

SENATE FINANCE COMMITTEE
January 21, 2022
9:01 a.m.

[9:01:02 AM](#)

CALL TO ORDER

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

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Neil Steininger, Director, Office of Management and Budget, Office of the Governor.

SUMMARY

^PRESENTATION: GOVERNOR'S FY23 BUDGET PROPOSAL

[9:01:56 AM](#)

AT EASE

[9:03:22 AM](#)

RECONVENED

[9:04:32 AM](#)

NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, discussed the presentation, "State of Alaska; Office of Management and Budget; FY2023 Governor's Budget; Senate Finance Committee; January 21,

2022" (copy on file). He looked at slide 2, "Budget Lookback." He explained the changes in percentage from FY 19 to FY 23. He pointed out that in FY 19, there was nearly a one-half billion deficit.

Co-Chair Stedman asked about the revenue difference.

Mr. Steininger replied that the revenue difference was related to other adjustments.

Co-Chair Stedman wondered what would be expected when there would be an examination of the federal funds.

Mr. Steininger replied that in FY 23 there would be \$375 million used as UGF revenue in the operating budget. He noted that there were other uses for both one-time and ongoing federal dollars that had come through various federal appropriation packages.

Co-Chair Stedman remarked that there was an expectation of presentations on that issue.

Senator von Imhof noted the line for FY 23 Agency Operations, and wondered whether there was a stress test for other inflation rates.

Mr. Steininger replied that there was a later slide that might address that question.

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Senator von Imhof wondered whether the various costs were imbedded in each agency for employee labor costs.

Mr. Steininger replied that it would live within the agency's budget.

Senator von Imhof surmised that there would be greater reductions to offset the significant increase potential for insurance, health care, and cost of living. She felt that there needed to be ongoing adjustments within the agencies.

Mr. Steininger addressed slide 3, "Budget Objectives":

- 50/50 PFD with Constitutional Amendment
- FY2023 operating budget to address baseline needs and priorities

- Ensure a safe environment for individuals and businesses
 - Public protection, permitting, and resource development
- Continue efforts towards efficiency and operational change
- Use FY2022 surplus and bonding to support a robust capital investment
- Avoid a FY2023 deficit or draws from savings accounts

Senator Wilson requested the definition of a "robust capital investment."

Mr. Steininger replied that there was approximately \$700 million in state funds directed in the capital budget, which was a larger investment than seen in prior years.

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Senator von Imhof stressed that having a bond for capital the state would incur more debt.

Mr. Steininger stated that OMB's ten-year plan included the cost of debt service.

Senator von Imhof wondered how the administration proposed to pay the gap of the several years until it would close.

Mr. Steininger replied that the CBR would be used to fill that gap.

Co-Chair Stedman surmised that the CBR would be around \$1 billion, which included the Education Fund. He wondered whether that fund would see liquidation. He stressed that there was concern about the state's liquid savings. He encouraged the committee to not draw conclusions until the discussions took place. He felt that it was highly unlikely that the legislature would pass the current bond package proposal.

Senator von Imhof wondered whether the administration was intentionally advocating for a deficit spending plan in FY 24.

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Mr. Steininger replied that the administration was not advocating a deficit spending plan. He explained that there would probably be deficit spending, but would be filled with a plan.

Co-Chair Stedman remarked that the legislature would examine the impact of a statutory Permanent Fund Dividend (PFD). He stressed that there needed to be a fix of the structured deficit.

Mr. Steininger pointed to slide 4, "FY22 and FY23 Revenue." He remarked that "carryforward" were appropriations from prior years that could be used in future years. He stated that the \$1.25 billion was the COVID relief money.

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Mr. Steininger addressed slide 5, "FY22 and FY23 Expenditures." He noted that the operating budget was up approximately 2 percent from FY 22 to FY 23, which was mostly related to oil and gas tax credits. He also noted the Debt Service line, which was for the State Bond Debt Reimbursement Program.

Co-Chair Stedman requested an explanation of the revenue update concept, and how the legislature would stay in agreement with the revenue numbers and timeline.

Mr. Steininger replied that the Department of Revenue (DOR) based the current change considerable change in oil price. He stressed that the budget, however, was based on the Fall 2021 Forecast. He stressed that there would be more information in the Spring 2022 Forecast.

Co-Chair Stedman stressed that the forecast was about the summer, and stressed that there was significant inaccuracy in the forecast. He did not feel concern with the administration updating the oil price scenario. He stressed that it was an agreed upon process to initially use the Fall Forecast, and then after the Spring Forecast is released then the budget would be adopted in order for the budget to flow through the entire fiscal year. He remarked that there was a risk of the other body using other numbers than either the administration or Senate. He stressed that there needed to be rectification of all bodies using the same numerics. He remarked that there had been great effort to agreed-upon processes and numbers. He noted that there

may be a difference of opinion on the use, but there was not an argument of oil price or volume sent by DOR. He felt that the administration was not using those numbers, which resulted in some new legislators' confusion and slow learning. He asked for explanation of why there was a moving away from using the agreed upon structure.

Mr. Steininger replied that the reason for the change was because of how significant the change to the forecast.

[9:35:53 AM](#)

Co-Chair Stedman interrupted, and stated that there was a significant change in the end of the cycle method.

Mr. Steininger deferred to the Department of Revenue (DOR).

Co-Chair Stedman stressed that there must be an agreement on oil production and price between the Senate, House, and OMB. He felt that there needed to be an agreement early on in determining which revenue numbers would be utilized in the budget. He recalled that the issue had been seen decades prior, and it was a "mess."

Senator von Imhof felt that Commissioner Mahoney could address the committee on DOR's plan. She wondered whether there was a plan to put money into savings if the department predicted a spending deficit and change in oil price that increased revenue.

Mr. Steininger replied that the plan would put approximately \$170 million into the CBR at the end of the fiscal year. He felt that, based on the revenue forecast increase, there would be more money put into the savings account. He stressed that the surplus could be moved into savings.

[9:41:55 AM](#)

Senator von Imhof stated that the inflationary costs might "eat those costs." She felt that it was a moving target.

Mr. Steininger stated that the budget numbers included the inflationary salary adjustments.

Senator von Imhof felt that the budget underfunded retirement by \$100 million.

Co-Chair Stedman stated that there were some historic mistakes by underfunding retirement by the billions of dollars. He stated that there was school bond debt reimbursement within the budget, and appreciated that inclusion, particularly the rural school component. He wondered whether the reimbursement would return to 50 percent.

Mr. Steininger replied in the affirmative.

[9:45:17 AM](#)

Co-Chair Stedman felt that the rural schools had born the weight because of the lack of full reimbursement based on political decisions. He stressed that the conversation would be ongoing in the committee, as part of the component part of the budget. He stressed that he did not know the exact number.

Co-Chair Stedman remarked that there were some rural schools that had dealt with major financial stress because of the lack of reimbursement. He wondered about the revenue sharing and its nuances.

Mr. Steininger replied that the community assistance program was funded with a \$30 million deposit, which was a deposit from the Power Cost Equalization (PCE) fund "waterfall." The earnings in the PCE were strong enough to support the entire "waterfall."

Co-Chair Stedman stated that there would be an examination of the cost shifting and statutory budget reserve (SBR).

Mr. Steininger looked at slide 6, "Fiscal Summary - Savings Balances":

- FY2022 CBR beginning balance reflects an estimated \$490.4m swept to the CBR under Alaska Constitution Art. IX Sec. 17(d). Audited amounts will be reported in the FY2022 Annual Comprehensive Financial Report.
- FY2023 budget includes \$33.6m in UGF to replace fund sources impacted by the CBR sweep. Fully supports all associated programs.

[9:50:36 AM](#)

Senator Wilson queried the administration's position on the CBR sweep, and where there would be resolution on the issue.

Mr. Steininger replied that the budget was built around ensuring that the programs were funded, and there was not a focus on the sweep. He remarked that, based on the actions of the previous year's budget, there could be a robust conversation about the funds and whether there was a needed offset. He remarked that whether a reverse sweep occurred was at the legislature's discretion.

Senator Wilson wondered whether the administration wanted to see the reverse sweep in the future.

Mr. Steininger replied that as funds were swept through the CBR, there were different investment outcomes. He stated that there was \$33.6 million would have otherwise come from undesignated funds.

Co-Chair Stedman felt that there was an opportunity cost which was a significant amount of unused money.

[9:54:23 AM](#)

Senator von Imhof remarked that there was a lawsuit challenging whether the Higher Education Fund could be sweepable, similar to the Power Cost Equalization Fund. She queried the administration's plan if the lawsuit were to prevail and return the money to its designated fund.

Mr. Steininger replied that it would be roughly \$25 million that would be moved to the general fund. He could not comment on the pending litigation.

Co-Chair Stedman queried the minimum account balance in the CBR.

Mr. Steininger replied that the state needed roughly \$500 million for cash flow needs, but really needed \$1 billion.

[9:56:11 AM](#)

Co-Chair Stedman stressed that if the Higher Education Fund was not sweepable there would be no cushion with downward motion of oil prices. He pointed out that there were conversations about the sweep, and would be addressed

further after the audit. HE remarked that there would be conversations about rectification, which he felt would take place in the court. He spoke of the CBR and applying a stress test.

Co-Chair Stedman continued with his comments. He noted that the objective should be to minimize discrepancies and expressed concern with the handling of the account balance of the CBR.

[10:01:20 AM](#)

Mr. Steininger pointed to slide 7, "Capital Budget":

Baseline traditional FY23 capital budget

- \$157.4m UGF; \$1.4b Fed
- Minimum level capital budget for federal match and core state functions

Use FY22 surplus for additional capital projects

- \$93m UGF
- Projects that benefit from expedited construction

GO Bond financing for community projects

- \$325.2m bond issuance
- Investment in key infrastructure to maximize public benefit around the state
- Approved by voters in Fall 2022 general election

Mr. Steininger relayed that the slides would provide a limited overview of the Capital Budget. He spoke of getting projects out earlier in order to acquire capital commitments. He said the goal was to prepare the state for incoming federal capital dollars.

Co-Chair Bishop understood that the state was waiting for guidance on the federal infrastructure dollars.

Mr. Steininger said that the guidance would take some time.

Co-Chair Bishop spoke of the \$92 million if UGF and understood those were supplemental dollars.

Mr. Steininger replied in the affirmative. He said that supplementally funded projects had been included in the proposal.

Co-Chair Bishop said that the bond package was a starting point with \$195 million in South Central, which seemed high. He noted that GO fund bonding had to be approved by voters and advocated for GF spending for the projects.

[10:06:54 AM](#)

Senator Wielechowski noted the governor's proposal omitted the Port of Alaska, which provided 90 percent of the goods in the state. He wondered why no funding had been added for the port.

Mr. Steininger said that the port was combined port infrastructure between Mat-Su and Anchorage.

Senator Wielechowski said that the budget specifically stated for Mat-Su. He asked about Mr. George bond financing. He understood that the federal dollars would stretch the state.

Co-Chair Stedman Co-Chair Bishop asked about the back up as related to the port.

[10:09:36 AM](#)

Co-Chair Stedman said that one of the components that needed to be discussed was workforce development. He said that Alaskans should have the opportunity to develop skill sets for jobs in state.

Senator Wilson asked about the plan to fund deferred maintenance.

Mr. Steininger said the Alaska capital income fund would be used for deferred maintenance.

[10:11:45 AM](#)

Mr. Steininger replied that federal opportunities would be leverages to address maintenance needs.

Co-Chair Bishop said that the 1 percent replacement should be honored.

Co-Chair Stedman stated that a geographical representation of the deferred maintenance in the state would be helpful.

Senator von Imhof asked about capital electronic upgrades for personnel and security. She spoke of the transition

Mr. Steininger said that the issue was being looked into and noted that there was money to digitize medical records. He said that there were several proposals for technological upgrades of systems.

[10:15:22 AM](#)

Senator von Imhof remarked that there should be a focus on efficiency in processing all applications in the state.

Mr. Steininger agreed.

Mr. Steininger addressed slide 8, "FY2023 Operating UGF." He stated that it showed the relative sizes of state departments.

Senator von Imhof thanked Mr. Steininger for including the Permanent Fund Dividend (PFD) in the graph.

Co-Chair Stedman noted that there were recent extreme weather events in the state. He remarked that there should be an examination of the UGF spending for Department of Transportation and Public Facilities (DOT) and Department of Public Safety (DPS). He felt that the state was behind for maintenance and operations.

Co-Chair Stedman noted that there had been recent forward funding of education and felt that there needed to be a similar discussion to do that effort again.

[10:20:43 AM](#)

Mr. Steininger looked at slide 9, "FY23 Agency Operating Budget Changes." He noted the cost drivers of the increase.

Co-Chair Stedman stated that there would be a larger discussion on the current slide.

[10:25:10 AM](#)

AT EASE

[10:25:05 AM](#)

RECONVENED

10:25:09 AM

Co-Chair Stedman discussed the following Monday's meeting.

#

ADJOURNMENT

10:25:29 AM

The meeting was adjourned at 10:25 a.m.