

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

May 1, 2024

6:01 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

**COMMITTEE CALENDAR**

PRESENTATION(S): LONG TERM FISCAL PLAN MODEL UPDATE

**PREVIOUS COMMITTEE ACTION**

No action to record

**WITNESS REGISTER**

ALEXEI PAINTER, Director  
Legislative Finance Division (LFD)  
Juneau, Alaska

**POSITION STATEMENT:** Provided a presentation, titled "2024 Update of Fiscal Plan Working Group Model."

**ACTION NARRATIVE**

[6:01:21 PM](#)

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

**PRESENTATION(S): Long Term Fiscal Plan Model Update**

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CHAIR CARPENTER announced that the only order of business would be a presentation by Mr. Alexei Painter titled "2024 Update of Fiscal Plan Working Group Model." He said the presentation would cover the current budget and the direction the state is heading in relation to long term fiscal plans and the options that could be taken to fill a budget deficit going forward.

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ALEXEI PAINTER, Director, Legislative Finance Division (LFD), provided a presentation titled "2024 Update of Fiscal Plan Working Group Model" [included in committee documents]. He noted that in updating the model from previously, there are changes on both the revenue and budget sides.

MR. PAINTER turned to the revenue summary within the spreadsheet and said the Legislative Finance Division (LFD) received the Department of Revenue's (DOR's) spring forecast after this model was last updated. That forecast, he stated, had slightly higher oil prices for fiscal year 2025 (FY 25) with the projected price of \$76 going up to a projected price of \$78. There was a bit more of an increase in FY 24, he noted, but the change in the out years of \$1 or \$2 more a year wasn't a major increase in revenue compared to the previous model. The bigger changes are on the budget side, he pointed out.

CHAIR CARPENTER drew attention to the bar chart titled "Revenue Summary" and requested a characterization of the assumptions and projections for the out years.

MR. PAINTER explained that this chart is the non-percent of market value (non-POMV) draw of revenues, which is the state's traditional oil and gas revenue as well as the existing non-oil revenue. It is based on DOR's Spring Revenue Forecast, he said, which calls for the expected price of \$82.39 in FY 24 dropping to the \$70 range in the out years. He specified that the impact of the forecast going above and below \$70 is significant because of the graduation requirement from the gross value reduction (GVR) which depends on \$70 oil. Along with the projected price reduction to the \$70 range, he continued, DOR is calling for an increase in production (projected to be 470,000 barrels in FY 24) when the Pika Field comes online in FY 27-FY 28, plus a further increase in FY 32-FY 33 when the Willow Field comes online. Mr. Painter noted that revenue will start to increase a bit at that point, but that the real revenue impact of those

fields will be after the carry forward losses have been exhausted from Pika and right away with Willow. Despite the increase in both revenue and production in the out years, there is a period of flatter revenue, he advised, so overall for the non-POMV revenue, no year in the forecast is higher than FY 24, meaning the non-POMV revenue isn't keeping pace with inflation.

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CHAIR CARPENTER asked what the takeaway is with the assumptions on where [the state] is headed with the POMV revenue.

MR. PAINTER responded that that shows up on the budget side but isn't shown separately. Addressing the [budget] summary, he said the permanent fund's forecast slightly increased the spring forecast, with a projection of over 7 percent return that rises from about \$3.65 billion in FY 25 to \$4.3 billion by FY 33, about the rate of inflation. Overall, he continued, the projection is that Alaska's revenue will go from about \$6.5 billion to \$7.3 billion, with that increase mostly coming from the POMV draw going up over time.

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REPRESENTATIVE GRAY observed that in FY 30 the price per barrel [is projected to be] \$69 and in FY 33 [projected to be] \$73. He asked how accurate the projections have been in the past at predicting oil prices 6-9 years out.

MR. PAINTER answered, "Not very accurate, the oil market is dynamic." He advised that [state] statute requires there be a 10-year plan so that's often the timeframe looked at, but in the oil market 10 years is a very long time given that one or two years can have significant volatility. Sometimes the goal of fiscal planning, he stated, is to figure out how to ride through that volatility. He noted that the forecast of \$70 being close to the 10-year average price is coincidental as there have been years where the forecast was \$100 per barrel and then prices quickly dipped.

CHAIR CARPENTER pointed out that the heart of the conversation is that assumptions must be made. He explained that if the current assumptions of oil prices staying at about \$70 a barrel, production increasing, and the POMV continuing to increase, are different than what happens, then the deficit information will look much different.

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MR. PAINTER, responding to Representative Groh, stated that the Pika and Willow oil fields are expected to come online around FY 27. Because DOR has a risking methodology, he related, DOR's forecast doesn't say Pika goes from zero to full production in FY 27, DOR spreads that over a few years. For production tax during the initial years of field production, he explained, [the producer receives] a gross value reduction (GVR) of 20 percent and the per barrel credit is capped at \$5 a barrel. He further explained that the GVR lasts for three years if prices are \$70 or above or lasts for seven years if prices are below \$70. If the forecast was run at \$70 in FY 30 and FY 31, he continued, there would be higher revenue because that field would graduate from the GVR sooner and would pay more in tax. He noted that a new operator developing a field, such as Pika's operator that has no existing large field, cannot deduct costs and instead losses and credits are carried forward for use against the new operator's production when the field comes online. He further noted that an operator that has an existing field, such as ConocoPhillips at the Willow Field, can take those deductions as the operator goes. So, Mr. Painter continued, the revenue impact of the Pika Field isn't seen year one but rather a few years later, and for Willow there is a negative revenue impact until it hits production and then there is positive revenue impact.

MR. PAINTER, responding to Representative Groh, confirmed that the [projected] FY 33 production of 633,000 barrels a day (as depicted in the graphic) is far below the production of two million barrels [a day] in the late 1980s. Responding further, Mr. Painter explained that a breakeven price, the price of oil that would make the budget balance, is not included under revenue but rather under the fiscal summary for each given year.

CHAIR CARPENTER noted that, in the past, a breakeven point was not had on the size of a dividend or how much of the permanent fund earnings were being spent towards the state budget.

REPRESENTATIVE GROH asked about the breakeven price for [FY 24] and [FY 25].

MR. PAINTER replied that it depends on where the budget lands. Responding further, he calculated in his head that the breakeven price for FY 24 is about \$76 under the new forecast for the appropriated budget and before supplementals. There are costs from the Willow Field against the production tax in [FY 24], he

said, and the [permanent fund] dividend is 75/25. In future years, he continued, the breakeven price depends on what is being assumed.

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MR. PAINTER addressed supplementals under "budget detail" on the spreadsheet which includes the supplementals in the governor's amended budget, the House supplementals which are very similar, and the Senate supplementals and capital supplementals. He related that since putting together this model last week, the House Finance Committee has released its capital budget which matches the supplementals in the Senate's capital budget. He explained that as he goes forward [and makes the calculations being displayed onscreen for the committee], he will use the Senate Finance Committee's number as the placeholder. The assumption is about \$50 million a year in supplementals, he continued, and this year is currently at \$337 million. He said the largest supplemental this year is the Senate's supplemental of \$35 million for fire suppression for the upcoming year to get out of the cycle of supplementals and move towards an average funding. The next largest supplemental is from the Department of Corrections, he stated. Mr. Painter explained that the budgets of both bodies include significant increases that are fractions to get their FY 25 budgets to match their FY 24 with supplementals; the last few years their budget after supplementals has been higher than their budget for the upcoming year. He said the disparity is significant despite actions taken in the FY 25 budget to reduce supplementals in the future.

MR. PAINTER drew attention to agency operations, which he stated is the basis government plus the amendments received as of 4/9/24. The operating budget numbers do not include four union contracts that are outstanding for FY 25, he pointed out, so those numbers will likely go up as those contracts are worked in at conference committee. The Senate Finance committee's budget of \$4.6 billion was not amended on the Senate floor, he noted, so the House and Senate budgets are very close. The House and Senate budgets are about \$250 million above the governor's budget, with \$175 million of that coming from outside the formula money for education.

MR. PAINTER moved to statewide items and specified that a big change is the disaster relief fund, with the governor putting in \$5 million and both the House and Senate putting in \$20.5 million. Both bodies, he stated, are trying to reduce the amount of future supplementals and \$20.5 million represents the

average spend from the disaster relief fund, so the governor's number may have resulted in the need for a supplemental. The House number is a bit higher, he explained, because the House put in the amount needed to get community assistance back to an \$80 million balance. The Senate number is higher, he further explained, mostly because the Senate moved fire suppression from the Department of Natural Resources (DNR) to an old fund for fire suppression that was used prior to 1989, which moves that expense from agency operations down to statewide items.

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MR. PAINTER addressed the capital budget and noted he is using the most recently passed version of the budget. He reported that the governor's capital budget number is \$297.4 million with amendments, down from the \$305 million that it was before. The Senate's budget was at \$271 million, including the mental health capital budget, he further reported, but today the Senate and House finance committees added \$103 million, so the real number is likely going to be about \$374 million. Capital projects, he advised, exist for the entire life of the project or for five years if they aren't making progress. He said the Senate funded its additions to the capital budget as supplements, and the House included its additions to the capital budget in FY 25. Mr. Painter advised that usually the most accurate way to look at the capital budget is session by session because when there are spikes in revenue that get spent, the spend is across the two fiscal years, not just the current fiscal year. That is a challenge for modeling here, he explained, where our baseline is this year's capital budget grows with inflation, but if the modeling is this session's capital budget grows with inflation then the \$371-plus is seen. [This model] is reflecting the FY 25 grows with inflation, he continued, but to reflect the size of this capital budget going forward, the Senate and House finance committees' addition of \$193 million in supplementals needs to be added to this. If that isn't done, he cautioned, then the capital budget going forward is decreasing from what was agreed to this year. The capital budget tends to shift based on how much available revenue there is, Mr. Painter noted, so higher oil prices today with the projections going down probably indicates a smaller capital budget. He stated that the capital budget is a significant challenge for fiscal planning because the capital budget crosses fiscal years and varies based on revenue rather than a baseline based on needs. Mr. Painter said he is flagging this as a concern for those members trying to do fiscal planning to figure out what's a reasonable size of a capital budget to assume going forward. The Legislative

Finance Division (LFD), he added, doesn't know what a baseline capital budget is, LFD just knows what [the legislature] spends when it has a given amount of revenue.

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MR. PAINTER, in response to Chair Carpenter, confirmed that money was appropriated to the FY 24 budget from the capital spend, and that that's reflected in the supplementals. Responding further, Mr. Painter confirmed that both capital and operating are included in the supplemental numbers at the top of the spreadsheet.

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MR. PAINTER discussed the permanent fund dividend. He said using the governor's number of 50 percent of the statutory net income and the legislature's budget in the Senate results in a \$1.3 billion deficit that grows significantly over the years because the assumptions are that the budget grows with inflation, but revenue does not. In a scenario of 50 percent of the POMV and the Senate's budget starting point, he stated, the deficit is about \$900 million in FY 25 and an average deficit from FY 25-FY 33 of about \$1.45 billion. He said a scenario that uses the Senate's proposed 25 percent of the POMV leaves a surplus in FY 25 and deficits in the outgoing years assuming the capital budget is kept at the same level as this year and the operating budget grows with inflation. He added that a scenario which does the FY 25 level, not the "24 session level" has smaller deficits of about \$250 million a year.

MR. PAINTER offered to review the comparison he put together at Chair Carpenter's request between the model a year ago and the model now.

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CHAIR CARPENTER, for the sake of argument, requested that the \$193 [million] stay in going forward.

MR. PAINTER pointed out that the House's boost for energy relief in FY 24 uses that FY 24 surplus and doesn't have any impact going forward, but it does have an impact on the reserve level. In further response, he related that oftentimes the conference committee ends up higher than either body's budget. That isn't possible this year, he explained, because that will leave a deficit and so it will have to go below the Senate number since

the contracts and fiscal notes have yet to come in. Mr. Painter then displayed calculations using the Senate Finance Committee budget, which doesn't include fiscal notes, as a base. He added in the fiscal note of \$39.4 million for the "Broadband bill" that the legislature has already passed and the fiscal note of \$23.5 million for the "senior benefits extension" that appears likely to pass. He noted that these two bills total almost \$63 million and will be ongoing spending going forward. He next added in the four union contracts using a low-end figure of \$27 million to act as a placeholder. Mr. Painter then added in \$13 million for the fiscal notes of other bills that might pass and \$103 million as a placeholder for the capital fiscal note of the "elections omnibus bill" that might pass. He pointed out that the conference committee needs to get below the Senate number in the operating budget because, including supplementals and the Senate's dividend, the calculations show a small deficit [in FY 25].

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MR. PAINTER, in response to Chair Carpenter, confirmed that the aforementioned are recurring costs, not one-time costs. He said projections are hard because of not having all the information. It is significant, he stressed, that a conference committee must get closer to the House budget or at least below the Senate's.

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MR. PAINTER moved to the summary page and explained that the bar graph at the bottom is without those additions. He specified that the model he presented to the committee a year ago versus this model is a reasonable ballpark. He explained that the lines on the bar graph are the budget including the PFD and the bars are revenue that makes up to that budget. He noted that the traditional revenue and POMV draw are insufficient to meet the spending in this scenario. Draws from the Constitutional Budget Reserve (CBR) and (indisc.) would be needed, he continued, and unfilled deficit would start somewhere in FY 30. Right now, he added, there is not an assumption that that gets filled with the Alaska Permanent Fund Earnings Reserve Account (ERA). Using the assumption that the deficit will be filled with the ERA, he related, will eat into what's available in the ERA balance going forward. He said [the graph] looks weird because inflation proofing must be stopped to make room for that or otherwise it goes negative.

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MR. PAINTER, in response to Chair Carpenter, said the PFD split is 75/25 in those out years where there is a deficit.

CHAIR CARPENTER asked what the split of the permanent fund earnings would need to be for a balanced budget in those out years if the operation and capital spending are similar to this year.

MR. PAINTER estimated that a balanced budget would be about an 11 percent POMV based on the higher capital budget that includes the contracts and fiscal notes. That shows significant surplus this year, he said, but because the budget is shown growing with inflation and revenue not growing with inflation, it goes to a deficit, although over the period it is about a balanced budget. He noted that an 11 percent POMV would be a PFD of about \$600 per person a year.

CHAIR CARPENTER asked what the options would be to fill the budget deficits in the out years if the PFD split was returned to 25/75 and the budget assumptions stayed the same.

MR. PAINTER answered that that scenario would leave new revenue of some sort.

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MR. PAINTER brought attention to the comparison of the 4/28/23 model to the 4/26/24 model [included in committee packet] and noted that the spending additions he has put in so far are not included. Regarding revenue, he said this year's revenue forecast is slightly higher than last year's forecast, with about \$200 million more in revenue in FY 25 and decreasing to under \$100 million by the end of the modeling period. Regarding budget, Mr. Painter stated that the budget in FY 25 going forward is about \$350-\$400 million higher than what had been assumed a year ago based on the Senate's budget. Most is on the capital side, he added, some is on the operating side, with both being significantly higher than they were a year ago. When the two are netted, he continued, the higher revenue with the higher budget means a lower surplus before the PFD is considered.

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The committee took an at-ease from 6:37 p.m. to 6:39 p.m.

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MR. PAINTER resumed his comparison of the two models. He said the higher budget and higher revenue net out to a difference in FY 25 of \$172 million as well as on average between periods, and about a \$233 million larger deficit before the PFD. If a 50/50 PFD is included, he related, the difference grows to about \$400 million a year because the assumption is better returns in the permanent fund and therefore higher PFDs from the 50/50 or a 75/25. With the 50/50 a year ago, he noted, a deficit of \$660 million [was projected] with an on average deficit of \$800 [million] over the period, but now [the projection is] a deficit of about \$1.2 billion on average. With a 75/25 a year ago, he continued, [the projection was] an average surplus of about \$205 million, now [the projection is] an average deficit of \$227 million, a difference of roughly \$400 million. He explained that's because now it is a higher revenue but also significantly higher spending which leads to a deficit and so additional actions will now be needed. A year ago, he said, the POMV going with the dividend would give an average zero deficit with about 9.5 percent. But, he stated, this year with those assumptions without the additions he discussed it would be about 19 percent, and if the contracts, fiscal notes, and this year's higher capital budget, it could drop to about 11 percent assuming no other changes.

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REPRESENTATIVE GROH requested an explanation of what percentage to POMV dividend for zero means.

MR. PAINTER explained that if the assumptions are the budget doesn't change, revenue changes, and the goal is an average deficit of zero from FY 25-FY 32, then that would be on average a balanced budget for the modeling period. In further response, he confirmed that that would be zero average deficit. To balance the budget on average last year, he stated, 29.5 percent of the POMV draw would be put towards the dividend, but now that number is more like 19 percent. That number could be lowered even more, he continued, if the contracts and such are added to the baseline assumptions. The core reason, he added, is that revenue is not increasing as fast as inflation. He concluded his presentation by pointing out that when assuming the budget grows with inflation, but revenue doesn't, then there is increasing deficits going forward.

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REPRESENTATIVE GROH offered his thanks for the information provided to the committee. He inquired about what Chair Carpenter thinks is occurring here.

CHAIR CARPENTER replied that the graph on the summary page of the model worksheet is what he has been speaking to for a couple years now. Without systemic change to the current budgeting process, he said, the permanent fund dividend will be consumed. Oil prices, production amounts, and returns from the stock market, will likely be different than what is projected, he stated. What it means to him, he explained, is that continuing to balance the budget on the back of the dividend, because that's what's easiest, will eventually result in not enough permanent fund earnings to balance the demands for spending. If things stay the same, he cautioned, in just a couple years the legislature will have to decide whether to continue to spend at a certain level and increase revenue, or to live within our means without a dividend and adjust the spending.

CHAIR CARPENTER thanked Mr. Painter for his work on the modeling and thanked committee members for their work. He expressed his hope that there will be future conversations about this in future legislatures because Alaskans will be unhappy if the legislature continues what it is doing while knowing there will be deficits in the future if nothing is changed structurally.

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#### **ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 6:47 p.m.