

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

May 8, 2023

6:01 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Cathy Tilton

OTHER MEMBERS PRESENT

Representative Dan Ortiz
Senator Robert Myers
Senator Mike Shower
Senator Shelley Hughes
Representative Will Stapp
Representative Jesse Sumner

COMMITTEE CALENDAR

PRESENTATION(S): ECONOMIC GROWTH

- HEARD

CS FOR SENATE BILL NO. 107(FIN)

"An Act relating to the Alaska permanent fund; relating to income of the Alaska permanent fund; relating to the amount available for appropriation and appropriations from the earnings reserve account; relating to the permanent fund dividend; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 107

SHORT TITLE: PERMANENT FUND DIVIDEND; POMV SPLIT

SPONSOR(S): FINANCE

03/17/23 (S) READ THE FIRST TIME - REFERRALS
 03/17/23 (S) FIN
 03/21/23 (S) FIN AT 9:00 AM SENATE FINANCE 532
 03/21/23 (S) Heard & Held
 03/21/23 (S) MINUTE(FIN)
 03/29/23 (S) FIN AT 9:00 AM SENATE FINANCE 532
 03/29/23 (S) Heard & Held
 03/29/23 (S) MINUTE(FIN)
 04/12/23 (S) FIN AT 9:00 AM SENATE FINANCE 532
 04/12/23 (S) -- MEETING CANCELED --
 04/17/23 (S) FIN AT 9:00 AM SENATE FINANCE 532
 04/17/23 (S) Heard & Held
 04/17/23 (S) MINUTE(FIN)
 04/18/23 (S) FIN AT 9:00 AM SENATE FINANCE 532
 04/18/23 (S) Heard & Held
 04/18/23 (S) MINUTE(FIN)
 04/19/23 (S) FIN AT 1:30 PM SENATE FINANCE 532
 04/19/23 (S) Moved CSSB 107(FIN) Out of Committee
 04/19/23 (S) MINUTE(FIN)
 04/21/23 (S) FIN RPT CS 2DP 3NR 1AM SAME TITLE
 04/21/23 (S) DP: HOFFMAN, KIEHL
 04/21/23 (S) NR: STEDMAN, MERRICK, BISHOP
 04/21/23 (S) AM: OLSON
 05/01/23 (S) TRANSMITTED TO (H)
 05/01/23 (S) VERSION: CSSB 107(FIN)
 05/03/23 (H) READ THE FIRST TIME - REFERRALS
 05/03/23 (H) W&M, FIN
 05/08/23 (H) W&M AT 6:00 PM DAVIS 106

WITNESS REGISTER

TIM DILLON, Executive Director
 Kenai Peninsula Economic Development District
 Kenai, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation on economic growth and the Kenai Peninsula Economic Development District.

TIM GRUSSENDORF, Staff
 Senator Lyman Hoffman
 Alaska State Legislature
 Juneau, Alaska

POSITION STATEMENT: On behalf of the sponsor, the Senate Finance Standing Committee, of which Senator Hoffman serves as co-chair, introduced CSSB 107(FIN), Version P, and provided information via slides, including a PowerPoint presentation,

titled "Senate Bill 107 Percent of Market Value Split/Permanent Fund Dividend."

ACTION NARRATIVE

[6:01:44 PM](#)

CHAIR BEN CARPENTER called the House Special Committee on Ways and Means meeting to order at 6:01 p.m. Representatives McCabe, McKay, Allard, Groh, Gray, and Carpenter were present at the call to order.

PRESENTATION(S) : ECONOMIC GROWTH

[6:02:31 PM](#)

CHAIR CARPENTER announced that the first order of business would be a presentation on economic growth.

[6:03:04 PM](#)

The committee took a brief at-ease.

[6:03:54 PM](#)

TIM DILLON, Executive Director, Kenai Peninsula Economic Development District, provided a PowerPoint presentation on the Kenai Peninsula Economic Development District (KPEDD). He displayed slide 2 and slide 3 and discussed KPEDD, which covers the Kenai Peninsula Borough, which has a population of less than 29,000 people on and off the road system. He stated that KPEDD is a non-government resource and suggested this is the reason the organization has been so successful, as it can do things differently. He stated that it has a 16-member board and 30-acre facility. Within this are 9 different diverse businesses, with another 160 around the Kenai area.

[6:05:36 PM](#)

MR. DILLON moved to slide 4 and stated that the Kenai Peninsula has 6 incorporated communities, 31 unincorporated communities, and 17 Native Tribes and organizations. He stated that KPEDD's hope is to work with all these communities. He pointed out that KPEDD has a small staff, with three full-time employees. Moving to slide 6, he stated that there are 9 Alaska Regional Development Organizations (ARDORS) across the state, which are

listed on the slide. He added that these do not come with funding.

[6:07:24 PM](#)

MR. DILLON moved to slide 7 and stated that one of the significant things ARDORS would do is to help communities address ways to meet federal funding requirements. To do this, he said, a community must have an economic development strategy on file with the federal government. He stated that another significant thing ARDORS would do is connect people and help businesses be successful as "we try and cut through some of the red tape." He stated that KPEDD's two websites [listed on slide 22] are very helpful with data and up-to-date information.

[6:09:31 PM](#)

MR. DILLON pointed out that there are only four recognized Economic Development Districts (EDDs) in the state, and they do not match up with ARDORS. He stated that the four EDDs are listed on slide 9. He stated that these are multicounty designations, and KPEDD would help the communities without EDD, such as addressing federal COVID-19 assistance and setting up communities with mariculture infrastructure.

MR DILLON, moving to slide 10, said the purpose of the presentation is to address what the government should do to assist businesses. He stated that the first suggestion would be to assist with energy solutions and costs. He reminded the committee that energy is a business, and all the pieces need to be investigated.

[6:13:08 PM](#)

MR. DILLON pointed out that taxes are another way the government can assist businesses. He asserted that businesses need to be able to plan, as it is difficult for large companies looking at investment and small businesses trying to get a start. He suggested the key [to understanding taxes] is to come up with a plan and stick with it for a couple years.

[6:15:57 PM](#)

CHAIR CARPENTER, concerning a business plan and the tax environment, questioned which time frame would stabilize tax for a business plan.

MR. DILLON responded that this would be around two to three years.

[6:16:38 PM](#)

MR. DILLON stated that the next issue the government needs to consider is childcare. He suggested that childcare needs rules and guidelines to work efficiently. When looking at this as a business, he stated that it is a numbers game, and these small childcare businesses have a hard time surviving. He stated that solutions need to be considered, such as mom and pop businesses. He pointed out one of the problems is the background checks take too long. He moved to the next slide and issue, which is the supply chain in Alaska. He advised that this could be looked at as a positive thing, but planning needs to be done, such as considering how future needs for individual businesses could be met locally. He added that the state could help in this aspect.

[6:20:19 PM](#)

MR. DILLON moved to the next issue the government needs to consider, which is the workforce. He stated that the workforce issue has three important issues which need addressing: childcare, transportation, and housing. He stated that these are very important to small businesses, and he suggested that people need to be taught to partner and share resources instead of competing. Moving to slide 15, he addressed collateral, which he suggested the government can help businesses with, as entrepreneurs do not fit in a "box" with traditional measures and cannot get funded because of the types of collateral banks require. He advised that these entrepreneurs are creative, and they do not get credit for the chances they are willing to take.

[6:25:12 PM](#)

MR. DILLON moved to the topic of the permanent fund dividend (PFD). He again advised that families and individuals need to be able to plan; however, the subject is a "political football." He expressed the opinion that a decision needs to be made because legislation addressing a fiscal plan is not going to please everybody. Moving to slide 17, he stated that if government can help by reducing risk, private investment would increase, and he advised that government should "stay the heck out of the way."

MR. DILLON, moving from slide 18 to slide 21, pointed out success stories on the Kenai Peninsula. He stated that KPEDD has played a huge role in advising people of what the law is, as opposed to how people want to interpret it. He supplied examples of businesses which KPEDD helped by keeping the extra expenses local.

[6:31:14 PM](#)

MR. DILLON pointed out that the Kenai Peninsula still has an influx of people but is no different than other locales in the state. He continued that the area is fortunate in the way it has become structured. He pointed out how Kenai Peninsula was able to receive \$40 million of federal CARES Act money. He concluded by pointing out how, from a marketing standpoint, the Kenai Peninsula has been able to attract people to the area. He played an infomercial which was made to attract people to move to the Kenai Peninsula.

[6:34:44 PM](#)

REPRESENTATIVE GRAY referenced Mr. Dillon's comment that government needs to "stay the heck out of the way." In contrast, he pointed out Mr. Dillon's comment, per the workforce, that the three most important factors are childcare, transportation, and housing. He stated that from the time students start Pre-K to 18 years old, the government needs to adequately fund the school system to attract a workforce. For transportation, the government needs to keep the roads in good condition, fund the ferry system, and the airports need to be maintained. He continued that government also needs to be playing a role in housing. He made the point that government is required for these three important things.

[6:35:46 PM](#)

CHAIR CARPENTER commented that childcare is an issue, with the question concerning what is standing in the way of solving the childcare problem.

MR. DILLON interjected that what has happened is things do not pencil out like they used to. He continued that there is a restriction on the number of caregivers versus the number of young people, and this effects the bottom line. The other part is, since the COVID-19 pandemic, insurance rates have gone up, and this has affected childcare. He advised that each community's solutions are different. In response to Chair

Carpenter, he stated that the ratio of caregivers to children he referred to is a state requirement. He pointed out that from some of the decisions the state has made, things have become more difficult.

[6:38:22 PM](#)

CHAIR CARPENTER, in regard to financing for business, questioned the options for small businesses.

MR. DILLON responded that options exist through federal programs and regular banks. He added that Small Business Development Centers have a variety of programs. He expressed the opinion that the difficult part is helping people understand grants are not the only way. He stated that programs and loans are available.

[6:40:28 PM](#)

CHAIR CARPENTER referred to the comment made about PFD legislation and the advice that a decision needs to be made. He questioned the benefit for business concerning this.

MR. DILLON expressed the idea that it is "big" state residents have a PFD. He expressed the opinion that everybody does not spend their PFD wisely, but it is their decision. He advised that either saving it or spending it affects the economy, and this is positive. He reiterated the concern that people are trying to plan, but they cannot because the amount of the PFD makes a difference for families.

[6:42:22 PM](#)

REPRESENTATIVE MCCABE suggested that for big families the PFD can pay for a certain amount of childcare. He questioned how the PFD effects the communities on the Kenai Peninsula and adds to the economy.

MR. DILLON responded that this money rolls over several times no matter how people spend their PFD, because a good amount of money stays local.

SB 107-PERMANENT FUND DIVIDEND; POMV SPLIT

[6:44:11 PM](#)

CHAIR CARPENTER announced that the final order of business would be CS FOR SENATE BILL NO. 107(FIN), "An Act relating to the Alaska permanent fund; relating to income of the Alaska permanent fund; relating to the amount available for appropriation and appropriations from the earnings reserve account; relating to the permanent fund dividend; and providing for an effective date."

[6:44:26 PM](#)

The committee took a brief at-ease.

[6:44:53 PM](#)

TIM GRUSSENDORF, Staff, Senator Lyman Hoffman, Alaska State Legislature, on behalf of the sponsor, the Senate Finance Standing Committee, of which Senator Hoffman serves as co-chair, introduced CSSB 107(FIN), Version P, via a PowerPoint presentation, titled "Senate Bill 107 Percent of Market Value Split/Permanent Fund Dividend" [hard copy included in the committee packet]. He began on slide 2 and explained the purpose of the proposed legislation, which would be to establish a split for the annual percent of market value (POMV) draw. The split would be 75 percent for the general fund and 25 percent to pay the permanent fund dividends (PFDs); however, if certain conditions are met, it would allow for a 50/50 split option. He added that Version P would replace the PFD formula from the 1980s version. He pointed out on the slide how the Senate Finance Committee has addressed the topic in the past.

MR. GRUSSENDORF noted that Version P would begin setting the dividend in fiscal year 2025 (FY 25) with a 50/50 POMV split, which would make the PFD bigger. He continued that if in FY 27, \$1.3 billion of new revenue is confirmed by the Legislative Finance Division and the commissioner of the Department of Revenue, and there is \$3.5 billion in the constitutional budget reserve (CBR), six years would be given to raise the new revenues. If this threshold is not met, the split would be set at [75/25]. He noted that this six-year period would give three legislatures and two governors the opportunity to raise revenues before the 50/50 POMV is timed out.

[6:46:42 PM](#)

MR. GRUSSENDORF elaborated further on the second slide. He stated that the proposed legislation had started out as a straight [75/25] split with no option for a 50/50 split;

however, some members in both bodies had wanted the 50/50 split. He explained that the first committee substitute (CS) added a trigger that when \$900 million in new revenue is raised, the 50/50 split would go into effect. The figure of \$900 million came from the governor's 10-year projection. He said that the current version reflects the Senate Finance Standing Committee's trigger amount.

[6:49:15 PM](#)

MR. GRUSSENDORF moved to slide 3 and pointed out why the proposed legislation is necessary. He stated that the Permanent Fund was initially set aside for when oil would no longer be able to cover all budgetary needs; however, not having a PFD formula created uncertainty in the budgeting process, and POMV was passed in part to stabilize the state's revenue. On the slide it was pointed out that, if the dividend amount is unknown until late in session, the remaining POMV draw going to the general fund is also unknown. He advised that without knowing how much revenue is available, it is difficult to make budgetary decisions.

[6:50:12 PM](#)

MR. GRUSSENDORF moved to slide 4, which continued to address the question of why the proposed legislation is necessary. He argued that a PFD based on a percentage of POMV would add stability to both the budget and the dividend, because POMV is based on the overall value of the Permanent Fund, which is relatively stable and predictable. In contrast, the current statutory dividend formula is based on Permanent Fund earnings, which are more volatile. He concluded that, if the general fund portion of the annual POMV payout is what is left after funding a volatile PFD, all the revenue volatility would be transferred to the general fund, and this compounds fiscal uncertainty.

[6:51:10 PM](#)

MR. GRUSSENDORF, moving to slide 5, addressed the 75/25 split. He explained that when the state revenue numbers are run, this would be the healthy position for the percentage split. He pointed out that the governor's amended budget next year is \$433 million in deficit, and this comes before the following: fixing community assistance with the \$30 million; basic deferred maintenance; any legislative additions to the capital budget; any adjustment to education funding; and any bills which pass with fiscal notes. He advised that there are no available

savings to draw from. The only available draw would be from CBR, which requires a three-quarters vote in the legislature. He added that this would be difficult to obtain.

[6:52:19 PM](#)

MR. GRUSSENDORF, pointing to slide 6, identified other unmet budget needs. He stated that the Legislative Finance Division has detailed over \$13 billion in current state obligations. He related a summary of those obligations: \$7.1 billion in pension obligations, \$4.4 billion in capital and maintenance needs, and \$1.6 billion in debt service. He drew attention to the full list of obligations outlined on the slide.

MR. GRUSSENDORF moved to slide 7 and discussed the proposed legislation, which would establish a 75/25 split with 25 percent of POMV going to the PFD. It would set a "trigger" to increase the split to 50/50 if, beginning in 2026, the legislature passes at least \$1.3 billion in new revenue; the CBR balance is at least \$3.5 billion, with new, annually recurring revenue, versus what was in statute on January 1, 2023; and both the Department of Revenue and Legislative Finance agree to the 50/50 split. This provision expires if these conditions do not happen by 2030. He added that the 50/50 would start in FY 27 to follow the governor's 10-year forecast; however, he added that there must be \$900 million for the governor's budget to pencil out.

[6:53:51 PM](#)

MR. GRUSSENDORF moving to slide 8, pointed out that the 75/25 split would be the most stable and balanced scenario. He said the graph was provided by the Legislative Finance Division and uses the current baseline budget. He noted that the [75/25] split does not require a draw from savings and produces a balanced budget out to FY 32. As this is based on projections, he stressed that the further out the projection, the less accurate the estimation would be.

[6:54:29 PM](#)

REPRESENTATIVE MCCABE stated he does not see the \$1.4 billion for inflation under the state's obligations and funding needs. He requested that it be juxtaposed over POMV, which is supposed to be automatically inflation proof.

MR. GRUSSENDORF expressed uncertainty. He said, "We get a number to inflation proof and many years we have, and then some

years the legislature has decided ... to not inflation proof the Permanent Fund."

REPRESENTATIVE MCCABE maintained that a POMV strategy is specifically designed to not be inflation proof. He explained that some years it will earn above the 5 percent used, while other years it will not. He said that having a 7 percent to 10 percent return on investments would be inflation proof. He continued that inflation proofing is still being done from the old statute which directs that the PFD is paid first. Right now, he argued, double inflation proofing is being done by adding \$1.4 billion to the amount, which does not need to be added. He questioned his assumptions.

MR. GRUSSENDORF responded that there are different opinions, and he expressed reserve about saying whether Representative McCabe is right or wrong. He stated that in some years [the legislature] has inflation proofed [the state's obligations] and some years it has not; he expressed the understanding that the Permanent Fund Corporation prefers [the legislature] to continue to inflation proof.

[6:56:34 PM](#)

REPRESENTATIVE GRAY questioned the six-year expiration date regarding the 75/25 becoming permanent. He questioned why there is an expiration date on motivating the legislature to raise revenue.

MR. GRUSSENDORF answered that originally it was a 10-year expiration date; however, inflation must be added to the targeted amount because \$1.3 billion today is less than \$1.3 billion in 10 years. He continued that \$1.3 billion and a shorter timeframe was chosen so that a mechanism to inflation proof would not be needed.

REPRESENTATIVE GRAY questioned the selection of \$1.3 billion.

MR. GRUSSENDORF replied that the \$900 million came from the governor's 10-year projections. He said the administration used a 1.5 or 1.75 [percent] rate of inflation going forward, but the legislature typically uses 2.5 percent. He advised that while the difference looks small, it becomes a very large difference over long periods of time, amounting to billions of dollars; thus, [\$1.3 billion was chosen]. In response to a follow-up question, he explained that the \$1.3 billion is part of having a larger capital budget to potentially keep up with the state's

capital budget, large, deferred infrastructure maintenance, and increase in the base student allocation (BSA) of \$185 million.

[6:59:57 PM](#)

REPRESENTATIVE GRAY expressed difficulty in understanding how the \$1.3 billion was calculated. He speculated that this was put into the bill indefinitely so the incentive to generate additional revenue would never be taken off the legislature. He posited that \$900 million, with the two additions, may not be a good calculation in 10 years and may not be the best way to calculate the "trigger."

MR. GRUSSENDORF answered that he would follow up with the committee on this determination. He said numbers were put into these models, with an additional \$700 million in state spending for the deferred maintenance, capital budget, and BSA increase. This model, he continued, keeps the state in good financial position until 2032 when money would be drawn from CBR.

[7:01:32 PM](#)

REPRESENTATIVE GROH expressed the understanding that the proposed legislation would essentially set an on/off switch for the 50/50 POMV draw for the PFD. He asked how much consideration was given by the Senate to a stairstep mode, where each \$200 million increment generated would add an extra 5 percent to the POMV draw, and subsequently to the PFD. He speculated that instead of a 25 percent or 50 percent split, there would be a 25, 30, 35, 40, or 45 percent split.

MR. GRUSSENDORF replied that some of the Senate's past proposals did have stairsteps. He said Version P does not go this route because it would take two years until the 50/50 split would start. He related the Senate had expressed hope that within these two years there would be new revenue and CBR would be at \$3.5 billion. Before 2018, he recounted, draws of billions of dollars were being taken from CBR. He advised that a major step under Senate Bill 26, [passed during the Thirtieth Alaska State Legislature], put POMV in place, using the earnings reserve of the Permanent Fund. He expressed the opinion that now other steps must come.

[7:04:39 PM](#)

MR. GRUSSENDORF, in response to a follow-up question, responded that the stairstep system has been tried and could be done if it is passed through the legislature.

REPRESENTATIVE GROH suggested that an incremental "carrot" would help the state generate additional revenues, which could pay for such things as deferred maintenance, BSA, and the PFD. He expressed surprised that a stairstep system has not come from the Senate.

MR. GRUSSENDORF expressed the understanding that the reason a stairstep system is not in the bill is because of concern over the low amount in the state's savings accounts. He advised that time is needed to rejuvenate these accounts, returning the state to solid fiscal standing. He explained that, if a stairstep system is used, the state's savings would need to be at a certain level, creating the insurance that each dollar of new revenue would not be put in a dividend. He urged that the state's savings goals need to be reached, so the state could survive for a year or more if oil prices go down and the markets crash at the same time.

[7:07:01 PM](#)

REPRESENTATIVE MCCABE stated that 75 percent of the revenue has already been spent by the state government; moreover, what is being talked about is the remaining 25 percent of revenue, and normally this would be split 50/50 between the government and the PFD. The discussion now, he argued, is government taking 75 percent and the people taking 25 percent.

MR. GRUSSENDORF expressed the opinion that this is one perspective. He continued that there will be a problem until the budget is balanced and a level of revenue can be maintained to run the state. He pointed out that the state's budgets have not grown for years, and both parties and different groups have had the chance to impact this, except for the Department of Corrections. He related that the state's agency budgets have been flat, and there has been backlash. For example, he pointed out the Supplemental Nutrition Assistance Program (SNAP), which has been called a "dumpster fire." He advised that every year something unplanned takes a big portion of revenue from the budget, such as wildfires or floods. He expressed the importance of meeting these needs when they arise. In response to a follow-up question, he stated that a 50/50 split would not be paid this year. He explained that currently the House

supports a 50/50 split while the Senate supports a [75/25] split, and these differences will need to be worked out.

[7:10:16 PM](#)

REPRESENTATIVE GRAY expressed support for the stairstep approach. He suggested that adopting this policy would bring down the PFD if [the desired] amount of revenue is not generated. He said that a formula would be created to allow the split to go up or down. For example, if \$1.3 billion is reached, the split would be 50/50; however, if only \$700 billion is reached, then the split could be 60/40. He expressed the opinion that residents of the state want something which can be counted on, and they want to know the legislature is not haphazardly deciding the dividend amount every year. He expressed support for a formula incentivizing revenue production. He continued that if the legislature fails at creating revenue production, lowering the dividend would be the consequence. He questioned whether this is something the Senate would support.

MR. GRUSSENDORF expressed uncertainty. He said the preferred outcome is for the House to make a decision and send this to the conference committee. In response to a follow-up question, he stated that the proposed bill is not by any one senator but sponsored by the Senate Finance Standing Committee. He commented that this committee is very diverse, with two of the senators having the poorest districts in the state. He expressed the understanding that these senators would support a 50/50 dividend, but they also want something which meets the constitution and balances the budget. He added that the Senate Finance Standing Committee vote had been split on some of these items.

[7:13:59 PM](#)

CHAIR CARPENTER discussed the governor's budget and noted that the PFD is already established; however, the budget identified \$900 million in new revenue without a recommendation for a cut of \$900 million to the PFD. He asked whether an analysis was done between drawing \$900 million from the dividend or drawing \$900 million from a new tax. He further asked why the Senate, through this 75/25 split, chose \$900 million.

MR. GRUSSENDORF responded that the question would have to be asked of the Senate Finance Standing Committee because this was a policy decision on the committee's part. He stated that he is

only speaking on behalf of the committee and not part of the discussions.

[7:15:40 PM](#)

MR. GRUSSENDORF moved to three separate PowerPoint slides [hard copy included in the committee packet], which reviewed the POMV split 23/75 model. He addressed slides 1 and 2 which read as follows [original punctuation provided with some formatting changes]:

"A Review of the Committee Modelling Assumptions"

Revenue Assumptions

- LFD's baseline revenue assumptions are the Department of Revenue's Spring Revenue Forecast.
- This assumes \$73 oil in FY24, following futures market thereafter.
- DNR [Department of Natural Resources] oil production forecast projects that Alaska North Slope production will increase from 496.4 thousand barrels per day in FY24 to 542.9 thousand barrels per day in FY 32.
- For the Permanent Fund, we are using the February 2023 History and Projections update, which assumes a total return of 7.00% in FY 23 and 7.05 percent in FY24 and beyond. For statutory net income, this update uses a blend of actuals and the low case for FY23 and a 6.90 percent statutory return assumption in FY 24 and beyond.

Review of Senate Finance Committee Modeling Assumptions (cont.)

Spending Assumptions

- For **agency operations**, the first model assumes the Governor's amended budget including amendments through 3/7 grows with inflation (2.50 percent). Other models assume the House committee Substitute grows with inflation (2.50 percent).
- For **statewide items**, assumes that all items are funded to their statutory levels in FY24 and beyond.
- This includes School Debt Reimbursement, the REAA Fund, Community Assistance, oil and gas tax credits.
- For the **capital budget**, assumes a ~~\$400~~ 700 million capital budget in FY24, growing with inflation thereafter (2.50 percent).

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

MR. GRUSSENDORF elaborated on the basic assumptions used in this modeling, with \$700 million in additional capital budget and K-12 spending. He said \$185 million of the \$700 million would be for BSA, leaving around \$500 million for the capital budget, which would be \$100 million more than recent assumptions. He offered his understanding that the extra \$100 million would be for the deferred maintenance backlog, because \$50 million or less a year would not keep up with the problems.

[7:16:51 PM](#)

MR. GRUSSENDORF continued to slide 3, which showed two graphs of the Senate Finance Standing Committee's baseline budget model. He explained that this model has no new revenues and has the [75/25] split. He pointed out that in FY 27 and FY 28, small CBR draws would be taken, and by the end of the projected period there are unplanned draws from the earnings reserve. He speculated that, if care is not taken, even with this the state could end up in the same situation it is in today.

CHAIR CARPENTER asked whether the 2.5 percent growth in spending which is used in the model is an inflationary number.

MR. GRUSSENDORF answered yes and stated that the Legislative Finance Division uses 2.5 percent for inflation going forward to keep up with increasing costs.

CHAIR CARPENTER noted that the state only has three sources of revenue; therefore, one of those three sources would have to keep up with [inflation]. If new revenue from new business was to come into the state, he questioned whether CBR draws would still be needed under this model.

MR. GRUSSENDORF related the understanding that if [the Willow Project], or any other oil project, came on in the out years, a CBR draw would not be needed.

CHAIR CARPENTER posed a scenario of new non-oil businesses coming into Alaska, generating new tax revenue. He questioned the amount of tax revenue needed to impact this model.

MR. GRUSSENDORF responded that business tax could include timber and mining. He agreed that if industry grows, the state will

collect more tax from these industries. He explained that this model has no new revenue included on any level, and the graph is based on the projections of earnings from the Permanent Fund and oil.

7:20:11 PM

MR. GRUSSENDORF returned to the final slide of the PowerPoint titled "Senate Bill 107 Percent of Market Value Split/Permanent Fund Dividend," which addressed that the 75/25 split would be the most stable and balanced scenario. He related that the graph depicts the straightforward [75/25 split] with no new revenue and current spending. He commented that this would not require draws from CBR.

MR. GRUSSENDORF moved to a different set of slides referred to as "SB 107 POMV split Misc. back up" on BASIS [hard copy included in the committee packet], which addressed the unrestricted general fund. He pointed out on slide 1 that in the current fiscal year the administration [estimates] that it would have \$300 million in new revenues; in the following year another \$500 million [is predicted]; in FY 26 there is \$750 million [predicted]; and in FY 27 the \$900 million goal would be reached. He pointed out that FY 27 is the last year of the current administration, and the question has been whether a 50/50 could be reached by this time. He drew attention to the bottom left of the slide and said that without the targeted new revenue, the 10-year outlook would eliminate the reserves by FY 2027, jeopardize the PFD, and require significant reduction in public services. With the targeted new revenue, he put forth that the 10-year outlook would maintain a healthy CBR balance, provide a full statutory dividend, and provide for conservative growth in services and service levels. If the concern is that new revenue needs to be generated, he advised, it is up to the two bodies to determine where the money would come from.

7:22:59 PM

CHAIR CARPENTER, to maintain state services and a robust PFD program, stated that the 10-year outlook depicted on the slide highlights the need for new revenue; however, the proposal is for a reduced PFD and \$1.3 billion in new revenue. He asked how the governor would achieve the plan which would maintain a robust PFD and \$900 million in revenue. He questioned why this is not a better plan than what is being presented, which is a smaller PFD and more revenue.

MR. GRUSSENDORF answered that he has not seen the proposal from the administration which has more revenue.

CHAIR CARPENTER responded that there are tax proposals in the legislature, so he does not need something from the administration. He said CSSB 170(FIN) proposes a 75/25 split, with 25 percent of the Permanent Fund earnings going to the dividend program. This would equate to an eventual need for \$1.3 billion in tax revenue. He continued that the governor's plan would require \$900 million in revenue, with a 50/50 split, which would possibly be a statutory dividend. He questioned the disparity between a plan which seems to work with \$900 million in revenue and the plan in the proposed legislation which would require much more revenue and a lower PFD.

MR. GRUSSENDORF replied that for this chart the inflation rate is much lower. He suggested that for it to pencil out in the out years, it will need to be larger than \$900 million. He said both bodies are trying to come up with a solution, and the House can put forward whatever proposal it wants. If this body comes up with a better way which pencils out, he continued, then both bodies can have this discussion in conference committee.

[7:25:37 PM](#)

REPRESENTATIVE ALLARD noted Mr. Grussendorf is presenting the bill by himself and asked if a senator will be supporting him.

MR. GRUSSENDORF responded that most of the time he presents bills alone.

[7:26:04 PM](#)

MR. GRUSSENDORF, responding to Representative Groh, stated that the graphic on the slide came from an Office of Budget and Management (OMB) presentation earlier in the year.

REPRESENTATIVE GROH recalled that the graphic uses an inflation rate of 1.5 percent per year, and this would lead to lower budget growth. He pointed out that the Legislative Finance Division has been using a 2.5 percent assumed inflation rate, and in recent weeks the administration has been using 2.5 percent in its presentations. He asked whether it is accurate to say that the difference between the assumed 1.5 percent and 2.5 percent inflation rates would help explain that a lower assumed inflation rate would equate to a lower budget in the

future, as more money would be left in the system for the large dividends being discussed.

MR. GRUSSENDORF concurred and pointed out this is why [the governor's budget] uses a different inflation rate when first putting out the budgets, and it typically leaves out several things, such as community assistance, which the legislature must add back in, and deferred maintenance of infrastructure, which needs help.

[7:28:35 PM](#)

CHAIR CARPENTER interjected with the opinion that the state's economy needs help, and "that's what drives the whole train."

[7:28:46 PM](#)

REPRESENTATIVE MCCABE inquired about the return rate on CBR.

MR. GRUSSENDORF deferred to the Legislative Finance Division to provide an answer.

REPRESENTATIVE MCCABE surmised the return would be less than inflation. He expressed the understanding that it would be a policy call and a certain amount must be kept liquid. He expressed the idea that it would be a waste of a resource to leave this amount of money in the account making a small amount of interest.

[7:29:45 PM](#)

MR. GRUSSENDORF displayed a slide, titled "UGF Budget Changes, FY23 to FY24 \$ Nominal." He said the chart on the slide depicts the state's finances through multiple administrations, starting with the Twenty-Nineth Alaska State Legislature and Governor Walker. He related that over the last four to five years, the operating budget inflation has remained relatively level on spending, with reductions in many agencies, although some agencies have grown, such as the Department of Corrections. As far as agency operations, he continued, the state has maintained steady spending. There could be more efficiencies, he allowed, but making major cuts to account for a billion dollars would eliminate an agency or many of its duties.

[7:31:13 PM](#)

MR. GRUSSENDORF, moving to the next slide, he explained this was put forth by Senator Click Bishop to identify the capital budget estimates going forward and how a \$500 million to \$600 million capital budget per year is justified. It also addresses how some of these items could be brought up to speed.

7:32:22 PM

REPRESENTATIVE MCCABE asked whether the state constitution says the capital budget is to be one-third.

MR. GRUSSENDORF expressed uncertainty concerning the one-third amount and stated that it is a relatively large part and a level which has not always been maintained. He related that the Legislative Finance Division has provided some reasons for why this level has not been an issue in the past. He deferred to the Legislative Finance Division to further answer the question.

7:33:20 PM

REPRESENTATIVE GROH noted there are philosophical differences in various tax proposals, for example: the broad-based taxes versus increased oil taxes versus reduced PFDs. Concerning the decision-making process, he questioned whether the ease of getting money from the dividend compared to the process of increasing taxes is a determining factor.

MR. GRUSSENDORF responded that some senators along with some representatives have different philosophies on this, and the dividend is just one piece of the puzzle. He said raising taxes on just one industry could be considered an "easy grab" too. He expressed the hope that the two bodies can each put something together and come out of the conference committee with a plan the governor can sign for putting the state on solid fiscal ground going forward. He said the plan should allow the residents of the state to know what type of revenue is available and what can be completed during the session in an orderly manner. He expressed the opinion that passing POMV in 2018 was a big step in stabilizing the state's revenues and added the proposed legislation would be another step.

7:36:56 PM

CHAIR CARPENTER opined that the growth of the economy is just another piece of the puzzle, as it would be integrated into the solution the legislature must find. He asked, in the Senate Finance Standing Committee's opinion, whether the growth of the

economy is the one thing which would help solve the existing PFD problem.

MR. GRUSSENDORF answered that this is a piece and the beginning of the discussion. He stated that he cannot speak for the Senate. He advised that no matter the PFD amount, the goal is it should pencil out and keep the state on good fiscal footing. He indicated that Senate Bill 26 died under its own weight because the mechanisms in the bill were too complicated, and the only thing which passed out was POMV. He advised that things must be pieced together, and he expressed the difficulty in doing this in one piece of legislation.

CHAIR CARPENTER expressed the goal to solve the problem of fighting over the PFD. He asked whether Version P would get closer.

MR. GRUSSENDORF expressed the understanding that many members of the Senate would like a 50/50 POMV split, but it must pencil out so a balanced budget can be passed.

CHAIR CARPENTER posed a scenario of oil prices dropping in FY 25, causing the state to be in desperate need of revenue. He surmised that the legislature would have to ignore this bill and take more of Permanent Fund earnings to cover the deficit. In other words, he expressed the opinion that the bill would not solve the problem.

MR. GRUSSENDORF, in response, confirmed that the legislature would be able to do this, as well as other things, such as going under the earnings reserve or overdrawing the 5 percent. He explained that there are always consequences, and this would be another reason to have flexibility. If something cannot be touched, he questioned the options otherwise, insisting that the legislature needs to have flexibility, because it is unknown what might come in some years.

[7:41:31 PM](#)

REPRESENTATIVE MCCABE inquired about the current budget.

CHAIR CARPENTER responded that this does not need to be addressed.

[7:42:11 PM](#)

REPRESENTATIVE MCKAY noted that Article 9, Section 16, of the state's constitution mentions the one-third.

[7:42:28 PM](#)

REPRESENTATIVE ALLARD questioned the reasoning of bringing the bill forward when it would not solve the problem.

MR. GRUSSENDORF responded that this is the process, and there must be a starting point. He advised that [the proposed legislation] is the starting point of this conversation.

[7:43:28 PM](#)

REPRESENTATIVE GROH inquired whether the chair had any thoughts or suggestions on the way forward.

CHAIR CARPENTER answered that the proposed bill is calendared for tomorrow and the way forward is a HCS, which would be available shortly for committee review. In further response, he said that once it is available, and if it is adopted, members would be able to offer amendments at a later date.

[CSSB 107(FIN) was held over.]

[7:44:30 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 7:44 p.m.