

SENATE FINANCE COMMITTEE
February 3, 2022
9:00 a.m.

9:00:47 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:00 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

Pete Ecklund, Staff, Senator Bert Stedman; Alexei Painter, Director, Legislative Finance Division; Hunter Bell, Fiscal Analyst, 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."

[9:02:19 AM](#)

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

Co-Chair Stedman OBJECTED for discussion.

[9:02:43 AM](#)

PETE ECKLUND, STAFF, SENATOR BERT STEDMAN, explained that there had been various federal COVID-19 relief programs over the two years. He stated that the governor's proposed budget had used the different fund sources for various different operating items and revenue replacement. He shared that the committee substitute removed the federal funds and replaced them with UGF, in order to get a better understanding of the state's annual recurring revenue and expenses, and the surplus-revenue situation would be without the federal funds. He remarked that the committee had some handouts that summarized the committee substitutes within a series of spreadsheets.

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

[9:07:19 AM](#)

Co-Chair Stedman queried the difference between the numbers section and the other sections.

Mr. Ecklund replied that the numbers section contained the agency budgets with different dollar amounts with different fund sources. He stated that the language sections contained the appropriations that required more explanation.

Senator Hoffman wondered whether there would be a discussion of the remaining handouts.

Mr. Ecklund replied that Mr. Painter would address those items.

Co-Chair Stedman shared that the process was similar to the previous years. Time was spent evaluating and "unpeeling" the budget.

[9:09:56 AM](#)

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, discussed looked at Handout B (copy on file), which had some additional items that were along the same line as items changed within the committee substitute. He shared that there was a possibility that Alaska would fail the disparity test for K-12, but was currently under appeal, which would increase the UGF budget by \$72 million in FY 22 and \$74.6 million in FY 23. There would not need to be changes to the budgetary language if that were to occur, because the budget amount had been adjusted to the necessary formula. He noted that the item in the Department of Public Safety (DPS) budget was a request to add 17 new state trooper and Alaska state wildlife trooper positions. He stated that those requests did not come with associated funding. He remarked that DPS has shared that if those positions were actually funded, there would be a cost of \$5.1 million. He stated that the committee substitute only addressed the operating budget, so there was an additional \$72 million from the capital budget and \$20 percent in the governor's fast track supplemental budget. He stated that the total equaled \$244 million split across FY 22 and SY 23.

Senator Hoffman asked for more detail of the reason for the disparity test. He also expressed concerns about whether to consider the \$72.3 million into the budget to have no doubt regarding the disparity test.

Co-Chair Stedman also asked about potential contingencies in the event that the appeal of legal action could go one way or the other.

Mr. Painter explained that the federal government provided impact aid to school districts based on federal activity, which could be military members or tribal land held in trust by the federal government. He stated that, rather than pay taxes, the federal government provided impact aid to districts. He stated that there was also impact aid, which was not deductible, for certain characteristics of a community. He stated that a portion of that federal impact aid could be deducted against state aid. He stated that Alaska must have an equalized K-12 formula in order to deduct the impact aid.

Senator Hoffman wondered where the millions of dollars would be spent if there was a failure of the disparity test.

Mr. Painter replied that it would be spent as additional state aid to districts that received deductible impact aid.

Co-Chair Stedman queried the impact on the more rural parts of southeast Alaska.

Mr. Painter replied that some of those areas received impact aid, and noted that the vast majority of impact aid receiving districts were in western Alaska.

[9:19:22 AM](#)

Co-Chair Stedman requested a detail of every district that received impact aid.

Senator Wilson queried the Department of Education and Early Development (DEED) plan to hear on their appeal.

Mr. Painter replied that DEED should know with more certainty by the end of the month.

Mr. Painter noted that there was not an inclusion in the spreadsheet of the capital budget number, so there may need to be an adjustment of \$72 million.

Co-Chair Stedman asked for more explanation on that issue.

Mr. Painter replied that without the revenue-replacement funds, there would be a \$500 million deficit.

Co-Chair Stedman asked for a number of the structural deficit portion.

Mr. Painter replied that there needed to be a consideration of how to categorize the items in Handout B when deciding whether there was a structural deficit.

Co-Chair Stedman surmised that the actual deficit was around \$750 million

Mr. Painter replied in the affirmative, but explained that \$244 million of that was split between FY 22 and FY 23.

Co-Chair Stedman felt that ballpark numbers related to concepts was important for understanding the general idea. He surmised that the number was around \$650 million as the deficit.

Mr. Painter replied in the affirmative, depending on the disparity test.

Co-Chair Stedman wondered whether Handout D (copy on file) was represented in slide format in the presentation.

Mr. Painter replied that it was not outlined in slide form, but stated that it was available on BASIS.

[9:29:25 AM](#)

Co-Chair Stedman queried the impact of the Alaska Marine Highway System (AMHS) on the Department of Transportation and Public Facilities (DOT) budget.

Mr. Painter replied that AMHS had zero UGF in the governor's proposal. He stated that the governor had proposed a service level increase, so the budget was relatively stable.

Co-Chair Stedman wanted to use similar "numerics" with the House, so there was not confusion.

Mr. Painter discussed the presentation, "Comparison of Governor's 10-Year Plan to LFD Baseline" (copy on file). He looked at slide 3, "Review of Modeling Baseline":

- 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.

Mr. Painter addressed slide 4, "Review of Modeling Baseline (cont.)":

Revenue Assumptions

- LFD's baseline revenue assumptions are the Department of Revenue's Fall Revenue Forecast.
 - This assumes \$71 oil in FY23, following futures market thereafter.
 - DNR oil production forecast projects that Alaska North Slope production will increase from 500.2 thousand barrels per day in FY23 to 586.2 thousand barrels per day in FY31.
- For the Permanent Fund, we use Callan's return assumption of 5.86 percent total return in FY22 and 6.20 percent thereafter.

[9:36:16 AM](#)

Mr. Painter pointed to slide 5, "Review of Modeling Baseline (cont.)":

Spending Assumptions

- For agency operations, these scenarios assume the Governor's FY23 budget grows with inflation (2.0 percent).
- For statewide items, the baseline assumes that all items are funded to their statutory levels beyond FY23.
 - This includes School Debt Reimbursement, the REAA Fund, Community Assistance, oil and gas tax credits.
- For the capital budget, we assume the Governor's FY23 capital budget grows with inflation (2.0 percent)
- 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 Stedman queried the definition of "effective POMV draw."

Mr. Painter replied that it was an examination of the POMV level required to draw from the ERA.

Co-Chair Stedman queried the source of the baseline.

Mr. Painter replied that it was based on the statutory dividend, which was approximately \$4200 in the current year.

Senator Hoffman noted that in FY 23 there was a CBR draw, but the governor did not have a proposed CBR draw.

Mr. Painter stated that the slide showed the LFD baseline, and not the governor's budget. He stated that the governor's budget did not have a statutory dividend or a CBR draw.

[9:40:37 AM](#)

Mr. Painter looked at slide 7, "Governor's 10-Year Plan":

Policy changes in Governor's 10-Year Plan:

- PFD is 50 percent of POMV, including an FY22 supplemental;
- Agency operations are held flat in FY24, then grow at 1.5 percent for all items except Medicaid, which grows at 1.0 percent;
- Beginning in FY24, School Debt Reimbursement is funded at 50 percent, and the REAA Fund Cap is reduced to a flat \$17.5 million;
- PERS and TRS health care contributions are not funded;
- The capital budget is held flat with no inflationary growth, but a General Obligation Bond issued in FY23 increases debt service by \$22.8 million in FY24 and beyond;
- Supplementals and lapse are assumed to cancel out; and
- Governor uses \$375.4 million of ARPA revenue replacement in FY23.

Senator Wilson wondered whether the supplementals and lapses would cancel each other out.

Mr. Painter replied that it was not common for those requests to cancel out, but not impossible. He stated that it was a goal to reduce the regular supplementals, like investments in fire suppression.

Co-Chair Stedman queried the difference between lapsing funds and supplemental requests.

Mr. Painter replied that lapsing funds were funds that were unspent money that had been appropriated to an agency, so those funds were then returned to the general fund. He stated that the impact of the pandemic had caused an increase in lapsed funds. He stated that supplemental requests were made after the initial budget to increase or decrease the budgeted levels in the current year.

[9:45:36 AM](#)

Senator Olson wondered whether the American Rescue Plan Act (ARPA) funds could result in penalties if spent incorrectly.

Mr. Painter replied that it is possible for penalties to occur. He felt that revenue replacement was most likely allowable up to the maximum usage.

Co-Chair Bishop remarked that the 1.5 percent growth across agencies for the next ten years was concerning.

[9:50:41 AM](#)

Mr. Painter looked at slide 8, Mr. Painter pointed to slide 8, "Comparison of LFD Model to Governor's Model":

- Other than policy choices, there is only one substantive difference in assumptions:
 - LFD adopted an assumption from the Fiscal Plan Working Group that School Bond Debt Reimbursement will begin to add new debt after the current moratorium expires. This slightly increases the baseline for both School Debt and the REAA Fund.
- Other differences are due to rounding and presentation differences (for example, OMB includes

fund transfers with statewide items, LFD separates them).

- We also have slightly different CBR starting balances - LFD will not update last year's estimates until audited numbers are available, OMB has slightly higher estimates based on pre-audit actuals.

Senator Wilson wondered whether the reference was last year or the previous year's working group.

Mr. Painter replied that it was the 2021 working group.

Co-Chair Stedman felt that the committee had more experience than the working group, except for Senator Hoffman.

Mr. Painter stated that in FY 23 the only difference was \$50 million in supplementals. He noted that in FY 24 there was a larger difference because the operating budget would be held flat.

[9:56:14 AM](#)

Co-Chair Stedman asked for more information about the low inflation expectation in the projection.

Mr. Painter stated that the higher inflation could result in the unions desiring higher increases.

[10:01:01 AM](#)

Co-Chair Stedman remarked that if inflation ran at 4 percent, there would be significant changes in the projection.

Mr. Painter replied that it cause retention issues, but stressed that it was a policy call.

Mr. Painter looked at slide 11, "Comparison of Governor's 10-Year Plan to LFD Baseline: Statewide Items."

Mr. Painter addressed slide 12, "LFD Modeling Baseline with 50/50 Plan."

Co-Chair Stedman wondered whether the model took the CBR to zero.

Mr. Painter replied that there was a floor of \$500 million in the CBR for cash flow in the presentation.

Co-Chair Stedman stressed that the CBR was not taken to zero in the presentation.

Mr. Painter agreed.

[10:05:38 AM](#)

Mr. Painter pointed to slide 13, "Governor's 10-Year Plan in LFD Model." He also addressed slide 14, "Additional Items to Consider: Should the Baseline Be Higher?"

- Several ongoing items in the Governor's budget are funded with short-term federal funds:
 - DOC's DNA Tracking program: \$1.1 million CSLFRF (need to be replaced in FY24)
 - AMHS: ~\$82.0 million in place of UGF from federal infrastructure bill (need to be replaced in FY27)
 - DOTPF: \$22.4 million of FHWA and FAA funds (need to be replaced in FY24/25)
- The ARM Board decision not to fund retiree health care is backed out in LFD's baseline only for the statewide item. It would also have about a \$15.9 million UGF impact on agency budgets.
- Evergreen Economics projects that the State's Medicaid share will grow by 4.2 percent without policy changes.

Co-Chair Stedman shared that there had been work with OMB to ensure that the math was the same within all modeling.

Mr. Painter stated that the baseline of the governor's budget gave a clean starting point.

[10:10:37 AM](#)

Mr. Painter looked at slide 15, "Additional Items to Consider: Should the Baseline Be Higher? (Cont.)"

Senator Wilson surmised that the Department of Corrections (DOC) item was because of a backlog and should be absorbed into existing work.

Mr. Painter replied that the responsibility would be ongoing.

Senator Wilson thought that the funding was required for addressing the backlog, and not for future work.

Co-Chair Stedman looked at FY 26 and noted that, taking away AMHS, there was a negative of \$317.8 million. He asked for more information on that issue.

Mr. Painter stated that the governor's ten-year plan began to "balance" in FY 26.

[10:16:54 AM](#)

HUNTER BELL, FISCAL ANALYST, LEGISLATIVE FINANCE DIVISION, looked at slide 16, "Probabilistic Modeling":

- LFD developed a probabilistic model to enhance our modeling capability. Unlike the Callan model, it is a complete fiscal model with the budget and revenue as well as the Permanent Fund.
 - Results for Permanent Fund scenarios are similar to what Callan's model produces.
- Runs 2,000 trials with varying assumptions for Permanent Fund earnings, oil prices, and oil production.
- Assumes LFD baseline budget, with only PFD amount changing by scenario.
- APFC 6.2 percent average return with 13.2 percent annualized standard deviation.
- Average oil price equals DOR's fall forecast. Applies standard deviation equal to 34 percent of a given year's average price.
- LFD can run additional scenarios as requested by legislators and staff

[10:20:02 AM](#)

Co-Chair Stedman noted that there was interest from committee members to move money from the ERA, which took a simple majority vote to spend.

Mr. Bell looked at slide 17, "Stress Test: Statutory PFD."

Co-Chair Bishop wondered whether the slide represented a full year for the price of oil, and whether it factored into the prior year's funding.

Mr. Bell replied in the affirmative.

Co-Chair Stedman requested numbers related to the mean deficit.

Mr. Bell agreed to provide that information

[10:25:31 AM](#)

Mr. Bell looked at slide 18, "Stress Test: 50 percent POMV to PFD."

Co-Chair Stedman queried the price of oil on the low end.

Mr. Bell replied that the maximum value oil represented was \$120 per barrel, because of data limitations. He stated that, once oil got to \$100 a barrel, the revenue was double what it would be at \$50 per barrel, which was why it was non-linear. He noted production also had a significant impact.

Co-Chair Stedman stressed that there needed to be a broad scope of the various oil prices.

[10:30:03 AM](#)

Mr. Bell looked at slide 19, "Stress Test: \$1,100/person PFD."

Co-Chair Stedman stressed that there was support for an absolute floor of a \$1100 PFD.

[10:34:16 AM](#)

Mr. Bell looked at slide 20, "Probability of ERA Shortfall by PFD Scenario."

Co-Chair Stedman felt that the committee would not tie up the ERA to the point that there would not be a PFD.

Senator Wielechowski noted that the deficit with a full statutory PFD was roughly equal to the amount of deductible oil tax credits that the state was giving yearly.

Co-Chair Stedman stated that there would be an analysis of how the oil basin revenue flowed through the tax structure.

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

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

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ADJOURNMENT

[10:45:17 AM](#)

The meeting was adjourned at 10:45 a.m.