

SENATE FINANCE COMMITTEE
THIRD SPECIAL SESSION
August 24, 2021
9:02 a.m.

[9:02:35 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 (via teleconference)
Senator David Wilson (via teleconference)

MEMBERS ABSENT

None

ALSO PRESENT

Alexei Painter, Director, Legislative Finance Division;
Connor Bell, Analyst, Legislative Finance Division.

SUMMARY

^ALASKA'S FISCAL POSITION and PROJECTIONS

[9:04:01 AM](#)

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION,
introduced himself.

CONNOR BELL, ANALYST, LEGISLATIVE FINANCE DIVISION,
introduced himself.

Mr. Painter discussed the presentation, "Alaska's Fiscal Position and Projections" (copy on file). He looked at slide 2, "Disclaimer":

Scenarios and adjustments in this presentation were requested by the Finance co chairs. LFD is policy neutral and does not endorse a particular fiscal plan.

[9:04:47 AM](#)

Mr. Painter addressed slide 3, "Review of Modeling Baselines"

- Legislative Finance's fiscal model is designed to show policy makers the longer term impact of fiscal policy decisions.
- The baseline assumptions are essentially that current budget levels are maintained, adjusted for inflation. Policy changes are then applied against that baseline.
- Our default is to assume that statutory formulas will be followed.

[9:05:17 AM](#)

Mr. Painter pointed to slide 4, "Review of Modeling Baselines (cont.)":

Revenue Assumptions

- LFD's baseline revenue assumptions are the Department of Revenue's Spring Revenue Forecast.
 - his assumes \$61 oil in FY22, growing with inflation in future years.
 - DNR oil production forecast projects that Alaska North Slope production will increase from 459.7 thousand barrels per day in FY22 to 565.5 thousand barrels per day in FY30.
- For the Permanent Fund, we assume actual FY21 returns and Callan's return assumption, which is 5.86 percent for FY22 and 6.20 percent for FY23 and beyond.

[9:06:20 AM](#)

Co-Chair Bishop queried the release date of the fall forecast.

Mr. Painter replied that the fall forecast was typically released a week before the release of the governor's budget.

Co-Chair Bishop wondered whether the number might change after the Willow production number.

Mr. Painter looked at slide 5, "Review of Modeling Baselines (cont.)":

Spending Assumptions

- For agency operations, these scenarios assume 50 percent of vetoes are restored to the FY22 enacted budget. Budgets grow with inflation starting in FY23 (2.0 percent per Callan).
- For statewide items, the baseline assumes that all items are funded to their statutory levels beyond FY22.
 - This includes School Debt Reimbursement, the REEA Fund, Community Assistance, oil, and gas tax credits. We assume oil and gas tax credits are unfunded in FY22 but statutorily funded beginning FY23 until the credit balance is eliminated.
 - We also include a baseline Fund Transfers amount that represents the ongoing cost of DEC's Spill Prevention and Response program.
- For the capital budget, we assume the enacted FY22 capital budget, growing with inflation.
- For supplementals we assume \$50.0 million per year. This is based on the average amount of supplemental appropriations minus lapsing funds each year.

Co-Chair Bishop remarked that the capital budget was a moving target until there was a definite enacted passed budget from the federal government, but agreed that the match money would increase.

[9:10:29 AM](#)

Senator Hoffman wondered whether the FY 23 funding for tax credits used the minimum amount as allowed by statute.

Mr. Painter replied in the affirmative, and noted that the calculation was the same as the Department of Revenue (DOR) tax credit calculation.

Senator Hoffman queried the return percentages for the last two years of the permanent fund.

Mr. Painter replied that the actual return for FY 20 was approximately 2 percent, and the actual for FY 21 was approximately 30 percent.

Senator Hoffman surmised that it was 30 percent.

Mr. Bell reiterated that it was approximately 30 percent.

Senator Hoffman asked if the 30 percent equaled approximately \$1 billion.

Mr. Bell replied that the statutory net income, which was only the realized return was almost \$8 billion. He stated that, additionally, there was approximately \$17 billion or more in total earnings.

Mr. Bell stressed that he misspoke.

[9:12:58 AM](#)

AT EASE

[9:14:05 AM](#)

RECONVENED

Mr. Bell stated that the total return was approximately \$18.6 billion in FY 21, and the fund value changed by about \$16 billion over that period.

Co-Chair Stedman noted that Callan had lowered its projected rate of return, and the payout POMV rate was 5 percent. He stressed that there may be an effective eroding of the growth of the fund when the rate of return is lower than the POMV.

[9:15:48 AM](#)

Senator von Imhof remarked that there should be some stress testing, because there should be a cushion in the "poor years."

Mr. Painter highlighted slide 6, "A Note on Retirement Funding."

- LFD's modeling generally uses the ARM Board's most recent officially adopted contribution schedule, currently the one adopted in June 2021. However, this does not include the impact of FY21 earnings.

- The September ARM Board meeting will adopt updated projections that may resemble DOR's preliminary numbers more closely than the June figures.
- This presentation uses preliminary actuarial analysis presented by DOR in July and used by the Comprehensive Fiscal Plan Working Group. The analysis shows significantly lower retirement contributions than the official June figures ordinarily used by LFD.

Senator Hoffman queried a "significantly lower contribution" in thousands of dollars.

Mr. Painter replied with slide 7, which showed the comparison of the previous assumptions and the July draft numbers from DOR, with the difference and the cumulative difference. He noted that in FY 23, the difference was \$65.5 million that would rise to \$205 million by FY 30. He stated cumulatively over the forecast period there was a \$1.26 billion difference.

[9:19:54 AM](#)

Co-Chair Stedman remarked that there would be a conversation with Callan about the retirement funds.

Co-Chair Bishop stressed that there was a recruitment and retention problem, so wanted to be careful in discussing the retirement numbers.

Co-Chair Stedman hoped that there would be a financial layout of the unfunded liability.

Mr. Bell addressed slide 8, "Fiscal Model: Budget before PFD." He stated that the graphs used the Callan forecasted returns.

[9:25:05 AM](#)

Mr. Bell explained that the POMV draw would grow throughout the forecast period because it was based on a lagged five-year average of the Permanent Fund value. Therefore, the FY 21 ending balance was much larger because of the strong returns. He noted that the returns had a big impact in the later years, because the draw would increase in nominal terms by up to \$1.4 billion by FY 30.

Co-Chair Stedman remarked that the request was for a budget without a dividend, in order to see the underlying trends in the budget.

Mr. Bell replied that the charts used Callan's projected inflation of 2 percent per year, and was the baseline assumption. He noted that inflation in the near term could be higher than 2 percent. He stated that he was willing to run any scenarios.

Co-Chair Stedman felt that other scenarios might be run in the upcoming winter.

Senator Hoffman remarked that the assumptions were discussed with the conversation centering on state law. He stressed that all laws should be treated equally. He

Co-Chair Stedman agreed.

[9:30:12 AM](#)

Senator von Imhof stressed that the economic effect should be examined along with the law, because there were consequences for various decisions. She remarked that the law was only one lens.

Senator Hoffman agreed.

Co-Chair Stedman stressed that Senator von Imhof and Senator Hoffman were discussing the balance that was the requirement of the committee.

Mr. Bell looked at slide 9, "Fiscal Model: Budget before PFD." He remarked that the slide showed the impact of volatility, and noted that the average return over the period was 6.4 percent.

Co-Chair Stedman wondered whether the model was used in the past.

Mr. Bell replied in the affirmative.

[9:35:25 AM](#)

Mr. Bell discussed slide 10, "Fiscal Model: Budget w/ Flat \$1,100 PFD."

Senator von Imhof stressed that returns of anything below 5 percent or 5 percent plus inflation was a problem for the fund because of the annual POMV draw. She stressed that the threshold was much higher than bottoming out of the market. She felt that it was in the state's best interest to be more prudent to utilize the high year returns to help cushion the fund.

Mr. Painter noted that there were two potential impacts: the impact on the ERA balance; and the impact on the POMV draw.

Co-Chair Stedman wondered why the draw would decline.

Mr. Painter replied that the POMV draw was based on the five-year average of the market value, with a one-year lag. He noted that in FY 22, the five-year average was used up to the end of FY 20. He noted that the POMV draw was lower than the projected return. He addressed slide 11, "Fiscal Model: Budget w/ Flat \$1,100 PFD."

[9:40:59 AM](#)

Co-Chair Stedman surmised that the market value would be rolled into the calculations, and would effect the PFD.

Senator Hoffman appreciated slides 9 and 10, but queried the amount of pay for Callan.

Mr. Painter agreed to provide that information.

Mr. Bell displayed slide 12, "Fiscal Model: Budget w/ 50 percent POMV PFD."

[9:45:13 AM](#)

Co-Chair Stedman wondered whether the federal rescue funds of \$500 million was used in FY 23, and if so, how was it impacted on the general funds.

Mr. Painter replied that the use of those funds was not used beyond the fiscal year.

Co-Chair Stedman remarked that going into FY 23, there could also be at least \$1100 for the PFD without an overdraw of the fund.

Senator Hoffman noted that on the right graph on the slide the fund grew, and queried the exact increase.

[9:48:42 AM](#)

AT EASE

[9:49:45 AM](#)

RECONVENED

[9:50:27 AM](#)

Senator Hoffman restated his question.

Mr. Bell replied that, with no ERA overdraws, the fiscal year ending balance would be \$19.7 billion. He stated that, because of the small overdraw in FY 23, there would be a reduction of a couple million dollars.

Senator Hoffman noted that the growth was just under \$20 billion in FY 22, and just above \$25 billion in FY 23. He felt under the scenario on the slide that the combination of the CBR, SBR, and ERA had a total growth of \$5 billion.

Mr. Bell agreed.

Senator von Imhof remarked that it was an interesting conversation about the possible use of federal relief money being used to pay dividends. She highlighted that there high cost budget items within the state that were necessary.

Senator Hoffman stressed that it was unknown what will fall by the wayside.

Senator von Imhof stated that revenues and market volatilities were unknown, so she stressed prudent spending.

Co-Chair Stedman stressed that economics were constantly changing.

[9:56:47 AM](#)

Mr. Bell continued to discuss slide 12.

Mr. Bell addressed slide 13, "Fiscal Model: Budget w/ 50 percent POMV PFD."

Senator von Imhof reiterated that the fund did not need to see devastating returns to suffer some of the consequences, but only needed 5 percent or lower returns. She felt that taxes would need to be instituted just to bring even.

[10:00:04 AM](#)

Senator Hoffman remarked that paying of Callan should be in consideration.

Co-Chair Stedman remarked that Callan was unable forecast various economic issues.

Mr. Bell pointed to slide 14, "Fiscal Model: Budget w/ 50 percent POMV PFD."

Co-Chair Stedman asked for more information about the budget moving forward with growth rates, and a 50/50 POMV. He queried the issue with the bridge funding.

Mr. Painter replied that the slide showed no other changes than the 50/50 POMV. He stated that the approach of the governor included new revenue, but had reduced expenditures below the baseline.

[10:05:14 AM](#)

Co-Chair Stedman felt that the scenario was unlikely because it would move the financial situation "sideways." He stressed that there were no statutory changes to spending within the operating budget.

Senator Hoffman remarked that he had continued to work to reduce the budget.

[10:12:22 AM](#)

Senator von Imhof recalled that the House Majority had run a poll, which showed that support for a 50/50 proposal statewide was 1.6 to 1 opposing. She stressed that inflation rates were extremely high, and wanted modeling to reflect the high inflation rates.

Co-Chair Bishop looked at the \$3 billion in bridge funding, and stressed that it was unacceptable.

Co-Chair Stedman agreed. He did not want to use multi-year appropriations that would result in a deficit.

Senator Hoffman recalled a bill that set up the 5 percent POMV draw. He stressed that before that legislation, there was no draw from the ERA. He noted that there was great public resistance to use any of the earnings. He recalled that there was opposition to that new provision, and he wondered where the state would be if there was no passage of that provision.

[10:21:23 AM](#)

Mr. Bell discussed slide 15, "Fiscal Model: Budget w/ 50 percent POMV PFD." He stated that the slide showed the first stress test.

Senator von Imhof expressed that there was "a lot of red." She noted that there would be new revenues required to break even

Mr. Bell addressed slide 16, "Fiscal Model: Budget w/ 50 percent POMV PFD." He remarked that the slide showed another stress test.

Mr. Painter remarked that, with the large negative returns, in the scenario would have a deficit of almost \$1 billion. There would need to have more interventions against the baselines.

Senator Hoffman appreciated the presentation, and felt that it clearly outlined the issues that the legislature would be facing.

Co-Chair Stedman discussed the afternoon's agenda.

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ADJOURNMENT

[10:28:39 AM](#)

The meeting was adjourned at 10:29 a.m.