

SENATE FINANCE COMMITTEE
February 21, 2022
9:03 a.m.

[9:03:12 AM](#)

CALL TO ORDER

Co-Chair Bishop called the Senate Finance Committee meeting to order at 9:03 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Erin Shine, Staff, Senator Click Bishop; Alexei Painter, Director, Legislative Finance Division; Connor Bell, Fiscal Analyst, Legislative Finance Division.

SUMMARY

SB 199 PERM FUND; PERMANENT FUND DIVIDEND

SB 199 was HEARD and HELD in committee for further consideration.

SB 200 PERMANENT FUND DIVIDEND; 25/75 POMV SPLIT

SB 200 was HEARD and HELD in committee for further consideration.

#sb199

#sb200

SENATE BILL NO. 199

"An Act relating to use of income of the Alaska permanent fund; relating to the amount of the permanent fund dividend; relating to the duties of the commissioner of revenue; and providing for an effective date."

SENATE BILL NO. 200

"An Act relating to use of income of the Alaska permanent fund; relating to the amount of the permanent fund dividend; relating to the duties of the commissioner of revenue; and providing for an effective date."

[9:05:11 AM](#)

ERIN SHINE, STAFF, SENATOR CLICK BISHOP, read from a prepared statement:

SB 199 is very similar to the now dead SB 53.

For an explanation as to why SB 53 is no longer an active bill this session, the Senate adopted the Senate Finance Committee Substitute for SB 53 on September 14th while in a special session.

A regular session bill that is acted upon within a special session that does not complete the process and become law, dies.

So, the co-chairs have decided to introduce SB 199 so that the finance committee can reconsider the legislation.

The broad overview of SB 199 is that it replaces the current PFD formula with a stepped-up payment approach.

It provides for an \$1,100 PFD in FY23, \$1,200 in FY24, \$1,300 in FY 25 and a PFD of \$1,300 adjusted for inflation starting in FY 26.

However, SB 199 also provides conditional language trigger to pay a 50 of percent of market value PFD if by December 15, 2024 the legislature enacts \$700 million of new revenues.

Ms. Shine discussed the substantive changes in the bill.

Senator Hoffman wondered when the 50/50 dividend would begin.

Ms. Shine looked at page 7, line 1, Section 13, and stated that it would begin in FY 25 if there was revenue over seven hundred.

Senator Hoffman queried the difference between the current bill and SB 53.

Ms. Shine replied that the only changes between the two bills were the removal of the \$1100 Permanent Fund Dividend (PFD) paid in the previous year, and the date of comparison for the \$700 million in new revenue from June 30, 2021 to June 30, 2022.

Senator Hoffman wondered what would occur if the legislature did not pass new revenue by 2025.

Ms. Shine replied that she believed the PFD would remain at \$1300, because the law as clear in the section about the comparison between the two dates.

Co-Chair Stedman wondered whether there would be an adjustment for inflation on the \$1300.

Ms. Shine replied in the affirmative.

[9:09:50 AM](#)

Senator von Imhof stressed that the PFD totaled hundreds of millions of dollars. She emphasized the struggle to pay the dividend. She felt that assigning a specific amount to law could cause strain in the future. She wondered how the PFD could be paid with a turn in the market.

Ms. Shine stated that replaced the current PFD formula with a 25 percent of POMV for a PFD and 75 percent for general fund spending.

Co-Chair Stedman queried a detail about the change in formula.

Ms. Shine replied that the current PFD formula would be repealed, and the sections would be replaced with the 5 percent of market value (POMV), which would pay 25 percent toward PFDs and 75 percent to appropriation.

Senator Hoffman queried a comparison of the two bills from a cash flow standpoint.

Ms. Shine replied that the Legislative Finance Division (LFD) would go into more detail, but stated that one bill set in statute specifically to pay in three fiscal years with the possibility of a 50/50 PFD; and the other bill split the POMV at a 25/75 PFD.

Senator Wilson wondered whether the intent was to only consider one bill to move from the Senate Finance Committee.

Co-Chair Bishop stated that it would be a decision from the committee.

Senator Wilson felt that the bills were conflicting, and did not approve of each current bill. He hoped to find consensus in the process.

Co-Chair Stedman remarked that there was interest in rewriting the PFD statute, because of the different structure of the Permanent Fund.

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Senator Wielechowski stressed that even with a statutory change, there was still no obligation for the legislature to appropriate the money. He remarked that only a constitutional amendment could guarantee a PFD appropriation.

Co-Chair Bishop stressed that the legislature had not yet following the constitution requirement for the capital budget.

Co-Chair Stedman noted that there was a statutory dividend that was difficult to attain and keep the state on stable fiscal footing. He remarked that the state had never missed a deadline. He stressed that the legislature had never supported a zero PFD.

Senator von Imhof agreed with Senator Wielechowski about the decision to appropriate funds. She felt that creating a rational statute to pay the bills and provide funding would fiscally and politically help the state's entire capacity.

[9:26:29 AM](#)

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, introduced himself.

CONNOR BELL, FISCAL ANALYST, LEGISLATIVE FINANCE DIVISION, introduced himself.

Mr. Painter discussed the presentation, "Fiscal Modeling: Senate Bill 199 and Senate Bill 200" (copy on file). He looked at slide 2, "Outline":

- Review of Senate Finance Committee modeling assumptions
- Review of stress tests
- Summary of SB 199 and SB 200
- Fiscal models of SB 199 and SB 200

Mr. Painter pointed to slide 3, "Review of SFIN Modeling Baseline":

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.

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

Spending Assumptions

- For agency operations, these scenarios assume the Governor's amended FY23 budget grows by 2.5 percent per year. In addition, federal funds being used in place of general funds in the current budget are replaced with general funds when those federal funds expire. Note that amendments change these scenarios slightly from the ones presented on February 10.

- For statewide items, these scenarios assume 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, these scenarios assume a \$250 million capital budget growing by 2.5 percent per year.

- For supplementals these scenarios assume \$50.0 million per year. This is based on the average amount of supplemental appropriations minus lapsing funds each year.

Co-Chair Stedman assumed that the oil tax credit was the accrued liability of roughly \$700 million.

Mr. Painter agreed.

[9:29:40 AM](#)

Mr. Painter looked at slide 5, "Review of SFIN Modeling Baseline (cont.)":

- LFD's modeling baseline assumes budgets grow with inflation (2.0 percent) but the Senate Finance models use 2.5 percent growth.

- The Governor's 10 year plan does not grow the capital budget at all, grows agency operations other than Medicaid by 1.5 percent, and Medicaid by 1.0 percent.

- Evergreen Economics projects that the State's Medicaid share will grow by 4.2 percent without policy changes.

-By FY30, the difference in Medicaid growth between 1.0 percent and 4.2 percent is \$200 million per year a \$700 million UGF budget versus a \$900 million UGF budget.

•Several ongoing items in the Governor's budget are funded with short term federal funds. In the Senate Finance baseline, these are replaced with UGF when the federal funds expire:

-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: \$24.3 million of FHWA and FAA funds (need to be replaced in FY24)

Co-Chair Bishop pointed out that solving the current issue could allow for work on statutory changes in Medicaid and other operating budget efficiencies.

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Mr. Painter looked at slide 6, "Obligations and Funding Needs of the State of Alaska":

- This is not an exhaustive list. The total for these items is about \$10.6 billion

- PERS/TRS Unfunded Liability: \$4.0 billion

-Payment plan: annual payments through FY39. FY23 payment is \$129.6 million

- General Obligation Bonds and State Supported Debt: \$1.2 billion

-Payment plan: annual payments through FY41. FY23 Governor's Budget includes \$92.4 million

- State Share of Municipal School Debt Service: \$694.3 million

-Payment plan: annual payments through FY39. FY23 Governor's Budget includes \$63.9 million UGF

- Oil and Gas Tax Credits: \$565.0 million

- Payment plan: statutory deposits to Oil and Gas Tax Credit Fund. FY23 Governor's Budget includes \$199.0 million

- Deferred Maintenance: \$2.0 billion

-Payment plan: annual appropriations using Alaska Capital Income Fund. FY23 Governor's Budget includes \$25.2 million, plus additional projects in the General Obligation Bond proposal

- State Share of School Major Maintenance and Construction Lists: \$389.4 million

-Payment plan: REAA fund can be used for some projects; no plan for remaining projects

- Rural Alaska Sanitation Funding Need (per DEC FY21 list): \$1.8 billion

-Payment plan: Village Safe Water capital program. FY23 Governor's Budget includes \$19.5 million of state funds, \$72.3 million total funds

[9:40:30 AM](#)

Senator von Imhof wondered whether the PERS and TRS subject referred to only the pension, or whether it also included the health care portion.

Mr. Painter replied that the ARM board chose to put the past health care liabilities at zero for the current year, so the payment did not include payment into the health care fund due to fully funding of that portion. He stated that the unfunded liability only referred to pension.

Senator von Imhof felt that the number could change quickly, so the unfunded liability could double.

Mr. Painter agreed, and stated that numbers could change year by year.

Senator Wilson felt that the new infrastructure bill addressed the rural Alaska sanitation funding would see a large reduction in the state's budget number.

Mr. Painter agreed, and stated that the infrastructure bill would direct funds toward that need.

Mr. Painter pointed to slide 7, "Summary of SB 199":

- Amends PFD formula to pay:
 - \$1,100 per recipient in FY23
 - \$1,200 per recipient in FY24
 - \$1,300 per recipient in FY25
 - \$1,300 per recipient growing with inflation for FY26 and beyond
- Includes a "trigger" provision: If the legislature enacts revenue measures generating at least \$700 million per year by the end of 2025, the formula changes to 50 percent of the Percent of Market Value draw beginning in FY26.

Senator von Imhof wondered whether there could be an examination of the hundreds of millions of dollars that correspond with the PFDs to understand the magnitude of the cost to the state.

Mr. Painter replied that he would provide that information.

Senator von Imhof stressed that considering \$700 million was difficult to generate personal taxes.

[9:45:16 AM](#)

Senator Hoffman felt that legislature would not examine the individual taxpayers, and remarked that there were other entities to examine alternative revenue sources. He queried the total cost of a \$1300 PFD to the state.

Mr. Painter replied that there was a slide within the presentation that would answer that question.

Mr. Painter looked at slide 8, "Summary of SB 200":

- Amends PFD formula to 25 percent of the Percent of Market Value draw in FY23 and beyond.
- In FY23, this would pay a PFD of about \$1,250 per person.
- This PFD split matches the version of Senate Bill 26 passed by the Senate in March of 2017.

Mr. Painter looked at slide 9, "Stress Tests":

- Two types of stress tests performed:
 - Budget stress test: grow agency operations and capital budget by 3.5 percent per year instead of 2.5 percent
 - Revenue stress test: use probabilistic modeling to simulate a range of possible oil prices and investment returns
- For each PFD scenario, we will show the non stressed model output and the two stress tests

Mr. Bell looked at slide 10, "Stress Test: 25th Percentile Example":

- Example of a single case, for which 25 percent of total cases see greater overall deficits.
- Example case has average oil price of \$58 and average Permanent Fund return of 5.4 percent.

Mr. Bell discussed slide 11, "SB 200 (75/25 PFD); SFIN Baseline (2.5 percent Growth)."

[9:54:02 AM](#)

Senator Hoffman felt that the most important figure was the right hand chart of the slide, which showed the budget reserve funds, and wondered whether there would be a \$9 billion increase under the proposed scenario.

Mr. Bell replied in the affirmative. He stated that much was due to the any surplus at the end of the year going to the CBR at the end of the year.

Senator von Imhof remarked that discipline was required from the legislature to not overspend in high revenue years.

Senator Hoffman stressed that the "legislature will do what the legislature does."

Co-Chair Bishop asked for a highlight of the multipliers.

Mr. Bell highlighted slide 12, "SB 200 (75/25 PFD); Budget Stress Test (3.5 percent Growth)." Which showed agency operations growing at 3.5 percent. There were no expected ERA overdraws reflected in the model.

Senator von Imhof asked about deficits in FY 30-31. She spoke of the importance setting aside funds for leaner years.

Co-Chair Bishop reminded the people at home that the scenario was based on a base budget.

[9:58:17 AM](#)

Mr. Bell pointed to slide 13, "SB 200 (75/25 PFD); Revenue Stress Test." He noted the 25th and 75th percentile reflected in the green bars. He said that the chart on the right showed the realized ERA balance - the blue line was the balance of the realized ERA. He remarked that inflation proofing began in FY 24 and the ERA balance went to zero in FY 29. He noted that the bottom of the chart showed the probability of the CBR balance and showed the likelihood of the reserve falling below \$2.5 billion by the end of the period.

Mr. Bell discussed slide 14, "SB 199, Trigger Succeeds; SFIN Baseline (2.5 percent Growth)." He explained that in the scenario beginning FY 26 there would be new assumed revenue.

Senator Wilson asked what would happen if the new revenue was realized sooner than FY 30.

Mr. Bell replied that the 50/50 would still begin in FY 26 even if new revenue was instituted earlier than FY 30.

Senator Wilson queried the definition of "new revenue."

Mr. Painter interjected that statute had provisions generating new revenue.

[10:05:34 AM](#)

Senator von Imhof liked the models. She noted that they were fiscal and not economic models - which were quite different. She was interested in exploring economic impacts. She thought that contemplating the economic impacts would be important to discuss.

Mr. Bell addressed slide 15, "SB 199, Trigger Succeeds; Budget Stress Test (3.5 percent Growth)." He said that the changes in the scenarios did not take place in a void. He spoke to the chart and spoke of draws from out years and deficits.

Senator Wilson asked about ISER comments on the increase in PFD or taxes.

Mr. Bell could not speak to the public's opinion.

Senator Wilson thought that the comments had been positive about how larger PFDs were good and increased taxes were bad.

Co-Chair Bishop asked Senator Wilson to provide that information to the committee.

[10:10:01 AM](#)

Senator von Imhof wondered whether national inflation was around 5 percent or 6 percent.

Mr. Bell replied in the affirmative, but stated that comparing year to year was closer to 7 percent.

Senator von Imhof thought that trying to keep cost down and continually cutting the budget was unsustainable.

Co-Chair Stedman thought that it was difficult to predict inflation numbers. He spoke of historical inflation numbers and thought that 3.5 was a reasonable number. He said that it was hard to have a correct number but it was important to consider that the inflation cycle would last for some time.

[10:14:04 AM](#)

Co-Chair Bishop said that the 4.9 percent inflation in the state for the prior year.

Mr. Bell looked at slide 16, "SB 199, Trigger Succeeds; Revenue Stress Test."

Mr. Bell displayed slide 17, "SB 199, Trigger Fails; SFIN Baseline (2.5 percent Growth)."

Mr. Bell pointed to slide 18, "SB 199, Trigger Fails; Budget Stress Test (3.5 percent Growth)."

Mr. Bell addressed slide 19, "SB 199, Trigger Fails; Revenue Stress Test."

[10:20:47 AM](#)

Mr. Bell looked at slide 20, "50/50 PFD FY23, \$1,200 PFD FY24, \$1,300 PFD FY25, 50/50 PFD."

Co-Chair Stedman wondered how the ERA representation on the slide would be extrapolated into the market value of the Permanent Fund itself.

Mr. Bell replied that green bars showed only the realized balance of the ERA, so it was the amount to freely appropriate by the legislature.

Co-Chair Stedman remarked that for the last forty years there was a focus on continual growth of the Permanent Fund from nothing to \$80 billion. He hoped that there was a focus on the multigenerational effect, and wondered what happened to the aggregate value of the fund with the impact of inflation. He wondered whether, on average, there was an increase in intergenerational wealth for Alaskans.

Mr. Painter explained that the green bar was only the ERA. He stated that \$1 billion of inflation proofing would be going into the principal of the fund, and would increase over time.

Co-Chair Stedman stressed that there needed to be a focus and concern about ensuring the intergenerational wealth resulting from the fund.

Mr. Painter stated that even with 2 percent inflation, there was not room for the fund to grow faster than inflation with the current draws on the fund.

Co-Chair Stedman remarked that there was a concern that 5 percent was too high.

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Mr. Bell pointed to slide 21, "50/50 PFD FY23, \$1,200 PFD FY24, \$1,300 PFD FY25, 50/50 PFD FY26+, Governor's 10 Year Plan Budget Assumptions."

Mr. Bell discussed 22, "50/50 PFD FY23, \$1,200 PFD FY24, \$1,300 PFD FY25, 50/50 PFD."

Mr. Bell displayed slide 23, "50/50 PFD FY23, \$1,200 PFD FY24, \$1,300 PFD FY25, 50/50 PFD FY26+."

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Co-Chair Stedman asked for a restatement of the driving to the negative.

Mr. Bell replied that there was an assumption that paying a 50/50 PFD would lead to a \$500 million deficit, which stemmed from the federal revenue replacement with the money used toward added projects and not existing budget obligations.

Co-Chair Stedman wondered whether there was an accounting for the governor's "catchup" dividend in the proposed budget.

Mr. Bell replied that it did not include a supplemental PFD.

Senator Hoffman remarked that the governor's proposal could be considered in the chart for FY 23.

Co-Chair Stedman remarked that the question was related to whether the 50/50 PFD was in FY 22. He stressed that savings were used to reach the current PFD proposal.

Mr. Bell discussed slide 24, "50/50 PFD FY23, \$1,200 PFD FY24, \$1,300 PFD FY25, 50/50 PFD FY26+, SFIN Baseline (2.5 percent Growth).

Co-Chair Stedman remarked that the \$500 million minimum balance in the CBR was used to make payroll.

Mr. Bell showed slide 26, "Statutory PFD; SFIN Baseline (2.5 percent Growth)."

Mr. Bell looked at slide 27, "Statutory PFD; Budget Stress Test (3.5 percent Growth)."

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Co-Chair Stedman remarked that he had constituents who would want a statutory PFD of \$42 million.

Senator Wilson queried the balance of the CBR used for the assumptions.

Mr. Painter replied that the \$400 million was assumed to be in the CBR.

[10:50:47 AM](#)

Mr. Bell looked at slide 29, "50/50; SFIN Baseline (2.5 percent growth)."

Mr. Bell pointed to slide 30, "50/50 PFD; Budget Stress Test (3/5 percent Growth)."

Mr. Bell discussed slide 31, "50/50 PFD Revenue Stress Test."

Senator von Imhof noted two different scenarios, which modeled 75/25 and 50/50. She wondered whether the models assumed a \$75 per barrel of oil.

Mr. Bell replied that the modeling used \$71 per barrel in FY 23 and following the future's curve with adjust low into the mid-sixties and then rising to the end of the period.

Senator von Imhof remarked that the traditional price of oil was around the mid-sixties according to the future markets. She stressed that there should not be a dividend bill based on \$90 per barrel.

Co-Chair Bishop discussed the afternoon's agenda.

SB 199 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

10:55:52 AM

The meeting was adjourned at 10:55 a.m.