

SENATE FINANCE COMMITTEE
January 28, 2022
9:02 a.m.

[9:02:10 AM](#)

CALL TO ORDER

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

MEMBERS PRESENT

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

MEMBERS ABSENT

Senator Click Bishop, Co-Chair
Senator Lyman Hoffman
Senator Natasha von Imhof

ALSO PRESENT

Brian Fechter, Deputy Commissioner, Department of Revenue;
Pam Leary, Director, Treasury Division, Department of Revenue.

SUMMARY

PRESENTATION: DEPARTMENT OF REVENUE - SAVINGS ACCOUNTS/
BUDGET RESERVES/INVESTMENT FUNDS

Co-Chair Stedman relayed that the committee would consider a presentation from the department.

^PRESENTATION: DEPARTMENT OF REVENUE - SAVINGS ACCOUNTS/
BUDGET RESERVES/INVESTMENT FUNDS

[9:03:30 AM](#)

BRIAN FECHTER, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE, introduced himself and thanked the committee for the invitation to testify.

Co-Chair Stedman noted that Senator Wilson was online.

PAM LEARY, DIRECTOR, TREASURY DIVISION, DEPARTMENT OF REVENUE, discussed a presentation "Update on Investment Funds and Cash Flows" (copy on file). She turned to slide 2, "Agenda":

1. Update on State Investment Funds
2. State Cash Flows
3. Revenue Volatility Management

[9:04:20 AM](#)

Ms. Leary showed slide 3, "Update on State Investment Funds."

Ms. Leary mentioned the division had had 5 State Investment Review meetings with the Investment advisory Council (IAC) and the commissioner for state funds. The meetings and associated materials were online on the department website.

Ms. Leary referenced slide 4, "Constitutional Budget Reserve Fund (CBRF) - Historical Invested Assets (in billions)":

Data is at fiscal year end of June 30.

- In 1990, voters of Alaska adopted an amendment to the constitution creating the CBRF.
- CBRF is used to fund temporary cash flow expense/revenue mismatches.
- CBRF is used to appropriate/cover budget revenue shortfalls.
- Appropriations from the CBRF must be repaid.

*The Statutory Budget Reserve Fund (AS 37.05.540) was part of the GeFONSI before and after being managed as a separate fund from July 2013-October 2015.

Ms. Leary noted that the state borrowed \$960 million from the CBR in FY21.

Ms. Leary directed attention to the chart on the slide and specified that the blue area reflected the CBR main fund.

The yellow area represented the CBR sub-fund. The grey area showed the Statutory Budget Reserve (SBR). She addressed the final bullet point on the slide; approximately \$12.8 million was owed to the CBRF.

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Co-Chair Stedman asked Ms. Leary to expand on the balance of the CBR and go into detail on interest charged and payback timeframes.

Ms. Leary explained that there was no time-period to repay the CBR, and there was no interest associated with the repayment.

Co-Chair Stedman asked about the Statutory Budget Reserve, which he explained had a lower vote threshold of a simple legislative majority.

Ms. Leary explained that there was no payback mechanism or timeframe requirement.

Co-Chair Stedman explained that the SBR was a holding account, and the legislature used it more frequently to balance budgets. He understood that the fund was a zero.

Ms. Leary noted that there was currently a small balance.

Co-Chair Stedman asked whether the administration had any plans to pay back the CBR.

Mr. Fechter interjected that there were internal discussions about paying back the CBR based on oil prices.

Co-Chair Stedman asked whether the governor's proposed budget reflected a payback to the CBR.

Mr. Fechter replied in the negative. He said any surplus would be used to pay back the CBR

[9:10:58 AM](#)

Co-Chair Stedman noted the rapid decline of the state's savings reflected in the chart on slide 4, and the loss of investment earnings.

[9:11:23 AM](#)

Ms. Leary turned to slide 5, " Constitutional Budget Reserve Fund -Fiduciary oversight: Commissioner of Revenue," which showed a data table with an embedded pie chart. She detailed that the CBR had a target allocation of \$1 billion. The fund had a very short-term investment horizon as there was a question about how the fund would be used going forward. She drew attention to the \$1 billion market value in the middle of the chart and relayed that the returns had been very low.

Co-Chair Stedman asked Ms. Leary to discuss CBR cash flow and minimum balances, as well as historic minimum balances.

Ms. Leary stated that there was a historically higher balance in the CBR, because it is the savings account. She commented that having access to the Earnings Reserve Account (ERA) had changed past practices. The current budget reflected no draws from the CBR over the next two years, but that would depend on how the legislature crafted the budget.

Co-Chair Stedman asked about the minimum targeted balances For the CBR by the administration.

Mr. Fechter stated that \$1 billion had been an agreed upon number. He added that in a situation of uncertainty and ongoing deficits that figure would change, and he stressed the need for a comprehensive fiscal plan.

[9:15:22 AM](#)

Co-Chair Stedman stated that Ms. Leary and Mr. Fechter's predecessors had testified many times that a comfortable balance would be in the \$2 to \$3 billion range. He said it was not until the state was in a deficit that the \$1 billion figure was presented. He thought the point was that, as the CBR was drawn down to extremely low levels, the minimum balance recommended by the administration had gone down commensurately. He considered that a minimum balance of \$1 billion was concerning as it gave no safety cushion. He was concerned that the accepted low balance would become even lower.

Co-Chair Stedman continued his remarks. He wanted Ms. Leary and Mr. Fechter to explain to the committee the internal

agreements, or path forward, to a drawdown of the ERA. He said that the committee was eager to discuss cash flow.

9:18:10 AM

Senator Wielechowski asked Ms. Leary to go back to slide 4. He thought the slide was fascinating and wanted to point out to the public that the massive jump from 2007 to 2014 when the state savings increased under a fair value oil tax structure. He noted that the tax structure had been repealed in 2013 and went into effect in 2014. He thought the state was blowing through its savings while not receiving fair value for its resources. He asked whether the governor was contemplating a bill to fix the state's oil tax structure, which he thought was broken and caused the state to lose money.

Mr. Fechter replied that over the summer the administration had studied a variety of changes that could be contemplated but that no revenue measure was currently being considered.

Senator Wielechowski asked about the findings from the studies and asked what the governor was waiting for as now was the time to act with oil at \$92/bbl.

Mr. Fechter stated that the outcome of the study as a look at the per barrel tax credit. He said that it was found that capping the sliding scale \$8/bbl., at \$5/bbl., would allow oil companies to remain competitive, and give the state fiscal relief at varying levels depending on the price of oil at the point in time. He said he could not speak to why the governor was not taking significant action on the matter.

Co-Chair Stedman relayed that during discussions on SB 21, the Senate had supported a \$5/bbl. tax, which the house increased to \$8/bbl. That increase had significantly shifted the sharing relationship between the state and the industry at high oil prices.

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Senator Olson asked whether Co-Chair Stedman was indicating there should be an amendment to change the sliding scale.

Co-Chair Stedman clarified that he was saying the economics of \$5 per barrel (bbl.) left the industry in a competitive

position. He thought there were many other issues and conditions that had changed, and fresh analysis would be beneficial and would be before the committee in the coming weeks.

[9:23:59 AM](#)

Ms. Leary considered slide 6, "Power Cost Equalization (PCE) - Historical Invested Assets (in millions)":

- The purpose of the PCE Endowment fund is to provide for a long-term stable financing source that provides affordable levels of electric utility costs in otherwise high-cost service areas of the state.
- 5% of the monthly average market value of the fund for the previous 3 fiscal years may be appropriated. If prior years earnings exceed this amount, 70% (not to exceed \$55M) of the difference can be spent on related identified programs.

Ms. Leary shared that the PCE Fund was at \$1.15 billion in 2021.

Co-Chair Stedman asked about the status of the sweep of the PCE Fund.

Ms. Leary stated that currently the PCE Fund was not included in the sweepable funds.

Co-Chair Stedman explained that at the end of the fiscal year the PCE fund would not automatically be swept to service CBR debt. He asked whether the SBR could be swept.

Mr. Fechter stated that the SBR was on the list of sweepable funds.

[9:26:40 AM](#)

Ms. Leary displayed slide 7, "Power Cost Equalization Fund - Fiduciary oversight: Commissioner of Revenue," which showed a data table with an embedded pie chart. She commented that the PCE had an intermediate investment horizon and a high-risk objective with a diversified asset allocation. She relayed that the market value as of

December 31, 2021, was \$1.163. The projected ten-year return was 5 percent.

[9:27:53 AM](#)

Ms. Leary highlighted slide 8, "Alaska Higher Education Investment Fund (AHEIF) - Historical Invested Assets (in millions)":

- On September 1, 2012, the AHEIF was capitalized with a \$400 million deposit from receipts of the Alaska Housing Capital Corporation for use in paying Alaska Performance Scholarship Awards and AlaskAdvantage Education Grants.
- The fund is to be swept to the CBRF effective 6/30/2021

Ms. Leary noted that the Higher Education Fund was sweepable and would be swept into the CBR effective June 30, 2022. She said that the administration was awaiting guidance and to how the transfer would be made

Co-Chair Stedman understood that at the beginning of the fiscal year the funds were swept but that the mechanics took longer because account balances had to be determined. He understood that as the account balances were determined the account balances would be completed.

Ms. Leary answered in the affirmative.

Co-Chair Stedman recalled that the Attorney General had determined that the fund was non-sweepable. He thought that the SBR had been on the sweepable funds list for years.

Mr. Fechter stated there was nuance involved. The Department of Law had decided that if there were a valid appropriation, with a retroactivity date, for the current fiscal year, that amount would be reserved from the amount to be swept. Any balance above and beyond what had been appropriated would be the amount to be swept.

Co-Chair Stedman understood that the appropriations would be considered and then the balance would be swept.

Mr. Fechter agreed.

Co-Chair Stedman said that he had legal opinions that showed that the practice would not pass generally accepted accounting principles. He shared that if the practice did not pass an audit, Legislative Council would intervene. He did not feel that the practice passed acceptable accounting standards. He preferred that the audit process go through, and after the release of the audit findings, the committee would hold a hearing on the matter. He expressed concern that the administration was disregarding standard accounting principles.

[9:33:31 AM](#)

Co-Chair Stedman continued his remarks. He felt that the courts would hand down the final decision on the matter.

[9:34:27 AM](#)

Senator Olson referenced the Higher Education Fund. He queried the status of the fund. He thought slide 8 showed the fund had been swept.

[9:35:32 AM](#)

Mr. Fechter affirmed that Senator Olson was correct that the fund was in sweep status and was unavailable for funding going into 2023. He shared that the governor was 100 percent supportive of the programs that the fund supported, such as the Washington, Wyoming, Alaska, Montana, and Idaho (WWAMI) program. He said that the governor had fully funded the program, funded by general funds. He said that the three-quarter vote could be enacted retroactively by the legislature to turn things back to prior to June 30, 2021.

Co-Chair Stedman asked why there was not a request for a reverse sweep in the governor's budget proposal. He asked whether the committee should expect to receive a supplemental request from the administration.

Mr. Fechter stated that the issue, from the governor's perspective, was a legislative issue. He corrected himself that the SBR was not a sweepable fund.

Co-Chair Stedman understood the oversight.

[9:38:00 AM](#)

Senator Olson asked what the governor had done specifically to ensure that the Higher Education Fund and other funds were part of the reverse sweep. He asked what the governor had done to show more than just verbal support.

Mr. Fechter pointed to the fact that the Performance Scholarship and WWAMI were funded in the governor's proposal with unrestricted general funds dollar.

Co-Chair Stedman recalled that the previous director of the Office of Management and Budget had not supported a reverse sweep. He thought there were conflicting messages being delivered to the committee.

Senator Olson thought the departure of the previous OMB director was one of the best things that had happened to the state.

Co-Chair Stedman did not argue with Senator Olson's comment.

[9:41:10 AM](#)

Ms. Leary looked at slide 9, "Alaska Higher Education Investment Fund - Fiduciary oversight: Commissioner of Revenue," which showed a data table with an embedded pie chart and illustrated the investment statistics of the fund. She shared that the fund was funded with the current asset allocation. She commented on the long-term investment horizon and said that the fund would be invested as-is until guidance was received as to whether it would be swept.

Co-Chair Stedman wanted to note that the guidance would come quickly, within weeks and not months. He expressed concern that the fund, once swept, would go into the CBR with a near zero rate of return. He asked about the opportunity cost of the action.

Ms. Leary stated that the opportunity cost would be the lost of investment earnings.

Co-Chair Stedman asked for a dollar amount.

Ms. Leary stated that it would be 5 percent of approximately \$4 million, or \$20 million.

Co-Chair Stedman estimated that the cost would be \$20 million per year.

Mr. Fechter added that the CBR statute allowed for the establishing of a sub-fund if there was a belief that the full balance of the fund would not be needed within a 5-year period. He said there were internal conversations pertaining to the authority to exercise a more aggressive investment strategy.

Co-Chair Stedman asserted that it was very rare to have substantial equity exposure within a two to three-year time horizon. He stated that the committee would monitor the situation. He reminded the testifier of the knowledge of the committee in understanding risk and time horizon pertaining to the CBR.

[9:44:26 AM](#)

Ms. Leary addressed slide 10, "General Fund and Other Non-Segregated Investments (GeFONSI) - Historical Invested Assets (in billions)*":

GeFONSI includes the General Fund and Other Non segregated funds invested in a pooled environment (GF proper= \$400 million).

GeFONSIIII was created in 2018 to target a higher risk return profile for a subset of funds.

Ms. Leary relayed that all the funds were about 180 underlying funds that provided funds for various agency uses; the funds were managed together but accounted for separately in the state system. She pointed out that the graph showed the GeFONSI balance had larger balances during 2007 and 2012. She relayed that the general fund often had higher balances at the end of each fiscal year in anticipation of payments into funds appropriated for the following year. She said that as of 2021 the GeFONSI balance was \$3.46 billion, with \$1.6 billion in the general fund.

Co-Chair Stedman suggested Ms. Leary go back and investigate an incident from a decade ago when the CBR investments were in higher, more aggressive funds, resulting in millions lost in a matter of weeks. He thought three members of the committee had vivid memories of the

event. He cautioned that return of investment was more important than return on investment.

Mr. Fechter responded that the Investment Advisory Committee had been implemented to advise on investments.

Co-Chair Stedman affirmed that the committee had made the recommendation for well over a decade. He was appreciative that the advisory committee had been created.

[9:48:46 AM](#)

Ms. Leary advanced to slide 11, "General Fund and other non-segregated investments (GeFONSII & II) Fiduciary oversight: Commissioner of Revenue," which showed a table with two embedded pie charts. She noted that the total investments combined was \$2.8 billion. She noted the short- and long-term returns.

[9:49:17 AM](#)

Ms. Leary looked at slide 12, "Public School Trust Fund (PSTF) Historical Invested Assets (in millions)":

- The PSTF was established in 1978, replacing the territorial era public school land grant originally created by congress in 1915, by a transfer of the balance from the permanent school trust.
- Following passage of HB 213 in 2018, the fund is now managed as one fund, under a percentage of market value method (5% of the average market value for the 5 years preceding the last previous fiscal year).

[9:50:26 AM](#)

Ms. Leary showed slide 13, "Public School Trust Fund - Fiduciary oversight: Commissioner of Revenue," which showed the funds balance of \$850,700 as of December 31, 2021. The target asset allocation had a long-time horizon of 69 percent equity and 31 percent fixed income, like the Higher Education Fund. The one-year return had been 12.56 percent since December, and the expected long-term rate of return was 5.62 percent.

[9:51:06 AM](#)

Ms. Leary referenced slide 14, "Public Employees Retirement System & Teachers Retirement System (PERS and TRS) - Pension and Health Defined Benefit Plans Historical Invested Assets (in billions)":

- The Alaska Retirement Management Board (ARMB) is a 9-person board that is the fiduciary of the state's pension and health systems.
- The defined benefit plans currently experiences net outflows from the funds.
- The 37-year return Average for PRS/TRS was 9.22%

Ms. Leary pointed out the growth in the funds since they were established. She said that the 37-year return average for the funds was 9.2 percent. The actuarial assumed rate could change in the coming year.

Co-Chair Stedman noted that the committee would be hearing presentations on the retirement systems and would go into substantially more detail. He thought there would be good news to share concerning the unfunded liability.

[9:53:01 AM](#)

Ms. Leary turned to slide 15, "Public Employees Retirement System & Teachers Retirement System - Fiduciary oversight: Alaska Retirement Management Board," which showed a table with an embedded pie chart. She detailed that the funds had 30 percent private equity, 21 percent fixed income, and 49 percent equity, with a current balance of all plans (minus defined contribution) \$33.3 billion. Yearly calculated returns were 24.6 percent, with a 7.38 percent actuarially rate of return.

Co-Chair Stedman asked Ms. Leary to advance the slide. He noted that if the performance was good, it would be reflected in the unlimited liability balance. He did not see the need to discuss the slide in depth at this time.

[9:54:40 AM](#)

Senator Wielechowski was curious if the fund was invested similarly to the Alaska Permanent Fund.

Mr. Fechter explained that the investment and spending profile of the permanent fund was different than retirement funds.

Co-Chair Stedman thought Callan and Associates could speak to the question later.

Senator Wielechowski asked whether the PERS and TRS board had taken past recommendations made by Callan and Associates.

Ms. Leary replied that the board had worked with Callan when developing the risk profile for the fund.

Co-Chair Stedman thought the question should be posed to the ARM Board and Callan.

[9:56:54 AM](#)

Senator Wielechowski was not sure that his question had been answered.

Co-Chair Stedman thought future conversations with the board and with Callan would be informative.

[9:57:09 AM](#)

Ms. Leary showed slide 16, "State Cash Flows."

Ms. Leary displayed slide 17, "Cash vs. Accrual balances":

- Cash balance is what you have in the bank at a given point in time.
- Accrual balance is what you have earned and what liabilities have been incurred at a particular point in time. It is what you should have at a particular point in time after all expected receipts and expenditures come in and out.
- Treasury fund balances are cash balances, not what is available to spend.

[9:58:02 AM](#)

Ms. Leary highlighted slide 18, " SOA Treasury Cash Flow,"

Cash Inflows

- Tax Revenues
 - Oil & Gas, Excise, Other
- Federal Dollars
 - Grants, Medicaid, FHWA, Education, Other
- Earnings Reserve Funds
- Agency Receipts
 - Fees, Licenses, Permits, Fines, Other

Cash Outflows (through the State of Alaska Division of Treasury Cash Management)

- School Education Payments
- Payroll & Pension Payments
- Vendor Payments
- Medicaid Payments
- External Program Grant Payments
- Debt Service Payments

Co-Chair Stedman asked about the ERA funds. He understood that those funds went into the general fund and were then dispersed. He asked whether the PFD came from the ERA or the co-mingled pot of the general fund.

[9:59:31 AM](#)

Ms. Leary stated that the previous year the funds had come from the SBR and the ERA (vis the general fund).

Co-Chair Stedman understood that generally the SBR was not used. He asked for a general flow of how the mechanics worked.

Ms. Leary explained that the money was requested from the ERA, the money went into the general fund, and that amount was passed on to the Permanent Fund Dividend Fund (managed in the treasury) and then dividends were paid out.

Co-Chair Stedman asked how the funds could bypass the general fund and be deposited straight into the dividend fund.

Mr. Fechter thought the issue was a matter of appropriation choice. He thought the legislative bodies could structure

the mechanics, so a portion of the dividend moved from the ERA to the dividend fund. He said that it was a personal preference appropriation bill structure situation.

Co-Chair Stedman asked if the dividend fund was a subcomponent of the general fund.

Ms. Leary stated that the Dividend Fund was a separate fund, managed by the treasury, but reported up into the general fund as a whole on financial statements.

Co-Chair Stedman thought that the comingling of the dividend fund in the general fund was an issue.

Ms. Leary stated she would accommodate whatever direction that was given by the legislature in terms of handling money. She said that the dividend fund had its own investment structure.

[10:03:33 AM](#)

Co-Chair Stedman asked whether he should expect to see the dividend fund listed as a component part of the general fund.

Ms. Leary believed that on the state financial statements it was part of the general fund.

Co-Chair Stedman contended that the dividend fund was a subcomponent of the general fund.

[10:04:09 AM](#)

Senator Wielechowski asked how long the funds transferred from the permanent fund sat in the dividend fund, earning the lower rate of return.

Mr. Fechter replied that in a normal year the funds would be put in a short term, 90-day, investment so that some interest could be earned before the payment run in October.

Co-Chair Stedman interjected that there had been discussion about smoothing out the transfers throughout the year.

Senator Wielechowski was curious about the money being transferred at the beginning of the fiscal year in June,

and sitting, earning a lower rate of return, until distribution in October.

Mr. Fechter stated that the department worked directly with APFC to manage cash flow needs. He explained that there had been conversations about entering into revenue anticipation notes. He said that there were bills pertaining to revenue anticipation mechanisms currently being considered in other committees.

Ms. Leary commented that the department set a cash flow transfer schedule each year and tried to keep the general fund proper at the minimum necessary to pay the state's bills. There had been cash calls that had to be changed, although not dramatically.

[10:07:39 AM](#)

Ms. Leary looked at slide 19, "Cash Flow Deficiencies":

Prior to 1985, most unrestricted revenues flowed into and stayed in the General Fund for expenditure.

Over time, the legislature established many subfunds to segregate cash for budgeting purposes, resulting in less cash available to pay day-to-day operating costs.

Expenditures can occur prior to receipt of revenue, resulting in cash flow timing mismatches:

- Federal programs require expenditures before reimbursement.
 - i.e. Medicaid, Transportation, etc.
- Beginning of year appropriation transfers do not match incoming revenue.
 - i.e. State pension payments, transfers to subfunds.
- Seasonal Cash Flow needs.
 - i.e. Summer is the peak season for construction projects and seasonal workers.

[10:08:58 AM](#)

Senator Wielechowski thought insufficient returns on the SBR and CBR resulted in a significant loss to the Permanent Fund. He hoped to see legislation to alleviate the issue.

Mr. Fechter said that he would welcome the opportunity to testify on such legislation. He was excited to investigate other options to mitigate loss.

Co-Chair Stedman was more inclined to support the option of building up the CBR and increasing liquidity, while not touching the Permanent Fund. He asserted that a CBR balance of \$1 billion reflected poor fiscal management by the state. He lamented that state savings had been drained by the previous year's budget. He had asked the staff at the Legislative Finance Division to assemble a list of funds that had been depleted, and solutions to replenishing those funds. He did not think relying upon the Permanent Fund was a suitable answer.

[10:12:24 AM](#)

Ms. Leary addressed slide 20, "Cash Deficiency Memorandum of Understanding":

Developed in 1994 between DOR, DOA, OMB & LAW.

Updated as needed.

Targets \$400m minimum cash threshold in the General Fund proper.

Outlines procedures for addressing cash flow timing mismatches:

- Develop monthly cash projections.
- Monitor daily general fund cash balances.
- Perform temporary interfund borrowing.
 - Transfer from SBR, CBR & ERA or sub funds.
- In the event of revenue shortfall:
 - Seek legislative action through the Governor to access additional funds through appropriation from other Cash Reserve Funds discussed above.
 - Prioritize disbursements, restrict expenditures.

Ms. Leary explained that the cash deficiency memorandum of understanding was the "playbook of the department." She highlighted the last bullet point, which she thought spoke to a structural budget deficit.

[10:15:01 AM](#)

Senator Wielechowski asked about the schedule of receipt of production tax revenue and oil tax revenue.

Mr. Fechter replied that there were monthly estimated tax payments. He had no memory of the schedule having changed.

Co-Chair Stedman thought one concern of members was having an assured payout of the Permanent Fund Dividend. He stressed that risk to that payout was troubling when using the permanent funds as an automatic fallback for a depleted CBR. He thought that tough years in financial markets would put the state's realized earnings at risk, which heightened the need to replenish savings accounts.

[10:17:54 AM](#)

Ms. Leary advanced to slide 21, " Cash Flow Deficiencies":

- Use of budget reserve funds has been the solution of cash flow timing mismatches and revenue shortfalls.
- Appropriations From Reserve funds
- The Legislature includes language annually in the operating budget appropriating budget reserve funds for revenue shortfalls.
- Treasury has relied on this appropriation to authorize use of budget reserve funds to address timing cashflow mismatches as well.
- The CBRF was fully repaid by FY10.
- Borrowing from the CBRF recommenced in FY14. Per FY20 ACFR \$12.8B is owed to CBRF.

Ms. Leary noted that the CBR had been fully repaid in 2010, but then had been depleted through borrowing from 2014 to the present.

[10:19:08 AM](#)

Ms. Leary show slide 22, "Revenue Volatility Management."

Ms. Leary spoke to slide 23, " Revenue Volatility":

Commodity Volatility

- Petroleum revenues are 25% of FY22 projected unrestricted general fund revenues.
- Uncertainty exists "in-year" for FY22 and beyond.
- Will always have in-year uncertainty because we base budget on in-year oil collections.

Investment Return Volatility

- Investment earnings are 65% of FY22 projected unrestricted general fund revenues.
- Certainty exists today for FY23 (due to a lagging POMV formula).
- Uncertainty exists today for FY24 and beyond.

[10:20:22 AM](#)

Ms. Leary referenced slide 24, "Volatility Management Techniques":

Access Cash Reserve and Other Funds (CBR and other fund balances).

Modernize fiscal tools to include lines of credit in addition to revenue anticipation notes. (HB92/SB73)

Manage timing of Earnings Reserve Account transfers to the General Fund.

Manage timing of expenditures.

[10:21:29 AM](#)

Ms. Leary turned to slide 25, "Take Aways":

Even with balanced budgets and if all revenue is received, cash flow timing mismatches will occur.

Cash flow forecasting is always wrong.

Revenue shortfalls may occur if forecasted assumptions are wrong.

Higher revenue volatility requires greater cash reserves until volatility decreases.

Volatility management techniques are available.

Ms. Leary showed slide 26, "THANK YOU":

Please find our contact information below:

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Co-Chair Stedman thought there were differences of opinion on the reverse sweep as well as liquidity balances versus the submitted budgets. He thanked Ms. Leary and Mr. Fechter for their time.

Co-Chair Stedman discussed housekeeping.

#

ADJOURNMENT

[10:23:56 AM](#)

The meeting was adjourned at 10:23 a.m.