

SENATE FINANCE COMMITTEE
February 1, 2022
9:04 a.m.

[9:04:27 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:04 a.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lyman Hoffman
Senator Donny Olson
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

Senator Natasha von Imhof

ALSO PRESENT

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

SUMMARY

^10-YEAR PLAN

[9:06:35 AM](#)

NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, discussed the presentation, "State of Alaska; Office of Management and Budget; 10-Year Plan Overview; Senate Finance Committee; February 1, 2022" (copy on file). He looked at slide 2, "What is the 10-Year Plan?":

AS 37.07.020(b): "...The Governor shall also submit a fiscal plan with estimates of significant sources and uses of funds for the succeeding fiscal years."

The 10-Year Plan must include:

- Significant sources of funds (revenue)
 - Significant uses of funds (operating, capital, statewide items)
 - Projected balances of savings accounts
- Sources and uses of funds must balance while providing for essential state services and protecting economic stability

Assumptions should be clearly articulated so policy makers can understand and evaluate the projections

Mr. Steininger pointed to slide 3, "10-Year Fiscal Outlook." He stated that the slide was an overview of the plan. He remarked that he would detail each section in the upcoming slides.

[9:10:36 AM](#)

Co-Chair Stedman understood that there would not be enough of a cushion in the CBR when there may be a situation when the CBR is needed to backfill the budget.

Senator Hoffman remarked that the plan would not include a three-quarter vote to spend the CBR in FY 22 and FY 23, which was a stumbling block for the legislature for many years.

Co-Chair Bishop wondered whether the \$1.8 billion assumed the \$400 million for Higher Education remained in the CBR.

Mr. Steininger replied in the affirmative.

Mr. Steininger addressed slide 4, "Sources of Funds: Revenue Outlook":

UGF Revenue Assumptions

Traditional UGF Revenue 12/15/21: Fall 2021 Revenue Sources Book, Department of Revenue

Traditional UGF Revenue 1/19/22: January Revenue Outlook, Department of Revenue

POMV Total: Fall 2021 Revenue Sources Book, Department of Revenue

POMV Draw for Government: Half of POMV Total (Other half toward PFDs)

Revenue Adjustments

Carryforward: Balance of unspent multiyear appropriations carried forward into FY22
Undesignated Savings (SBR): FY22 direct appropriations from the Statutory Budget Reserve
Federal Revenue Replacement: FY22 enacted and FY23 proposed Federal COVID-19 funds for revenue replacement

[9:14:44 AM](#)

Co-Chair Stedman wondered whether the plan included the 5 percent of market value (POMV).

Mr. Steininger replied in the affirmative.

Co-Chair Stedman wondered why the Office of Management and Budget (OMB) chose the payout calculation, rather than the statutory payout.

Mr. Steininger responded that that the fifty-fifty payout was displayed, because the 10-year plan reflected the policy proposals of the governor.

Co-Chair Stedman stated that the Legislative Finance Division (LFD) would provide projections based on current statutes and policies.

Mr. Steininger replied that the SBR was no longer considered sweepable.

Co-Chair Stedman wondered whether there was an opinion from the Attorney General on that issue that would be presented to the committee.

Mr. Steininger replied in the affirmative, and agreed to provide further information.

Co-Chair Stedman expressed concern regarding the ensuring that the procedures related to the accounts did not experience changes.

Senator Hoffman requested a "Plan B", if the current lawsuit related to the Higher Education Fund was successful. He assumed the lawsuit outcome would have significant implications to the current plan.

Mr. Steininger replied that if the outcome of the court case was that the Higher Education Fund was not subject to the sweep, it would reduce the final CBR balance by roughly \$400 million.

[9:21:36 AM](#)

Senator Hoffman wondered how that would reflect the 10-year plan.

Mr. Steininger replied that it would slightly reduce UGF expenditures.

Senator Hoffman requested another slide related to a "plan B", based on the possible outcome of the lawsuit.

Co-Chair Stedman stressed that \$1 billion was not adequate to take care of the state during a downward turn in oil prices. He asked about the Alaska Marine Highway System (AMHS).

Mr. Steininger stated that the plan showed that the AMHS was supported by federal revenues.

[9:27:16 AM](#)

Co-Chair Stedman wondered whether there would be a proposal for a mechanism to move the AMHS money forward.

Mr. Steininger replied that the work was yet to be done about the technical issue to ensure the enactment of the AMHS proposal.

Co-Chair Stedman was not interested in being politically leveraged in order to receive a plan for the AMHS. He noted that it was not comfortable for the communities that relied on the marine highway to wonder whether the system would continue to function. He wondered how the supplementals were built into the plan.

Mr. Steininger replied that there was an assumption in the out years that supplementals would net out over time with lapsed amounts from agency operating budgets.

Co-Chair Stedman stressed that the committee budgeted Medicaid as requested by the administration, but there was an add back of all the reductions. He queried the

supplemental expectation in the current year and the other expectations.

Mr. Steininger agreed to provide that information, and stated that there would be a supplemental request from the Department of Corrections (DOC).

[9:34:56 AM](#)

Co-Chair Stedman understood that there were unforeseen issues that resulted in the supplemental requests. He asked for a range of supplemental requests, perhaps based on the year prior.

Mr. Steininger replied that the supplemental budget had around \$20 million total requests. He stated that the supplemental projections presented were about netting the difference between supplemental and lapsed budgets.

Co-Chair Stedman stated that LFD would present a ten-year history of supplemental budgets.

Senator Hoffman wondered whether the outgoing years had a GO bond match for the capital budget. He stressed that the deferred maintenance plan would continue to increase.

Mr. Steininger responded that the projection forward within the ten-year plan for UGF capital spending was the baseline request to match federal funds.

[9:41:11 AM](#)

Senator Hoffman remarked that he was attempting to show that within the projection, there was only a reflection of going with the match, but capital expenditures would continue to increase over time.

Co-Chair Stedman felt that there would be a repeat of similar concerns about deferred maintenance that had occurred fifteen years prior.

Co-Chair Bishop stated that there would be a hearing on deferred maintenance.

Co-Chair Stedman wondered whether the Capital Income Fund was sweepable.

Mr. Steininger replied in the affirmative.

[9:45:13 AM](#)

Senator Wielechowski wondered whether the governor no longer supported a statutory PFD.

Mr. Steininger replied that the proposal from the administration was for a 50/50 dividend.

Senator Wielechowski surmised that the governor longer supported a statutory PFD.

Mr. Steininger replied that the administration's position was that if there was no statutory PFD, there needed to be an adjustment to the law through a constitutional amendment.

Senator Wielechowski wondered whether there was an analysis of how the revenue and expenditure outlook would be if there was a statutory dividend.

Mr. Steininger agreed to provide that information.

Co-Chair Stedman spoke of stress testing and variables.

Senator Wielechowski asked how the governor planned to balance the budget if he included a full statutory dividend.

Mr. Steininger said that consideration of how to balance the budget with aspects that diverge from the proposed plan would not normally have engagement from OMB.

Co-Chair Stedman requested a 10-year plan under current statutes.

Mr. Steininger agreed to provide the information.

Co-Chair Stedman noted that there were statutes in place for the PFD and other funds and it was important that the committee take those into consideration in discussions.

Senator Wielechowski stated that he was confused about why the governor would assume something that was not in statute.

Co-Chair Stedman hoped that people understood that current statutes.

Mr. Steininger spoke to the nature of a 10-year plan. The 10- year plan was a reflection of the governor's fiscal policy over the next ten years. The revenue outlook was not a baseline projection without consideration of the governor's plan. He said he was not at the table to present baseline assumptions.

Co-Chair Stedman retorted that the members needed to know what direction the state was headed.

[9:53:36 AM](#)

Mr. Steininger pointed to slide 5, "Uses of Funds: Agency Operations":

Agency Operating Expenditure Assumptions

K-12 Formula: Flat in FY24, 1.5 percent annual expenditure growth applied in FY25+

Population projections indicate a mostly flat student age-population over projection period

Growth factor allows for potential post-pandemic shift back to brick-and-mortar schooling

Medicaid: Flat in FY24, 1.0 percent annual expenditure growth applied in FY25+

Projections in line with population growth with room for provider rate increases

Other Formula: Flat in FY24, 1.5 percent annual expenditure growth applied in FY25+

Agency non-formula: Flat in FY24, 1.5 percent annual expenditure growth applied in FY25+

He shared that population projection showed flat for the next 10 years. He was applying an expenditure growth greater than the expansion of population. He said that the Medicaid budget had been flat from FY23 to FY 24 and that the growth rates were not a projection on inflation. He said that the flat UGF in the Medicaid budget had been beneficial to the state but that more people were using the program due to the pandemic. He said that the changes in state expenditures were reflective of cost restraint and he thought that pragmatic decision would need to be made in order to balance state budgets.

Senator Olson spoke to the numbers on the slide and asked about the federal dollars the state had received over the last six months. He asked about inflation in the projection and why the significant inflation the state was currently experiencing had not been reflected in the slide.

Mr. Steininger repeated that pragmatic decisions would need to be made by future administrations.

[10:00:32 AM](#)

Co-Chair Bishop mentioned inflation. He said that education had not seen an increase outside of the BSA in years. He observed that the better agreement of forecasted numbers moving forward, which resulted in smaller supplemental budgets, should be the goal.

Co-Chair Stedman said that several presenters had spoken of increased inflation. He said that decades ago an OMB director had predicted zero growth, which had proved untrue. He understood that there had been some negotiations with salary issuers in Anchorage School District.

Mr. Steininger said that the proposal was to keep the BSA flat.

Co-Chair Stedman said that salary increases in certain departments should be discussed.

Mr. Steininger agreed that there were salary agreements under discussion, reflected on line 6 of the slide.

[10:05:19 AM](#)

Co-Chair Stedman surmised that it was 2 percent for the upcoming two years.

Mr. Steininger replied in the affirmative, but was only within DOC.

Co-Chair Stedman asked for a definition of "Teams."

Mr. Steininger replied that he did not recall the salary negotiation, but recalled that it was related to the teachers at Mt. Edgecumbe.

Co-Chair Stedman felt that the 1.5 percentage rate was too low.

Mr. Steininger displayed slide 6, "Uses of Funds: Statewide Expenditures":

Statewide Expenditure Assumptions

Debt: Department of Revenue Debt Manager projections plus \$20.7m additional GO bond debt service in FY24+, Municipal School Bond Debt Reimbursement at 50 percent statutory level in FY24+, assumes continuation of moratorium on new debt

Retirement: State Actuary projection for PERS/TRS assuming no contributions to overfunded health trusts, other retirement contributions held flat at \$4.6m

Oil and Gas Tax Credits: Department of Revenue projection for statutory calculation; liability fully addressed in FY26

Disaster Relief Fund: Fixed annual deposit of \$5.0m in FY24+

Regional Educational Attendance Area (REAA) Fund: Fixed at 50 percent statutory level in FY24+

Other Fund Capitalizations/Transfers: Assumed zero in FY24+

Oil and Hazardous Substance Prevention and Response transfers listed in FY22 are reflected as DGF in FY23 forward

[10:11:07 AM](#)

Co-Chair Bishop wondered whether the 17.5 going forward was only at 50 percent.

Mr. Steininger replied in the affirmative.

Senator Hoffman remarked that when the Kasayulie case was settled, the courts included the funding for the regional attendance education areas to fund rural schools. He stressed that rural schools did not have the ability to vote to build schools, unlike urban schools. He stressed that rural schools were put at second class by not fulfilling the court's agreement.

Co-Chair Stedman pointed out that there was already a request to LFD for a calculation about the issue.

Senator Hoffman thanked the administration for funding for the Napakiak School.

[10:20:10 AM](#)

Co-Chair Stedman agreed.

Co-Chair Bishop remarked that inside the REAA, the funds could be used for major maintenance.

Senator Wielechowski wondered why the governor was going to "violate the law" on school debt bond reimbursement to pay only 50 percent of a mandatory statute, the PFD, and rural school funding, but 100 percent of the discretionary statute of credits to oil companies.

Mr. Steininger replied that the decisions on the items were about weighing the decisions individually. He stressed that they were not connected decisions.

Senator Wielechowski wondered whether the governor proposed to change the statutes for the school debt bond reimbursement and REAA fund.

Mr. Steininger replied "no."

Co-Chair Stedman requested the data on the school debt bond reimbursement and the value of the overall outstanding bonds. He asked about areas of the reductions.

Mr. Steininger replied that there was a report about various policy interventions of Medicaid.

Co-Chair Stedman stressed that the committee wanted to examine beyond 12 months, but rather years into the future.

Senator Wielechowski wondered whether there would be between a \$1 billion and \$2 billion deficit if there was adherence to the school bond debt reimbursement and REAA statutes.

Mr. Steininger replied in the affirmative.

[10:30:51 AM](#)

Senator Wielechowski stressed that there was a proposal to violate mandatory statutes in order to balance the budget.

Mr. Steininger addressed slide 7, "Uses of Funds: Capital Expenditures":

Capital Budget Assumptions

Capital Budget: UGF capital expenditures held flat in FY24+, other capital financing mechanisms assumed; match for federal infrastructure bill currently not included

Other Spending Assumptions

Supplementals and Lapse: Supplementals assumed to net with lapsed funds in out years

Recent investments in baseline funding for fire suppression and prevention reduce projected supplemental needs

Co-Chair Bishop pointed out that the baseline increase would see approximately \$36 million in additional match.

Co-Chair Stedman remarked that there would not be capital budgets that were as low as the plan was implying.

Mr. Steininger looked at slide 8, "Savings Balances":

CBR Balance Assumptions

FY21 Sweep: FY22 beginning balance reflects estimated \$490.4m from sub-funds of the general fund swept to the CBR based on pre-audit estimates and will be adjusted when final financial reports are available

Earnings: 2.25 percent returns

Deposits: Fall 2021 Revenue Sources Book projections

Surplus/(Draws): UGF revenue less UGF expenditures

[10:36:24 AM](#)

Senator Wilson wondered whether the administration had done an in depth look at some of the funds that were swept and the reason for creation of the funds.

Mr. Steininger replied there was work to determine whether a fund was included in the sweep list.

Senator Wilson recalled that there had been conversations about how funds were used when the money would be swept for use in the general fund.

Mr. Steininger agreed to provide further information.

[10:41:55 AM](#)

Mr. Steininger addressed slide 9, "Durable Fiscal Reform:"

Constitutional Reforms

- SJR 5: Appropriation Limit
- SJR 6: 50-50 PFD Split
- SJR 7: Voter Approval for State Tax

Future Budget Topics

- Alaska Marine Highway System reshaping and transition
- Medicaid cost containment
- Post-sweep transition of designated funds use
- Government efficiencies

Legislative Reforms

- SB55 -Passed SLA2021

[10:44:47 AM](#)

Co-Chair Stedman wondered whether lower costs would put more pressure on payments in the agencies for pensions.

Mr. Steininger replied that the mechanism would work by a salary adjustment associated with the percent of payroll that went to the retirement systems funds.

Senator Hoffman wondered whether the administration still stood behind the revenue sources to fully fund the 50/50 PFD split.

Mr. Steininger replied that the administration did not intend to introduce revenue measures or taxation.

Co-Chair Bishop stressed that "chasing the oil fairy never ends well."

Co-Chair Stedman discussed the afternoon meeting's agenda.

#

ADJOURNMENT

10:52:12 AM

The meeting was adjourned at 10:52 a.m.