

SENATE FINANCE COMMITTEE
February 2, 2022
9:02 a.m.

9:02:07 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
Senator Natasha von Imhof
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Amanda Ryder, Staff, Senator Bert Stedman; Alexei Painter, Director, Legislative Finance Division.

SUMMARY

SB 162 APPROP: OPERATING BUDGET/LOANS/FUNDS

SB 162 was HEARD and HELD in committee for further consideration.

SB 163 APPROP: MENTAL HEALTH BUDGET

SB 163 was HEARD and HELD in committee for further consideration.

#sb162

#sb163

SENATE BILL NO. 162

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; making reappropriations; making supplemental appropriations; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

SENATE BILL NO. 163

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; making capital appropriations and supplemental appropriations; and providing for an effective date."

9:03:17 AM

Co-Chair Bishop MOVED to ADOPT the committee substitute for SB 162, Work Draft 32-GS2686\B (Marx, 2/1/22).

Co-Chair Stedman OBJECTED for discussion.

9:04:09 AM

AMANDA RYDER, STAFF, SENATOR BERT STEDMAN, explained the committee substitute. She stated that the changes were mostly formatting and some sections were moved for purposes of ease in the bill evaluation. The bill was essentially identical to the governor's bill. The formatting changes allowed for the legislature to bill comparisons and determine any substantive changes moving forward.

Co-Chair Stedman REMOVED his OBJECTION There being NO OBJECTION, it was so ordered.

Co-Chair Bishop MOVED to ADOPT the committee substitute for SB 163, Work Draft 32-GS2687\B (Marx, 2/1/22).

Co-Chair Stedman OBJECTED for DISCUSSION.

Ms. Ryder stated that the same explanation for SB 162 applied to the committee substitute for SB 163.

Co-Chair Stedman REMOVED his OBJECTION. There being NO OBJECTION, it was so ordered.

[9:07:34 AM](#)

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, discussed the presentation, "Overview of the Governor's FY 23 Budget" (copy on file). He looked at slide 2, "Outline":

- Update on Fiscal Situation
- Legislative Finance's FY23 Budget Baselines
- Governor's FY23 Proposal and FY22 Supplementals
- Long-Term Outlook and Governor's 10-Year Plan
- Federal COVID-19 and Infrastructure Funds

Mr. Painter pointed to slide 3, "Update on Fiscal Situation":

- Due to record investment performance in FY21 and higher oil prices than a year ago, Alaska's fiscal situation has improved.
- DOR's Fall Revenue Forecast calls for \$1 billion more UGF revenue in FY22 than the Spring Forecast, and \$800 million more in FY23.
- Before supplementals, there is a \$428.6 million pre-transfer surplus in FY22 (\$1,074.6 million after use of SBR and ARPA revenue replacement).

[9:11:19 AM](#)

Mr. Painter looked at slide 5, "Update on Fiscal Situation (cont.)":

- Department of Revenue changed oil price forecast methodology this year.
- Pre-2019, the forecast used a "Modified Delphi" approach, with a group of stakeholders making predictions and DOR averaging them.
 - This had problems with timing lag between forecasting session and forecast release, causing DOR to frequently diverge from this method.
 - It also was not transparent - no outsider could validate the forecast.
- Starting in 2019, DOR began using the futures market (based on Brent, an international benchmark) for the first two years and then held that price flat, adjusted for inflation, for years beyond.

- This improved transparency of the forecast. DOR's statistical analysis (verified by LFD) showed no loss of accuracy.
- Starting with the Fall 2021 forecast, DOR now uses the futures market through FY29 (as far as they were available at the time).
 - This change was due to statistical analysis by DOR (verified by LFD) that showed that this approach increases forecast accuracy.
- LFD is supportive of the changes to a more transparent forecast informed by statistical analysis

Senator Hoffman wondered number of years in advance determined the inflation rates, and noted that it was over 6 percent.

Mr. Painter replied that the Department of Revenue (DOR) used Callan's long-term inflation forecast, and would change year to year. He stated that the current forecast was 2 percent, but he felt that the first forecast used a 2.25 percent.

[9:15:41 AM](#)

Mr. Painter looked at slide 6, "Update on Fiscal Situation (cont.)":

DOR's 1/13/22 Futures Outlook forecasts \$78.17/bbl and \$6,404.3 UGF Revenue in FY23 (\$466.6 million above DOR's fall forecast)

Co-Chair Stedman asked whether moving back two years in the futures market would be predictive of the current price.

Mr. Painter replied that it would not quite match the current price, because "a lot had changed in the world situation."

Co-Chair Stedman stressed that the forecast was not an accurate depiction of the future.

Senator Olson wondered how much longer the futures market would be used as the forecast.

Mr. Painter replied that he did not know what DOR had in mind in terms of changes, but noted that the current direction was to find the most accurate publicly available

metric to use. He felt that Callan was the most accurate publicly available metric.

[9:21:00 AM](#)

Co-Chair Stedman pointed out that many presenters had noted the unpredictability of oil prices, so the efforts were related to staying solvent within their project goals at a conservative price range. He stressed that budgeting at \$90 per barrel would not be beneficial in the long run.

Mr. Painter looked at slide 7, "Update on Fiscal Situation (cont.)." He shared that the revenue data was incorporated into the background and the bars were the budget.

Senator Hoffman wondered why, in FY 22 and FY 23, there was a substantial increase in the Permanent Fund Dividend (PFD).

Mr. Painter replied that there was a nearly \$1 billion increase in the PFD compared to the actual amount paid out.

Co-Chair Stedman asked about the incorporation of the governor's proposed "catch up" provision in the FY 22 supplemental request.

Mr. Painter replied that the slide did not include the supplemental requests, but only dealt with the FY 22 enacted budget and the FY 23 governor's budget.

Co-Chair Stedman queried the governor's proposed supplemental PFD amount.

Mr. Painter replied that it would be an additional \$796 million that would get the total amount for PFDs in the current fiscal year to the 50 percent of market value (POMV) paid out in the fall.

Co-Chair Stedman wondered whether that was a significant amount of money which would affect budget decisions.

Mr. Painter replied in the affirmative.

[9:25:05 AM](#)

Senator von Imhof surmised that the total would be \$2.5 billion.

Mr. Painter stated that it would be \$2.5 billion across the two fiscal years.

Senator von Imhof wondered whether there was approximately \$6 billion in revenue.

Mr. Painter replied in the affirmative.

[9:25:51 AM](#)

Senator von Imhof surmised that the \$2.5 billion of the \$6 billion revenue was about one-third of the entire budget.

Mr. Painter replied that the \$2.5 billion would be across two fiscal years, so it was not quite one to one.

Mr. Painter addressed slide 8, "Update on Fiscal Situation (cont.)." He noted that the numbers were estimates, as there were not yet audited financials for FY 21.

Co-Chair Stedman shared that there had been discussions about reconstituting the fund or having a court determine that it was not sweepable. He felt that it should be a separate item outside of the CBR. He wondered when there would be a comparison of the eroding of the savings accounts.

Mr. Painter stated that the total savings accounts balance between the CBR and SBR were comparable to FY 23 and FY 20, because of the CBR sweep. He stated that removing the sweep would show a difference of about \$400 million to \$500 million. He noted that in the last three years, the savings balances were kept flat due to the CBR sweep.

Co-Chair Stedman pointed out that there should be a conversation about reconstituting the savings.

[9:30:22 AM](#)

Senator von Imhof stressed that the budget had been somewhat backfilled in recent years with COVID relief funds. She felt that there was not the pain with loss of services and programs, but that loss would be apparent in FY 24.

Mr. Painter agreed to provide information related to the one-time COVID relief funds.

Co-Chair Stedman stressed the importance of "peeling back the onion" to make good decisions.

Senator Hoffman remarked that the legislature could move money from the Permanent Fund Earnings Reserve Account (ERA) with a simple majority vote.

Co-Chair Bishop pointed out that there had not yet been repayment to the CBR of the borrowed money.

Co-Chair Stedman felt that there should be a financial path the did not overdraw the permanent fund.

[9:34:23 AM](#)

Mr. Painter pointed to slide 9, "LFD's FY23 Budget Baselines":

- Two baselines to consider: current policy and current law. These are intended to create a "clean" starting point for the current budget rather than previous years that are distorted by one-time items.
- Both scenarios use a slightly modified version of the FY23 Adjusted Base for agency operations.
- Current policy assumes roughly \$1,100 PFD, continued partial funding of school debt, REAA Fund, Community Assistance, and Oil and Gas Tax Credits.
- Current law assumes statutory PFD, full funding of school debt, REAA Fund, Community Assistance, and Oil and Gas Tax Credits.
 - Statutory PFD is projected to be about \$2.76 billion, paying about \$4,200 per recipient.
 - Fully funding all statewide items that were partially funded in FY22 are estimated to be about \$167.9 million UGF more than maintaining FY22 funding levels.

Co-Chair Stedman noted that the slide was related to the enacted budget signed by the governor, not the recommended budget that came from the committee. He noted that there was a disagreement related to the enacted budget.

Senator Hoffman wondered why the community assistance programs was labeled as "partially funded."

Mr. Painter replied that the statute did not allow for the PCE to get up to \$90 million.

Senator Bishop surmised that the governor had vetoed the money.

Mr. Painter agreed.

Senator von Imhof asked about policy versus statute as it related to retirement.

Mr. Painter replied that the amount owed legally was recommended by the ARM board, which included not funding the portion for health care. The ARM board determined it was a one-time item, and the following day's presentation would show that it was a one-time decision.

[9:40:21 AM](#)

Mr. Painter looked at slide 10, "LFD's Budget Baselines (Cont.)." He stated that, absent any policy changes, the agency operations budget was expected to reduce significantly because of retirement.

Co-Chair Bishop wondered whether the retiree contractual adjustments had an increase of \$13.6 million due to health care increases.

Mr. Painter replied in the affirmative.

Co-Chair Bishop noted that a surplus did not mean that there was halt a health care increases.

Senator Hoffman wondered where the PFD was categorized in the list.

Mr. Painter replied that it was its own category included on the summary slide.

[9:46:07 AM](#)

Mr. Painter pointed to slide 11, "LFD's Budget Baselines (Cont.)." He remarked that the policy numbers were attempting to show that funding at the same percentage of previous years as compared to the current year's proposal.

Mr. Painter pointed to slide 12, "LFD's Budget Baselines (Cont.)." He noted that the biggest difference from the year prior was the PFD, with an over \$2 billion difference.

Senator von Imhof hoped that the committee focused on the importance of savings when it comes to the surplus.

[9:50:42 AM](#)

Co-Chair Stedman stressed that there were billions of dollars that helped the state through the most recent economic dip.

Senator Hoffman wondered whether rules needed to be broken in order to enact the budget.

Mr. Painter replied that the \$1.44 billion deficit would be greater than the CBR balance, but there could be a utilization of other funds. He agreed that the proposal was greater than the POMV.

Co-Chair Stedman wondered how there was a justification of a zero balance in savings.

Mr. Painter replied that it would not be prudent to have a zero balance in savings, but it would be costly for cash flow.

[9:55:41 AM](#)

Co-Chair Stedman stressed that it was imprudent to depend on the hope that oil prices remain high.

Senator von Imhof felt that the proposal was reminiscent of a spending cap. She remarked that other states with spending caps noted the importance of a savings account to utilize when needed. She stated that she had sponsored a current spending cap bill.

Co-Chair Stedman stated that those discussions would occur going forward.

Mr. Painter shared that the last time there was a level of revenue that was \$6 billion, there was \$10 billion in savings. He stated that normally the state would draw from savings in volatile years. He remarked that in 2013 there was a \$1 billion deficit, because there was \$16 billion. He

stressed that the state was in a fundamentally different position because of the lack of savings account balances.

[10:00:48 AM](#)

Mr. Painter looked at slide 13, "Governor's FY23 Budget Compared to Baselines."

Mr. Painter looked at slide 14, "Governor's FY22/23 Budget":

- Includes supplemental PFD payment for FY22 to reach 50/50 and a 50/50 PFD in FY23.
- Agency Operations increases by \$80.1 million (2.1 percent) over LFD baseline - in line with inflation assumption of 2.0 percent.
- Fully funds statewide items.
- Pre-transfer deficit of \$348.4 million in FY23 is filled with \$375.4 million of one-time use of ARPA for revenue replacement.
- No reverse sweep or deficit-filling CBR language.

Co-Chair Stedman asked about deficit-filling language.

Mr. Painter replied that there was language in the budget about how there was a source to fill the deficit.

[10:05:19 AM](#)

Co-Chair Stedman asked about the change in the balance of powers in the proposal.

Mr. Painter replied that a last resort in budget, the governor could stop appropriations in order to keep a balanced budget.

Senator Wilson stressed that the legislature could pass legislation to define which accounts were sweepable.

Mr. Painter agreed.

Mr. Painter addressed slide 15, "Governor's FY22/23 Budget (Cont.)."

Co-Chair Stedman asked about the summer planning.

[10:14:04 AM](#)

Mr. Painter replied that the pretransfer surplus included the governor's supplemental request.

Senator Hoffman surmised that the SBR and CBR were being considered savings, and wondered the categorization of the ERA.

Mr. Painter replied that the ERA was not a budget reserve, because it had a specific draw percentage, and therefore was considered a revenue source.

Senator Hoffman surmised that the legislature could spend all of the funds from the ERA with a simple majority vote.

Mr. Painter agreed.

Senator von Imhof remarked the vote to pull from the ERA would diminish both the account and the POMV. She stressed that there were consequences to those behaviors.

Senator Hoffman stressed that those funds were available to the legislature.

Senator von Imhof appreciated that there was not advocacy for that possibility.

Co-Chair Stedman noted that utilizing the ERA would increase the chance of a budget issue in future years.

[10:20:59 AM](#)

Senator Olson wondered how much PFD money remained in the state versus outside of the state.

Mr. Painter agreed to provide that information.

[10:25:01 AM](#)

Senator Hoffman felt that the reverse sweep at the end of the previous session included a nearly \$1 billion sweep. He stressed that the fund was no longer a discussion item.

Mr. Painter looked at slide 16, "Governor's FY22/23 Budget (Cont.)":

- Agency Operations are \$80.1 million UGF above LFD's

baseline:

- Medicaid: Increase by \$45.0 million UGF due to the expiration of federal increased FMAP
- Alaska Marine Highway System: Decrease by \$63.4 million UGF due to use of federal infrastructure funds
- Reverse sweep: \$33.6 million UGF increase from fund changes to offset lost DGF due to failure of reverse sweep
- Department of Public Safety: \$16.5 million increases for Alaska State Troopers, VPSOs, and other items
- Department of Transportation: \$10.9 for replacing one-time federal funds (still leaving \$22.4 million that will need to be replaced in FY24)
- Other items net to an increase of \$37.5 million

Mr. Painter addressed slide 17, "Governor's FY22/23 Budget (Cont.)":

- Statewide Items total \$517.6 million
 - School Debt Reimbursement, REAA Fund Capitalization, Oil and Gas Tax Credits all funded at statutory levels
 - Community Assistance funded with \$30 million for PCE fund per statute
 - State retirement payments down \$116.6 million from FY23 due to a combination of two factors:
- Investment performance: \$61.5 million
- ARM Board decision to adopt a zero additional contribution rate for health care: \$55.1 million

Mr. Painter looked at slide 18, "Governor's FY22/23 Budget (Cont.)":

- Capital Budget totals \$154.7 million UGF in FY23, plus an additional \$93.0 million of supplemental capital projects
 - Of the supplementals, \$47.9 million are in the fast-track bill and \$45.1 million are regular supplementals
- Governor also introduced a \$308.6 million general obligation bond package
- The Governor does not yet incorporate the federal Investing in Infrastructure and Jobs Act (IIJA) in his

capital budget - that may come in future amendments

Senator Hoffman wondered whether the proposal could be amended by the legislature.

Mr. Painter replied that the Infrastructure and Jobs Act was a federal bill. He stressed that the legislature was the appropriating body, so there could be a change in the proposal.

[10:29:24 AM](#)

Co-Chair Bishop wondered whether the UGF assumed the \$5 million match of \$50 million for Federal Highway Administration (FHWA) funds.

Co-Chair Stedman wanted to provide a rough layout of what is ahead.

Senator Hoffman wondered whether the funds were available for five years.

Co-Chair Bishop replied in the affirmative.

Senator von Imhof stressed that local communities may want to match the one-time federal funds.

[10:36:19 AM](#)

Mr. Painter looked at slide 19, "Federal COVID-19 and Infrastructure Funds":

- In the 2021 legislative session, the legislature appropriated about \$1.5 billion of non-discretionary federal COVID-related funds and \$758.2 million of discretionary COVID funds
 - The discretionary sources were the Coronavirus State and Local Federal Relief Fund (CSLFRF) and several transportation-related fund sources
- This left approximately half (\$504.8 million) of the CSLFRF for FY23/24, plus the \$111.8 million Capital Projects Fund, which must be appropriated by September of this year

Mr. Painter discussed slide 20, "Federal COVID-19 and Infrastructure Funds (Cont.): CSLFRF":

- From CSLFRF, Governor proposes spending the remaining \$504.8m balance in FY22/23 budgets.

Highlights:

- \$375.4 million for revenue replacement (filling the FY23 deficit)
- \$72.0 million for capital projects, including:
 - \$25.0 million mariculture incentive program
 - \$25.0 million food security agriculture grants
- \$22.8 million for three University of Alaska research projects (drones, heavy oil, and critical minerals)
- \$20.0 million for COVID-19 response in fast-track
- \$10.0 million for workforce training

Co-Chair Stedman stressed that there had been efforts in maximizing workforce development and training at the same time that the savings accounts were accumulating.

[10:41:17 AM](#)

Mr. Painter looked at slide 21, "Federal COVID-19 and Infrastructure Funds (Cont.): Capital Projects Fund":

- Capital Projects Fund guidance came out in September 2021 and funding must be appropriated by September 2022. Eligible uses include broadband and other projects enabling remote work, education, and health monitoring.
- Governor proposes spending \$63.8 million out of the \$111.8 million Alaska has to spend - the remainder will presumably come in future amendments.
- Proposals in FY23 budget:
 - \$30.0 million for Healthcare Record System improvements
 - \$20.0 million for Student Information Technology Systems
 - \$13.8 million for Eagle River Fire Crew Facility

Senator von Imhof wondered whether the \$111.8 million was available for the legislature to help direct.

Mr. Painter replied in the affirmative.

Senator Hoffman queried the governor's timeline for the amendments for the funds in the slide.

Mr. Painter replied that, statutorily, budget amendments must be submitted by the thirtieth legislative day, but some governors continued to submit amendments after that day.

10:44:33 AM

Mr. Painter addressed slide 22, "Federal COVID-19 and Infrastructure Funds (Cont.): IIJA":

- IIJA increases several existing federal programs and adds new ones, generally over FY22-26.
- Federal apportionments and guidance are still being developed, so there is significant uncertainty about how much money Alaska could receive and how much matching funds that would take. Governor did not incorporate these funds in his capital budget.
- LFD estimates up to \$36.4 million of additional match could be needed in FY23. However, that may be reduced by using a previous appropriation for the Tustumena replacement (\$22.0 million of match appropriated in FY18).
- The Alaska Marine Highway System (AMHS) is the one area that the Governor uses IIJA funds - to offset UGF in its operating budget for a \$63.4 million reduction. In addition, funds are available on the capital side for AMHS that are not in the Governor's budget yet.

Co-Chair Stedman wanted to examine the match money related to dock replacements.

Senator von Imhof wondered whether the \$62 million to offset reduction was an annual appropriation.

Mr. Painter thanked the committee.

Co-Chair Stedman discussed committee business.

SB 162 was HEARD and HELD in committee for further consideration.

SB 163 was HEARD and HELD in committee for further consideration.

ADJOURNMENT

10:50:20 AM

The meeting was adjourned at 10:50 a.m.