

HOUSE FINANCE COMMITTEE
January 27, 2023
1:34 p.m.

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CALL TO ORDER

Co-Chair Johnson called the House Finance Committee meeting to order at 1:34 p.m.

MEMBERS PRESENT

Representative Bryce Edgmon, Co-Chair
Representative Neal Foster, Co-Chair
Representative DeLena Johnson, Co-Chair
Representative Julie Coulombe
Representative Mike Cronk
Representative Alyse Galvin
Representative Sara Hannan
Representative Andy Josephson
Representative Dan Ortiz
Representative Will Stapp
Representative Frank Tomaszewski

MEMBERS ABSENT

None

ALSO PRESENT

Alexei Painter, Director, Legislative Finance Division;
Valerie Rose, Fiscal Analyst, Legislative Finance Division;
Connor Bell, Fiscal Analyst, Legislative Finance Division;
Michael Partlow, Fiscal Analyst, Legislative Finance Division;
Albert Wall, Fiscal Analyst, Legislative Finance Division.

SUMMARY

OVERVIEW: FY 2024 FISCAL OVERVIEW

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Co-Chair Johnson reviewed the meeting agenda.

^OVERVIEW: FY 2024 FISCAL OVERVIEW

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ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, introduced himself and his staff.

VALERIE ROSE, FISCAL ANALYST, LEGISLATIVE FINANCE DIVISION, introduced herself.

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

MICHAEL PARTLOW, FISCAL ANALYST, LEGISLATIVE FINANCE DIVISION, introduced himself.

ALBERT WALL, FISCAL ANALYST, LEGISLATIVE FINANCE DIVISION, introduced himself.

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Mr. Painter introduced a PowerPoint presentation titled, "Overview of the Governor's FY24 Budget" dated January 27, 2023 (copy on file) and began on slide 2, which briefly outlined the content of the presentation.

Mr. Painter moved to slide 3 which depicted a graph recapping FY 23. The Legislative Finance Division (LFD) tended to look at fiscal sensitivity graphs rather than the price of oil when evaluating a budget. He explained that the dotted line on the graph represented the sensitivity of the price of oil per barrel. When the price of oil changed by \$1, it meant a change of \$70 million in revenue for the state. In FY 23, the price of oil was projected to be \$102 per barrel, which would have allowed for K-12 education to be fully forward funded. The new price forecast projected oil to be \$88.45 per barrel, which left very little for forward funding. The true fiscal balance point of the FY 23 budget before any transfers occurred was \$94 per barrel. If the price dipped below \$87 per barrel, there would be no forward funding revenue left over. He noted that although there was a slight buffer with the projected oil price of \$88.45 per barrel, the extra money could easily be absorbed by supplementals or a relatively small swing in the price of oil.

Mr. Painter advanced to slide 4 to continue discussing the FY 23 budget recap. The slide read as follows:

- In FY23, the budget balances at \$94 per barrel before fund transfers - this is the true fiscal balancing point
- The legislature's budget transferred the FY22 surplus (nearly \$1 billion) to the SBR and used that to fill any FY23 deficit. The Governor vetoed most of that transfer, leaving about \$20 million in the SBR to fill a deficit
- Additional revenue up to \$102 per barrel will go into the Public Education Fund to forward-fund the K-12 formula
- Supplemental appropriations could change these balancing points

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Co-Chair Edgmon asked whether the supposition in FY 24 was that there would be a statutory Permanent Fund Dividend (PFD).

Mr. Painter responded that he was talking about FY 23 at the moment. However, Representative Edgmon was correct in that the governor's FY 24 budget was based on a statutory PFD.

Representative Ortiz asked about the previous graph on slide 3. He asked for clarification that \$88.45 per barrel was the projected price for FY 23. He knew that the actual price would be released on June 30 of 2023.

Mr. Painter responded in the affirmative. He explained that the price came from the Department of Revenue's (DOR) forecast.

Mr. Painter continued on slide 5 to discuss the 2022 session recap. When the legislature was developing the budget in 2022, oil prices were spiking, hitting up to \$125 per barrel. Unsurprisingly, the result was that there was higher spending during 2022 session than the 2021 session. The graph was comparing session to session rather than fiscal year to fiscal year. The reason for the comparison was because there were multiple supplements in 2022 that were included in order to use available revenue. In agency operations from the 2021 session to the 2022 session,

spending increased by about 7.5 percent; however, the rate was consistent with inflation and was not as dramatic of an increase as it might seem. The statewide items increased by 146.6 percent, but much of the increase was due to one-time costs. The legislature in 2022 included supplemental appropriations to repay past unfunded amounts for school bond debt reimbursement through the Regional Educational Attendance Area (REAA) fund and the Community Assistance program. The capital budget was nearly \$1 billion of unrestricted general fund (UGF) spending across the 2021 and 2022 sessions for a cumulative 275.8 percent increase. The total UGF spend in the 2022 budget was 56.5 higher than the 2021 budget.

Representative Stapp noticed there was a continuous need to pay past unfunded or underfunded debt obligations. He asked if there was a list of all of the items the legislature had yet to pay for in order to get a better idea of the type of liabilities faced by the state.

Mr. Painter responded that in some of the past years, LFD had provided a slide that included items that still needed to be funded, such as the deferred maintenance backlog. The oil tax credits and other debts had been paid off. He would be happy to provide an updated list. He noted that many of the short-funded items were caught up with in the prior year.

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Mr. Painter continued to slide 6 to discuss the fiscal outlook going forward. The slide read as follows:

- Compared to the Spring 2022 Revenue Forecast, the Fall 2022 Forecast projects \$1.1 billion less UGF revenue in FY23 and \$0.7 billion less in FY24
- While the oil price spike in the first half of 2022 contributed to the CBR balance and financed a nearly \$1 billion UGF capital budget in the 2022 session, it did not change the long-term revenue picture
- Over the medium to long term, the Fall 2022 forecast is very similar to the Fall 2021 forecast

Mr. Painter continued to slide 7 which included a graph comparing the Fall 2021 forecast and the Fall 2022 forecast. The graph projected that by around FY 32, the forecast would be essentially identical to FY 24. The long-

term structural deficit was very similar in 2023 as it was in 2022. He advanced to slide 8 and spoke about the volatility of oil prices. The graph on the slide showed oil prices from January of 2020 through January of 2023. He indicated that even price changes that appeared relatively small had a large impact on Alaska's revenue. If the price of oil swung by \$10, which appeared small on the graph, that equated to \$700 million in state revenue. A \$300 million deficit in the governor's budget translated to only a single point in the oil market. He encouraged the legislature to budget based on a fiscal sensitivity chart to ensure that the budget would work at a variety of prices. While DOR created revenue forecasts as accurately as it could, the price of oil had been extremely volatile which meant it was likely that there would be substantial errors in the forecast.

Mr. Painter advanced to slide 9 which depicted the fiscal sensitivity chart for FY 24. The oil price was forecasted by DOR to be \$81 per barrel, which equated to a fiscal deficit of \$322.5 million. The governor's FY 24 budget would balance at about \$86 per barrel. He advised against building a budget that would only work at \$81 per barrel due to the high likelihood of inaccuracies in the forecast. He reiterated his suggestion that the legislature should craft a budget that would work with a wide variety of oil prices. He understood that if revenue came in high, the money would go to the public education fund, but if revenue came in low, there was plan in place for the backstop in the statutory budget reserve (SBR).

Representative Ortiz asked about the word "budget." He asked if the term referred to the total expenditures of the legislature including the PFD.

Mr. Painter responded yes; the budget would include any expenditures.

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Mr. Painter continued to slide 10 and a graph depicting UGF revenue from FY 12 through FY 24. He explained that the graph went back to FY 12 because it was the last year before FY 22 where there was a budget surplus. The red section on the graph was non-petroleum revenue outside of the Earnings Reserve Account (ERA) and the blue was petroleum revenue. He paused to talk about the

categorization of the revenue types. He noted that the POMV statutes dictated the calculation and stated that the entire amount was available for appropriation without any constitutional statutory restrictions. The statute made the entire POMV amount UGF revenue, regardless of how it was spent. Additionally, the PFD statute set up a statutory expenditure formula. The revenue source was superseded by the POMV draw because the draw was UGF. He thought the categorization could be confusing sometimes because LFD categorized expenditures by the restrictions on the revenue. The UGF expenditures referred to the "flavor of the revenue" and there were some items that were governed by a statutory formula and were constitutionally mandated, but were paid for using UGF. For example, K-12 funding was dependent upon a statutory formula. He explained that it described the revenue that paid for the item.

Mr. Painter explained that the revenue source was a separate picture, which was why UGF revenue paid for the PFD. The purple section, referring to the PFD from ERA, showed the entire revenue used for the dividend and state government together. He indicated that LFD wanted it to be clear in the chart that the same elements were being compared and contrasted. The purple section made it easier to compare the elements across multiple years. However, in 2018, the POMV draw did not exist and the PFD at the time was not considered UGF revenue.

Mr. Painter continued to speak about the substance of the graph. The FY 12 revenue including the draw was over \$10 billion. Revenue dropped rapidly from FY 13 to the lowest point in FY 17 when UGF revenue was about \$2 billion. With the introduction of the POMV draw and the slight recovery in the price of oil, revenue went back up, but slumped again during the COVID-19 pandemic. Revenue rose again in FY 22 and was projected to stay up through FY 24, but with an eventual downward turn.

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Mr. Painter continued to slide 11, which layered the budget on top of the data on the graph on the previous slide. He reiterated that there was a budget surplus in FY 12 and starting in FY 13, there was a budget deficit. As revenue declined, the budget deficits grew. The state continued to be in a deficit through FY 21 and had a surplus in FY 22, breaking the nine-year deficit streak. The FY 23 budget was

projected to have a pre-transfer deficit and the FY 24 budget had a deficit as well. The state would be returning to being in a budget deficit despite the increase in revenue.

Co-Chair Edgmon referred to slide 10. He understood that the draw from the savings account was not added into the graph because it was not considered revenue. He asked if the savings draw would be a significant addition to the graph.

Mr. Painter responded in the affirmative. He added that from FY 15 to FY 18 there were draws from \$2 billion to \$3.6 billion.

Co-Chair Edgmon commented that if he were to draw a graph that measured political volatility from FY 15 to the current day, it would mirror the graph on slide 8. He understood that the political volatility of the past was something the legislature was trying to avoid when balancing the budget.

Mr. Painter advanced to slide 12 to speak about the savings balances from FY 12 to FY 24. The state's savings peaked in FY 13 at over \$16 billion between the combined CBR and SBR. The savings dropped down to a low of about \$1.3 billion in FY 20. After the surplus in FY 22, there was about \$2.3 billion in the constitutional budget reserve (CBR), which was a significant increase from FY 20 but nowhere near the totals in FY 13. He was often asked if there was a target balance for the CBR, and generally the goal was around \$500 million for cash flow purposes; however, there was a different calculation to determine how much money should be available for a buffer. Some states liked to have a volatility-based reserves target built in, but Alaska did not have one. Generally, the more dependent the budget was on oil prices, the higher the reserve should be because there was an elevated risk for volatility. If the budget was based on a more conservative estimate, a smaller reserve might be reasonable. The \$2.3 billion presently in the CBR could be considered sufficient as a shock absorber, but \$16 billion had not been sufficient in the past to balance the budget. He was unsure if there could be an objective reserve target as a shock absorber.

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Representative Galvin asked if the balances would look different if there was not a large transfer into the corpus.

Mr. Painter responded that in FY 21, the legislature did not reverse the sweep from the CBR. Normally, LFD did not count the swept amounts at the end of the year because the reverse sweep would occur the following day. The FY 20 data included the impact of the sweep because it was not reversed in FY 21. If the sweep had not occurred, the CBR balance would have been \$800 million in FY 21. When the higher education fund was reconstituted as a FY 22 supplemental, it came from the general fund rather than the CBR.

Co-Chair Edgmon noted that the \$3 billion draw went back to 2013. He asked if Mr. Painter could provide more detail.

Mr. Painter responded that \$3 billion was transferred from the CBR to the retirement fund in FY 15. The deficit was filled in FY 15 using the SBR and ending the forward funding of education. Additionally, \$300 billion was transferred from the CBR to the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) to reduce the unfunded liability and reduce the payments. The expenditures would have been about \$700 million in FY 15. The refinancing significantly reduced the amounts that the state had paid into retirement since FY 15.

Mr. Painter continued on slide 13 to discuss LFD's budget baselines. The slide read as follows:

- 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 FY24 Adjusted Base for agency operations, the FY23 capital budget as the base for FY24. Since all statewide items were fully funded in FY23, they also both include full funding of statewide items. The only difference in FY24 is the PFD. Current policy assumes a 50/50 PFD plus an energy relief payment. 50/50 PFD (50% of POMV draw) would be \$1.76 billion, paying about \$2,700 per recipient. Adding a \$420.1 million

energy relief payment would result in a total distribution of about \$3,350 per recipient.

- Current law assumes a statutory PFD.
 - That is projected to be about \$2.47 billion, paying about \$3,800 per recipient.

Mr. Painter continued on slide 14 to discuss the changes in agency operations from FY 23 to the FY 24 baseline. He relayed that the largest increase was a one-time \$57 million surge for education, which was outside the formula and did not end up coming to fruition. There was also nearly \$30 million for university research that was a multi-year appropriation and came out of the FY 23 budget. There were a number of other one-time items detailed on the slide, such as the salary adjustments to the tune of \$31 million. The total change in the adjusted base number was a \$123 million reduction overall. Although it appeared that the governor's FY 24 budget was lower than the FY 23 budget, it was simply because there were a number of one-time payments in FY 23. If the one-time payments were taken into account, the governor's FY 24 budget was actually up from the baseline and consistent with the growth rate in the ten-year plan.

Mr. Painter continued to slide 15 and continued to speak about the statewide items in detail. He explained that school debt reimbursement, other debt service, state retirement payments, and so on were fully funded at the statutory level in the prior year.

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Mr. Painter discussed slides 16 and 17 in conjunction with each other. The PFD was the only difference between the current policy and current law scenarios for FY 24. With the statutory PFD, the current law baseline would be a deficit of about \$750 million. In agency operations, the governor's budget was above the baseline by about \$55 million and in line with the administration's expected growth rate. For statewide items, the governor was \$30 million below the baseline which did not include funding for community assistance. The governor's proposed capital budget was comparatively much lower. The total amount appropriated in the capital budget in the prior session was nearly \$1 billion, and the governor's FY 24 budget proposed \$276 million. The proposed FY 24 capital budget was consistent with historic averages, but less than the

previous years. Altogether, the governor's budget was \$434.5 million below the baseline, which was primarily due to the reduced capital budget.

Mr. Painter continued to detail the governor's budget on slide 18 as follows:

- Includes statutory PFD payment in FY24.
- Agency Operations is \$54.8 million (1.3%) above LFD baseline.
- Fully funds statewide items other than Community Assistance.
- Pre-transfer deficit of \$322.5 million is filled with a combination of ARPA revenue replacement (\$10.6 million), drawing from FY23 forward-funding of K-12 (\$114.1 million), and the SBR (\$19.8 million) and CBR (\$178.3 million)
- Governor did not submit supplementals on December 15 (they are due on the 15th day of session) but includes an \$85 million placeholder in the OMB fiscal summary. Note that LFD does not include a similar placeholder, so FY23 figures in our fiscal summary are pre-supplementals.
 - If FY23 forward-funding is used to close the FY24 deficit, any FY23 UGF supplemental appropriation has the effect of increasing the FY24 deficit.

Mr. Painter elaborated that the \$114.1 million remaining from K-12 forward funding that could be used to fill the FY 24 deficit was pre-supplemental. One effect of using the K-12 forward funding to close the deficit in FY 23 was that the FY 24 deficit increased.

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Representative Galvin asked if Mr. Painter could provide some historical context on the forward funding of education. She wondered how it impacted those in decision making positions in education and whether it altered the thinking about credit ratings.

Mr. Painter responded that the state forward funded education from around FY 09 to FY 15. Only once did the amount that was distributed to districts match the amount in the K-12 formula. There were several other years when the legislature changed the K-12 formula and the amount did

not match, and other years when there was funding that was outside the formula. In the years that items were forward funded, the legislature learned the following: firstly, the legislature could take back the funding if it was necessary, which it did in FY 10 and FY 15 when there were unexpected deficits, and secondly, just because a particular amount was added to the account, districts would not necessarily receive the exact amount. He would not put a lot of stock in the forward funded amount from the standpoint of district decision making. The legislature tried another method which was a forward appropriation, but it was deemed unconstitutional. Regarding credit ratings, he indicated that any amount held in savings would help the state's credit rating. He was not certain whether creditors would view forward funding as better or worse than a budget reserve.

Representative Galvin thought there would be some assumptions that given the state constitution, there would be expected expenditures for education. She thought that knowing that there was money in the bank would be appropriate.

Mr. Painter responded that because there was so little left over in the current year, he would have to consult with LFD's debt manager in order to provide more detail. He would follow up with the information.

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Mr. Painter continued on slide 19 with a fiscal summary of the governor's budget. He expected revenue to decrease by about \$304 million from FY 23 to FY 24, agency operations to decrease by about \$70 million, and statewide items to decrease by \$666.8 million. Much of the reductions reflected the removal of one-time items, such as energy relief amounts, in addition to oil and gas tax credits. The FY 24 budget was down by \$1.2 billion overall but the dividend was up. In total, the FY 24 budget was \$404 million down from where it was a year prior, and the pre-transfer deficit had gone from \$422.5 million to \$322.5 million. The deficit was filled using federal dollars such as American Rescue Plan Act (ARPA) in FY 23. In FY 24, the deficit was filled with ARPA revenue replacement funding and the remainder came from the state's savings, which would drain the SBR.

Mr. Painter continued to slide 20. The slide read as follows:

- UGF Agency Operations are \$54.8 million (1.3%) above LFD baseline:
 - (\$20.9) million UGF (net zero all funds) by utilizing Higher Education Fund for scholarship programs and WWAMI \$20.7 million UGF increase to Medicaid formula
 - \$18.1 million for utilization and inflation changes, \$2.6 million to expand postpartum coverage. 12/29 federal FMAP phase-out will change this number at GovAmend.
 - No K-12 funding outside the formula, but funds to statutory level including \$30 BSA increase authorized in 2022 session (HB 114)
 - \$6.4 million UGF in other increases from HB 114 fiscal notes

Mr. Painter continued that the higher education fund had been drained by the CBR sweep in FY 22, but the legislature passed a bill in 2022 that ensured that it would no longer be swept. To offset the impact of the CBR sweep, the governor included in the FY 23 budget about \$34 million in fund changes from designated general funds to UGF. The action made the budget appear smaller but did not actually impact the size of the budget or the general fund because it was a net zero.

Representative Ortiz asked about there being no K-12 funding outside the formula. He asked how much less would be going to education under the proposed FY 24 budget from FY 23.

Mr. Painter responded that it was a \$30 base student allocation (BSA) increase, which corresponded to about \$8 million or \$9 million. The projected state cost associated with the K-12 formula was relatively flat despite the increase. There was an increase to the required local contribution as a result of increased local property values, which equaled the cost out from the state's standpoint. The decrease in the state's payments to districts was about \$57 million. The districts would see about \$500 million less from year to year because the BSA increase was counteracted by the loss of one-time funding.

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Representative Hannan understood that the \$30 increase to the BSA was due to the Reads Act. She wondered if there was a \$30 increase to every BSA in the formula whether or not people had been added under the Reads Act or implemented the new primary grades reading requirements.

Mr. Painter responded that there were a few different types of monies in the Reads Act. The \$30 increase to the BSA was implemented across the board. Additionally, there was \$3 million for the required \$30 million increase in the Pre-K program. Lastly, there was \$3.4 million for a combination of money to districts and to the Department of Education and Early Development (DEED) for the implementation of the Reads Act itself. He explained that the BSA change was not tied to Reads Act money.

Representative Hannan asked if the \$3 million for Pre-K and the \$3.4 million for district enhancement was competitive or if there was a formula to determine how the money was distributed.

Mr. Painter responded he would follow up with the information.

Mr. Painter continued on slide 20:

- o \$7.5 million increases to institutions in Corrections, but \$7.5 million decrease in projected health care costs
- o \$6.2 million for DOH for tuberculosis and congenital syphilis elimination plans

Mr. Painter added that the state had been lapsing money from supplementals for years and increasing the money allocated to institutions. He relayed that there were not many major changes in the budget. It was a relatively status quo budget, though there were some smaller issues that would be discussed in subcommittees.

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Co-Chair Edgmon recalled that there was an increase of around \$27 million for additional costs in 2022. He thought the governor had vetoed the increase. He asked if Mr. Painter remembered the numbers and if he could provide more details.

Mr. Painter responded that the legislature appropriated up to \$27 million depending on the price of oil for the "fuel trigger." He explained that the fuel trigger would distribute money to state agencies to offset high fuel costs and the amount of distribution would go up or down depending on the price of oil; however, it was vetoed by the governor. Many agency budgets in FY 24 included increments related to materials costs, which might include fuel costs. For example, the Department of Transportation and Public Facilities (DOT) had a number of one-time increments for commodities costs, which included fuel costs. He thought the cost might be met in FY 24, but through one-time increments rather than distributions.

Co-Chair Edgmon explained that he wanted to raise the issue because in rural Alaska, fuel costs had doubled or tripled and purchasing power had eroded considerably.

Mr. Painter continued on slide 21 and relayed that the statewide items in the governor's FY 24 budget totaled \$359.0 million. School debt reimbursement, REAA fund capitalization, and state assistance to retirement were all funded at statutory levels. There had been discussion in recent years about how to pay for the healthcare aspects of retirement, and he explained that the healthcare side was funded in excess of 100 percent. The Alaska Retirement Management Board (ARMB) had said within the last two years that it would zero out additional state funding on the healthcare side because it did not need the extra funds. In 2022, the legislature took the money that would have gone to the healthcare side and tried to appropriate it to the pension side, but it was vetoed by the governor. The governor's FY 24 budget showed the money that would have gone to healthcare as savings to the state. He added that the decision to fund the healthcare side was a yearly decision by ARMB and the governor's ten-year plan assumed that it would continue to be unfunded.

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Representative Stapp asked what the exact existing liability was on the pension side or retirement side.

Mr. Painter responded it was roughly \$7 billion but he would have to get back to the committee with the exact number.

Mr. Painter continued on slide 21. He indicated that the governor did not appropriate any funds to the Community Assistance Fund. The fund had a target balance of \$90 million and on July 1 of FY 24, one-third of the balance would be distributed to local governments. There would be a \$60 million balance remaining for a distribution in FY 25 of \$20 million. The base payments to municipalities totaled to about \$25 million, meaning that the leftover \$20 million would be enough to pay the base payments, but not enough to pay the per capita payments. The impact of the lower distribution in FY 25 would be felt by the larger communities in the state. One of the possible fund sources for community assistance was the Power Cost Equalization (PCE) fund which was based on prior year earnings. In FY 22, the fund lost money and there were no additional earnings available; however, if the legislature wanted to appropriate to the PCE fund from the general fund, it could.

Mr. Painter continued on slide 22 to discuss the capital budget. There was \$125.8 million in UGF for a federal match for DOT alone, which was more than the entire UGF capital budget a few years previously. He explained that the Infrastructure Investment and Jobs Act (IIJA) had resulted in there being more federal funds available for appropriation. The governor's budget included about \$175 million to match federal funds, and in order to capitalize upon federal funds, the capital budget would need to be larger to accommodate for matching dollars.

Mr. Painter reported that the governor did not have any FY 24 requests for the Alaska Marine Highway System (AMHS) apart from maintenance. The first year of funding through IIJA had been approved, which primarily covered items that had already been appropriated, but did cover some items that had not been appropriated. Presently, the governor's budget did not include the second year of the five-year IIJA funding, and there would likely be budget amendments in response. Presently, there was a 20 percent match rate for the federal AMHS funds if the funds were used for capital. If the full \$150 million was utilized that was not eligible for the operating budget, it would require adding about \$30 million to match it. Some of the monies could be made up of existing appropriations and although the timing was still unclear, the governor's amended budget would likely help determine more details. He suggested not

focusing too much on what was currently included in the governor's budget because it was a placeholder and was likely to change.

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Representative Hannan asked for more information about the \$10 million in statehood defense. She asked if the previous year's allocation for statehood defense was included in the base budget for the Department of Law (DOL). She was uncertain if the \$10 million represented an additional request.

Mr. Painter responded that statehood defense had been funded in the past with two separate multi-year language appropriations in the base. In the first year, \$4 million was funded and around \$2.5 million in the second year. Both instances were multi-year appropriations that were still included in the books through FY 25. A status update was forthcoming on the previous appropriations, but it was not currently in DOL's base. The new request was a capital request, but he was unsure if he would agree that it was a capital project. The request was going to the governor's office rather than DOL, which was different than how it had been handled in previous years.

Mr. Painter advanced to slide 23 to discuss the long-term outlook and the governor's ten-year plan. He read from the slide as follows:

- LFD modeling baseline grows the current (FY23) budget with inflation and all statewide items are funded to statutory levels (this includes the PFD)
- With these baseline assumptions, deficits increase from about \$900 million in FY24 to \$2.3 billion in FY32, draining the CBR in FY26
- The Governor's 10-Year Plan makes several policy changes relative to the baseline that reduce the deficit, but still shows deficits each year that would drain the CBR in FY27 absent new revenue
- The Governor includes new revenue targets increasing from \$300 million in FY24 to \$900 million in FY27+, with no specified source

Mr. Painter prefaced that the modeling of the governor's ten-year plan he would be introducing on the next slide were slightly different than the way LFD saw the baseline.

Primarily, LFD would say that the modeling in the ten-year plan had a number of policy changes relative to the baseline and were technically sound. He thought it was important to emphasize that the differences in the modeling were not wrong, but it was a policy choice and LFD agreed with the governor on the majority of the technical elements.

Mr. Painter advanced to slide 24 to discuss the LFD baseline model. The slide showed that there were projected deficits each year from FY 23 to FY 32 growing from about \$9 million in FY 24 to about \$23 million in FY 32. The line at the top of the graph on the slide represented the budget including the PFD. The graph on the right side showed the budget reserves. With the deficits, the CBR would run out quickly in FY 26, resulting in unplanned draws. The bottom of the slide showed what the effective POMV draw rate by fiscal year would need to be in order to result in an ERA draw of over 7 percent.

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Representative Stapp noted that ten years ago, the state had \$16 billion in the SBR and CBR and \$10 billion in revenue. The state had rapidly depleted its savings account in the last ten years. He was concerned with the deficits projected on the slide. He asked what the absolute worst case scenario would be in terms of an average oil price that would require the state to break the POMV limit sooner rather than later.

Mr. Painter responded that daily prices had gone to zero and DOR's sensitivities had been reduced to \$20 per barrel. Due to the POMV draw, it was difficult to dip down below a certain amount. If prices crashed, the state could easily run through the \$2.3 billion in FY 24 alone. There were a couple of versions of the models: the straight-line and more simplistic version, and the Monte Carlo simulation version that could be run based on the expected volatility to see the likelihood of various outcomes. He thought the models were helpful to view what would realistically be the best case and the worst case scenario. He would be happy to follow up with the committee with more modeling.

Representative Stapp thought it appeared that in FY 32, the legislature would no longer have the ability to appropriate the revenues to meet relatively any funding formula that

was statutorily obligated. He asked if his understanding was correct.

Mr. Painter responded that it was not quite correct because even if there was no balance in the ERA, the POMV draw would continue to realize some gains. He hoped that the legislature would not draw the ERA down to zero, but in the unlikely case that it happened there would still be some revenue available for the budget.

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Mr. Painter continued on slide 25:

- Policy changes in Governor's 10-Year Plan:
 - Agency operations grow at 1.5% in FY25+
 - PERS and TRS health care contributions are not funded (as they were not in FY23/24)
 - Does not fund Community Assistance with UGF
 - Capital budget decreases to \$276.5 million in FY24, \$220.0 million in FY25, and then grows by 1.5% per year
- Assumption Differences in LFD Model:
 - Governor assumes supplementals and lapse cancel out, LFD includes \$50.0 million placeholder
 - LFD includes a placeholder for new school debt after the moratorium ends in 2025, Governor does not

Mr. Painter continued that LFD assumed that districts would continue having school debt at roughly the rate that was in place prior to the moratorium.

Representative Galvin understood and agency operations grew at 1.5 percent and inflation was predicted at 2.5 percent. She wondered if the goal was to shrink agency operations in the ten-year plan.

Mr. Painter responded the 2.5 percent estimate came from Callan, the state's investment advisor. The governor's ten-year plan operated under the idea that state budgets typically did not grow based on inflation. The governor could choose to grow spending slower than inflation. There was a nearly 20-year period from the late 1980s through the early 2000s during which the budget grew substantially slower than inflation because of a policy choice.

Representative Galvin thought that the state had lived the scenario through education and the choice to flat-fund education. She assumed there were contracts in place that might be beyond 1.5 percent. She wondered how realistic it was to grow the budget at a slower rate than inflation.

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Representative Ortiz asked about the dollar amounts of the PERS and TRS healthcare contributions and how much money would be saved in the budget. He wondered if unfunded liability related to healthcare at all or if it only related to retirement benefits.

Mr. Painter responded he did not remember the dollar amounts for FY 24 but would get back to the committee with the information. It was paid for in two different places, which was why he would have to calculate the amounts and get back to the committee. The entire unfunded liability was currently only on the pension side because the healthcare side was overfunded.

Representative Ortiz understood that was why the state could "not afford" to make a contribution because it was already overfunded. He asked if he was correct.

Mr. Painter responded in the affirmative.

Mr. Painter continued on slide 26, which compared the baseline to the ten-year plan. In year one, the main difference between the two was the capital budget, which was proposed by the governor to be much smaller than in 2022. Over time, the difference between the 1.5 percent and 2.5 percent growth rates compounded and made for a widening gap. By FY 32, the impact of growing one percent slower than inflation was substantial due to the compounding effect. The governor's plan would be \$1.26 billion lower than the baseline by FY 32.

Mr. Painter moved to slide 27 which modeled the governor's ten-year plan with no new revenue. In FY 27, the CBR would be depleted and additional draws from the ERA would be needed. There were still substantial deficits and the governor recognized that it was not sustainable.

Mr. Painter advanced to slide 28 which modeled the governor's ten-year plan with new revenue of \$300 million

to \$900 million per year. He relayed that LFD's modeling showed that it would result in a balanced budget. There were still slight deficits due the modeling differences between LFD and the governor. The CBR remained around \$2 billion going forward in both models. He indicated that LFD would agree with the governor's analysis that if the state spent according to the governor's plan, \$900 million in new revenue was the right target.

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Representative Ortiz referred to slide 28 and the new revenue scenario. He understood that the budget balanced out without increasing the BSA other than the 1.5 percent growth of inflation. He asked if his understanding was correct.

Mr. Painter responded that it could be a larger increase but it would come at the expense of decreases elsewhere.

Co-Chair Johnson reviewed the following meeting's agenda.

#

ADJOURNMENT

[2:56:44 PM](#)

The meeting was adjourned at 2:57 p.m.