

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

March 13, 2024

6:03 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Jamie Allard
Representative Andrew Gray

COMMITTEE CALENDAR

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 194

"An Act relating to the duties of the Legislative Budget and Audit Committee; relating to the Executive Budget Act; establishing consensus estimating conferences; relating to the development of official information for use in preparing the state budget; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 194

SHORT TITLE: CONSENSUS ESTIMATING CONFERENCES; BUDGET

SPONSOR(S): REPRESENTATIVE(S) CARPENTER

05/08/23	(H)	READ THE FIRST TIME - REFERRALS
05/08/23	(H)	W&M, FIN
05/10/23	(H)	W&M AT 6:00 PM DAVIS 106
05/10/23	(H)	<Bill Hearing Canceled>
05/15/23	(H)	SPONSOR SUBSTITUTE INTRODUCED
05/15/23	(H)	READ THE FIRST TIME - REFERRALS
05/15/23	(H)	W&M, FIN
05/15/23	(H)	W&M AT 6:00 PM DAVIS 106
05/15/23	(H)	-- MEETING CANCELED --
01/24/24	(H)	W&M AT 6:00 PM DAVIS 106
01/24/24	(H)	<Bill Hearing Canceled>
02/21/24	(H)	W&M AT 6:00 PM DAVIS 106

02/21/24 (H) -- MEETING CANCELED --
03/13/24 (H) W&M AT 6:00 PM DAVIS 106

WITNESS REGISTER

KENDRA BROUSSARD, Staff
Representative Ben Carpenter
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: On behalf of Representative Carpenter, prime sponsor of SSHB 194, provided the sectional analysis for the bill.

ALEXI PAINTER, Director
Legislative Finance Division (LFD)
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: During the hearing on SSHB 194, provided a PowerPoint presentation titled "House Bill 194," dated 2/21/24.

ACTION NARRATIVE

[6:03:36 PM](#)

CHAIR BEN CARPENTER called the House Special Committee on Ways and Means meeting to order at 6:03 p.m. Representatives McKay, McCabe, Groh, and Carpenter were present at the call to order. Representative Tilton arrived as the meeting was in progress.

HB 194-CONSENSUS ESTIMATING CONFERENCES; BUDGET

[6:04:18 PM](#)

CHAIR CARPENTER announced that the only order of business would be SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 194, "An Act relating to the duties of the Legislative Budget and Audit Committee; relating to the Executive Budget Act; establishing consensus estimating conferences; relating to the development of official information for use in preparing the state budget; and providing for an effective date."

[6:04:56 PM](#)

CHAIR CARPENTER, prime sponsor of SSHB 194, explained that the House of Representatives established the House Special Committee on Ways and Means to consider methods to bring spending and revenue into balance and to identify ways to make government

programs more efficient. These goals, he said, support the majority caucus's vision of improving economic stability in the state. He related that SSHB 194 would modify AS 37.07.014, Responsibilities of the legislature, and AS 37.07.016, Governor's primary duty, both within the Executive Budget Act. He then read both statutes aloud.

[6:09:14 PM](#)

CHAIR CARPENTER specified that SSHB 194 would establish eight estimating conferences and provide the ability for the presiding officers of the legislature to call estimating conferences. These estimating conferences, he said, will reduce the need for supplemental budgets, provide a path for resolving fiscal note conflicts, and help establish that the Executive Branch cannot budget non-recurring revenue for recurring expenses or agency operations. Examples of non-recurring revenue, he continued, include one-time funds and Constitutional Budget Reserve (CBR) draws. He specified that unanticipated revenue above expected and sustainable revenue sources, as determined by a revenue estimating conference, would also be non-recurring. He said SSHB 194 would require the Office of Management and Budget (OMB) to provide a five-year capital improvement plan with project cost, maintenance cost, timeline, anticipated revenue sources over those five years, and justification for each project. He related that SSHB 194 would require the Legislative Budget and Audit [Committee] and the Legislative Finance Division to provide performance measures for each agency. He further stated that SSHB 194 would require the legislature and the Executive Branch to lay out the annual budget according to services and programs with costs and performance measures tied to each, as is done in other states. This bill is about getting to better management of Alaska's state government, he added.

[6:11:58 PM](#)

KENDRA BROUSSARD, Staff, Representative Ben Carpenter, Alaska State Legislature, on behalf of Representative Carpenter, prime sponsor of SSHB 194, provided the sectional analysis for the bill [included in the committee packet], which read as follows [original punctuation provided]:

Section 1

Amends Fiscal Note statute to allow the sponsor for a bill or a committee to request a special impact estimating conference to evaluate a fiscal note.

Section 2

Adds a new section to Fiscal Note statute that allows a special impact estimating conference to prepare a new fiscal note to replace the existing fiscal note for a bill.

Section 3

Adds to the duties to the Legislative Budget and Audit Committee to adopt a method of measuring results for state agencies and to provide the measures to the Governor's Office of Management and Budget (OMB).

Section 4

Amends the statement of policy for the Executive Budget Act to include setting and measuring program and financial goals.

Section 5

Adds to requirements for the legislature under the Executive Budget Act to review the budget by service and program area and to include the service or program cost and the desired measurements for each.

Section 6

Requires the Legislative Budget and Audit Committee to provide the measures it has set for each agency to the OMB by August 1st each year.

Section 7

Amends requirements of the legislature for results-based government to clearly identify service, program, and financial goals and desired results.

Section 8

To fulfill the legislature's responsibilities to achieve results-based-government, each agency shall formulate its budget by allocating resources to achieve the service, program, and financial goals and desired results established by the legislature, and to measure progress toward those goals.

Section 9

Amends the requirements of the Governor under Article III Sections 1 (Executive Power) and 16 (Executive Authority: responsibility for faithful execution of the laws) of the Constitution to use the financial goals and desired results to implement and execute the law. The Governor shall ensure that each agency complies with the service and program measurements and achieves the desired results identified by the legislature.

Section 10

Amends the requirements of the Governor in preparing the Governor's budget. Requires the budget be organized by program or service of each agency and include service and program cost and desired results for each. Each service and program expenditure request must include detailed unit cost and performance of the service or program expenditure. Changes the Governor's budget submission deadline for a newly elected governor from December 15 to January 15.

Section 11

Requires the Governor's budget to include projections for three succeeding fiscal years rather than ten succeeding years.

Section 12

Requires the proposed expenditures in the budget not to exceed estimated revenues for the succeeding fiscal year. Additionally, operating expenditures may not exceed official estimates of recurring revenue.

Section 13

Adds a new section of the Executive Budget Act to require the Governor to submit an alternative budget plan for the next fiscal year, and projections for the next three succeeding fiscal years, based on the average price per barrel for Alaska North Slope crude oil for sale on the United States West Coast over the preceding ten years. Requires the Governor to submit

an alternate budget plan based on \$70 per barrel for Alaska North Slope crude oil.

Section 14

Adds a new section of law that creates a consensus estimating process. Consensus estimating conferences are created in the legislature for economic and demographic forecasts, revenue estimates, and expenditure estimates for education, criminal justice, social services, and retirement costs. The membership of each conference consists of principals and participants. Principals of the conference are the director of the legislative finance division or the director's designee. Participants include staff of the house and senate designated by the Speaker and President, and participants appointed by the governor. Each conference shall develop "official information" within its area of responsibility that the conference determines, by consensus, is needed for the purpose of preparing the state budget. Provides for the procedures of the estimating conferences, including public meetings. Conferences develop "official information" based on current law. Following the regular session of the legislature, each conference shall convene in a final session to revise the official information of the conference to reflect changes made in law. Adds special impact estimating conferences that can be requested by the Speaker of the House or the President of the Senate to evaluate a legislative proposal. The "official information" from a special impact conference will serve as a fiscal note.

Section 15

The Office of Management and Budget is required to provide electronic data used in building its budget to the legislature at least seven days before the legislative session. OMB is required to submit to the legislature by December 15 each year an annually updated five-year capital improvements program, which must include the estimated cost of construction and maintenance, the estimated project timeline, potential funding sources, and justification for each project.

Section 16

Requires state agencies to report semi-annually the results of the measures set by the legislature and achievement of program, service, and financial goals. Lays out the required content of the reports.

Section 17

Conforming language to add service, program, and financial goals to the capital improvement program.

Section 18

Conforming language to include service, program, and financial goals to agency programs execution requirements.

Section 19

Conforming language to include service, program, and financial goals to agency operational plans.

Section 20

Effective date for Section 6 (LB&A to set program measures) is July 1, 2025. Section 20 Provides an effective date of July 1, 2024, for the remainder of this Act.

[6:19:00 PM](#)

MS. BROUSSARD began a PowerPoint presentation titled "HB 194 Consensus Estimating Conferences; Budget," dated 2/21/24 [hard copy included in the committee packet]. She spoke from the second slide which read as follows [original punctuation provided]:

HB 194 Amend the Executive Budget Act (AS37.07) in two significant ways:

1. Reforms current performance budgeting requirements
 - a. Puts a system in place through Legislative Finance to develop strong and usable measurements
 - b. Requires the Governor to use the measures in his budget
2. Adds multiple revenue and expenditure estimating provisions to
 1. Stabilize the budget from year to year

2. Make estimates more transparent

MS. BROUSSARD outlined current statute for the legislature and the governor as cited on slides 3 and 4, which read as follows [original punctuation provided]:

Legislature:

Legislative Finance will adopt a method of measuring results for state agencies. The LB&A committee will adopt the measures and provide them to the Governor each year.

The legislature will clearly identify program and financial goals for each government program and service, set priorities, and assign program and financial measurements.

Governor:

The Governor will prepare a budget that is organized by service and program. The budget will include program costs and desired measurements for each.

Each appropriation must be accompanied by the service cost and performance measure.

MS. BROUSSARD spoke to the performance measure currently in use as cited on the fifth slide, which read as follows [original punctuation provided with some formatting changes]:

CURRENT PRACTICE EXAMPLE Public School Funding

Calculate and distribute state entitlement funding on the Base Student Allocation and formula calculations as per Alaska Statute.

MS. BROUSSARD displayed slide 6, Priority 1: Public School Funding Alaska Department of Education and Early Development. She noted that the graph titled "Annual Base Student Allocation for Formula Funding to School Districts" depicts how the current practice was done [for fiscal years 2008-2021].

[6:20:55 PM](#)

CHAIR CARPENTER noted that the legislature gave the Department of Education and Early Development (DEED) the measure to

calculate and distribute the state entitlement funding for the Base Student Allocation. That only shows the amount of money DEED spent, he pointed out, it doesn't tell the legislature anything about performance and that isn't adequate to have a conversation about how well the state's money is being spent.

MS. BROUSSARD stated that revenue estimates would be done under SSHB 194. She spoke from slide 7, which read as follows [original punctuation provided]:

Revenue Estimates:

The Governor's budget will be based on consensus revenue estimates developed by a transparent conference of legislative and executive finance staff.

The balanced budget requirement is expanded so that non-recurring revenue can only be used for non-recurring expenditures.

In addition, the Governor's budget will include an alternative budget and three-year forecasts based on:

1. The average price of Alaska crude oil for the last 10 years
2. An average price of \$70 a barrel for Alaska crude oil

MS. BROUSSARD reviewed the consensus estimating conferences within SSHB 194 and listed on slide 8, which read as follows [original punctuation provided with some formatting changes]:

Consensus Estimating Conferences

Economic estimates
Demographic estimates
Revenue estimates
Education cost estimates
Criminal justice cost estimates
Social services cost estimates
Retirement systems actuarial assumptions verification
Special impact estimating conferences
May be called by the Senate President or Speaker of the House to review and modify fiscal notes

[6:22:54 PM](#)

CHAIR CARPENTER explained that "conferences" in this use means a group of appointees from the legislature and Executive Branch discussing the data to ensure that both branches agree on the data being used before getting into the budget conversations. He said many other states use this process.

[6:23:48 PM](#)

MS. BROUSSARD presented slide 10, "State of Utah performance measurement playbook," which read as follows [original punctuation provided]:

Utah ties performance measures to the budget

Utah created a dashboard of performance measures to enable policy makers, agencies, stakeholders, and the public to see the impact of taxpayer investments.

Line-item performance measures

Measures a program's objective, effectiveness, etc. that are included as intent language under a line item, typically in a base budget appropriations bill.

Reported annually unless the Legislature votes to alter a line -item performance measure and/or target.

Shows long -term trends and progress toward key agency goals.

CHAIR CARPENTER interjected that while the Alaska OMB dashboard has performance measures on it, the OMB dashboard has nothing to do with the budget process.

MS. BROUSSARD outlined some of the questions that the State of Utah uses to assess performance measures. She spoke from slide 11, "Questions to help assess performance measures," which read as follows [original punctuation provided]:

- Is it meaningful? Does it tie to the mission of the division/agency?
- Is it focused on customer needs and demands?
- Is it simple enough on customer needs and demands? Does it avoid ambiguous concepts?
- Are the data available, accurate, and reliable?
- Is it cost effective to collect and report the data?

- If the measure captures output, does it influence an outcome?
- Do you have a meaningful target (reasonable, not stretch or too conservative)?
- For new funding item performance measures, can the data be collected and reported within a year?

MS. BROUSSARD displayed slide 12, "Examples of Performance measures," which provided a table showing four projects in Utah. She highlighted the goal, output measures, and outcome measures for the fourth project that would reduce the number of repeat offenders.

MS. BROUSSARD presented an example of a line item in Utah's budget as shown on slide 13, which read as follows [original punctuation provided

ITEM 20 To Department of Health and Human Services -
Division of Juvenile Justice Services - Juvenile
Justice & Youth Service Community Programs
(63,740,400)

In accordance with UCA 63J-1-903, the Legislature intends that the Division of Juvenile Justice and Youth Services report performance measures for the Administration line item, whose mission is "to be a leader in the field of juvenile justice by changing young lives, supporting families and keeping communities safe." The department shall report to the Office of the Legislative Fiscal Analyst and to the Governor's Office of Planning and Budget before October 1, 2023, the final status of performance measures established in FY 2023 appropriations bills. For FY 2024, the department shall report the following performance measures:

- 1) Avoid new felony or misdemeanor charge while enrolled in the Youth Services program and within 90 days of release (Target = 100 [percent]); and 2) Reduce the risk of recidivism by 15 [percent] within 3 years (Target = 15 [percent]).

[6:27:10 PM](#)

CHAIR CARPENTER drew attention to slide 12 and pointed out that this does not happen with the [Alaska State Legislature's appropriations process]. He said the performance measures that

Utah legislators have access to are a range of goals and output measures, which are used at the time that they are discussing budget. He brought attention to slide 13 and noted that a \$63 million appropriation is being considered for Item 20, and there is a performance measure as to what the program is trying to get to. If this were the Alaska legislature, he continued, the conversation during the budget subcommittee process would then become, "Are you meeting your target? Or to what extent are you meeting your target? And then that ... directly relates to the dollars that we're appropriating to the questions of, Why are you not meeting your target? Led to, Is this a policy problem or is this a dollar problem? and that would help us come to better decisions within the appropriations process that we go through."

[6:28:51 PM](#)

REPRESENTATIVE GROH asked how the sponsor picked \$70 a barrel.

CHAIR CARPENTER responded that the \$70 in SSHB 194 is a number that has been used before in conversations regarding what the right number is for oil, so he started with that number. Since [the price] fluctuates, he continued, a more valuable component is to use the average of a 10-year lookback to help come up with a number that is "budgetable." Then if there is excess revenue, he advised, the legislature would have a path forward for how to use that as opposed to just spending it all. He said the number is subject to change if a better number is needed.

REPRESENTATIVE GROH remarked that Alaska has seen oil prices below \$40. He drew attention to the provision in Section 12 of SSHB 194 which states that operating expenditures may not exceed official estimates for revenue. Other expenditures include capital expenditures and permanent fund dividends, he noted, which often go up the most in spikes. He inquired about the thinking behind this provision.

CHAIR CARPENTER replied that recurring revenue is the key part. Day to day agency operations in state government, he explained, not one-off expenses or projects, are only paid for with the recurring revenue that is sustainable on a regular basis. He said this goes to why a conference would establish a particular dollar figure in oil prices and stick with a revenue stream number year to year that tells what size of government can be afforded. If more recurring services are wanted, he added, then more recurring revenue must be found to pay for it. The tendency when there is a binge of revenue from oil, he added, is

that it goes to all sorts of things including agency operations that are reoccurring in nature. So, he continued, the thinking is to tie recurring revenue to recurring expenses and force a different conversation about one-time non-recurring expenses.

REPRESENTATIVE GROH noted that right now the state's operating budget is substantially lower than it was 10 years ago. The spending control that is helpful, he opined, is one that tries to control all the spending and not from just one source.

6:33:51 PM

ALEXI PAINTER, Director, Legislative Finance Division (LFD), Alaska State Legislature, provided a PowerPoint presentation titled "House Bill 194," dated 2/21/24, [hardcopy included in the committee packet].

MR. PAINTER related what he would be discussing as delineated on slide 2, "Outline," which read as follows [original punctuation provided]:

- Current vs. Proposed Performance Measurement Systems
- Consensus Estimation Conferences
 - Current vs. proposed procedures
 - Examples of impact
- LFD's Role in HB 194 and Fiscal Note

MR. PAINTER provided a history of the current statute while speaking to slide 3, "Current Missions and Measures System," which read as follows [original punctuation provided, with some formatting changes]:

- Legislature establishes mission statements for each agency.
- State agencies and the Office of Management and Budget (OMB) develop missions and measures to measure results and progress towards the mission statements.
- According to the OMB's Performance Management Guide, "Performance measures are quantifiable indicators that inform agencies of their progress toward their desired results. Effective performance measures are management tools developed to help monitor work performed and results achieved."
- These measures are reported by OMB in the Governor's Detail Books and under a "Performance Measures, Indicators and Details" section of OMB's website.

- Measures are assigned for each core service of each program.

MR. PAINTER noted that the bulleted item, "Measures are assigned for each core service of each program", contrasts with Utah where there are specific projects where the legislature will say that it wants to have within an agency a few focus areas that the legislature wants some change in the results, or the legislature wants to measure the results.

MR. PAINTER displayed slide 3 and reviewed an example of current performance measures for the Department of Transportation and Public Facilities (DOTPF): Priority 1, to preserve Alaska's transportation infrastructure; under which is Target 1, Condition of highway pavement, for which there is a year-to-year comparison of miles of roads in good or fair condition; and an analysis. He related that in 2013/2014 DOTPF went through a process working with the finance committees and a consultant to develop better measures. He said DOTPF has some reasonable measures that look like those of states that do this more seriously, but there are items that aren't quite as actionable.

MR. PAINTER showed slide 4 and discussed an example of current performance measurements for the Department of Administration (DOA), Division of Motor Vehicles: Target 2, achieve 80 percent customer satisfaction score. This target was far exceeded for the years 2020, 2021, and 2022, he said, which triggers the question that if the target is far exceeded, should there be some measure of improvement or determination of what the purpose is for keeping the target at 80 percent. He stated that this has happened for a lot of these measures because they are not really a part of the budget process. For many targets, he continued, it is seen from year to year that the agency just asks whether it is meeting some baseline with a yes or no answer and with some analysis that doesn't necessarily feed into something actionable for the legislature. That information isn't necessarily useful, he advised, because it was developed maybe 10 years ago and just sits in the budget every year.

[6:39:31 PM](#)

CHAIR CARPENTER asked about the amount of money the legislature is appropriating in the budget toward achieving customer satisfaction, but surmised it isn't answerable right now.

MR. PAINTER confirmed it isn't answerable. He noted that the existing measures don't get into the reasons for why something

may have improved over time because they aren't targeted in a way that ties them to specific activities being done by the agency, and therefore it doesn't lead to a budget conversation.

MR. PAINTER spoke from slide 6, "How HB 194 Would Change Performance Measurement," which read as follows [original punctuation provided with some formatting changes]:

- HB 194 assigns the Legislative Budget and Audit Committee (LB&A) the responsibility of providing the measures to OMB by August 1 of each year.
 - As staff to LB&A, the Legislative Finance Division would work with LB&A, OMB, and agencies to modify existing measures.
- HB 194 orients the measures around "service, program and financial goals" rather than missions.
- OMB would continue reporting the measures as established by LB&A, as well as the unit cost and performance cost of each service or program expenditure.

MR. PAINTER added that it is unknown how much DMV is spending to improve customer satisfaction. He said SSHB 194 would encourage the legislature to ask questions of agencies, an example being to ask the Department of Natural Resources (DNR): How quickly are permits being processed? How much does it cost to process each permit? Then, he continued, there could be a target to reduce the cost per permit. He explained that this is an example of how this system would work versus the current system that doesn't have this flow of logic.

[6:42:24 PM](#)

MR. PAINTER spoke from slide 7, "Current Revenue Forecast Process," which read as follows [original punctuation provided with some formatting changes]:

- Until recently, the Department of Revenue (DOR) held an annual oil price forecasting session, inviting stakeholders within State government, the legislature and academia.
- In 2019, this was replaced with a simpler methodology for oil price estimation utilizing futures market data.

- DOR develops the "Revenue Sources Book," published twice a year (in December and March) as the official revenue forecast.
- The Governor and Legislature use these forecasts to build the budget.

MR. PAINTER specified that utilizing futures market data doesn't involve people getting together and agreeing on a number, a consensus forecast; it is the Department of Revenue (DOR) doing a forecast of its own. He noted that DOR consults with LFD on methodology and there are two meetings a year between DOR, LFD, and OMB to discuss the "Revenue Sources Book" and any changes in methodology used by DOR.

CHAIR CARPENTER asked whether DOR is required by statute to consult with LFD.

MR. PAINTER replied no, DOR has chosen to keep OMB and the Legislative Branch in the loop through informal meetings. He related that Utah used to rely on informal things, but it became necessary to put formal consultation into statute because of conflicts between the legislative and executive branches. He shared that such conflicts have not occurred during his 11-12 years of being part of the forecast for Alaska, except for 2020 when the budget process had to be closed out before the spring forecast came out.

MR. PAINTER spoke from slide 8, "Revenue Estimation Process in HB 194, which read as follows [original punctuation provided with some formatting changes]:

- DOR would still prepare the Revenue Sources Book as they do now.
- Revenue Estimation Conference would develop a consensus between the Legislature and DOR for assumptions. Presumably, the results would of the conference and the RSB would match.
- Sec. 10 of HB 194 requires the Governor to limit operating expenditures in their budget proposal to "official estimates of recurring revenue." This would appear to prevent the use of reserve draws to meet operating expenses.

- Sec. 11 of HB 194 requires the Governor to develop an alternative revenue forecast and budget plan based on the 10-year average oil price and a fixed \$70 price.

MR. PAINTER expounded that in some states a revenue estimation conference could do all the work of revenue estimation. Alaska, he said, relies on a petroleum tax that is comprised primarily of three taxpayers. Substantial confidential information is required to make an accurate forecast, he explained, and since confidential information cannot be viewed by the public or LFD, coming up with a revenue forecast cannot be an entirely public process, the confidential part must be done by DOR. However, he continued, there could be a public process through the price or the methodology rather than the model itself that DOR runs. The conferences, he stated, would formalize some of the things that are happening now but that aren't a public process.

[6:49:47 PM](#)

MR. PAINTER explained that the graph on slide 9, "Projection Scenarios Versus Actual Revenue," [for fiscal years 2022-2027], shows the alternative numbers that would be used for a revenue forecast versus what is used now. He specified that the blue area is the actual unrestricted general fund (UGF) revenue [excluding percent of market value (POMV)] that was used in the fall forecast for this year. The red line, he said, is the \$70 nominal used to prepare the forecast. He noted that the \$70 nominal moves around quite a bit partly because of adding the POMV, which increases the revenue forecast a lot. He pointed out that even when using the same \$70, the revenue forecast is different each year because of changes in production and changes in company costs. The \$70 nominal, he added, would be a lot more stable than what was had in reality. He further pointed out that currently the \$70 nominal is very close to the 10-year average [purple line]. If the 10-year average is used, he continued, spikes and drops would still be seen because there has been huge volatility in oil prices from year to year. He stated that the actual fall forecasts [blue line] and actual spring forecasts [orange line] for each year tracked fairly close, but sometimes spikes were foreseen that didn't occur. For example, he related, in fiscal year 2023 (FY 23) it was thought that prices would stay in the \$100-something range in the spring forecast, but instead prices dropped, and the forecasts were slow to capture just how deeply revenue dropped during the drop.

[6:52:35 PM](#)

MR. PAINTER addressed the bar graphs on slide 10, "Example: FY24 Revenue Scenarios," depicting the forecasted UGF revenue by scenario (fall 23 forecast, spring 23 forecast, 10-year average, \$70 nominal) for fiscal years 2025, 2026, and 2027. There isn't a huge difference between the scenarios, he explained, because prices are close to \$70 and close to that average. Right now, he said, these things are coincidentally very close so it looks like this wouldn't make a big difference. But, he added, slide 9 shows that historically using these different methodologies would have a very different result from each other.

MR. PAINTER discussed the bar graphs on slide 11, "Example: FY12 Revenue Scenarios," depicting the forecasted and actual UGF revenues by scenario (fall 2010 forecast, spring 2011 forecast, 10-year average (\$52), \$70 nominal, and actual) for fiscal years 2012, 2013, and 2014. Looking back historically, he related that in FY 12 the results are very different between the five scenarios, with the actual being much higher than the other four because there was an unexpected revenue spike. In FY 13, he noted, the fall 10 forecast and spring 11 forecast were very close to actual, while the 10-year average and \$70 nominal were lower because prices were unusually high at that point. So, he continued, in that year more accuracy wouldn't be seen, but had the budget been built on those lower numbers the budget wouldn't have been as far out of whack when the crash was seen because there would have been a budget scenario that went to a lower price that was more in line with what really happened in FY 16 and FY 17.

MR. PAINTER spoke to slide 12, "Example: FY 17 Revenue Scenarios," depicting the forecasted and actual UGF revenues by scenario (fall 15 forecast, spring 16 forecast, 10-year average, \$70 nominal, and actual) for fiscal years 2017, 2018, and 2019. He pointed out the big differences between the actual and the forecasts - the forecasts showed continued low revenue but in reality it went upwards in a swifter recovery than what showed in the forecasts. While the forecast doesn't always look like the most accurate methodology, he added, it would lead to more stability if the budgeting were done on that.

[6:55:17 PM](#)

MR. PAINTER paraphrased from slides 13 and 14, "Consensus Estimation Conferences," which read as follows [original punctuation provided with some formatting changes]:

- HB 194 establishes seven estimation conferences. The Legislative Fiscal Analyst would be the principal, with participants appointed by the Speaker of the House, Senate President, and Governor.

- The seven conferences would cover:
 - Economic forecasts
 - Demographic estimates
 - Revenue forecasts
 - Education
 - Criminal justice
 - Social Services
 - Retirement systems actuarial assumptions

- Developing policy-neutral baselines for major expenditure items is a priority of LFD now.

- For example, this session LFD worked with OMB and the Department of Health this session to review Medicaid projections in detail after the Governor's amended budget was released. However, in some past years it was difficult to get Medicaid projections.

- Consensus estimation conferences would create a framework to formalize a collaborative budget process between the legislative and executive branches.

- Potential challenges would be developing a timeline that does not conflict with the executive branch's budget development process and avoiding duplication of work.

- Another challenge is that Alaska does not have permanent legislative committee staff like Florida; partisan legislative staff are tied to individual legislators and may not have longevity in their roles to develop subject-matter expertise.

[7:00:09 PM](#)

MR. PAINTER concluded his presentation by speaking to slide 15, "HB 194's Impact on LFD and Fiscal Note," which read as follows [original punctuation provided with some formatting changes]:

- HB 194 would significantly add to LFD's interim workload.
 - Assisting LB&A in developing new performance metrics
 - Organizing seven consensus estimation conferences

- Florida Office of Economic and Demographic Research, which plays a similar role in that state's estimation conferences, has 27 analysts. LFD had six. (Both organizations do have significant other duties beyond these conferences.)

- Utilizing existing legislative meeting space, recording staff, and infrastructure reduces the cost need.

- LFD is conservatively requesting one additional Fiscal Analyst PCN to assist with additional workload (\$210.9 UGF including one-time costs).
 - We are unsure whether this is enough additional personnel to meet these new duties but are wary of attempting to expand too quickly because of the steep learning curve for new analysts.
 - Our current building does not have space for more staff (even one additional PCN would require reconfiguring current space).

- Requesting \$17.5 UGF of travel funds for interim conferences, assuming many will be held in Anchorage to accommodate other participants.

MR. PAINTER advised that if there was better agreement on some of these items before session, not quite as much of the budget work would need to be done during session. Session is intense right now, he continued, partly because there is not substantial budget work that happens during interim. It would be beneficial to shift work, he added, rather than just add to it.

[7:03:11 PM](#)

REPRESENTATIVE GROH asked what Mr. Painter sees as the most likely benefits and the biggest challenges of this proposal.

MR. PAINTER responded that the two parts of the proposal are the estimation conferences and the performance measures. Regarding performance measures, he said that if the legislature wants to make performance budgeting a priority again, then having the Legislative Budget and Audit (LB&A) Committee as the designated

agency within the legislature would be a benefit because an interim committee could do the work since it is a challenge to fitting everything into session. He advised that performance management, measurements, and budgeting take a substantial amount of work as well as buy-in from both the executive and legislative branches. Culture cannot be legislated, he added, and changing budgeting practices and culture is probably a bigger challenge than changing the statute. Regarding estimation conferences, Mr. Painter said the biggest benefit would be moving some of the work that LFD tries to do. For example, he continued, being more formal in separating out projections and policy choices would help tease out policy changes from the underlying growth or shrinkage of a program's cost and would make budgetary choices clearer. He allowed that getting this to a functional system in the state's programs would be a substantial amount of work that will take time.

[7:08:12 PM](#)

CHAIR CARPENTER acknowledged the considerable amount of change that HB 194 would require. On the other side of difficult, he opined, is a benefit. He asked whether any other proposals are being considered that would better the process going forward.

MR. PAINTER replied that a bill by Senator Kaufman was heard yesterday in the Senate Finance Committee. He said Senator Kaufman's bill would formalize transferring the performance management to the Executive Branch, would change some of the terminology and missions, and instead of a 10-year plan it would focus on a shorter time horizon.

CHAIR CARPENTER stated that that would be a competing proposal on where the oversight responsibility lies, what the goal is, and how to measure it. He said he sees the two proposals as two policy choices - choosing to say the Executive Branch has responsibility for that or choosing to say the legislature retains that and will move forward with it is doing.

[7:10:33 PM](#)

REPRESENTATIVE TILTON inquired about what is in SSHB 194 that would create a successful environment and not fizzle out.

MR. PAINTER answered that it goes back to the legislative culture, people cannot be forced to continue to care about these things. Giving it to a specific committee, he said, probably improves the likelihood that it will continue being done because

the chairman of that committee would presumably want to exercise the committee's power versus the entire legislature being unclear as to who is supposed to be leading and staffing it. Looking at the statute and changing it in some way, he added, probably increases the likelihood it will succeed versus just hoping the current statute with no additional emphasis will succeed.

[7:13:03 PM](#)

REPRESENTATIVE MCCABE stated that the fiscal note is reasonable with one position control number (PCN) for looking at this and then perhaps coming back for more.

[7:13:43 PM](#)

REPRESENTATIVE MCKAY said he likes having an alternate budget that is based on a certain oil price. He expressed his concern that Alaska isn't ready should there be a drastic reduction in world oil prices. He suggested that Alaska have an austerity budget and know what it would do if oil prices decreased to \$30-\$40 at current reserve levels, which are much less than the 1.5 and 2.0 million barrels of oil a day produced in 1986 and 1989, respectively. He said he likes "this idea" because "it kind of forces you to deal with that."

[7:16:58 PM](#)

REPRESENTATIVE GROH recounted that when Alaska was going broke in 1949, a broad-based tax was brought in for the first time which helped achieve statehood, and when Alaska was in a bad financial spot in 2018 it moved to a percent of market value (POMV) system. So, there are approaches that can help, he said, but it isn't just oil prices going down, a twist could be a fall in production, or it could be the financial markets. Decent schools, roads, and public safety can be provided, he opined, if [the legislature] is smart about it and willing to consider acquiring revenues as well.

[7:18:38 PM](#)

REPRESENTATIVE MCCABE stated that revenue isn't just taxes and financial markets, it is resources like coal, gold, copper, and antimony. "We" are in this position, he opined, because "we" haven't developed Alaska's resources as required by the state's constitution. Instead, he opined further, "we" are just going to tax people, and that is abhorrent.

7:19:33 PM

REPRESENTATIVE MCKAY maintained that generating new revenues is simply transferring money from individuals and corporations to the government, so it's a transfer of wealth, a taking. He argued that the focus should not be on generating new revenues, but rather on creating new wealth through resource development and bringing more resources to the market instead of just taking from the private sector.

7:20:56 PM

REPRESENTATIVE TILTON asked whether there is anything from the previous framework that would be helpful for setting up measures, an example being the measures that DOTPF has in place.

MR. PAINTER replied that LFD has looked at whether any existing measures would fit this framework, and while some are useful measures, none have a cohesive system with a clear goal and policy analysis called a logic model. He explained that a logic model states the desired outcome at the end and the output that can be measured on the way to getting to that outcome, which is what the Utah model does. The analytical framework is lacking right now to make that work, he continued, but there are some measures that could be kept and, with some work, put into a cohesive system.

REPRESENTATIVE TILTON related her concern about federal funding used in certain projects. She asked whether the State of Alaska would give up a program or would budget state funds for a program if federal funding of that program should cease.

MR. PAINTER responded that LFD is often asked to look at where federal funds are being replaced with state general funds. That was a big concern after the 2009 stimulus bill of 2009, he said, when [the state] was asked to invest in certain things and several years later LFD was asked to look through replacing federal funds as they expired with general funds. That trend is again being see, he advised, but there isn't a structure in place to look at what impact is going to happen when [the state] accepts federal funds.

REPRESENTATIVE TILTON remarked that it is hard to take something away from a program that has been there. She asked what the state will be willing to do if a program goes away.

[7:26:32 PM](#)

CHAIR CARPENTER noted that earlier in the meeting there was talk about the challenges with spending nonrecurring revenue on recurring expenses because then the expectation is that it's going to continue. But when a nonrecurring federal source dries up at some point, a policy problem will then be had, he stated.

REPRESENTATIVE TILTON apologized for missing the first part of the bill's presentation.

CHAIR CARPENTER asked whether the term "structure" as used by Mr. Painter meant statutory framework or the frameworks of computer systems, culture, and way of doing business, or both.

MR. PAINTER answered probably not computer systems. But, he explained, when deciding whether to investigate something, LFD considers whether there is an audience for it so that time isn't spent on researching and developing a new analytical product that will never be used. He said having a committee in charge of something, or having a formal publication requirement, builds a reason to do something and an audience for it, at least for a while. To have value and be worth spending legislative and agency time on, he stated, these potential things need to be part of the legislative process. As part of the legislative process in a formal way, he added, it will continue regardless of who is the committee chair, instead of fading away over time.

CHAIR CARPENTER stated that the system of record - the budget documents used in House Finance Committee budget deliberations - have remained about the same under three different LFD directors over the last six years. He surmised Mr. Painter is getting at how to sustain a change and make it part of [the legislature's] culture. Chair Carpenter said the connection between how money is spent and how money is budgeted are two different computer systems that don't talk to each other and have no relation to the budget process. A big gap in the current system of record, he continued, [is not being able to] have a conversation about this year's budget that has a tie-in to how the money was spent in that same department in the previous year. He said SSHB 194 does nothing to address that part except start the conversation that identifies the need for some sort of system of record to keep this going through the next legislature.

MR. PAINTER recounted that when the current law was first implemented, performance measures were in the budget bill and budget reports. Now, he continued, they're on OMB's very thick

budget books which people may not read, and on OMB's dashboard which many people aren't even aware of. Some of the things are there now but are a bit hidden, he said, and placing them in the bill is the most direct way to make them visible. That was something the legislature once did, he noted, but moved away from because of a legal dispute that is no longer relevant.

[7:33:09 PM](#)

REPRESENTATIVE MCCABE stated that a much better way is needed to provide transparency and measurement of the people's money that is spent by the legislature to educate Alaska's kids because currently the only outcome seen is that Alaska is forty-ninth out of fifty states. He requested a few examples of what would be measured in the arena of education.

MR. PAINTER answered that the outcome could be test scores, graduation numbers, or some other target. But, he noted, specifics must be looked at in the earlier years, such as whether students are reading at grade level, test scores, and whether there is progression from year to year. In education it isn't just levels, he advised, it's wanting to see improvement, so it's figuring out what levers to pull to improve things and how to measure that. He posed the scenario, What is the Alyeska Reading Academy supposed to do to improve reading scores? He answered that a clear causal statement is needed and then that program's performance is measured as it relates to statewide reading scores. He said this is an example of applying it on the smaller level to get to that bigger outcome, which is every kid should be able to read.

REPRESENTATIVE MCCABE noted that the legislature provides money called the base student allocation (BSA) and there is also transportation, school heat, roof replacement, aides, and janitors. Everything is lumped together, he continued, and there is no transparency for Alaskans on how their money is being spent and no real way to measure all the other pieces of it other than the outcome for Alaska's kids.

CHAIR CARPENTER said that while SSHB 194 sets the statutory framework, he isn't sure how that is communicated other than in a budget bill that may or may not be adequate for legislators to make sense of or to understand that that is where it can be seen every year. So, he allowed, some additional conversation may be needed outside of this bill for how to communicate the missions and measures so that it's well understood.

7:38:25 PM

CHAIR CARPENTER announced that SSHB 194 was held over.

7:38:53 PM

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at [7:39] p.m.