

**ALASKA STATE LEGISLATURE  
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**

February 6, 2023

6:00 p.m.

**MEMBERS PRESENT**

Representative Ben Carpenter, Chair  
Representative Tom McKay  
Representative Kevin McCabe  
Representative Cliff Groh

**MEMBERS ABSENT**

Representative Jamie Allard

**OTHER LEGISLATORS PRESENT**

Representative Andrew Gray  
Representative Andy Josephson  
Senator Robert Myers

**COMMITTEE CALENDAR**

PRESENTATION(S): FISCAL POLICY WORKING GROUP SPREADSHEET  
OVERVIEW

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

ALEXEI PAINTER, Director  
Legislative Finance Division  
Legislative Agencies and Offices  
Juneau, Alaska

**POSITION STATEMENT:** Gave a presentation providing an overview  
of the Fiscal Policy Working Group Spreadsheet.

**ACTION NARRATIVE**

[6:00:11 PM](#)

**CHAIR BEN CARPENTER** called the House Special Committee on Ways and Means meeting to order at 6:00 p.m. Representatives McCabe, McKay, Groh, and Carpenter were present at the call to order. Also present were Representatives Gray and Josephson and Senator Myers.

**PRESENTATION(S): FISCAL POLICY WORKING GROUP SPREADSHEET  
OVERVIEW**

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CHAIR CARPENTER announced that the only order of business would be a presentation: Fiscal Policy Working Group Spreadsheet Overview

[6:03:09 PM](#)

ALEXEI PAINTER, Director, Legislative Finance Division, Legislative Agencies and Offices, gave a presentation [hard copy included in the committee packet] providing an overview of the Fiscal Policy Working Group Spreadsheet. He explained that this is an updated version of what was created for the Fiscal Policy Working Group (FPWG) in 2021. He offered information based on the paragraphs under "Date Sources," on the first page, which read as follows [original punctuation provided]:

The revenue figures are from the Department of Revenue's Fall 2022 Revenue Sources Book. For simplicity, this model assumes that the 5% Percent of Market Value (POMV) draw from the Permanent Fund is followed. LFD's full fiscal model can generate scenarios with alternative Permanent Fund draw structures. This model also uses DOR's 2022 Fall Revenue Forecast and does not allow varied oil prices or production. LFD's full fiscal model does allow for variations on these items.

Most revenue estimates in this sheet were provided by the Department of Revenue in 2021 and may not be up-to-date with subsequent changes in the Alaska economy since then. See DOR's August 2021 presentation to the Fiscal Plan Working Group for details regarding those revenue options:  
[https://www.akleg.gov/basis/get\\_documents.asp?session=32&docid=57326](https://www.akleg.gov/basis/get_documents.asp?session=32&docid=57326). Income tax figures are a combination of 2020 DOR estimates and LFD estimates.

Budget data is from the Legislative Finance Division's fiscal summaries of the Governor's budget.

MR. PAINTER said the fall forecast is just one revenue picture; it is not the only one. He talked about the division's ability to run "Monte Carlo" plans. In response to Chair Carpenter, he explained this means, essentially, that the division can run thousands of scenarios of what potential oil prices, production, and investment returns can do to the revenue picture. The model will take the average of those and show the range of distributions. This provides not only linear projections, but also volatility. He said the Monte Carlo is more robust and also more difficult to use. The version he is showing today is much more simplified.

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MR. PAINTER showed "the revenue tab" [on page 3, which is the second spreadsheet, titled "Non-Permanent Fund Revenue Detail"]. He pointed to "Existing Revenue," and he said this is non-permanent fund revenue and does not include the percent of market value (POMV) draw. He said another assumption made in the model is that the POMV draw is "fixed in the forecast"; the Department of Revenue (DOR) does not allow variation on that in order to keep things simple. The model allows the user to explore new options. He noted that many of the options were presented by DOR in 2021 to FPWG, and many of the numbers shown come from that presentation.

MR. PAINTER said there are a couple options that were not presented at that time. The first is an income tax. He mentioned three sources: a percentage of liability option, which taxes a percentage of an individual's federal tax liability; a flat tax on adjusted gross income; and a progressive income tax option. He explained that these are all static projections. The second option, he noted, is sales tax. He mentioned the Wyoming sales tax as the narrowest based option looked at by FPWG; it excludes many services and applies mostly to goods. He mentioned a moderate option was also considered. Additionally, FPWG considered South Dakota's sales tax, which is probably the broadest in the country. Mr. Painter showed examples of those three options using a 1 percent tax. He emphasized that earnings on sales tax depends on what the base is, and how narrow or broad the base is, is "a major policy decision for the legislature." He noted that Alaska has a lot of industrial purchases in the oil and other industries, and

decisions on how to tax those would have major impacts on the fiscal note, in terms of sales tax.

MR. PAINTER said there are a number of other tax options. One is motor fuel taxes, which would bring Alaska a national average of 24 cents. He added, "Currently we have 8 cents." He said another option is S-corporation income tax. He explained that currently Alaska taxes only C-corporation income, which are standalone corporations. He said the income from other corporations flows through to shareholders; however, since Alaska does not have an income tax, that income ends up not being taxed. He said, "This would apply a tax just to those S-corporations." He noted there is a margin of error related to confidentiality. Mr. Painter said other options are gaming revenues; highly digitized business tax; and carbon offsets. He said the governor has current bills on carbon offsets, and those bills have indeterminate fiscal notes; the numbers being applied in the model are from two years ago. He noted there is also a custom amount, which sets targets in the governor's 10-year plan.

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CHAIR CARPENTER asked Mr. Painter to address what is actionable and what is not on the spreadsheet.

MR. PAINTER pointed to yellow boxes on the revenue spreadsheet where a user can enter any rate and "select the corresponding item." He explained that there are no oil tax revenue options on the spreadsheet, and the reason is that any price per barrel chosen will quickly become out of date. He said a known oil tax revenue amount could be entered as a custom revenue option on the spreadsheet.

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MR. PAINTER moved on to the "Budget Detail" portion of the spreadsheet. He noted that one of the first things FPWG did was establish a budget "policy neutral" baseline. He talked about the baseline chosen in this spreadsheet. Under "Agency Operations," the number in fiscal year 2024 (FY 24) [\$5,141.4] is from the governor's proposed budget. He showed how various amounts could be plugged in to the spreadsheet. He said that the inflation assumption of the state's investment advisor, Callan Associates, Inc., 2.5 percent starting FY 25, was used, but any growth rate can be entered. He showed the growth rate with the governor's 1.5 percent for 10 years. He stated that

that growth rate is a surprisingly powerful tool. He said the difference between the 1.5 percent and 2.5 percent is \$900 million by FY 32 - a difference of nearly \$400 million. He said the power of compounding interest adds up to "a pretty significant lever over time."

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MR. PAINTER, in response to Chair Carpenter, gave an example of how numbers could be plugged in to result in a decrease to the budget. Using a figure of \$100 million and 2.5 percent growth, he stated, "The true difference you're making is \$100 million in FY 24, and then that compounds to \$121.8 million by FY 32, due to inflation." He said the model is not robust enough to provide department by department detail, but specifics could be brought to the Legislative Finance Division for a more in-depth view.

MR. PAINTER moved to "Statewide Items," on the budget spreadsheet. He said these are items that do not fit into an agency budget. The first on the list is school debt reimbursement (SDR). He said current statute has a moratorium on school debt that goes [to] July 2025; starting July 1, 2025, districts can begin to bond again. He said the assumption shown uses the current debt table, and then after the moratorium there is an assumption that debt will resume to be accrued by districts prorated to the lower reimbursement rate when the program comes back. He said the moratorium could be extended, in which case DOR could provide the numbers "to enable somebody to put that into the model." He said another change could be to the reimbursement level to increase or decrease the cost. He pointed out "Other Debt Service" and said a couple of costs are fixed. He said interest rates are currently high. Another item that is fixed that has not been in the past is oil and gas tax credits. He added, "The reason is we have about \$43 million left and then we're done."

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MR. PAINTER pointed to "State Assistance to Retirement," and he said currently the state has "Normal Health Care Contributions," which follow the recommendations of the Alaska Retirement Management Board (ARMB), [often referred to as "the ARM Board], to make payments annually. He noted that in the last two years, the board has decided to fund only the pension side, not the health care side, "due to the health care funds being overfunded" in both the Public Employees Retirement System

(PERS) and the Teachers Retirement System (TRS). He explained there is a lever [in the spreadsheet] that allows the extension of that policy choice across the years. Mr. Painter then spoke about "Community Assistance," and he said the spreadsheet shows statutory payments.

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REPRESENTATIVE MCCABE asked whether there could be a "dropdown" put in place to reflect the options under "State Assistance to Retirement."

MR. PAINTER answered yes, the division could "build in fiscal notes for potential legislation." In response to a follow-up question, he shared the current rule of thumb that for every \$100 in the base student allocation (BSA) "that would be \$25.7 million."

CHAIR CARPENTER noted his intention that the committee discuss the budget process "from a higher level perspective through this spreadsheet" at a later date.

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MR. PAINTER continued with his explanation of the third spreadsheet on the fourth page of the presentation, to the "Community Assistance" program, which he said can be funded by power cost equalization (PCE) funds if the money is available. He defined a "waterfall" as investment earnings beyond what are needed for the PCE program. He said 70 percent of the additional allowance is available for appropriation, and up to \$30 million can go to the Community Assistance program. He explained that the statutory option would be to fund the unrestricted general fund (UGF), but because that is a variable investment amount, there will be some years when there is surplus. The model assumes this year there will be \$30 million of UGF, and nearly \$30 million a year. The other option, as the governor's 10-year plan assumes, is that the state will make only the PCE payments and not the UGF payments. Mr. Painter noted that the numbers in this field on the spreadsheet differ greatly from what was there two years ago, and that is because the model was made with the FY 21 result, prior to bad investments made in FY 22. Further, the PCE program was expanded last year, which made less money available for Community Assistance.

MR. PAINTER pointed to other built-in fund capitalizations included in the "disaster Relief Fund," for which the typical deposit is \$5 million average. He said the legislature, via its FY 22 supplemental budget, put an additional \$50 million in that fund, which bolstered the fund; therefore, the governor did not designate an amount in the fund for FY 24. He said the assumption is that \$5 million would go in, in FY 25; although he pointed out the governor's 10-year budget shows the amount added in FY 26.

MR. PAINTER said the final fund under "Statewide Items" is the regional education attendance area (REAA) fund, which moves in concert with the SDR, both funded at a similar percentage.

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MR. PAINTER moved on to the next item on the third spreadsheet: "Capital Budget." He said the Fiscal Policy Working Group had an assumption of \$220 million on the capital budget. He noted that a federal infrastructure bill passed a couple years ago made that amount likely a low number; the governor's bill at this point has a match of over \$170 million, plus \$100 million more for discretionary projects. He anticipated an increase to that amount in the governor's amended budget. He explained that the model on the spreadsheet uses the governor's FY 25 budget as the base, which he opined is "a pretty reasonable starting point." A percentage increase can be added to that.

MR. PAINTER drew attention to the budgetary item on the third spreadsheet: "Permanent Fund Dividend." He mentioned the [percent of statutory net income], and he said the number in the model is slightly different from that in the governor's budget; the administration has a different assumption for investment management fees in FY 23 than does the Legislative Finance Division - just \$7 million. He said the actual will be much further off, but "not a huge deal." He pointed out that the rate is 50 percent of statutory net income, and that can be changed. Another option offered in the model is to select a fixed dollar amount or a custom formula.

MR. PAINTER covered the final category on the third spreadsheet: "Fund Transfers." He pointed out \$10.6 million American Rescue Plan Act of 2021 (ARPA) revenue replacement funds [for FY 24] remaining, and said if the governor were to use them all, he could "zero that out and use them for another purpose."

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REPRESENTATIVE GROH asked Mr. Painter whether he would characterize what he had shown the committee as "structural deficit."

MR. PAINTER answered yes. Using the governor's budget as the baseline, and assuming all statutory formulas are followed, the division shows deficits starting at a bit under \$4 million in FY 24 and expanding because of a forecasted slight drop in oil revenue, "while the budget grows with inflation." He said FPWG looked at the average surplus deficit. Based on this baseline, the average debt is \$1.2 billion.

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MR. PAINTER, in response to a request from Chair Carpenter, defined structural deficit. He then drew attention to an item on the second spreadsheet: "CBR/SBR Ending Balance." He said it is the cumulative gap after drawing from savings. He said in this case, the \$1.2 million deficit would "eat through" the remaining balance of the constitutional budget reserve (CBR) and the statutory budget reserve (SBR), which is about \$2.3 billion combined, and starting FY 26, the state would have an unfilled deficit. He explained that the legislature could fill that through a number of sources, but the division is not identifying that in this spreadsheet. He noted that what the balance should be is a subject point. He said he does not know that FPWG came up with a number for how much should be left in the CBR, but "this is just the gap after you draw that to zero."

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CHAIR CARPENTER questioned why, if constitutionally required, the balance is subjective.

MR. PAINTER explained that the state has a constitutional requirement to pay back the CBR by means of surpluses when available. That includes subaccounts to the general fund. That is what occurred in FY 22, when the state had a surplus of between \$900 million and \$1 billion that remained in the GF at the end of the year. Currently the state owes approximately \$12 billion to the CBR. He said FPWG considered the possibility of a constitutional amendment to create a more formal reserve so it is not just tied to whatever has been drawn out in the past.

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MR. PAINTER drew attention to the "Savings Balances" of the CBR and SBR, shown as yellow bars per fiscal year. He then highlighted the bar chart on the lower portion of the second spreadsheet, and drew attention to the line, which he said reflects the budget, including the permanent fund dividend (PFD). He showed varying factors. He said the baseline remains constant when trying out different scenarios, so that makes it clear what the changes are. He noted there is a cover page in his presentation that gives more instructions on the use of the spreadsheets. He noted that he had worked closely with FPWG members on all the scenarios they tried during Interim; however, he remarked that it would not be possible for him to work that closely with all 60 legislators during session.

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CHAIR CARPENTER requested committee members submit their budget scenario ideas through his office.

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REPRESENTATIVE GROH asked what caused Alaska's current structural deficit.

MR. PAINTER replied that Alaska has had a structural deficit for at least the last decade, and he speculated that his predecessor, David Teal, would have placed the start of the deficit in 1989, when oil production peaked and has since been declining. He noted that as long as the population increases, inflation also increases, which applies outward pressure to revenue, while the production decline has a downward pressure. He said the legislature responded in the '90s, and for nearly 15 years, by holding the budget flat, despite inflation/population growth. By the early 2000s the state had exhausted most of its reserves. The oil prices temporarily spiked and "bailed the state out." Then in 2014, oil prices decreased, and there have been nine years of deficits from FY 13 through FY 21, then one year of surplus, and back to deficits in the governor's budget. He said there have been more years since 1989 with deficits, and the structural balance comes down to oil being a volatile commodity and declining resource. A reliance on a finite commodity sets the state up to have a structural deficit, he concluded.

REPRESENTATIVE GROH summed up that the state had gone through three fiscal systems in the last 45 years, and he outlined the ups and downs during that period.

MR. PAINTER responded that is a fair assessment.

REPRESENTATIVE CARPENTER thanked Mr. Painter for his presentation.

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**ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 6:48 p.m.