

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

April 5, 2023

6:06 p.m.

**MEMBERS PRESENT**

Representative Ben Carpenter, Chair  
Representative Jamie Allard  
Representative Tom McKay  
Representative Kevin McCabe  
Representative Cathy Tilton  
Representative Andrew Gray  
Representative Cliff Groh

**MEMBERS ABSENT**

All members present

**OTHER LEGISLATORS PRESENT**

Representative Mike Prax  
Representative Dan Saddler  
Representative Craig Johnson  
Representative CJ McCormick  
Representative Sarah Vance  
Representative Alyse Galvin  
Representative Justin Ruffridge  
Representative Frank Tomaszewski  
Representative Stanley Wright

**COMMITTEE CALENDAR**

OVERVIEW(S) : FISCAL POLICY MODELING

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

ALEXEI PAINTER, Director  
Legislative Finance Division  
Legislative Affairs Agency  
Juneau, Alaska

**POSITION STATEMENT:** Presented a PowerPoint, titled "2023 Update of Fiscal Plan Working Group Model."

**ACTION NARRATIVE**

[6:17:49 PM](#)

**CHAIR BEN CARPENTER** called the House Special Committee on Ways and Means meeting to order at 6:06 p.m. Representatives Allard, Groh, McKay, McCabe, and Carpenter were present at the call to order. Representatives Gray and Tilton arrived as the meeting was in progress.

**Overview(s): Fiscal Policy Modeling**

[Contains discussion of SB 114, HB 109, HJR 2, HB 38, and HB 142.]

[6:18:15 PM](#)

CHAIR CARPENTER announced that the only order of business would be the Fiscal Policy Modeling overview.

[6:19:15 PM](#)

ALEXEI PAINTER, Director, Legislative Finance Division, Legislative Affairs Agency, presented a PowerPoint, titled "2023 Update of Fiscal Plan Working Group Model" [hard copy included in the committee packet]. He stated that the feedback provided at the last meeting has been incorporated in the spreadsheet model before the committee. Directing attention to the tabs in the spreadsheet, he explained that the model applies to the unrestricted general fund (UGF) revenue and expenditures only. In order to represent the appropriation limits in the modeled UGF budget, he pointed out that it has been assumed the non-UGF fund sources and UGF are the same proportions in all projected years, and the [base assumption] uses the governor's amended budget for the fiscal year 2024 (FY 24). He stated that for existing limits, projections are based on the Department of Labor and Workforce Development population projections and 2.5 percent inflation, per Callan Associates. He added that projections on HJR 2 and HB 38 in the model assume 1.5 percent gross domestic product (GDP) growth and 2.5 percent inflation.

[6:24:50 PM](#)

MR. PAINTER, in response to Chair Carpenter, answered that the GDP and inflation rates are "baked" into the model, but if the committee prefers, these rates could be made changeable.

CHAIR CARPENTER said that in order to provide options with different GDPs and inflation assumptions, a flexible model is preferred.

[6:26:03 PM](#)

MR. PAINTER moved to the budget tab and explained that some changeable options and adjustments were included in the model. The adjustable options include agency operations, statewide items relating to debt service, capital budget growth rate, and permanent fund dividend (PFD) draw amounts.

[6:31:20 PM](#)

MR. PAINTER, in response to Representative McCabe, said the tool for the retirement section is not dynamic and would not supply an employer match when changing percentages. He said that it can supply modeling for simple multiplication.

[6:32:47 PM](#)

MR. PAINTER moved to the revenue tab of the fiscal model, which uses the spring revenue forecast as a base. He informed members that new options were added under new revenues, including income tax, sales tax, motor fuel tax, S corporation income tax for oil and gas only, gaming revenues, highly digitized business tax, carbon offsets, HB 109 corporate income tax, SB 114 oil and gas production tax, and the increase in petroleum property tax. He noted that SB 114 includes the S corporation income tax and the per-barrel cap at \$5, so it cannot be selected with either of those two options.

[6:37:53 PM](#)

CHAIR CARPENTER advised members that the options in the custom tab must be selected to be accounted for in the fiscal model.

MR. PAINTER further explained how the revenue model functions.

[6:38:46 PM](#)

REPRESENTATIVE GRAY questioned the \$5 option amount used for the cap of the per-barrel credit.

MR. PAINTER explained that the current per-barrel credit caps out at \$8, and it is a sliding-scale credit which decreases over time. He said SB 114 would cut off the first \$3. He continued to explain that with the decrease over time, an oil producer may hit the tax floor and no longer have an impact. He continued that as more producers hit the floor, there would be less of an impact by a per-barrel cap.

REPRESENTATIVE GRAY inquired about the proposed ringfencing within SB 114 and how this may affect the fiscal model.

MR. PAINTER explained that there are several parts of SB 114, of which ringfencing is just a part; therefore, this is more complex than just stacking the provisions. He said there would be an interaction, and this creates a difficulty in using the fiscal model. He cautioned that if adjustments are made to both the S corporation tax and the sales tax, the model would not function well.

REPRESENTATIVE GRAY questioned whether a rough idea on how much the state would receive from the ringfencing could be obtained by manipulating the data.

MR. PAINTER reiterated that there is more than one fiscal provision within SB 114.

[6:43:05 PM](#)

CHAIR CARPENTER asked whether the price of oil is adjustable in the model.

MR. PAINTER answered that the price of oil is not changeable. He explained that because of how the oil and gas tax works, there are year-to-year impacts which carry over losses; therefore, picking and choosing prices may lead to misleading results.

[6:45:34 PM](#)

REPRESENTATIVE GROH relayed that there has been talk regarding a PFD based on a 50 percent of market value (POMV) split. He asked how much revenue would be needed to make a 50/50 POMV split work.

MR. PAINTER moved to the summary tab. He explained that the governor's amended budget is being used as the budget

assumption, and the 50/50 POMV draw formula has been used in the model, rather than the governor's proposed statutory dividend.

[6:48:24 PM](#)

The committee took a brief at-ease.

[6:48:57 PM](#)

MR. PAINTER explained lines 22 and 23 in the summary tab. He said the shape of the deficits are from the former forecasts, and with declining prices, the revenue is flat. He noted that the cover page tab reviews the model's budget assumptions and sources.

[6:50:52 PM](#)

CHAIR CARPENTER asked whether a duplication of the summary tab which functions with the modeling could be created.

MR. PAINTER responded that he could create alternate versions of the spreadsheet as individual PDFs.

[6:51:56 PM](#)

REPRESENTATIVE GROH stated that there has been a discussion on a legislative package with four elements. He listed the elements, which are the 50/50 POMV split, a reduction of the corporate tax rate, the implementation of HB 142 on sales tax, and spending limit proposals. He questioned whether these four elements would work together in the spreadsheet.

MR. PAINTER answered that if only the revenue options were implemented of these, the state would still be above the spending limits. If HB 38 were implemented and expenditures were reduced by \$100 million, with the revenue options applied, the result would be a balanced budget from FY 24 to FY 26; however, deficits would grow in the later years since the revenue forecast points to declining oil prices. He explained that in this scenario a plan would be difficult.

[6:54:43 PM](#)

CHAIR CARPENTER suggested that the GDP figure in the model should be adjustable. He asked about the limitations of the modeling in regard to behavior.

MR. PAINTER answered that the fiscal notes do not assume any changes to company behavior; therefore, the modeling assumes the company will be static to current assumptions. He said that it has been found taxes do change company behavior, and there is also behavioral sensitivity in the private sector to taxes.

[6:56:43 PM](#)

REPRESENTATIVE MCKAY highlighted Mr. Painter's comments about the model's static assumption around taxes and changes in taxpayer behavior.

MR. PAINTER opined about fiscal modeling. He said revenue, budget growth, and the PFD all have economic impacts, but the model would not show the economic impacts since its assumption is static behavior.

REPRESENTATIVE MCKAY said there is historical evidence showing impacts to company behavior around taxes, and he pointed to Alaska's Clear and Equitable Share (ACES) as an example.

[6:59:10 PM](#)

CHAIR CARPENTER commented on the modeling tool and the difficulty of making policy decisions based on it.

[6:59:33 PM](#)

REPRESENTATIVE GRAY spoke to Representative McKay's comment about ACES, in that, there is a natural slope when oil production peaks and declines. He said production on the North Slope was already declining when ACES was instituted.

[7:00:26 PM](#)

REPRESENTATIVE MCKAY suggested that the decline was accelerated by ACES. He said that, when ACES was approved, it had delayed various resource projects.

MR. PAINTER, in response to Chair Carpenter, said the model can be distributed with other legislators.

CHAIR CARPENTER suggested that the model could be changed in a variety of ways, and he explained that if there are requests to change the model, these should come to his office.

[7:03:30 PM](#)

REPRESENTATIVE TILTON thanked Mr. Painter and Chair Carpenter for making the model.

[7:04:49 PM](#)

REPRESENTATIVE GROH asked Mr. Painter whether GDP has ever gone down in Alaska.

MR. PAINTER answered that GDP in Alaska is tied to oil revenues; therefore, GDP has gone down because of declines in these revenues.

REPRESENTATIVE GROH asked if it is possible that, after a decline in the economy and a subsequent decline in population, the population who left could be those who were more in need of state services.

MR. PAINTER said that this is a speculative question outside of his knowledge.

[7:06:44 PM](#)

CHAIR CARPENTER commented that it would be hard to determine what will happen with families as it relates to future tax policies.

[7:07:36 PM](#)

#### **ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 7:07 p.m.