of Environmental Conservation was another area where efforts had gone into finding savings within administrative services. He elaborated that the savings were a result of telework and changes in service delivery, which were sustainable over the long-term. The proposed budget included a fund source change from head tax receipts to UGF for shellfish testing. The budget also included a reduction to spill prevention/response account authority. He explained that the account collected significantly less than it was budgeted to expend. The reduction was necessary to ensure the fund did not get emptied in the near future. The change was part of a plan to taper down use of the fund in order to ensure it remained solvent.

[9:21:35 AM](#)

Mr. Steininger turned to slide 16, "Fish and Game." He pointed to an uptick in the light blue section of a graph in the upper left of the slide representing federal funds. He explained that the increase reflected moving some of the Dingle Johnson and Pittman Robertson [federal] funds from the capital budget into the operating budget. He detailed that historically the funds had only been in the capital budget; however, a significant portion of the funds were used to support operational costs within the Department of Fish and Game (DFG). He noted there had also been some increases in Dingle Johnson and Pittman Robertson grants coming from the federal government.

Mr. Steininger highlighted a proposal to replace UGF with commercial fisheries program receipts. He elaborated that enough receipts had been generated to offset some of the UGF in their activities. He pointed out a change in the Commercial Fisheries Division structure. The budget consolidated the regional components into one, which allowed for administrative efficiencies in money management. He elaborated that the work division staff performed crossed between various regions, which resulted in budgetary tracking redundancies. The change would increase efficiency and would still allow the division to report on how much activity occurred in each region.

Mr. Steininger continued to review slide 16 and detailed that the budget would reduce the salaries of Commercial Fisheries Entry Commission (CFEC) commissioners based on 2018 legislation. The change would result in a decrease of about \$42,000.

Co-Chair Stedman stated there would be committee discussion about the Dingle Johnson funds and the concept of moving funds out of the capital budget. He noted the committee may not agree with the idea. He stated a concern related to DFG and the Department of Natural Resources (DNR) was the need to keep the state's industrial and resource extraction base going. He remarked that insufficient funds in DNR and DFG would mean citizens would not be working around the state. He reported that the committee would take a thorough look at the issue.

[9:24:25 AM](#)

Senator Hoffman asked what the consolidation of the Division of Commercial Fisheries' regional components entailed.

Mr. Steininger described the consolidation as a technical budget change. He detailed that money from the various regions would be shifted into a single component. He explained that the funds were currently in separate budgetary components within the same appropriation. The change would avoid numerous accounting transactions associated with staff working across multiple regions. He elaborated that currently, the division had to charge an employee's time to the different projects and assign the expense to the different budget allocations - the accounting structure had to match the allocation structure.

The change would allow accounting efficiency and staff would no longer have to worry about shifting funds between the regions. Project level tracking would still be in place, which would show the regions staff were working in, where the projects were located, and what was receiving funding throughout the state.

Senator Hoffman asked about the proposed replacement of UGF with Commercial Fisheries program receipts listed as the first bullet point on slide 16. He understood that in the past the program receipts had been used in a variety of ways - to get more information to enable the department to better decide allocation issues. He was concerned that taking the funds from the current use would put additional hardship on the availability of adequate information to make necessary allocation decisions. He wondered why commercial fisheries were being targeted rather than sport fisheries issues. He pointed out that both commercial and sport fisheries provided jobs; however, the commercial fisheries component was much larger and had bigger financial impact to Alaskan citizens. He added that citizens were heavily dependent on adequate information to ensure the maximum allowed fisheries were harvested - fish that may unnecessarily go up to spawn were monetized.

Senator Hoffman thought the decision may be short-sighted in the state's long-term economy. He wanted to take a strong look at the proposed replacement of funds. He understood it was monetary; however, he pointed out that per the state's constitution, there was an obligation to adequately manage state resources. He opined that if it meant general funds needed to be utilized, they should be utilized.

[9:28:45 AM](#)

Co-Chair Stedman stated that Senator Hoffman may be selected as the chair of the Department of Fish and Game budget subcommittee.

Mr. Steininger addressed slide 17, "Office of the Governor." The proposed budget included the transfer of the Alaska Development Team from DCCED to the Office of the Governor. Additionally, the budget would eliminate the OMB analyst charge-back rate, which had been implemented approximately two years back to charge for OMB analysts'

time. He detailed that the practice had generated more work than benefit.

Mr. Steininger furthered that the budget would implement a change in the way charges for central services across departments were handled. For example, the Department of Administration housed Shared Services and the Office of Information Technology that delivered services on behalf of other agencies and charged for the services. The charging rates were volatile year-over-year because they were based on actual costs that would be incurred. The administration was looking at setting the charges in advance, using lagging averages, but it would require the availability of a bit of funding in the event the estimates could be accounted for if they were slightly more expensive than anticipated. The budget proposed using lapsing general funds from the prior year to create a buffer to ensure the averaging did not have a detrimental impact on programs or central services.

Mr. Steininger explained that the proposal would allow other agencies providing direct services, assurance of what their bill for central services would be. He explained it would avoid a situation where agencies received a surprise billing mid-year; the change would reign in some control over the predictability of some of the internal functions of state bureaucracy. The funds would exist within the Office of the Governor because it was not a central service agency and it could monitor the activities.

Co-Chair Stedman asked if there should be consideration given to eliminating the department in the spirit of reigning in expenditures.

Mr. Steininger did not recommend eliminating the department as its services were essential.

[9:31:34 AM](#)

Mr. Steininger pointed to slide 18, "Health and Social Services - Non-Medicaid." He highlighted a significant spike in the light blue section of the graph representing funding coming in from the CARES Act and other COVID-19 support sources. He pointed to the Division of Public Assistance as the best example of an area where the move to telework and the challenges operating government functions with COVID had resulted in finding significant savings. As

departments had sent staff home, they had discovered paper-heavy work processes did not work well. He explained that the Department of Health and Social Services (DHSS) had been able to find a solution that saved significant time in terms of the way documents were scanned and processed. He detailed that the department had discovered it could reduce the 20 positions that had been added to address the backlog within the Division of Public Assistance, in addition to 101 other position control numbers (PCNs). He noted that the division had a fairly high turnover rate; therefore, as the division worked through implementing the changes, it did not intend to lay anyone off. The plan was to make the reductions over the course of the current year and the next year through attrition to get to a stable staffing load that was able to do the work with all of the technologies implemented by the department.

Mr. Steininger continued to review budget changes to the DHSS budget. He highlighted a small reduction in the cost of postage. He detailed that the Division of Public Assistance sent a substantial amount of mail but moving to online services had allowed significant savings in postage.

Mr. Steininger reported that within the Office of Children's Services (OCS), the Circle of Support grant was being replaced with direct case work. He explained that the program involved working with families in their houses who fell under the OCS services umbrella. The change would allow a reduction in state general fund dollars and would allow the department to claim federal dollars in addition to maintaining direct intervention into households. The budget included \$2.4 million in federal receipts due to an increase in subsidized adoption and guardianship. He noted the change meant more children leaving foster care and going into permanent homes or guardianships. He stated that although it was a budget increase, it was a positive increase to see.

Co-Chair Stedman noted that the following slide would address the Medicaid portion of DHSS. He reported that Senator von Imhof would chair the DHSS subcommittee. He remarked that controlling the overall cost of Medicaid was one of the committee's greatest challenges. The committee would look at the offsets of the COVID-19 federal funds and would keep an eye on the underlying numerics to avoid being surprised when the COVID-19 funding disappeared. The

committee would task Senator von Imhof with several duties concerning DHSS.

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Mr. Steininger looked at slide 19, "Health and Social Services Continued - Medicaid." He addressed a couple of bullet points on non-Medicaid related items. The Division of Juvenile Justice was eliminating positions associated with the Anchorage School District Step-Up program. He detailed that the program sent staff into Anchorage schools and the activity would be handed off to the school district. The budget would also eliminate a handful of vacant Division of Juvenile Justice positions. He noted that none of the positions were in the homes.

Mr. Steininger moved to changes related to Medicaid on slide 19. The budget proposed using lapsing general funds that were available due to a temporary increase in federal match to phase-in Medicaid savings. He elaborated that during the COVID pandemic, the federal government had significantly increased the match in the Medicaid program, which had saved the state roughly \$14 million to \$15 million per quarter. He explained that using some of the UGF to implement a cost reduction in FY 22 would save the state money in the FY 22 budget and would set a number within the Medicaid program that the state needed to work towards. He stated that it would make it easier to work with all of the various third parties including subject matter experts and federal partners if the state knew what they were working towards. The change provided the department with a glidepath and target to work towards in the coming year.

Mr. Steininger remarked that changes in the Medicaid program were complicated and time consuming and having some certainty into the future about the target helped the department work with its partners on the goal. There were not specific items related to the reduction. The reduction provided a short-term cost savings and a target in the future for what the administration would like the Medicaid program to be.

Senator Wilson asked if the budget item reflected a temporary 6 percent increase in the Federal Medical Assistance Percentage (FMAP) rate. He wondered how long the increase would continue.

Mr. Steininger answered that the increase was 6.2 percent through the end of the calendar year.

Senator Wilson asked how any of the state's waivers were fairing and how they may continue and play a part in the Medicaid budget. He asked if the budget item under discussion included the cost reduction and a continued 6.2 percent decrease.

Mr. Steininger replied that DHSS was still working on waivers granted prior to the pandemic. He elaborated that changes to the Medicaid program had been severely restricted during the COVID-19 pandemic, meaning the state could not make any changes to eligibility, the service population, or the benefits during the pandemic. He clarified that any new waivers the department may have worked to implement over the past year had been put on pause.

Senator Wilson asked if the restriction was imposed by the state or federal government. He asked if new waivers would be put on hold until the end of the federal pandemic or the end of the state emergency disaster declaration.

Mr. Steininger responded that the federal restriction was in place during the period the state was receiving the enhanced federal participation rate.

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Co-Chair Stedman asked for verification that Mr. Steininger was telling the committee it would be very difficult to make structural changes to Medicaid until after the pandemic had passed.

Mr. Steininger answered in the affirmative.

Co-Chair Stedman believed Mr. Steininger was saying that the administration was hoping that the dollar change in some of the one-time funding mechanisms could be turned into structural changes to hold the budgetary reductions.

Mr. Steininger agreed that changes to the [Medicaid] program could not be made in the short-term. He explained that because changes could not be made during the pandemic and changes made outside of a pandemic took considerable

time, setting the expectation with a longer time horizon provided some certainty in the negotiations necessary to make the changes.

Co-Chair Stedman asked if the committee should anticipate some statutory changes coming forward from DHSS to help with the matter. He asked about the opinion and status of the department in helping identify and solidify the reductions.

Mr. Steininger deferred to DHSS on the specifics. The department was working to understand what would need to be done in order to effectuate the change. Changes in the short-term were not possible due to federal restrictions and much of department's work to find cost savings within Medicaid had been set aside while the department focused on COVID-19 response. As the department was able, it would pivot to and renew some of the efforts; at that stage, the administration would have more information about the direction things were headed.

Senator Hoffman addressed the last bullet point on slide 19 and thought it seemed as if the administration was proposing to use temporary federal funds to supplant the general funds for \$35 million. He asked if it was the administration's intent to identify particular programs to be funded by the federal government and implement changes. He asked for verification that it meant the legislature would see where the administration was contemplating changing the statutes. He surmised that another solution could be not identifying the areas and leaving them as carte blanche on a \$35 million allocation to a large supplemental process. He asked if there would be targeted utilization of federal match to supplant general funds.

Mr. Steininger answered that the federal match increase was across the entire Medicaid program and was not targeted to specific services within the program. The specifics on reductions the administration would implement in FY 23 in order to meet the target reduction of \$35 million would become available as the administration determined what could be implemented.

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Senator Hoffman highlighted that if statutory changes were not made, the legislature had an obligation to fund the

programs. He was concerned that if the changes had not been made by FY 23, it would be necessary to come up with \$35 million in general funds. He explained that it would appear as an increase to the budget, while it was not really an increase due to the actions being taken at present. He reasoned that Medicaid changes would take place over time, not overnight. He remarked that the current administration would be around for the FY 23 budget. He noted that people should be aware of the things he had mentioned. He stated that a reckoning day was coming.

Co-Chair Stedman informed that the committee would be discussing the options the committee had in trying to position the state with the next presenter. He stated that due to the state's cash burn rate there was some concern that if there was too much optimism in reductions that did not materialize a couple of years out, there would be less ability to maneuver and meet the state's budgetary needs, which would mean more tax burdens on the public.

[9:46:12 AM](#)

Mr. Steininger addressed slide 20, "Labor and Workforce Development." The proposed budget for the Department of Labor and Workforce Development (DLWD) included a proposed reduction in general fund match for the Basic Support Federal Grant. He detailed there was a reduction in the match requirements, not the amount of money the administration was choosing to match. The change allowed the state to use fewer general funds to match the same federal award. The budget included reductions in commodities, travel, and office space at a total of \$214,000. Additionally, the budget would delete two vacant administrative positions and one research analyst position. He noted that the positions had been vacant for some time with no intention to fill.

Co-Chair Stedman noted that Co-Chair Bishop was not present and during the current meeting and would be tasked with chairing the DLWD subcommittee. He remarked that Co-Chair Bishop had been the commissioner of DLWD in the past and was familiar with the department's budget concepts.

[9:47:25 AM](#)

Mr. Steininger looked at slide 21, "Law." He reported that the Department of Law (DOL) had seen some increases over

the last several years with the effort to bolster prosecution as a part of public protection investments. The budget included \$3 million UGF spread throughout the Criminal Division to ensure timely processing and prosecution of sexual assault and abuse cases. He shared that the supplemental budget would include another \$4 million associated with kickstarting some of the efforts to get through prosecution backlogs. Additionally, the administration was seeking partnerships with home rule communities to support prosecution of misdemeanors.

Mr. Steininger elaborated that the work totaled about \$1.3 million spent in the Criminal Division where the state was prosecuting misdemeanors for communities that had the legal authority to prosecute the misdemeanors themselves. He noted there were a couple of communities that already did the work in-house and the administration was looking to create cost sharing agreements with communities that had the authority to do the work but had chosen not to. He added that the change would not result in stopping the prosecution of misdemeanors.

Co-Chair Stedman remarked that the proposal had caught the attention of some communities and he did not believe they were very happy about the idea. He noted it would be necessary for the committee to have the discussions moving forward. He stated that the communities may have the legal authority to do the work, but there were differences of opinion on the proposal. He thought it was important to keep an eye on the political directional change of the federal government in relation to the state's natural resources. He remarked that it was necessary to be reasonably comfortable that DOL was in a position to defend the state and its rights given at statehood.

[9:49:55 AM](#)

Mr. Steininger turned to slide 22 titled "Military and Veterans Affairs" and highlighted a significant UGF increase in the past (shown in the first row of the "Budget Change Summary" table). He noted the increase was "a bit of a misnomer" because in 2020 the State of Alaska Telecommunications System (SATS) and Alaska Land Mobile Radio (ALMR) had been transferred to the department from the Department of Administration. He explained that the increase reflected an organizational change as opposed to a true increase. The administration was continuing the

organizational change by merging the two programs into Alaska Public Safety Communication Services. He detailed that the programs had been managed together for the past several years and the change acknowledged that the programs served a singular focus.

Mr. Steininger continued to review slide 22 and highlighted the proposal to eliminate four positions that had been vacant for some time, with no intention to fill. Additionally, there were a couple of areas where reductions of just under \$200,000 could be made based on investigating prior year spending. He noted that the administration expected departments to investigate their expenditures annually to determine what they actually needed.

Co-Chair Stedman asked why the reduction had not been made the previous year.

Mr. Steininger replied that he did not believe the department had identified the specific areas to reduce the previous year.

[9:51:47 AM](#)

Mr. Steininger addressed slide 23, "Natural Resources." He highlighted there had been a reduction in UGF spending in the Department of Natural Resources (DNR) since its peak in FY 15. The budget proposed utilizing lapsed fire suppression funding to support fuel mitigation and cutting fire breaks with the goal of lower fire years in the future. He detailed that it had been a low fire year and the administration was expecting there to be some money left over at the end of the current fiscal year. The budget included a \$250,000 investment in park ranger law enforcement for the replacement of backstock of vests and other equipment used in the field. The budget offset UGF with program receipts generated by Division of Oil and Gas and the Division of Mining, Land, and Water. He elaborated that an analysis of the divisions' collection history showed the divisions could support themselves with a bit less UGF. Additionally, the budget included a \$100,000 UGF reduction, which would true-up an increment from the previous year for Federal Plan Review based on reduced travel and services.

Mr. Steininger noted that while other slides had included supplemental appropriations, slide 23 did not include the

cost of fire suppression because it was wildly variable and would detract from the ability to see trends in DNR's funding.

Senator Wilson noted that in past years there had been a significant fire suppression cost. He remarked that approximately 75 percent of the cost was reimbursable by the federal government. He wondered when the funds might be returned to the state.

Mr. Steininger noted that federal reimbursement for fire suppression cost took several years. He stated there was a substantial lag between the state's budget process and when the federal funds were received. He explained that prior supplementals were set at an amount the administration believed would be required from UGF and the subsequent true-up period took some time. He added that DNR tracked incoming federal funds and could provide reports to show reimbursement received by the state for prior fire years.

[9:54:59 AM](#)

Mr. Steininger turned to slide 24 titled "Public Safety" and pointed out increased UGF investment in public protection depicted in a graph in the upper left of the slide. The proposed budget included approximately \$1.7 million UGF. He reported that positions had been added in the FY 21 budget that had been funded at about 75 percent to acknowledge the time it took to recruit new troopers. He elaborated that the Department of Public Safety (DPS) was actively recruiting troopers and the department believed it would have all of the trooper positions filled and would need the full funding for FY 22.

Mr. Steininger continued to address slide 24. He highlighted numerous reductions to non-law-enforcement staffing, travel, commodities, and contractual savings including savings due to remote videoconferencing implemented due to COVID-19. The budget would eliminate two vacant building plan review positions that had never been filled.

[9:56:23 AM](#)

Mr. Steininger moved to slide 25 titled "Revenue" and pointed out that the Department of Revenue (DOR) received a small amount of UGF in comparison to other funding. He

explained that other funding represented the management fees on the state's financial investments. He highlighted a decline in the amounts in FY 22 as the Alaska Retirement Management Board (ARMB) was able to implement about \$10 million in investment management savings through the way DOR handled the investments. The budget included a restructuring of the way the state charged for management of some of its funds. He elaborated that instead of using UGF to pay for management of the funds, DOR intended to charge management fees to the fund it was managing. The change resulted in a reduction of \$1.4 million UGF and an increase in the fund sources coming from the funds DOR managed.

Mr. Steininger continued addressing proposed budget changes within DOR. He highlighted that the current Division of Child Support case management system was the old legacy management system on the state's mainframe, which was expensive to maintain. The division was moving to a web platform as an interim step to modernizing the system. There was an associated capital project request, which would provide the money for implementation of a new management system. The budget would also eliminate three vacant positions and implement a rate change and DOR's ability to collect federal funds for indirect costs. Additionally, the budget included the implementation of incentive compensation for Alaska Permanent Fund Corporation (APFC) investment managers at an estimated maximum cost of \$890,000.

Co-Chair Stedman asked if the incentive compensation plan was new position by the administration.

Mr. Steininger relayed that the plan had been discussed for several years and the administration was supporting the implementation of the plan. He elaborated that APFC had been advocating for the change for many years. The administration saw the value of implementing the plan for staff retention purposes.

[9:59:18 AM](#)

Mr. Steininger discussed slide 26, "Transportation and Public Facilities." He pointed out that the graph in the upper left included duplicated funds because much of the funding for the Department of Transportation and Public Facilities (DOT) came from capital projects that showed up

into its operating budget as duplicated funds. Additionally, DOT managed the Division of Facilities Services, which had informally existed for a couple of years as the administration had been centralizing maintenance of state facilities. The budget formalized the division in the budget structure, which showed the maintenance of state facilities separated out on its own. The budget also included transferring the remaining public building facility activities that existed within the Department of Administration to the new division. He highlighted that it was an area where the administration was utilizing a large amount of one-time funding from the CARES Act.

Mr. Steininger detailed that one of the aspects of the CARES Act was funding from the Federal Aviation Administration that went to DOT and could be used for operational costs of state airports. He explained that the federal funding replaced a substantial amount of UGF used for the maintenance of state airports. He relayed that the federal funds under discussion would likely expire at the end of FY 22; however, more money had come in under subsequent federal relief packages that could displace costs at DOT. The administration was still investigating how it could utilize the federal funding most effectively. Under the specific situation, it was allowing the state to keep some money in state savings accounts rather than expending it. The administration acknowledged the situation was short-term and it would have to find a way to fund the activities going forward.

Mr. Steininger continued to review the DOT budget on slide 26. The proposed budget would reduce the Alaska Marine Highway System (AMHS) funding to a baseline of essential service that equaled the governor's proposed funding level in FY 21. There was a projected shortfall in motor fuel tax, which would require a backfill of about \$500,000 in UGF. He reported that the department still had a couple of non-state owned roads it was performing maintenance on, which would be ceased; communities would be required to take over the maintenance costs.

Co-Chair Stedman thought the committee would need to examine the AMHS and the administration's definition of "essential service level." He remarked that the definition of essential service level was likely up for debate depending on if a person accessed the Sterling Highway, the

Glenn Highway, or the Alaska Marine Highway. He pointed out that people would rank the highways a little differently depending on where they lived. He pointed out that one community had been completely left out of the proposed AMHS schedule. He was expecting some adjustments to come forward in the ferry schedule, which may impact the request and need for general funds for AMHS operations. He stated that most likely the committee would hear a presentation from Admiral [Tom] Barrett or another working group member familiar with the issue. He noted that the working group study had been conducted the past summer and fall and he believed it contained requests the committee may find interesting. He noted there may also be some things that were the opposite. He shared that he and Senator Bishop would chair the DOT subcommittee.

10:04:09 AM

Senator Hoffman looked at the proposed \$8.3 million reduction to AMHS and asked about the size of the reduction in terms of percentage.

Mr. Steininger responded that he would follow up with the information.

Senator Hoffman looked at the proposed reduction of \$25 million, which would eliminate maintenance on non-state owned roads. He asked for verification that the proposal meant the state would no longer maintain any non-state owned roads.

Mr. Steininger confirmed that it was the intention of the proposal.

Co-Chair Stedman relayed that roads would be discussed by the [DOT] subcommittee. He believed the full committee would discuss the subject of transportation more than once. He noted that the list of roads would be identified.

Senator Olson referenced the road between St. Mary's and Mountain Village and asked if it would no longer be maintained by DOT.

Mr. Steininger replied that he would get back to the committee with an answer.

Co-Chair Stedman asked Mr. Steininger to get back to the committee with a list of roads that comprised the \$25 million reduction.

Senator Olson noted that the St. Mary's airport was sizeable and had been used for 121 carriers in the past and jet traffic, while the airport in Mountain Village was fairly small and only accommodated smaller bush planes. He remarked there had been a fatal accident in the past couple of years in the area that made the issue very concerning.

Co-Chair Stedman believed many committee members would not be familiar with a substantial number of the roads; it would be necessary to bring up the familiarity of the different areas across the state. He assumed the roads were spread all over, including Anchorage.

Mr. Steininger replied that he would follow up with an answer. He clarified that the proposal would only apply to non-state owned roads where the state did not have a maintenance agreement.

[10:07:14 AM](#)

Senator Hoffman requested a list of roads that were not state-owned and had maintenance agreements. Additionally, he wanted the list to include the maintenance costs.

Co-Chair Stedman asked to receive the information for the DOT subcommittee and full committee. He wanted a holistic picture of the roads DOT was currently providing maintenance on, including those with and without maintenance agreements.

Mr. Steininger addressed slide 27, "University of Alaska." He reported that FY 22 was the final year of the compact agreement with the university. In total, the compact reductions represented \$70 million [over a three-year period]; the total reduction in FY 22 was \$20 million. The budget also included the transition of the University of Alaska (UA) Foundation to a nonprofit structure. The change did not eliminate the UA foundation, but moved the independent organization off of the state's budget.

[10:08:42 AM](#)

Mr. Steininger highlighted debt service paid by the state over the past decade on slide 28. There was a decline from FY 18 to FY 21 and a bit of an increase going into FY 22. The School Bond Debt program was funded at 50 percent, which was the level funded in FY 20. The increment represented about \$12.5 million UGF and \$29.3 million DGF. There was an associated fund capitalization of the Regional Educational Attendance Area (REAA) Fund at 50 percent of the statutory calculation.

Co-Chair Stedman recalled that the committee had recommended full funding of debt reimbursement for the past couple of years and was not in policy alignment with the administration. He stated that the committee would discuss the topic and the broader state debt issue at the table. The committee would decide its collective position and would forward it to the Senate floor. He remarked that the decision may or may not align with the administration's position. He believed there should be statutory changes in place if the policy direction changed. He elaborated that the analysis and public discussion should take place and a potential change in policy direction should be done uniformly by the administration and legislature, which had not been done. He reiterated that the item would be considered and decided upon by the committee. He stated that the administration's position on the item was clear.

[10:11:02 AM](#)

Senator Hoffman emphasized that the bond indebtedness was real debt that had to be paid. He characterized the reduction of the state's commitment by 50 percent as a cost shift to local governments. He stated that combined with COVID and other problems facing local governments it would be very difficult for them to address. He stated that many districts, depending on their financial position, would have a very difficult time absorbing the unanticipated budget increase caused by the state's reduction to its obligation. He believed it was the state's statutory obligation to pay the debt. He agreed with Co-Chair Stedman in that the administration should submit legislation if it wanted to reduce the school bond indebtedness by 50 percent.

[10:12:23 AM](#)

Mr. Steininger highlighted a graph and table on slide 29 showing state assistance to the retirement program. He reported that the administration had proposed legislation associated with the way the program was financed. He noted the legislation would be discussed separately at another time. He briefly explained that the legislation would shift the cost from the state assistance line item within the budget and allowed for charging to federal programs. He reviewed two other statewide budget items on slide 29. He explained that community assistance was funded based on a statutory calculation [of PCE earnings] which deposited about \$12.4 million into the fund. Oil and gas tax credits were funded at the statutory minimum using \$60 million in Alaska Industrial Development and Export Authority (AIDEA) receipts.

Co-Chair Stedman stated that the committee would address the administration's proposal to use AIDEA receipts. He remarked that the decision would be made by the legislature as the appropriating body. He asked Mr. Steininger to review the updated slides OMB had compiled based on questions from the committee. He suggested that the committee may want LFD to do some work on some of the subjects for further clarification as the committee tried to sort through the policy issues for a foundation going forward.

[10:14:04 AM](#)

Mr. Steininger addressed a compilation of slides titled "SFIN OMB Budget Overview Addendum" (copy on file). He addressed slide 1 titled "Corrected: Budget Cost Drivers," which corrected an error in the presentation provided the past Friday. He detailed that the state assistance to retirement increase had been misstated on the original slide. He clarified that about \$173.1 million in UGF reductions from FY 19 to FY 22 had been required to maintain a flat budget over the given time period.

Co-Chair Stedman surmised that the [FY 22] budget was up \$200 million from the start.

Mr. Steininger agreed.

Mr. Steininger moved to slide 2 titled "FY22 UGF Operating Budget Items." The swoop graph included the statutory PFD

at the request of Senator von Imhof to show its size in relation to other agency spending.

Co-Chair Stedman stated that the committee would ask LFD to add numerics to the graph and potentially percentages and a table as a reference sheet. He believed the information would be beneficial in order to see the magnitude of the different departments when the legislature started talking about reductions and other.

[10:15:47 AM](#)

Mr. Steininger looked at slide 3, "State of Alaska Total Budget," which had been updated at the request of Senator von Imhof to include PFD payments to a summary of the operating and capital budgets.

Co-Chair Stedman looked at the total budget line and asked for verification that it showed a significant increase from FY 21 to FY 22.

Mr. Steininger replied that because the appropriation for the PFD in FY 21 did not follow the statutory calculation, there was a significant change from FY 21 to FY 22 for the payment. The governor's proposed FY 22 budget included the statutory calculation of the PFD.

Co-Chair Stedman asked if the number included the extra \$2 billion on top of the \$3 billion extraction from the ERA.

Mr. Steininger answered that the slide did not appear to include the amount in the FY 21 column. The number was only included in the FY 22 column.

Co-Chair Stedman stated that in addition to the 5 percent draw of roughly \$3 billion, the additional draw was another \$2 billion. He asked if the \$3 billion or the \$5 billion showed on the rates of change from FY 21 to FY 22 on slide 3.

Mr. Steininger responded that the slide showed proposed expenditures in FY 22, not necessarily how the revenue sources came in. An illustration of the proposed sources of money and draws was included in slides depicting the fiscal summary and its impacts on state reserve accounts (slides shown in the beginning of the presentation).

Co-Chair Stedman asked for verification that the approximate net change from FY 21 to FY 22 was \$1.4 billion.

Mr. Steininger replied affirmatively.

Co-Chair Stedman shared that the committee would spend substantial time on the state's cash position and burn rates to try to repair the structural deficit before the state ran out of cash. He intended to work with LFD to clarify the information for the public. He wanted the information to be identifiable. He noted that often information was developed for the use of the legislature and it could be difficult for the public to decipher. He wanted it to be apparent how much money was coming in and going out and what the fund sources were.

[10:19:48 AM](#)

Mr. Steininger advanced to a table on slide 4 titled "Fiscal scenario comparison." The slide had been produced at Co-Chair Stedman's request to show a comparison between the first five years of the administration's 10-year plan (shown in blue) and a status quo budget (shown in brown). The administration's proposal identified sources for the surplus coming from an ERA draw and a small draw from the CBR. The status quo did not reflect those funding sources. He noted that the status quo deficit was greater than the balance of the CBR. Under a status quo scenario, a fund source would need to be identified. He pointed to FY 23 through FY 25 and noted a difference in the deficit. He stated that the combination of the administration's proposal to moving to a 50/50 PFD, FY 22 operating budget reductions, and planned targets in future years did not close the entire deficit; however, it did close a large portion at about \$600 million.

Co-Chair Stedman emphasized that the legislature wanted to close the deficit sooner rather than later. He drew attention to the governor's plan in blue on slide 4. He stated his understanding that the administration wanted to land at about \$3.6 billion in operating agency expenditures. He elaborated that if the \$400 million in budget reductions was not attained, the state would be two more years into the situation at a weaker cash position and with less flexibility to solve the problem.

Co-Chair Stedman wanted the committee to consider that the proposed \$400 million reductions would not be obtained and what the state would do under the circumstances. He relayed that the committee had requested policy change recommendations from the administration in the form of legislation or other to materialize the \$400 million. The committee had also asked colleagues to bring any ideas for reductions forward. He pointed out that it took time for proposals to get through the legislative process and most were not successful because they did not work and did not get through both bodies and obtain a signature from the governor.

Co-Chair Stedman believed it would be a mistake to assume the legislature would deliver \$400 million in reductions when there had been virtually zero after looking at the legislature, the governor's office, and the courts. He pointed out that the state had merely been treading water and reductions that had been made had been eaten up by other increments. He noted that two years earlier, the legislature had taken recommendations from Mr. Steininger's predecessor at OMB in good faith and the reductions had all been added back five months later.

Co-Chair Stedman stated that the FY 21 budget had been status quo. He elaborated that the legislature had worked on getting some expenditure reductions, which could be seen in the historic numbers. He believed it was necessary to recognize that the ability to reduce the budget by \$300 million or \$400 million was minimal. He stressed it was necessary to prepare the state for the inevitability. He spoke against ignoring the situation and handing the next governor less cash and a big hole.

[10:24:48 AM](#)

Co-Chair Stedman continued his remarks. The committee would ask LFD to unravel the one-time funding, including [federal] COVID funding to take a look at "how ugly the problem actually is" and get it out on the table to start having the difficult conversations. Difficult conversations could include making decisions on whether to "loot" the Permanent Fund, tax citizens, or start closing down departments. He noted that Mr. Steininger had indicated earlier in the meeting there was not interest in closing down the governor's office. He speculated there would be equal resistance from all other departments. He

communicated that the committee was open for business and ready to listen to reduction ideas, but the proposals had to be deliverable. He highlighted an earlier comment by Senator Hoffman that the reductions should not be added back in the supplemental several months later.

Co-Chair Stedman stressed that the state did not have the cash position to procrastinate for another two years. There would be some hard discussions and tough decisions at the table. He hoped the Senate Finance Committee would lead in the solution. He clarified that the solution would not be a utopia with endless dividends for everyone and no taxes because that was nonexistent. He emphasized that the legislature needed to deliver services, a dividend, and not deplete the state's fiscal position for future generations. The committee would take the administration's \$3.612 billion target in good faith, but until there were reasonably attainable concepts presented to the committee, he believed it would be foolish to go down the road assuming the reductions would materialize.

Co-Chair Stedman was not discouraging the administration from bringing reductions forward. He shared that all subcommittee chairs would be asked to review the budgets and bring back deliverable changes to hold costs down. He expected some small changes but nothing significant that would eliminate the state's [fiscal] problem. He stated that each committee member had their own opinions, and the committee would work together collectively and with colleagues to try to solve the problem. He believed if there were \$300 million to \$400 million in attainable reductions, the proposals would already be on the table in the form of legislation or talked about in concept form by the caucuses. As far as he knew, the proposals did not exist.

Co-Chair Stedman appreciated the hard work that the administration had done on the ten-year plan. He relayed that unfortunately the committee would throw the proposal out the window and focus on a two to three-year plan to try to get the state "out of this mess." The committee would use FY 24 and FY 25 for a base target and back two to three years. He was not interested in looking at what the state had done 10 years earlier when he and Senator Hoffman had left the committee chairs with \$16 billion in savings. He continued that the money was now virtually gone, with nothing but a big hole remaining. The legislature had been

able to craft a significant savings plan 1.5 decades back that had put the state in the strongest fiscal position of any state in the union. He stressed that it was now one of the weakest. He stressed the need to change the situation.

10:29:05 AM

Co-Chair Stedman emphasized the need to protect the integrity of the Permanent Fund for future generations, while devising a solution to the state's fiscal problem. He stated it was possible to argue from multiple directions on the Permanent Fund, but the most conservative approach was ensuring there was money in the fund's corpus that could not be spent by the legislature without a vote of the people. He was not interested in a solution that liquidated the Permanent Fund, which he stressed was not a solution.

Co-Chair Stedman reiterated that the committee would have the difficult discussions and it was open to all ideas. He hoped to work the state "out of this mess" over the next two to three years. The committee would hear the governor's bill on his recommendations of the dividend rewrite. He elaborated that the committee would discuss the math and the 50/50 split. He believed there would be some changes and modifications. He hoped the committee could make it work, which he believed would be good. He stated it was not possible to fix the problem without dealing with the 40 year-old formula. The committee would be reconstructing some of the documents looking back three to four years and forward roughly the same timeframe to work on solving the problem.

Co-Chair Stedman noted that the committee had the experience and advantageous geographic dispersal to deal with the budget situation. He reported that committee members would pitch in and work collectively together to devise a solution. He was doubtful that the \$3.6 billion would materialize, but the committee would do its best.

10:31:47 AM

Mr. Steininger turned to a table on slide 5, "PFD Scenarios," which included data requested by Senator Hoffman to illustrate the impacts of various PFD proposals. The top of the table showed available revenues and the bottom showed various proposal options ranging from current statute, the proposed 50/50 dividend, and the proposed

50/50 dividend happening a bit earlier. He believed the timing aspect had been part of the nature of a question posed the previous Friday. The bottom of the table showed the amount appropriated in FY 21 and how it looked going into the future.

Co-Chair Stedman stated that the committee would work on some of the scenarios (the 50/50 split and status quo) and more going forward. He wanted to work collectively with committee members on a full range of options in order for members to understand the likely financial outcome from any political position. He wanted members to be informed of the impacts of whatever policy they wanted to advocate for. He stated that members were all free to advocate for whatever policy they wanted, including the liquidation of the Permanent Fund. He noted the particular position would be problematic at the committee table.

10:34:00 AM

Mr. Steininger addressed a summary table on slide 6, "Department PCN Summary." The table showing all departments listed together had been requested by Co-Chair Bishop. He detailed that Co-Chair Bishop had asked why the total of all PCNs from each of the slides had not been the same as the total on the department operating level slide. He explained that there had not been independent slides for the legislative and judicial branches. He clarified that the addition of those numbers resolved the discrepancy in the numbers Co-Chair Bishop asked about the previous Friday. The slide showed PCN changes from FY 19 to FY 22 by department, summarizing information from earlier slides.

Co-Chair Stedman remarked that the information was reflected in the mostly flat budget in terms of employee count and cost. He thanked Mr. Steininger for his presentation. He acknowledged there would be some differences of opinion on policy, which was normal. He communicated that the committee worked collaboratively with OMB. He noted that there was little disagreement between OMB and the Legislative Finance Division (LFD) on the financial information. He remarked that there was some sparring back and forth occasionally, but there was general alignment on the holistic view of the state. There was a difference from time to time on how to reach solutions; however, the goal was to eliminate the structural deficit through budget reductions, other revenue replacements, or

other. He stressed that it was not possible to continue operating the same way for another decade.

[10:36:29 AM](#)

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Co-Chair Stedman relayed that the director of LFD would provide an overview of the governor's FY 22 budget to the committee. He explained for the public that LFD was the legislature's nonpartisan financial arm. He detailed that the division provided information to the legislature "straight up" in a nonpartisan manner. He had asked LFD to take a hard look at any one-time funding issues for the committee to clearly identify. He asked LFD to work with a base number in order to work towards closing the fiscal gap.

^LEGISLATIVE FINANCE DIVISION - OVERVIEW OF THE GOVERNOR'S FY 22 BUDGET

[10:39:26 AM](#)

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, introduced the LFD staff and their roles.

Mr. Painter provided a PowerPoint presentation titled "Overview of the Governor's FY22 Budget" (copy on file). He began with a presentation outline on slide 2:

- Alaska's Structural Budget Deficit
- Legislative Finance's FY 22 Budget Baselines
- Governor's FY 22 Proposal and FY 21 Supplementals
- Governor's 10-Year Plan

[10:41:50 AM](#)

Mr. Painter addressed slide 3, "Alaska's Structural Budget Deficit." He reported that FY 21 was the ninth straight year of fiscal deficits for the State of Alaska. Oil revenue in FY 21 was projected to be the lowest since FY 78 in nominal terms (the year the pipeline began operating) and FY 75 in real terms, which was adjusted for inflation (the beginning of pipeline construction). He highlighted that the unrestricted general fund (UGF) budget had been

reduced significantly from \$7.8 billion in FY 13 to \$4.5 billion in FY 21, a decrease of 43 percent. However, despite the large reductions, budget reserve balances dropped from over \$16 billion in FY 13 to about \$900 million at the end of FY 21. Consequently, as a result of borrowing to cover deficits over the past nine fiscal years, the General Fund was projected to owe the Constitutional Budget Reserve (CBR) \$12.9 billion at the end of FY 21.

Co-Chair Stedman noted that the debt owed to the CBR was automatically swept into the account, but there was no interest charge or timeline. He stated that technically the money was owed.

Mr. Painter agreed. He explained that the debt owed to the CBR resulted in the General Fund sweep, a concept the committee had discussed at length over the past several years.

[10:43:28 AM](#)

Mr. Painter looked at a bar chart on slide 4, "Alaska's Structural Budget Deficit (Cont.)" showing the state's UGF revenue from FY 12 to FY 22. The chart did not include the Permanent Fund (percent of market value (POMV) or Permanent Fund Dividend (PFD)). The chart provided a picture of the level of decline. He highlighted that FY 12 was the last year the state had a balanced budget and petroleum revenue had been nearly \$9 billion, which had dropped in FY 15 to under \$2 billion and under \$1 billion in FY 21. There was a brief increase in FY 18 and FY 19 where petroleum revenue had increased to about \$2 billion. He explained that the decline was a leading cause of the state's current fiscal situation.

Mr. Painter spoke to a bar chart showing how the state's UGF budgets had changed over the same period from FY 12 to FY 22 on slide 5. He noted that the data included the PFD. He pointed out that the peak year for agency operations was FY 15 at about \$4.5 billion, while the governor's proposed FY 22 budget included \$3.8 billion. Statewide items had peaked in FY 14 and the capital budget had peaked at over \$2 billion UGF in FY 13. He would provide more detail on agency operations in the coming slides.

[10:44:55 AM](#)

Mr. Painter moved to a chart on slide 6 showing the state's UGF revenue and budgets from FY 12 to FY 22. The chart showed that FY 12 was the last year of balanced budgets, followed by annual deficits thereafter. The chart showed that the legislature enacted a significant deficit filling revenue measure - the POMV draw from the Permanent Fund - in FY 19. The measure significantly reduced the deficit; however, a deficit had persisted in each fiscal year since the measure had been enacted.

Mr. Painter advanced to a bar graph on slide 7 titled "UGF Agency Operations Budget Changes, FY15-22." He noted that the orange portion of the bar reflected a consolidation of several small agencies for the sake of simplicity. He there had been annual cuts from FY 15 to FY 18 down to about \$3.86 billion of agency operations in FY 18. The number had increased slightly in FY 19 and due to one-time spending for the COVID-19 pandemic. The governor's FY 22 budget was essentially back to the FY 18 level. The trend was four years of continued cuts that had somewhat leveled off. He noted there were some increases that had been reversed and the budget had not really changed from the FY 18 level.

[10:46:40 AM](#)

Mr. Painter spoke to a graph showing savings balances in the CBR and Statutory Budget Reserve (SBR) from FY 12 to FY 22 on slide 8. The balances peaked at over \$16 billion in FY 13. He relayed that LFD projected the CBR balance would be about \$900 million at the end of FY 21, while the SBR was completely empty. All of the reductions to the CBR balance represented by the blue section of the bars, reflected a constitutional debt the General Fund owed to the CBR.

Mr. Painter turned to a graph illustrating where agency operations reductions had been taken on slide 9. There had been significant reductions in agency operations of about 11 percent or just over \$500 million; however, the reductions had not been evenly distributed across agencies. The state's public protection agencies including the Department of Public Safety, Department of Corrections, Department of Law, and the Court System, had increased by 6 percent since FY 15. He reported that the K-12 education formula had been stable at the same base student allocation through the same period. Consequently, there had been only

minor reductions to education funding, primarily due to one-time funding in the FY 15 budget that was not replicated in FY 21 due to the governor's veto. There had been a 6 percent reduction to the Department of Health and Social Services, which would have been larger if not for the one-time spending due to COVID-19. There had been significant reductions to Medicaid and other areas for a total of about \$77 million. He reported that all other departments were down collectively 35.6 percent or \$441 million. He detailed that the smaller agencies had borne the vast majority of the agency operations cuts over the past seven years. As a result, there was less room to continue to reduce those budgets going forward because they had already been reduced by over one-third.

Co-Chair Stedman asked for verification that DHSS and DEED were formula driven and required statute change "to get any more out of it."

Mr. Painter answered in the affirmative. He noted that the K-12 formula had not been revised during the period of budget reductions [from FY 15 to FY 21]; therefore, the Base Student Allocation (BSA) was the same as it had been in FY 15 and the formula itself was largely unchanged.

[10:49:37 AM](#)

Mr. Painter turned to slide 10, "LFD's Budget Baselines." He shared that LFD had developed baselines to create a clean starting point for the governor's budget rather than comparing it constantly to prior years that were often distorted by one-time items such as COVID-19 spending in the FY 20 and FY 21 budgets. He explained that when using those as points of comparison it exaggerated the changes proposed by the governor because many were the end of one-time items appropriated in the last year. The two baselines were the current policy scenario and current law scenario. The two scenarios used the same amount for agency operations. He detailed that the scenarios used the adjusted base, which removed one-time items and was typically used as the clean starting point for subcommittees.

Mr. Painter noted that the one change LFD had made to the current policy and current law scenarios was to factor in changes to student counts and how it impacted the K-12 formula. He noted that it did not reflect a policy choice

by the governor, and it should not credit or blame him for the change since it was formula driven. The current policy scenario assumed that like in FY 21, the legislature would appropriate a PFD of \$1,000 and there would be no UGF funding for school debt, REAA Fund, community assistance, and oil and gas tax credits because there was no UGF for any of the items in the FY 21 budget, largely due to the governor's vetoes. The current law scenario assumed statute would be followed for statewide items, which included a statutory PFD, full funding of school debt, REAA Fund, community assistance, and oil and gas tax credits. He would provide more detail on the statewide items in the next slide. The statutory PFD was projected to be about \$2 billion, paying about \$3,050 per recipient and the statewide items that were unfunded in FY 21 were estimated to be about \$168.5 million UGF in FY 22.

[10:52:33 AM](#)

Senator Hoffman asked for verification that the legislature had fully funded the REAA Fund in the past two years and the governor had vetoed the funding.

Mr. Painter answered in the affirmative.

Senator Hoffman stated that the governor had not funded the REAA Fund in his proposed FY 22 budget. He highlighted that providing the funding complied with a decree to resolve the Kasayulie Case. At some point he believed parties involved may say that the state was not in compliance with the case. He believed the issue may come up in rural Alaska. He explained that the absence of funding did not allow for rural schools to be built, which was a decree the state had signed on to. He had great heartburn over the veto of the appropriation for two years. Additionally, opposed the exclusion of funding that would give rural students the luxury of attending schools that were of the same quality afforded to many urban students. He planned to check with the rural school districts to determine what was happening and whether districts were considering the state to be out of compliance with the Kasayulie Case. He did not believe the state was in compliance.

Co-Chair Stedman added that there was a moratorium on school construction (the original five-year moratorium had been extended another five years). He believed the committee needed to talk about the issue as a whole,

including school construction in rural and urban areas and debt reimbursement. He remarked the committee would have a hearing on the topic at some point.

[10:55:18 AM](#)

Mr. Painter reviewed a table on slide 11 comparing statewide items under the current policy and current law scenarios. The difference in the debt service amount was due to the municipal project debt the governor vetoed in the FY 20 and FY 21 budgets. The governor had vetoed all funding for school debt reimbursement in FY 21; therefore, it had been used as the current policy assumption, whereas current law assumed the item would be fully funded. He noted the information on slide 11 was the UGF amount only. The governor was proposing DGF to be put toward the program. There was no difference in the state retirement payments. He noted that they had already discussed the REAA fund capitalization that had a difference between current policy and current law.

Mr. Painter continued to review slide 11. He explained that the governor had vetoed a supplemental to community assistance and the FY 21 deposit had been made wholly from the PCE program; therefore, LFD considered the current policy to be funding from PCE and no UGF. He noted there were two possibilities because current statute provided two options. The baselines assumed the amount needed to get to a \$30 million deposit total. Statute stated that it could be the amount to make a \$30 million deposit or the amount to reach a \$90 million fund balance, which would add roughly another \$30 million appropriation. He elaborated that LFD had selected the lower of the two amounts because it was closer to what had been done; however, the statute allowed for either appropriation. He concluded with oil and gas tax credits on slide 11. He noted that there had not been an appropriation for the credits in FY 21 and the statutory calculation in FY 22 was \$60 million.

[10:57:23 AM](#)

Mr. Painter moved to a table on slide 12 titled "FY22 Current Policy and Current Law Scenarios." The table showed a baseline of approximately \$3.9 billion for agency operations, which was lower than the FY 21 budget due to one-time items. The baselines assumed a capital budget of about \$150 million (where it had been for the past six or

so years). The FY 21 capital budget had been a bit lower, but it had not been complete due to the early end to session. He noted the change in the PFD [located under the subtotal line]. He explained that the deficit would be about \$900 million under the current policy assumption and about \$2.4 billion under the current law assumption.

Co-Chair Stedman asked for a reminder on how the dividend was calculated in each of the two scenarios.

Mr. Painter answered that the current policy scenario assumed the dividend would be the appropriation made in FY 21. The dividend had been roughly \$1,000 at a cost of \$680 million. The current law assumption followed statute at a cost of just over \$2 billion.

[10:58:45 AM](#)

Mr. Painter turned to slide 13, "Governor's FY21/22 Budget." A table illustrated that the governor's budget for agency operations was down \$77.4 million below the current law and current policy assumptions. He would discuss specific reduction areas in the upcoming slides. The governor's proposed budget for statewide items was above the current policy assumption and below the current law assumption. The governor had 50 percent funding for the school debt and REAA but did not use UGF for tax credits. He added there was a difference in the community assistance as well. The governor's budget was significantly below the LFD assumption due to the bonding proposal using the Alaska Housing Finance Corporation (AHFC). He would cover the topic in the next several slides. The governor's statutory PFD was an increase from current policy and the same as current law. He noted that before the dividend, the governor's proposed budget was about \$140 million below current policy and about \$300 million below current law. After the PFD, the governor's budget was about \$1.2 billion above current policy and \$300 million below current law.

[11:00:18 AM](#)

Mr. Painter reviewed slide 14, "Governor's FY21/22 Budget (Cont.)." He noted that as committee members had heard numerous times, the governor's budget included a \$1.2 billion supplemental PFD payment for FY 21 from the ERA (on top of the ERA draws already taken for the POMV draw). The governor's budget took two separate ERA draws in FY 22:

\$3.1 billion for POMV and \$2.0 billion for the statutory PFD. The budget also included a fast-track supplemental budget. He noted that the deadline for supplementals was the following day and there could be some additional supplemental items from the governor at that time. The governor's budget had an estimated \$50 million deficit from the CBR after the second ERA draw for the PFD. He noted that the information was slightly different than information presented by OMB. He explained that OMB had built in a piece of legislation with an estimated amount and had introduced a subsequent fiscal note with slightly less savings.

[11:01:37 AM](#)

Mr. Painter moved to slide 15 related to agency operations, which were \$77.4 million UGF [below LFD's baseline]. He noted that the OMB director had just reviewed most of the changes. The largest change was the \$35.1 million reduction in Medicaid; however, total funding was flat because of one-time funding carried forward from FY 21. The University of Alaska is down \$20 million UGF, in line with the last year of the compact agreement. The Department of Transportation and Public Facilities was down \$17.2 million, due partly to a reduction to AMHS and primarily to the one-time use of federal CARES Act money to offset general funds. A reduction of \$3.4 million and 101 positions to the Public Assistance Administration was the largest other cut in the governor's budget. The K-12 formula was fully funded but student count changes projected by districts resulted in lower funding (included in LFD baseline). All other changes resulted in a net \$1.7 million reduction. He remarked that the vast majority of the changes were included in the first three items (on slide 15).

[11:03:04 AM](#)

Mr. Painter addressed statewide items at a total of \$464.1 million on slide 16. School debt reimbursement and REAA Fund capitalization were funded at 50 percent of statutory level. Community assistance was funded with \$12.4 million of PCE Funds (DGF) and no UGF, which led to a payout to community assistance recipients of about \$19.5 million in FY 23. He noted that the base payments to municipalities had totaled about \$19.7 million in FY 21. He explained that the \$19.5 million paid out the base payments, but it would

not pay out any per capita payments. He relayed that LFD projected there would be a slight proration of the base payments; however, it was fairly hard to notice the difference.

Mr. Painter continued to review slide 16. The governor's proposed budget funded oil and gas tax credits at the statutory \$60 million using AIDEA receipts (other) rather than UGF. He noted the proposal was a non-designated use of AIDEA receipts. He elaborated that there had been proposals over the past couple of years to use AIDEA receipts for items like oil and gas tax credits or other non-designated items. For the sake of transparency, LFD recommended that if the legislature wanted to take money from AIDEA, it should not be used to artificially lower the size of the budget. He explained that it would distort the size of the budget. He stated that the item had no statutory relation to AIDEA and using the fund code hid the true size of the budget.

Mr. Painter addressed the last item on slide 16. The governor had introduced a Public Employees' Retirement System (PERS) bill - SB 55 - that was estimated to save a net of \$31.3 million UGF by changing the calculation of the cap on PERS for state employees.

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Mr. Painter discussed the governor's proposed \$58.5 million UGF capital budget on slide 17. He remarked that the amount may seem low; however, it was bolstered by a \$101.6 million AHFC bond package. He explained that repaying the bonds would not come as a payment to the state budget, but it would reduce AHFC dividends to the state by \$6 million to \$7 million per year. He noted that LFD had heard different numbers from different members of the administration. He added that AHFC dividends to the state were a UGF revenue source. The governor planned a \$350 million general obligation bond; however, no legislation or projects had been introduced yet. The cost of the bond had not yet been determined and the debt service was not included in the governor's 10-year plan. He recommended adding the bond projection when viewing the governor's 10-year plan. The governor's fast track supplemental included some unfunded FY 21 capital projects.

Mr. Painter expounded that the previous session, the legislature had rolled part of the capital budget into the operating budget. Some of the unfunded projects had received RPLs in August of 2020, some were funded in the fast track supplemental, and others were funded in the FY 22 budget through increased appropriations in that year. For the most part, the missing items were funded in one of the three places. He relayed there were several that were not funded, but often for a good reason. For example, there was a university project that ended up being funded with a federal grant.

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Mr. Painter moved to a spreadsheet on slide 18 showing a short fiscal summary of the governor's budget (UGF Only). He pointed out that agency operations were down nearly \$200 million from FY 21. He reported that the difference between that number and LFD's baselines were the one-time items related to COVID-19. He remarked that sometimes people stated that the governor was proposing to cut the budget by \$450 million. He explained the decrease included many natural reductions, which LFD did not count as a budget cut. He detailed it was the reason for the other baselines to provide a cleaner point of comparison and avoid exaggerating the size of the governor's reductions.

Mr. Painter continued to discuss slide 18. Statewide items were up \$17.8 million, primarily due to the 50 percent funding of school debt and REAA versus no funding for the items in FY 21. The capital budget was down significantly for reasons he had previously highlighted. The governor was showing a \$242.6 million reduction from the FY 21 budget, but much of the reduction was due to one-time items coming out.

Mr. Painter relayed that the PFD in the governor's FY 22 budget was up by about \$1.3 billion (using the statutory amount) compared to the prior year. The governor's fiscal summary included the savings from the PERS legislation of \$31.3 million. He shared that the governor had subsequently introduced an education bill that would increase funding by approximately \$35 million, but it was not included in the fiscal summary. He stated that arguably the two line items could be removed as they canceled each other out; however, LFD was striving to reflect the governor's fiscal summary that only included the bill that saved money and not the

bill that increased funding. The governor's budget contained a \$1.1 billion increase from FY 21, primarily due to the increase to the PFD.

Mr. Painter continued to address slide 18. The governor's supplementals in FY 21 increased the FY 21 budget by \$39.8 million for items other than the PFD and \$1.2 billion for the supplemental PFD. When including the supplemental items for FY 21, the governor's FY 22 budget was down, but it was a bit of a misleading comparison. The total deficit was about \$2.1 billion each year. In FY 21, the deficit would be met by an additional draw from the ERA as well as the deficit from the CBR at about \$900 million, which had already been appropriated. In FY 22 about \$2 billion of the deficit would be filled from the ERA and about \$50 million from the CBR.

[11:10:14 AM](#)

Mr. Painter discussed advanced to slide 19, "Governor's FY21/22 Budget (Cont.)." He stated that the governor's budget built in several UGF reductions that may be difficult to repeat or may be a one-time reduction. He listed the reductions shown on the slide:

- \$35.0 million of lapsing balances for Medicaid
- \$14.1 million of one-time fund changes in DOT
- \$60.0 million of AIDEA Receipts for tax credits
- \$101.6 million of AHFC bonds for capital budget

Mr. Painter elaborated on the reductions. He stated that the lapsing balances for Medicaid allowed the FY 22 budget to be smaller than the true amount expected to be spent on Medicaid in the year. He addressed the \$14.1 million of one-time fund changes in DOT and explained that with the most recent federal stimulus bill there were additional federal funds going to DOT for a longer period; however, the funding was for highways and airports and may be for different purposes. He explained that it was unclear whether the \$14.1 million of one-time fund changes could be sustained for a few years. He noted the item would likely have more clarity in the governor's amended budget that would be released in a couple of weeks.

Mr. Painter addressed the \$60 million of AIDEA receipts for tax credits. He supposed it would be possible to build in the appropriation annually to eventually draw the full \$700

million in owed tax credits, but he did not know whether it was the governor's suggestion long-term. He considered it to be a one-time budget maneuver. The AHFC bonds reduced the size of the FY 22 budget; however, the funding mechanism could not be used repeatedly and constituted a one-time savings. When combining all of the reductions on slide 19 it reflected about \$200 million in one-time budget maneuvers to reduce the size of the FY 22 budget. He noted that without the items the governor's UGF budget would be relatively flat from FY 21 to FY 22 for operations and the capital budget.

[11:12:22 AM](#)

Mr. Painter reviewed slide 20 titled "Governor's 10-Year Plan," beginning with ERA overdraws in FY 21 and FY 22. He explained that the governor's plan showed the ERA overdraws as a one-time maneuver in FY 21 and FY 22 and called for a balanced budget starting in FY 23. The primary way the governor's budget called for a balanced budget in FY 23 was \$900 million to \$1.2 billion in new revenue in FY 23. He noted that the governor did not specify where the new revenue would come from. Another deficit filling measure was the dividend reduction from the 50 percent of statutory net income in current law to 50 percent of the POMV draw beginning in FY 23 (a reduction of about \$400 million per year going forward). The governor's budget included agency operations reductions of about \$100 million in each of FY 23 and FY 24 and limited growth to about 1.5 percent after FY 24. He noted the built-in growth was below the rate of inflation. In total, the governor's plan would reduce agency operations from \$3.8 billion in FY 22 to \$3.7 billion in FY 23 and \$3.6 billion in FY 24.

[11:13:48 AM](#)

Mr. Painter spoke to slide 21, "Governor's 10-Year Plan (Cont.)." He explained that the governor's proposed FY 21/FY 22 ERA overdraws came at a cost of future earnings in the Permanent Fund. He elaborated that the impact could be calculated in a variety of ways. He found the simplest way was to use the 5 percent POMV draw. He detailed that 5 percent of the \$3.2 billion overdraws was \$160 million per year. He expounded that the built-in inflation adjustment was essentially the inflation adjusted deficit increase caused by the \$3.2 billion in overdraws. In real terms, future deficits would be larger by \$160 million per year as

a result of the overdraws. The situation would require additional action to close future deficits. He stated that the legislature would have to weigh the benefits of the stimulus spending that the overdraws represented, which the governor had talked about in the State of the State versus the long-term cost. He added that the proposal had a short-term benefit to the economy, but it would increase future deficits.

Mr. Painter continued to review slide 21. The governor was calling for new revenue. He highlighted that in order to have new revenue starting in FY 23, it was a discussion that would need to take place during the current year, given the length of time it would take to enact a new tax or fully consider changes to petroleum taxes. He reasoned that it would be very difficult to put the discussion off to the next legislative session if the target were \$1 billion in new annual revenue. He added that even doing the work in the current session was optimistic because it would require starting a broad-based tax in the middle of the calendar year on July 1 (typically a new tax would be rolled out on January 1 to give a full year). He noted that beginning a new tax in the middle of a calendar year would reduce the revenue in the first year of implementation.

Mr. Painter discussed that policy choices the legislature and governor made would have different effects on the economy and different distributional impacts. For example, if the legislature decided to have more stimulus spending upfront, it would have a positive economic impact in the short-term, but it would result in a larger deficit in the future that would have to be filled from somewhere and it could hurt the economy in future years. He explained that adopting a reduction to the PFD versus implementing a new income or sales tax would have different impacts on Alaskans with different income levels or different areas of the state, which was something the legislature should consider when making decisions on how to close the deficit.

Mr. Painter relayed that if the legislature agreed to the overdraws for FY 22 without taking measures the governor suggested in his 10-year plan, the ERA could easily go the same way as the CBR and SBR where there were continued structural deficits drawn from the account and it could be rapidly depleted despite its current significant balance. He underscored that each year there was further delay in resolving the long-term deficit, it dug a deeper hole.

Mr. Painter remarked that some people had said that the Permanent Fund had performed well, and it was possible to safely draw extra from the fund; however, the point of the POMV draw was to smooth market volatility. He highlighted that the past March the fund had decreased to \$60 billion, but there had been no real worry the state would not be able to make its POMV payment because of the sufficient ERA balance. There had been no discussion that the ERA draw would need to be reduced in the present because the state was in the situation for the long-term. He remarked that if there came a time when the ERA buffer no longer existed and where the state was spending on the high but not reducing spending on the low, it would increase volatility going forward. He stated that sticking to the POMV draw provided more stability.

Mr. Painter recognized that there may be a reason during the current global pandemic to break that rule; however, simply because there was more revenue available did not mean it was cost-free to draw the funds. He noted a similarity to prior years when there had been fast growth when oil revenue was high. At the time, there had also been a concerted effort to save because it was understood that the revenue would not last forever. He reiterated that spending in the highs and failing to cut in the lows meant there would be overspending over time. He concluded that following the POMV draw was the way to keep revenue flowing in perpetuity.

[11:19:13 AM](#)

Co-Chair Stedman remarked that in the past, one of the areas that got the retirement plan in trouble (the Teachers' Retirement System (TRS) in particular) was when during a couple of strong financial years, the cream had been taken off the top and the accounts had still been exposed to down markets. He stated that it was not possible to take the cream off the top in good years and think that it meant averages would not work against the system in bear markets. He stated that the Permanent Fund was no different. He highlighted that the state had made the error in the 1980s and early 1990s dealing with TRS. He believed it was important to avoid making the same mistake with the Permanent Fund. He pointed out that there was no other backstop available. He stressed that the stakes were high.

Co-Chair Stedman referenced the bullet point specifying that the governor's 10-year plan called for \$900 million to \$1.2 billion in new revenue starting in FY 23 (slide 20). He believed it would be more applicable to mark the numbers down as a deficit because there was no discussion of any magnitude on new revenues.

Senator Hoffman requested information showing the average of the PFD since its inception. He thought the information would be a good benchmark to show how much the State of Alaska had been paying on an annual basis.

Co-Chair Stedman relayed that the Alaska Permanent Fund Corporation (APFC) could provide the information during its future presentation to the committee. He would also ask APFC to calculate what the PFD would have been if the state did not reinvest its 50 percent (50 percent had gone to the PFD and the state's 50 percent had been reinvested). He noted that the method had accelerated the growth of the Permanent Fund. He would ask APFC to provide inflation proofing data for historical PFDs as well. He pointed out that it would not be beneficial to provide 20 to 30-year-old data without inflation proofing it in order to have purchasing parity.

Co-Chair Stedman stated that the committee would hear from APFC later in the week. He wanted to hear about any repercussions that ad hoc draws would have on fund management and portfolio strategies. He suspected that it may be significant.

[11:22:50 AM](#)

AT EASE

[11:24:06 AM](#)

RECONVENED

Co-Chair Stedman discussed the schedule for the following day. The committee would hear from the Department of Revenue on state savings accounts, budget reserves, and state debt. He stated the conversation would be a prelude to discussion on the capital budget and interest in a bond package or any other debt that may be applied to the state.

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ADJOURNMENT

[11:25:06 AM](#)

The meeting was adjourned at 11:25 a.m.