

SENATE FINANCE COMMITTEE  
May 13, 2022  
9:07 a.m.

[9:07:23 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:07 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Senator Donny Olson  
Senator Natasha von Imhof

ALSO PRESENT

Alexei Painter, Director, Legislative Finance Division.

SUMMARY

SB 107 OIL and GAS PRODUCTION TAX; CREDITS

SB 107 was SCHEDULED but not HEARD.

FISCAL UPDATE: ALEXEI PAINTER, DIRECTOR, LEGISLATIVE  
FINANCE DIVISION

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FINANCE DIVISION

[9:09:36 AM](#)

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, discussed the presentation, "Fiscal Update with Senate Budget" (copy on file). He pointed to slide 2, "Outline":

- Volatility and Spring Revenue Forecast
- Updated Fiscal Summary with Senate budget
- Summary of Changes from Senate Finance and House Budgets to Senate Budget
- Big Picture: How the Senate Budget Handles the Oil Price Spike
- Projecting FY24 and Beyond
- New Revenue Options

Mr. Painter discussed slide 3, "Oil Price Forecast Update." He noted that the minor difference on the chart was actually a larger difference when discussing the savings balances.

Mr. Painter looked at slide 4, "Oil Prices, FY22 to Date." He remarked that there was a "bit of a runup" beginning in the new year. He stated that prices had been in the \$70 to \$80 range, peaking at approximately \$85. He stated that the Department of Revenue (DOR) Spring Forecast was created at a particularly volatile time due to the Russian invasion of Ukraine, and continued to see volatility.

Mr. Painter addressed slide 5, "FY23 Oil Price Sensitivity Chart." He stressed that rather than examining one price of oil, the committee should focus on the entire sensitivity chart. He noted that the entire chart is not linear.

Mr. Painter highlighted slide 7, "Fiscal Summary: Senate Budget, Spring Forecast (UGF only)." He explained each line on the slide. He noted that there was a total projection of approximately \$7 billion of UGF revenue in FY 22; and approximately \$8.3 billion of UGF revenue in FY 23. He noted that the higher projection in FY 23 was due to the expectation of higher oil prices in that year.

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Co-Chair Stedman queried the draw for the current year on the 5 percent of market value (POMV) on the Permanent Fund.

Mr. Painter replied that in FY 22 the draw was \$3.69 billion, and in FY 23 the draw increased to \$3.360 billion. He noted that the increase reflected the strong investment performance in FY 21.

Senator Wielechowski wondered whether the state was on track to meet the 2022 revenue forecast.

Mr. Painter replied that currently, the revenue was approximately two dollars below the forecast, which was approximately \$150 million to \$200 million below the forecast.

Mr. Painter continued to detail the revenue in each portion of the accounts.

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Co-Chair Stedman recalled that there was mention of some capital amendments on the Senate floor, and queried detail and financial impacts of those amendments.

Mr. Painter replied with slide 9, and explained that there was \$416 million added to the capital budget. He explained that of that \$416 million, \$175.3 million was for the Port of Nome; \$175 million was for the Port of Alaska; \$30 million for Mat-Su transportation infrastructure; and \$24.3 million UGF combined for smaller projects.

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Co-Chair Stedman looked at slide 7, and wondered whether the magnitude of the \$470 million appeared bigger than the capital budget's number in the most recent decade.

Mr. Painter replied in the affirmative, and remarked that the over \$400 million alone was the largest capital budget since FY 15.

Mr. Painter continued to discuss slide 7. He explained the Permanent Fund section of the slide.

Co-Chair Stedman wondered how much was added to the budget from the Permanent Fund POMV.

Mr. Painter replied that the POMV draw for the current year was \$3.6 billion. He stated that, because the Energy Relief would be drawn from the general fund, there was no overdraw of the Permanent Fund in the budget. He stated that the combined Permanent Fund Dividend (PFD) would exceed the POMV draw for the year.

Co-Chair Stedman queried the projected surplus.

Mr. Painter noted that line 19 on slide 7 showed the pre-transfer deficit for FY 23 at \$1.1 billion. He explained that in FY 22 there was a pre-transfer surplus of \$553 million. He noted that there were many proposed fund transfers in the current year, so he would pause on those numbers. He stated that the recurring revenue had a \$1.1 billion deficit in FY 23 .

Co-Chair Stedman queried the price of oil used for the calculation of the deficit.

Mr. Painter replied that it assumed the spring forecast of \$101 per barrel. He noted that the Senate budget had a provision that deposited any oil revenue received above \$100 per barrel into the Permanent Fund. Therefore, acting as a kind of revenue cap.

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Co-Chair Stedman stressed that because of that cap, the impact on the price of oil being above \$100 per barrel had no impact on the budget. He wondered whether other savings sources needed to be found to balance the budget.

Mr. Painter replied in the affirmative, and explained that the current Senate budget had the \$1.1 billion deficit billed out the Statutory Budget Reserve (SBR), utilizing the surplus from FY 22.

Co-Chair Stedman wanted to examine the strategy to fill the \$1.1 billion "hole."

Senator Hoffman stressed that the \$1.1 billion deficit was a direct result of actions that happened on the Senate floor. He noted that the budget that came out of the Senate Finance Committee had a balanced budget. He stressed that statutorily and constitutionally the committee was obligated to balance the budget.

Co-Chair Stedman wondered what happened to the \$1.2 billion in forward funding of education in the previous fiscal year's budget.

Mr. Painter replied that that provision was written so that forward funding would only occur if there was sufficient revenue to have a surplus for that item. He stated that the

item would remain in the bill, but was functionally zero because of the deficit.

Co-Chair Stedman recalled that there was a formula to forward fund education.

Mr. Painter agreed and explained that the budget for the forward funding depended on the formula based on the price of oil.

Co-Chair Stedman stressed that all Senators had a constitutional obligation to balance the budget.

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Co-Chair Stedman wondered whether the proposal was more than the production of money from the Permanent Fund.

Mr. Painter replied in the affirmative.

Mr. Painter looked at slide 7a, "Swoop Graph - UGF Only FY 23 Senate Compared to FY 22 Management Plan (Millions)." He stated that the slide outlined the size of various expenditures.

Co-Chair Stedman stressed that the issue was not about the individual PFD, but rather the aggregate dollars needed to produce the PFD.

Mr. Painter discussed slide 8, "Flow of Savings in Senate Budget":

- In FY22, an estimated \$1.5 billion is deposited into the SBR (\$660 million direct, \$840 million from projected surplus).
- In FY23, an estimated \$1.05 billion is withdrawn from the SBR (\$350 million direct, \$700 million from projected deficit).
- Across the two years, this means about \$450 million is estimated to be deposited into the SBR.
- If oil prices exceed the Spring forecast, the additional amounts flow into the Permanent Fund, not the SBR.
- If prices are below the Spring forecast, the SBR could fill the FY23 deficit down to about \$93 oil. Below that, an additional deficit-filling account

would be needed. The CBR, if accessed, would drop to zero at about \$75 oil.

Co-Chair Stedman stressed that there needed to be language in the budget to address the possible issue of the SBR drying up at certain specific prices of oil

Mr. Painter highlighted slide 9, "Changes from Senate Finance Budget to Senate Budget":

- PFD increased from 50 percent of POMV draw (\$1,680.3 million, about \$2,350 per recipient) to an amount equal to estimated statutory PFD (\$2.764.8 million, about \$4,200 per recipient)
- Added \$840.1 million for a \$1,300 energy relief payment
- Added \$416.0 million to the capital budget:
  - 175.3 million for Nome port
  - \$175.0 million (in addition to \$25.0 million in SFIN budget) for Port of Alaska
  - \$30.0 million for Mat-Su Borough Transportation Infrastructure
  - \$24.3 million for smaller capital projects
- In total, \$2,342.3 million UGF was added on the Senate floor.
- This results in reduced savings: the Senate Finance budget forward-funded K-12 (\$1,215.1 million) and deposited \$1,579.9 million into the SBR. After the amendments, there is no forward funding and a \$452.7 million SBR deposit.

Mr. Painter said that the amendments on the floor resulted in less available revenue and reduced savings.

Co-Chair Stedman lamented the magnitude of the potential impact on the future finances of the state.

Mr. Painter looked at slide 10, "Major Differences between House and Senate Operating Budgets":

- House budget replenishes Alaska Higher Education Fund in FY22 and utilizes it to pay scholarships in FY23.
- Senate budget includes significant structure changes in Departments of Revenue and Fish and Game and the Office of the Governor.

- House funds \$29.8 million of University of Alaska projects utilizing CLSFRF, Senate does not.
- Senate has an additional \$5.5 million for UA fixed costs above the House and utilizes a two-appropriation structure, while the House has a one-appropriation structure.
- House includes a structure change intended to prevent Medicaid spending on abortion, Senate did not.
- House included \$4.9 million for 404 Primacy in DEC (plus \$750.0 supplemental), Senate did not.

Mr. Painter noted that the original House budget had not included a Capital budget. He noted that if the committee wanted to replace funding to the Higher Education fund, and continued to detail the differences between the budgets from the two bodies.

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Mr. Painter pointed to slide 11, "How the Senate Budget Spends the Revenue Spike - Comparison to December 2021." He spoke of the budget put forth by the governor in December. The slide showed that the governor directly spent the available ARPA CSLFRF funds, while the Senate used it as a revenue replacement. The slide detailed the comparable items and their amounts, accompanied by notes.

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Mr. Painter explained slide 11a, "Major Increases in FY23 Governor's Budget from FY22":

- \$45.0 million for Medicaid
- \$33.6 million UGF increases to offset DGF lost in CBR sweep
- \$27.0 million UGF for union contracts, health insurance, and other contractual items
- \$17.4 million combined increases in Department of Public Safety (adding troopers, VPSOs, and support positions)
- \$12.9 million combined increases in Department of Corrections (booking and MH unit at Hiland Mountain, adding non-CO support positions)
- \$5.7 million for DEC to take primacy of federal permitting programs
- \$4.0 million for Department of Law for statehood defense

- \$3.8 million for fire suppression preparedness

Mr. Painter pointed to slide 11b, "Major Increases in Senate Agency Operations from Governor Proposal":

- \$60.0 million K-12 Outside BSA Formula
- \$59.4 million for AMHS (Governor eliminated UGF)
- \$27.0 million for fuel trigger to offset high oil prices
- \$16.1 million DOH to Increase Personal Care Attendant Wages
- \$14.1 million for University of Alaska
- \$5.0 million for ASMI
- \$4.3 million for Food Bank pilot program
- \$4.3 million for 50 percent increase to K-12 residential schools

Mr. Painter looked at slide 11c, "Major Increases in Senate Statewide Items from Governor Proposal":

- \$89.3 million for PERS/TRS pension fund (amount that would have gone to healthcare fund but for ARM Board decision to leave it unfunded)
- \$199.0 million to PF corpus in FY22 to satisfy audit finding relating to FY17-18 royalties
- \$220.8 million in FY22 to pay past unfunded School Bond Debt Reimbursement from FY17-21

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Mr. Painter continued to discuss slide 11c:

- \$84.0 million in FY22 to repay past unfunded REAA deposits from FY17-21
- \$60.0 million in FY22 to pay oil tax credits at statutory amount
- \$38.9 million in FY22 to bring Community Assistance distributions to \$30 million in FY22 and FY23

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Mr. Painter addressed slide 12, "How the Senate Budget Spends the Revenue Spike - Comparison to September 2021." He stated that the Spring Forecast at that time was significantly lower than the current forecast.

Mr. Painter pointed to slide 13, "Projecting FY24 with a 50/50 PFD." He stated that there were scenarios and fiscal modeling displayed in the slide and future slides.

Senator Wilson noted that there was a projection of FY 24 if there was an enactment of the Senate version of the budget.

Mr. Painter replied in the affirmative.

Senator Wilson wondered whether there would be an \$800 million surplus the following year, if there were a deficit enacted in the current year.

Mr. Painter replied in the affirmative.

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Senator Wilson surmised that the proposition could work, because of a one-time budget.

Mr. Painter agreed, but only if the forecast were met in both years.

Senator Hoffman stressed that the constitution required the legislature to balance the budget, so a deficit was unconstitutional.

Co-Chair Stedman reiterated that oil prices were hard to predict, and extremely volatile.

Co-Chair Bishop stressed that there were many unknowns, and that there were some grants that would come available.

Mr. Painter looked at slide 14, "Fiscal Model: Senate Budget with 50 percent of POMV to PFD FY24+." He noted that the surplus in FY 24, and called for continuing oil prices over the upcoming years.

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Mr. Painter addressed slide 15, "Senate Budget with 50/50 PFD FY24+ Revenue Stress Test." He detailed the structure and detail of the slide.

Co-Chair Stedman queried the inflation calculation and the inflation trends.

Mr. Painter stated that the slide used 2.25 inflation, which was the official number. He noted that there was significantly higher inflation recently.

Co-Chair Stedman wondered whether the budget proposals would help to pay back the CBR.

Mr. Painter replied that allowing the sweep put the surplus in the SBR, instead of repaying the CBR. He legislature would make those decisions, but the constitutional requirement could be stepped around by depositing the surplus elsewhere.

Co-Chair Stedman stressed that there were constitutional requirements.

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Senator Wielechowski wondered where in the constitution it stated that the legislature was required to balance the budget.

Mr. Painter replied that he did not have a constitution with him, but there was no requirement that each year's budget was required to necessarily be balanced, but rather there must always be revenue to pay the expenditures.

Mr. Painter pointed to slide 15a, "Projecting FY24 with a 75/25 PFD." He detailed the outline and specifics of the slide.

Co-Chair Stedman felt that the title should include FY 23 and FY 24.

Mr. Painter agreed.

Co-Chair Stedman pointed out that the legislature had not structured the surplus being placed in the SBR for FY 24, because the CBR was the default.

Mr. Painter agreed.

Co-Chair Stedman stressed that there were many complexities in the budget.

Mr. Painter looked at slide 16, "Fiscal Model: Senate Budget with 25 percent of POMV to PFD FY24+."

Mr. Painter discussed slide 22, "Senate Budget with 20/75 PFD GY 24+ Revenue Stress Test."

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Co-Chair Stedman stressed that he had various handouts with different analyses.

Mr. Painter displayed slide 6, "New Revenues." He stated that the slide showed an update on the potential new revenues to fill the possible deficits.

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Co-Chair Bishop wondered whether the sales and income tax propositions posted any fiscal notes reflecting any possible new personnel.

Mr. Painter replied that the presentation showed the numbers net of the cost of implementation. He was not sure of the fiscal model.

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AT EASE

[10:35:43 AM](#)

RECONVENED

Co-Chair Stedman felt that SB 107 should be postponed to a later meeting.

#sb107

SENATE BILL NO. 107

"An Act relating to the oil and gas production tax; relating to credits against the oil and gas production tax; relating to payments of the oil and gas production tax; relating to lease expenditures and adjustments to lease expenditures; making public certain information related to the oil and gas production tax; relating to the Department of Revenue; and providing for an effective date."

SB 107 was SCHEDULED but not HEARD.

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ADJOURNMENT

10:37:06 AM

The meeting was adjourned at 10:37 a.m.