

SENATE FINANCE COMMITTEE

March 4, 2021

9:02 a.m.

[9:02:02 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lyman Hoffman
Senator Donny Olson (via teleconference)
Senator Natasha von Imhof (via teleconference)
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Alexei Painter, Director, Legislative Finance Division;
Conor Bell, Fiscal Analyst, Legislative Finance Division.

PRESENT VIA TELECONFERENCE

Megan Wallace, Director, Legislative Legal Services.

SUMMARY

^ALASKA'S FISCAL POSITION, LOOK BACK, AND PROJECTIONS -
LEGISLATIVE FINANCE

[9:05:03 AM](#)

Co-Chair Stedman discussed the background and anticipation for the topic of the meeting. He noted that the presentation was not a reflection on the budget itself. He thought the Office of Management and Budget (OMB) had done a good job putting agency budgets before the legislature. The budget subcommittees had not finished budgetary

reviews. The committee would be working on how to fix the structural deficit, pay a dividend to the people, and not deplete the Permanent Fund. He noted that the large amount of federal funds currently coming into the state could make many underlying budget issues seem to go away for one or two years.

Co-Chair Stedman relayed that the committee was striving to provide clarity on the budget, and there would be several more presentations on the topic. He mentioned addressing the erosion of the Earnings Reserve Account (ERA). He described the presentation as less of a dissection of the governor's budget, and more of a consideration of budget history.

[9:07:10 AM](#)

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, discussed the presentation, "Alaska's Fiscal Position Look back, and Projections" (copy on file).

Mr. Painter highlighted slide 2, "Outline":

- Budget changes since FY15 (our peak agency operations budget year)
- Where we are now
- Looking forward
- Note: scenarios and adjustments in this presentation were requested by the co-chairs.

LFD is policy neutral and does not endorse a particular fiscal plan.

Co-Chair Stedman clarified that the committee had requested the following scenarios to be presented: the statutory dividend, a 50/50 split dividend on the 5 percent payout, a \$1,000 dividend, and a \$500 dividend. He had selected the scenarios because the first was in statute, the second was proposed by the governor, and the third and fourth could provide a baseline. He asserted there was no policy information therein, but the scenarios would help to start a discussion.

Mr. Painter addressed slide 3, "Why Unrestricted General Funds (UGF)?"

- The budget deficit exists solely in UGF - excess appropriations of other fund sources cause "hollow" funding but not a deficit
- Narrowing the focus to UGF spotlights the State's general fund cashflow issues
- This focus does not mean other funds should be ignored: DGF sources can contribute to revenue because of lapsing funds, and there are policy calls to make across all fund sources
- All Funds reports illustrate the size of government, but this presentation is focused on the deficit

Mr. Painter highlighted slide 4, "Agency Budget Changes Since FY15":

- See Handout A for larger font
- Key points: \$661.2 million of UGF budget reductions were made from FY15-18, with every agency's budget going down
- Since FY18, reductions in some areas have balanced out increases elsewhere - are we at the "floor" for our current government structure?
- Major legislation would be needed to make further significant reductions

Mr. Painter referenced "Handout A," which was titled "UGF Budget Changes, FY15 - FY22" (copy on file) and would reflect the information on the next few slides.

Mr. Painter pointed to slide 5, "Agency Budget Changes Since FY15." He noted that FY 15 had been chosen for comparison as it was the highest year for agency operations spending. He pointed out that overall, spending was down about \$700 million in Unrestricted General Funds (UGF) between FY 15 and the governor's FY 22 budget request. The total budget was down nearly 50 percent, also due largely to the one-time funding for retirement. For statewide items, the difference was much larger, mostly due to the one-time funding for retirement in FY 15. He thought the key takeaway from the slide was that almost every agency was down significantly throughout the period.

[9:11:30 AM](#)

Mr. Painter looked at slide 6, "Agency Budget Change, FY15-18." He proposed that the time period being considered on the slide could be segregated into two slices. During the

period FY 15 through FY 18, every single agency saw reductions. Collectively there was a nearly 15 percent reduction in agency operations for a total of \$663 million. He pointed out that the Department of Transportation and Public Facilities (DOT) was down by over 50 percent. During the period there were across-the-board budget cuts that significantly reduced the agency operations budget.

Senator Hoffman asked about the slide and the corresponding handouts.

Mr. Painter stated that slide 6 corresponded to page 2 of Handout A.

Senator Hoffman thought page 2 showed something different than the slide.

Mr. Painter clarified that the handout had more rows that were not included on the slide.

Senator Wilson asked if the numbers were real numbers with inflation adjustments.

Mr. Painter relayed that the numbers were nominal numbers with no inflation adjustments.

Co-Chair Stedman thought the slide showed agency operations were down \$663 million from FY 15 to FY 18, which was a drop of 14.7 percent. He thought when retirement and debt service and other items were added in, the slide showed a reduction of 4.1 billion. He thought \$2 billion of the amount was for retirement contribution for the unfunded pension and healthcare plan. He thought in total the budget was down roughly 24 percent.

Mr. Painter agreed and explained that in the statewide items the big reductions were to retirement as well as oil and gas tax credits. He pointed out the 'Fund Capitalizations' line, which showed the FY 15 amount as over \$700 million. The bulk of the \$700 million was oil and gas tax credit payments. There was a much smaller payment in FY 18, which accounted for one of the primary reductions in statewide items.

Senator von Imhof appreciated the slides. She thought the next slide would illustrate changes in total state spending. She thought slide 6 did not tell the whole story.

[9:16:18 AM](#)

Mr. Painter discussed slide 7, "Agency Budget Change, FY18-22," which showed a table. He noted that the slide corresponded to page 3 in Handout A. The slide compared the FY 18 final budget to the governor's amended budget. He commented that using a final budget that included supplementals to compare to a budget that did not include supplementals could often be misleading. The alternative was to compare with the management plan, which also had distortions. He thought the final budget gave the best idea of the true total budget for the year.

Mr. Painter observed there was a much smaller reduction of \$41 million (1.1 percent). He noted that some agencies were increasing over the period, such as the Department of Corrections and the Department of Public Safety (DPS). Other agencies were decreasing over the period; most notably the University at \$60 million, and the Department of Health and Social Services (DHSS) at \$54 million. The reductions counterbalanced the increases and led to a relatively flat budget over the period.

Senator von Imhof wondered whether if Mr. Painter was just talking about UGF.

Mr. Painter agreed.

Senator von Imhof pondered that the Walker Administration was FY 18 and FY 19 and the Dunleavy Administration was FY 20, FY 21, and FY 22.

Mr. Painter agreed.

Senator von Imhof observed there was a 1.1 percent decrease from FY 18 to FY 22 over the two administrations.

Mr. Painter agreed.

[9:18:52 AM](#)

Senator von Imhof wondered whether Mr. Painter would address how some of the UGF had been offset by Designated General Funds (DGF) or other state funds.

Co-Chair Stedman replied in the affirmative. He stated the committee would also address COVID-19 funds and one-time funding. He pointed out that during FY 18 and FY 20 there were different administrations as well as different legislatures. He pointed out that during the time there were two different governors, there had been three different legislatures; and during that time the legislature had been unable to change agency operations spending very much. He used the example of the University decrease offset by an increase in the Department of Corrections.

Co-Chair Stedman continued his remarks. He noted that debt service payments had gone down by \$104 million, fund capitalization decreased by \$85 million, all while pension payments had increased by \$178 million. He commented on the lack of significant change in spending despite the work of the committee. He thought there needed to be statutory changes to deal with agency spending. He thought the point of the slide made it apparent that while there were significant budget reductions previous to 2018, there had not been much forward progress since. He added that there was additional data going back to 2005 that was available in budget subcommittee materials.

Senator von Imhof asked about employee counts over the time frame of the slide.

Mr. Painter did not have the information readily available but had looked at filled position counts over the same time periods. The information had used personnel data from OMB and did not include entities outside the personnel system, such as the University. The data showed a reduction of about 2,000 filled positions across state government between FY 15 and FY 18. Between FY 18 and FY 20, there was a small decrease of about 100 positions. He offered to follow up with the information as requested by Senator von Imhof.

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Co-Chair Stedman pointed out that the legislature had reduced Department of Health and Social Services by almost \$54 million, or a little over 1 percent per year over the previous several years. He commented that DHSS was the state's second largest agency and was difficult to deal with. He stated the legislature had been working on finding

reductions and cautioned against expecting the budget subcommittee to bring back significant changes. He reiterated the need for statute changes.

[9:24:34 AM](#)

Mr. Painter pointed to slide 8, "Where Are We Now? Governor's FY22 Budget," which was a fiscal summary of the governor's proposed budget. He highlighted that the encircled numbers were the deficit. He highlighted that the deficit in FY 21 was projected to be about \$900 million, and about \$93 million in FY 22.

Co-Chair Stedman asked Mr. Painter to indicate what part of the chart he was speaking to.

Mr. Painter agreed. He noted he was addressing line 16 on slide 8, which showed the 'Pre-Transfer Surplus/(Deficit).' The amount was before the governor filled part of the deficit out of the ERA. He pointed out that there was a \$2.1 billion deficit each year. Part of the deficit would be filled from the ERA: \$1.2 billion in FY 21, and \$2 billion in FY 22. The amount coming from the CBR on line 21 was \$900 million in FY 21 and \$93 million in FY 22.

Mr. Painter drew attention to the other circled box entitled 'Reserve Balances (EOY),' which was a change from previous fiscal summaries. The numbers presented for the Constitutional Budget Reserve (CBR) were significantly lower. The previous week LFD had received the comprehensive annual financial report of the state, which was a post-audit actual financial statement for FY 20. The report had shown a lower CBR balance of \$1.4 billion than the \$1.8 billion projected in December. In previous fiscal summaries the CBR amount projected in FY 21 and FY 22 was about \$900 million, and now it was close to \$500 million because of the reduction. He reiterated that the changes were due to receiving the audited FY 20 financials.

[9:27:26 AM](#)

Co-Chair Stedman reminded that the CBR was getting down the minimum balance that would be prudent. He thought the committee could soon expect commentary from OMB regarding the recommended cash balances to operate the state. He mentioned that the balance had at one time been \$12 billion.

Co-Chair Bishop commented that the governor's proposed budget would take the projected balance of the ERA for FY 22 down below the minimum amount recommended by the Alaska Permanent Fund Corporation (APFC).

Mr. Painter agreed. He noted that the number was the realized amount for the ERA only, not including unrealized gains. He stated that the figures were based on APFC's projected returns in FY 21. The actual returns had been greater than what was projected. When the actual returns were incorporated, APFC expected to include a lower future projection, which would balance the amount out.

Senator von Imhof looked at line 10 on slide 8, which showed a lean capital budget, which was not consistent with previous years. She found line 17, showing a draw from the ERA, to be concerning. She thought the line showed an ad hoc draw of \$1.2 billion for FY 21, and \$2.0 billion for FY 22.

Mr. Painter agreed and explained that the amount was beyond the level of the percent of market value (POMV) draw limit in statute.

Senator von Imhof thought if line 17 was added to the regular draw on line 3, there would be a total of a \$6.3 billion draw at once.

Mr. Painter agreed.

Senator von Imhof asked about the ERA balance if the proposed draws were taken.

Mr. Painter noted that line 21 showed that the realized ERA balance would go below \$10 billion in FY 22 based on APFC's projections with the draws.

Senator von Imhof asked if the \$9.3 billion projected balance would be after the proposed draws to the ERA were taken.

Mr. Painter replied in the affirmative.

Senator von Imhof asked if upcoming slides would show the impact of the draws on the ERA and POMV draw.

Mr. Painter replied in the affirmative.

[9:31:28 AM](#)

CONOR BELL, FISCAL ANALYST, LEGISLATIVE FINANCE DIVISION, displayed slide 9 titled "About the LFD Fiscal Model." He relayed that LFD modeled fiscal scenarios at the legislature's request. He detailed that the modeling was based on the Department of Revenue's fall revenue forecast. He noted that because oil prices had increased significantly since the fall forecast, LFD had incorporated more recent futures market data with updated oil price assumptions. He reported that the FY 21 oil price forecast in the fall Revenue Sources Book was \$45 per barrel and more recent futures markets priced the amount at \$52 per barrel; likewise, the FY 22 forecast had increased from \$49 per barrel to \$59 per barrel. Consequently, forecasted UGF revenue had increased by \$249 million in FY 21 and \$293 million in FY 22. He added that LFD had not changed its assumptions for Permanent Fund earnings returns. He noted a difference between the fiscal modeling and fiscal summaries: the modeling included an assumption of \$50 million in supplementals per year, which was money spent after the enacted budget.

Mr. Bell relayed that the modeling assumed draws in excess of revenue would be taken from the CBR; however, there was a minimum CBR balance of \$500 million and any excess deficits would be taken from the Permanent Fund (ERA). He reported that the governor's proposed budget took the Permanent Fund Dividend (PFD) amounts for the FY 21 supplemental and the FY 22 budget from the ERA, which was a slight difference. He informed the committee that LFD provided a more simplified model directly to legislators that they could use to model their own scenarios. The more complex model in the presentation showed a streamlined version of LFD outputs.

[9:34:13 AM](#)

Mr. Painter addressed slide 10, "Fiscal Summary with Updated Revenue Assumptions." The slide included a table showing a different version of the fiscal summary that incorporated the adjustment in revenue of \$249 million in FY 21 and \$293 million in FY 22 (shown on line 3 and circled in red). He pointed to the bottom of the table and detailed that the change reduced the pre-transfer deficit

to \$1.8 billion for FY 21 and FY 22 (line 17) and the amount coming out of the CBR in FY 21 would be \$660 million instead of \$900 million. There would be a post-transfer surplus in FY 22 after the direct draw was taken out of the ERA; however, because the ERA spending constituted deficit spending, the deficit would be \$1.8 billion. He moved to line 21 and explained that the higher revenue figures meant there was more in the CBR - the slide showed a balance of \$780 million in FY 21, and due to the post-transfer surplus, the balance was \$1 billion in FY 22.

[9:35:48 AM](#)

Mr. Painter turned to a 10-year model of the governor's amended budget before the PFD payment on slide 11. The slide removed the PFD in order to clearly show the pre-PFD deficit the governor's budget paid for directly from the ERA. He clarified that the slide was not meant to suggest no PFD, it was merely to demonstrate what the fiscal situation would look like prior to considering the dividend. He noted that the deficit numbers were slightly different than the fiscal summary because of the annual \$50 million supplemental assumption used in the presentation. The previous slide showed a \$200 million surplus, while slide 11 showed a surplus of \$150 million. He expounded that based on the higher price forecast, there would be annual surpluses and an increase in balances if the legislature accepted the governor's budget as written.

[9:36:46 AM](#)

Mr. Painter discussed slide 12, "Unusual Fund Sources in Governor's Budget: Total of \$241.0 Million." He explained the intent was not to judge the proposals as bad, but to point out that they were an unusual use of funds and unconventional budgeting tactics, which in some cases were not designated by statute. He noted that in some cases the fund sources were temporary and were not repeatable in future years. He stated that the methods may make the deficit appear smaller than the reality.

Mr. Painter began with the first example of using lapsing balances in place of FY 22 appropriations. He remarked that the committee had talked extensively about the \$35 million in lapsing balances from Medicaid that the governor's budget would carryforward into FY 22. He explained that the action lowered the FY 22 budget. He stated there were two

other unusual uses of lapsing balances. The first was the use of potential lapsing balances of fire suppression activity funding, which would be reappropriated to fire break construction. He detailed that the prior year, fire break construction had been a UGF capital budget project. He pointed out that using lapsing balances was not a bad idea, but it was not necessarily the most transparent budget method compared to the previous year. The second was the OMB proposal to use lapsing balances to smooth funding for rate setting agencies. He detailed that in order to ensure rate setting agencies did not experience a sudden shortfall in collections, the governor's budget would spread out \$5 million in lapsing balances. He reported that the goal could be accomplished by appropriating \$5 million. He observed that using the lapsing balance made the budget look a little smaller.

Mr. Painter continued to review slide 12. He highlighted the governor's use of fund sources for non-designated purposes. The largest was the use of \$60 million in Alaska Industrial Development and Export Authority (AIDEA) receipts (instead of UGF) for oil and gas tax credits. He detailed that the \$60 million was the statutory calculation under the fall forecast. The governor's budget used \$10.5 million in Power Cost Equalization (PCE) funds for Alaska Energy Authority (AEA) capital projects. The proposal was not a designated use of the PCE Fund and it was beyond the fund's statutory draw. The supplemental budget included \$4 million of Higher Education funds for prosecutor recruitment and housing. He noted that the proposed expenditure had no real relation to the Higher Education Fund. Additionally, the FY 22 budget included two fund source changes - one in AEA and one in the Alaska Commission on Postsecondary Education (ACPE) that were consistent with the purpose of the funds, but were not statutorily designated purposes.

Mr. Painter reviewed two one-time or temporary fund sources. The largest was the Alaska Housing Finance Corporation (AHFC) bond package of \$104 million in the capital budget. The second used \$16.3 million of Mental Health Trust Reserve funds, \$6 million of the total was used in the supplemental and \$10.3 million was in the FY 22 budget. He stated that all of the items on slide 12 were examples of using unusual and temporary fund sources that LFD did not necessarily recommend building into the budget

every year going forward. He noted the next slide would adjust for the issue.

9:40:38 AM

Senator von Imhof asked if the \$10.5 million [for AEA capital projects] would come from the PCE principal or annual earnings.

Mr. Painter replied that PCE was a single fund with no separate earnings fund. He explained that while statutes directed the use of earnings, there was no distinction in the fund between principal and earnings.

Senator von Imhof asked if LFD tracked the amount taken from PCE. She asked if the amount was generally over 5 percent with the extra \$10.5 million.

Mr. Painter responded that LFD did track the amount taken from PCE. He was not certain whether the proposed amount was over 5 percent. He elaborated that there was a statute that limited the amount going to the PCE program to a POMV of 5 percent; however, the other part of the statute referring to other purposes was based on prior year earnings. The governor's proposal went beyond the amount of spendable prior year earnings. He did not know where the proposal would put the POMV.

Co-Chair Stedman remarked that the committee would get a clarification on the PCE.

Co-Chair Bishop asked for verification that the governor's proposal overdrew the PCE fund. He believed \$10.5 million constituted an overdraft with the multiplier.

Mr. Painter confirmed that the proposed draw was beyond what was dictated by the statute governing the use of earnings.

Senator Wielechowski asked what rate of return AIDEA would get for the \$60 million in oil and gas tax credits.

Mr. Painter answered that he did not know how AIDEA invested the money. He detailed that AIDEA had a cash reserve and he was not sure if the governor's proposal would mean money would have to be taken out of other AIDEA

investments. He would follow up with additional information.

Senator Wielechowski asked if AIDEA would get anything in return for the \$60 million such as a 2 percent, 5 percent, or 10 percent rate of return.

[9:43:15 AM](#)

Mr. Painter responded that he was not certain because AIDEA kept a cash amount for making investments. He did not know whether AIDEA would have to replace the cash by taking other investments out. He would have to check with AIDEA to determine how they would handle the draw. He would follow up with the information.

Senator Wilson asked about the impact of the statutory calculation for the oil and gas tax credits and the increase in the price of oil.

Mr. Bell replied that the statute designated the amount at 10 to 15 percent of production taxes levied, which the Department of Revenue (DOR) interpreted as production tax levied pre-credits. Consequently, at \$59 per barrel the \$60 million would increase to about \$122 million and at \$60 per barrel the amount would increase to \$80 million. He explained that at oil prices above \$60 per barrel, the rate decreased from 15 percent to 10 percent.

Mr. Painter discussed slide 13, "Fiscal Summary: Governor's Budget with Typical Fund Sources." The table replaced the atypical fund sources with UGF (indicated with blue arrows). He detailed that the supplemental budget used \$6 million from the operating budget and \$4 million in the capital budget [in FY 21]. In FY 22, there was \$56.5 million in agency operations, \$60 million in statewide items, and \$114.5 million in the capital budget. He followed up on an earlier comment about the size of the capital budget by pointing to line 12 and explaining that switching the fund sources to UGF would result in a \$176.7 million capital budget, which would be the highest since FY 15.

Mr. Painter directed attention to the total CBR draw shown on line 22 of slide 13. He explained that making the changes went from a post-transfer surplus of \$200 million to a post-transfer deficit of \$31 million in FY 22. He

elaborated that the CBR balance was lower at \$770 million in FY 21 and \$774 million in FY 22 (shown on line 21).

[9:46:36 AM](#)

Co-Chair Stedman pointed out the POMV draw on lines 4 and 18 [of slide 13] and explained that the two numbers needed to be combined to get the total draw from the Permanent Fund.

Mr. Painter agreed. He pointed to the pre-transfer deficit on line 17 of \$1.86 billion in FY 21 and \$2 billion in FY 22.

Mr. Painter advanced slide 14 titled "Fiscal Model: Governor's Budget with Typical Fund Sources." The adjustments showed the state in deficit spending in FY 21 and FY 22 with surpluses in the outyears. He noted that the slide did not include a PFD payment. The addition of a PFD brought the budget up and created a deficit situation; however, the expectation of rising oil prices in the future still resulted in additional money available in future years.

[9:47:43 AM](#)

Mr. Painter looked at slide 15, "How Federal COVID-19 Relief Impacts Alaska's Budget." He referenced a presentation by OMB a couple of weeks earlier on Coronavirus Aid, Relief, and Economic Security (CARES) Act funding and COVID-19 relief from the federal government. The federal funding had a number of impacts on Alaska's budget, the most notable was the Federal Medical Assistance Percentage (FMAP) increase from 50 percent to 56.2 percent for non-expansion population. He reported that the change saved Alaska \$15 million to \$17 million UGF per quarter in the Medicaid program. The assistance was likely to be extended through end of calendar year 2021. The LFD modeling included an adjustment for the federal assistance in the previous section by taking out the \$35 million adjustment.

Mr. Painter continued to review slide 15. The state had received \$1.25 billion in the Coronavirus Relief Fund (CRF) in 2020. He explained that the funding had often been used before state funds, which created lapsing funds in FY 20 and possibly in FY 21. He stated that DOT was receiving a

substantial amount of federal funding through several different avenues - some of the funding was going towards airports, highways, and some through Federal Transit Authority (FTA) grants. The governor's budget included \$14.6 million in fund source changes away from UGF to utilize some of the federal funding. The action would lower the budget at present, but when the federal funding ceased it would require an increase in UGF or agency reductions in order to maintain the funding level. He relayed that the next couple of slides would show adjustments back to UGF in order to see the true size of the long-term budget.

[9:49:38 AM](#)

Mr. Painter addressed slide 16, "Fiscal Summary: Governor's Budget without COVID-19 Funding." The slide showed prior adjustments made [shown on slide 13] and added an adjustment of \$14.6 million shown in green. He noted the adjustment was fairly small and did not "move the needle" significantly. The \$2 billion deficit remained the same on line 17. The total CBR draw was slightly higher at \$45.8 million and the total balance on line 21 was slightly lower.

Mr. Painter highlighted slide 17, "Fiscal Model: Governor's Budget without COVID-19 Funding." He explained that the data shown in the graphs was very similar to previous graphs [on slide 14] because of the small adjustment. The deficit would be slightly larger in FY 22 with smaller surpluses in the outyears.

[9:50:25 AM](#)

Mr. Painter pointed to slide 18, "FY18-22 Spending with Adjustments for Fund Sources and COVID-19." He remarked that the slide referred to Handout B in members' packets (copy on file). The two-page document showed the full FY 15 through FY 22 look and FY 18 through FY 22 only. He noted the slide on the screen contained a couple of minor errors in the totals (totals were correct in members' packets). He pointed to the last column showing the governor's amended budget with the exception of the changes to fund sources. Instead of being down 1.4 or 1.1 percent, agency operations were up 0.5 percent from FY 18 through FY 22. The difference was not huge, but it did shift from small cuts during the period to a small increase.

Senator von Imhof asked about a scenario where the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funds disappeared in a couple of years. She asked how much the state was ramping up agencies in terms of additional employees and programs. She wondered what it would look like in a couple of years when the funds were no longer available. She asked how the state would unwind from additional spending.

Mr. Painter replied that where all of the funding was going was an important question. The DOT funding was primarily being used to shore up lost revenue in the Alaska Marine Highway System (AMHS) by using FTA grants. He explained that it would not expand service in a sustainable way but it would help AMHS backfill from the lost revenue due to the loss of service from COVID disruptions. Most of the funding in the budget was coming either in place of general funds, like the \$14.6 million, and some was going to increases in activity. He referenced the revised program legislative (RPL) from a couple of months back that was used to reopen some maintenance stations. The stations had been closed due to budget cuts and had been reopened with federal funds; therefore, when the federal funds ran out, the maintenance stations would need to find an alternate funding source.

[9:53:48 AM](#)

Mr. Painter moved to a list of some of the state's obligations and funding needs on slide 19. The list totaled about \$12 billion and was not exhaustive. He noted that the items were not all things that the state had to fund, but they included obligations with some expectation of funding. The largest item was the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) unfunded liability to which the state was constitutionally obligated. Based on a payment plan, the state would make annual payments through FY 39 and the FY 22 payment was \$336 million.

Mr. Painter continued to review the items on slide 19. The second item was \$1.1 billion in general obligation bonds and state supported debt through lease purchase agreements and other similar things. The debt service for the longest of the cycles would extend to FY 41. He relayed that the governor's FY 22 budget included over \$90 million for the purpose. He noted that payment of the specific debt was not

optional. School debt service of \$789 million was subject to appropriation to reimburse municipalities. The governor's budget included 50 percent of the full \$84 million. He explained that the current issued debt had payments through FY 39. A moratorium on new debt had been in place since FY 15, which had been extended through FY 25; however, if the moratorium expired and new debt was issued, the obligation would extend beyond FY 39.

Mr. Painter highlighted an estimated \$760 million in oil and gas tax credits on slide 19. The statutory payment plan included deposits to the Oil and Gas Tax Credits Fund. There had been an attempt to set up a bonding proposal, which had been ruled unconstitutional. The governor's budget included \$60 million, the statutory amount under the fall forecast, which may change in the spring forecast. The state had a \$2 billion backlog of deferred maintenance, including the university and state buildings. He elaborated that the payment plan was annual appropriations to the Capital Income Fund; however, the amount flowing into the fund on its own was about \$30 million annually, which was not sufficient to make a dent in the total. The amount reflected about one-third a percent of the asset value, which was far below the standard. The governor's budget included over \$50 million, which was still below the amount needed to reduce the backlog.

Mr. Painter moved to the last two items on slide 19. The state's share of the School Major Maintenance and Construction Lists was \$350 million if funded. There was no direct funding for the item; however, the Regional Educational Attendance Area (REAA) Fund could be used for some of the projects. The governor's budget included \$17 million or 50 percent funding. He detailed that the funding could not be used for all of the projects because some were outside the REAAs. He added that funding for non-REAA projects had not been deposited into the fund in several years. The Department of Environmental Conservation (DEC) had reported \$1.8 billion in rural sanitation needs. He explained that rural sanitation was funded annually through the Village Safe Water Program. The state's FY 22 share was \$18 million, which leveraged federal funding for a total of \$71 million. He noted that even at that rate it would take quite some time to get to the full \$1.8 billion of underserved communities.

[9:58:10 AM](#)

Senator Hoffman referenced the rural school construction list and highlighted an existing decree that the state had signed off on. The decree included a compilation of percentages the state paid for school bond indebtedness. He believed the decree required state spending of about \$34 million annually. He pointed out that the state was currently in noncompliance with the decree and the case could be reopened. He referenced Mr. Painter's statement there were no plans for funding the projects. He underscored that there was a plan, which the state had signed off on. He reiterated that the state was in noncompliance with the decree and was subject to potentially having a court case reopened that penalized rural students from receiving adequate classroom space under new construction.

Mr. Painter explained that that the REAA fund could be used for many projects on the list, but not all. He noted that there were municipal projects on the major maintenance list, which did not have a formula. He agreed that there was a formula through the REAA fund for the majority of the projects.

[10:00:15 AM](#)

Mr. Painter highlighted slide 20, "Governor's Budget and Statutory Formulas":

- Governor funds School Debt Reimbursement at 50 percent of statutory level
 - 100 percent funding would add \$41.8 million to the FY22 budget
- Governor funds Regional Educational Attendance Area (REAA) Fund at 50 percent of statutory level
 - 100 percent funding would add \$17.1 million to the FY22 budget
- Governor funds Community Assistance at \$12.4 million, versus the \$30.0 million statutory deposit
 - 100 percent funding would add \$17.6 million to the FY22 budget
- Governor does not fund municipal project debt service
 - 100 percent funding would add \$2.4 million to the FY22 budget

Senator von Imhof remarked that the legislature had heard that it was important to follow statute when paying the PFD. She remarked that the presentation had four examples of the administration not following the statute.

Mr. Painter agreed.

Co-Chair Stedman explained that it was typical in any budget year to override statutes in a given year. He used the example of the \$150,000 exclusion for senior citizens' property tax, which had not been funded for many years.

[10:04:28 AM](#)

MEGAN WALLACE, DIRECTOR, LEGISLATIVE LEGAL SERVICES (via teleconference), pointed to slide 21, "Legislative Power of Appropriation":

- "No money shall be withdrawn from the treasury except in accordance with appropriations made by law." (Article IX, sec. 13). The dedicated funds prohibition (Article IX, sec. 7) prevents the legislature from dedicating the proceeds of any state tax or license to any special purpose.
- An appropriation is required to carry out any statutory formula.
- In *Wielechowski v. State*, the Alaska Supreme Court held that the legislature's use of permanent fund income is subject to the normal appropriation and budgetary veto process. Thus, each year, the legislature may appropriate from the earnings reserve account to the dividend fund any amount, regardless of the language in statute.
- Unless an exception to the dedicated funds prohibition applies, each year, the legislature may appropriate money from any available source, for any public purpose, as it deems appropriate. Statutory formulas serve as guidelines or policy suggestions for the legislature to follow.
- In general, each year, all state programs are subject to appropriation.

Co-Chair Stedman wondered whether the legislature did not have the authority to violate the constitution.

Mr. Wallace replied in the affirmative. She explained that the constitution was the primary legal and enforceable provision as it related to the power of appropriation. She stated that Article 9 Section 13 would trump or override any statute that recommended or provided that a certain amount of money be appropriated or set aside for a certain program.

Co-Chair Stedman wondered whether there could be an initiative to appropriate out of the treasury.

Ms. Wallace replied that an initiative could not be used to make an appropriation.

Co-Chair Stedman thanked the testifier.

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Mr. Painter looked at slide 22, "Fiscal Summary: Governor's Budget with Statutory Funding of Statewide Items", which showed the full statutory funding of statewide items. He noted that the next couple of slides would show the graph, but would not show statutory funding. He remarked that line 17 showed the deficit increases in FY 22.

Mr. Painter discussed slide 23, "Fiscal Model: Governor's Budget with Statutory Funding of Statewide Items." He noted that the \$70 million impact was the largest impact expected going forward.

Mr. Painter pointed to slide 24, "Fiscal Model: Budget with Typical Fund Sources, No COVID Offsets, Statutory PFD." He explained that the slide showed the governor's numbers with using the LFD model. He discussed the slide further. He stressed that there was not enough funding to meet the budget - following the model.

Co-Chair Stedman queried the estimate of the gap between the dotted line and the top of the red bar on the slide.

Mr. Painter clarified that the slide said billion where it should have said million. He stated that the gap in FY 30 was approximately \$1.5 billion. He said that there was an

expectation of some excess earnings in the ERA that could be overdrawn again to empty out completely.

Senator von Imhof noted that the ERA could be depleted and 25 percent of the fund would be gone. She wondered how it would affect the annual draws of the POMV. She asked whether that was factored into the model.

Mr. Painter replied that it had been factored into the model. He noted that deficits increased because the overdraw of the ERA decreased the POMV draw and decreased the earning power of the fund. He stated that because the POMV draw had a lag, there was not an immediate impact on the POMV, however there was an impact on the earning power of the fund. He stated that the ERA balance declined faster than the POMV draw.

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Co-Chair Stedman noted that it would be discussed on slide 30.

Senator Hoffman noted that each billion dollars drawn out of the ERA meant that there was \$50 million less to spend each year thereafter.

Mr. Painter displayed slide 25, "Fiscal Model: Budget with Typical Fund Sources, No COVID Offsets, and 50/50 POMV Split." He stated that the current PFD statute was 50 percent of statutory net income. He explained that the governor had proposed to change that to 50 percent of market value draw, which would decrease the dividend by approximately \$400 million per year compared to the current statute. He noted that compared to the last slide, there were smaller deficits in FY 23 and beyond. He pointed out that the ERA lasted slightly longer in the model.

Co-Chair Stedman pointed out that there had been a discussion at the beginning of the meeting about two different governors and three different legislatures. He felt that the future legislatures and governors may have a difficult time under some of the scenarios.

Senator Hoffman queried the amount of the PFD under the 50/50 POMV scenario.

Mr. Painter replied that it would be approximately \$2400 per year on average.

Co-Chair Stedman reminded the committee that LFD could run any scenario. He stressed that the committee was not advocating any positions, rather the presentation was meant to be informational.

Senator von Imhof commented that the 50/50 dividend could be examined two different ways. She remarked that there could be an examination of actual cash received by each individual, which was approximately \$2400. She emphasized that it cost the state \$1.5 billion to pay that amount, which was almost 25 percent of the UGF budget. She stressed the importance of noting the actual cost to the state.

Mr. Painter looked at slide 26, "Fiscal Model: Budget with Typical Fund Sources, No COVID Offsets, and \$1,000 PFD." He noted that there was a small persistent deficit under the model. He remarked that there was a \$775 million cost in FY 22 decreasing over time, because it was a one cost nominal dividend. He remarked that it would still lead to ERA overdraws, and a declining ERA balance. He stressed that LFD was not suggesting that the plans were not possible, rather it showed the "size of the hole" that needed to be filled in order to support the dividend without overdrawing the ERA.

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Co-Chair Stedman furthered that it also did not show expense reductions or new revenue. He stressed that there needed to be a change because the state must meet payroll.

Senator Hoffman noted that under the scenario in the current slide, by FY 30 the fund would still \$12 billion. He wondered whether there was a scenario that showed a complete depletion of the ERA.

Mr. Painter replied that the previous two slides showed the scenarios with a complete depletion of the ERA. He stated that the smaller overdraw in the current slide would maintain the ERA.

Senator Hoffman surmised that the ERA may exist through 2060.

Mr. Painter responded that he would need to examine the exact amount that would last, based on the draws.

Senator Wielechowski commented that it would be interesting to factor in the historic 26 percent of the value of oil, instead of the current lowest share of 13 percent.

Co-Chair Stedman restated that LFD could run that model.

Senator von Imhof wondered whether the slide showed that the state was taking above 5 percent in all the years, which was worrisome because of the slow erosion of the ERA. She remarked that other sovereign wealth funds generally had a 5 percent match annual fund.

Mr. Painter replied in the affirmative.

Senator von Imhof noted that it had not been historically fiscally viable over time. She did not believe that any other sovereign wealth fund took more than 5 percent.

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Co-Chair Stedman remarked that the Alaska Mental Health Trust Authority (AMHTA) took 4.25 percent, and they had good performance in their markets.

Senator Hoffman remarked that many Alaskans supported a PFD. He recalled that a \$1000 PFD had been in place for several years. He queried the additional revenue needed for a \$1000 to level the draw in the ERA in the out years.

Mr. Painter replied that, based on the revenue forecast beyond FY 22 and FY 23, \$300 million in revenue would be sufficient to avoid overdraws and pay a \$1000 PFD with the budget assumptions.

Senator von Imhof pointed out that the budget assumptions required further reductions of 5 percent each year and a very anemic capital budget. She wondered whether it included any CARES Act money or money taken from DGF.

Mr. Painter replied that the version already made those adjustments and assumed a \$150 million capital budget growing with inflation.

Senator von Imhof wondered whether the scenario required the legislature to cut the budget by a certain amount each year.

Mr. Painter replied that the scenario assumed growth with inflation of 2.25 percent.

Co-Chair Bishop observed that the scenario was considered a \$150 million capital budget, assuming the federal match from FHWA. The result would be a cumulative total capital budget of over \$1 billion each year.

Mr. Painter agreed.

Co-Chair Stedman stressed that the scenario did not reference the full capital budget, rather the general fund portion.

Mr. Painter pointed to slide 27, "Fiscal Model: Adjusted Budget with \$500 PFD." He noted the deficits in FY 22 and FY 23. He stated that FY 24 had oil prices projected to be higher, so there would be small surpluses and a balanced budget moving forward with no additional revenue or budget cuts. He commented that the scenario had very small overdrafts from the ERA in FY 22 and FY 23 to meet the deficits. He explained that the slightly declining ERA balance was due to the Permanent Fund earnings forecast of 6.75 percent, which was not quite sufficient to keep up with inflation. He remarked that switching to the updated forecast of 6.2 percent going forward, the base scenario would also have a decrease in the ERA balance. He stressed that the paying inflation proofing and POMV draws based on the forecast would still show a slightly declining ERA.

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Senator Hoffman recalled the last position that the senate took on the PFD, which was in SB 26. He wondered whether the dividend amount in that bill was \$1100.

Mr. Painter replied in the affirmative.

Mr. Painter discussed slide 28, "Fiscal Model: Budget with Typical Fund Sources, No COVID Offsets, 50/50 POMV PFD, FY21 Supplemental PFD." He explained that the slide showed the statutory dividend in FY 22, and the 50/50 POMV going

forward. The scenario also added the FY 21 supplemental dividend proposed by the governor.

Mr. Painter pointed to slide 29, "Swoop Graph Including FY21 Supplemental PFD." He stated that the slide showed the typical swoop graph showing all the agencies' UGF funding.

Co-Chair Stedman wondered whether the large bar on the graph of over \$3 billion would be equivalent to all of the agencies, except for DEED.

Mr. Painter replied in the affirmative. He explained that the bottom row showed the cumulative budget.

Co-Chair Stedman felt that the slide referenced some members' previous questions.

[10:34:15 AM](#)

Mr. Painter displayed slide 30, "Impact of FY 21-22 Overdraws on ERA Balance and POMV Draw." He stated that the ERA balance comparison was the bars. He stated that the blue bars showed the ERA balance following the POMV, and the green showed overdraws only in FY 21 and FY 22. He noted that there was an immediate difference in the ERA balance in FY 22, and the difference was more than \$2 billion. He stressed that the ERA balances did not quite match the fiscal summary, because it included unrealized gains. The ERA balance difference was immediate, and the POMV difference took more time because of the five-year average and the lag in the average. He stated that the impact would not be seen until FY 23, but would get larger as it was worked into the average. He explained that by FY 30 there would be a \$200 million a year difference in the revenue based on the overdraw. He stated that cumulatively, over the period, there would be nearly a \$1 billion difference in revenue. He stated that the \$200 million difference was essentially a need to find another \$200 million of either budget cuts or new revenue in the future for a balanced budget. He noted that it showed the assumption of no change in the Permanent Fund investment strategies.

Co-Chair Stedman commented that the intention was to set up a base for the operating budget procedure.

[10:37:12 AM](#)

Senator von Imhof surmised that slide 30 showed the green bar beginning to go down, because the ERA eroded over time. She looked at slide 26, and noted that spending \$650 million had an impact. She looked at FY 26, FY 27, and FY 28, which had reduced ERA balances. She wondered whether the POMV draw would begin to reduce, so the deficit would increase due to the total value of fund.

Mr. Painter replied that the draws affected the POMV draw, but examining the petroleum revenue forecast over that period had increases that were faster than the rate of inflation. He explained that relatively minor increases in price resulted in greater than inflationary growth in revenue.

Mr. Bell furthered that beginning in FY 25 there was an assumption of inflation proofing from the ERA to the principal of the Permanent Fund of approximately \$1 billion per year. He explained that, based on statutory intent, there was not assumption of inflation proofing for FY 22 through FY 24.

Senator von Imhof assumed that the price of oil would continue to increase even through there move toward renewable energy. She wondered about market corrections and the impact. She felt that there were many variables that could drastically affect the model.

[10:40:22 AM](#)

Senator Hoffman wondered whether other funds in the world utilized inflation proofing or whether their increases were from the markets.

Mr. Painter replied that Alaska's structure of a separate ERA for a fund was unusual for an endowment. He stated that most would set a draw at a rate of 5 percent or less, which theoretically accounted for inflation. He explained that the transfer between two funds to account for inflation was unique to Alaska.

Senator Hoffman wondered whether there would be a consideration to change to one fund.

Co-Chair Stedman replied that it would be discussed when there was a more in depth conversation about the dividend.

He stressed that the change would require a constitutional amendment to remove any funds from the corpus. He noted that there would also be a conversation about inflation proofing, and recalled that the committee had expressed concern related to the AMHTA about inflation proofing their fund. He stated that he would work with committee members on a schedule, and encouraged members to submit any modeling request to ensure a robust discussion on the policy moving forward.

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ADJOURNMENT

[10:44:23 AM](#)

The meeting was adjourned at 10:44 a.m.