

SENATE FINANCE COMMITTEE
January 30, 2023
9:01 a.m.

[9:01:15 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Donny Olson, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Jesse Kiehl
Senator Kelly Merrick
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Alexei Painter, Director, Legislative Finance Division; Rob Carpenter, Analyst, Legislative Finance Division; Albert Wall, Analyst, Legislative Finance Division; Connor Bell, Analyst, Legislative Finance Division; Valerie Rose, Analyst, Legislative Finance Division; Michael Partlow, Analyst, Legislative Finance Division.

SUMMARY

SB 40 APPROP: OPERATING BUDGET/LOANS/FUND; SUPP

SB 40 was HEARD and HELD in committee for further consideration.

SB 41 APPROP: CAPITAL/SUPPLEMENTAL

SB 41 was HEARD and HELD in committee for further consideration.

SB 42 APPROP: MENTAL HEALTH BUDGET

SB 42 was HEARD and HELD in committee for further consideration.

LEGISLATIVE FINANCE OVERVIEW of PROPOSED FY 24 BUDGET

#sb40
#sb41
#sb42

SENATE BILL NO. 40

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; making reappropriations; making supplemental appropriations; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

SENATE BILL NO. 41

"An Act making appropriations, including capital appropriations and other appropriations; making supplemental appropriations; making appropriations to capitalize funds; and providing for an effective date."

SENATE BILL NO. 42

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

[9:02:10 AM](#)

^LEGISLATIVE FINANCE OVERVIEW of PROPOSED FY 24 BUDGET

[9:02:12 AM](#)

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, (LFD) introduced himself.

[9:02:43 AM](#)

ROB CARPENTER, ANALYST, LEGISLATIVE FINANCE DIVISION,
introduced himself.

[9:03:10 AM](#)

ALBERT WALL, ANALYST, LEGISLATIVE FINANCE DIVISION,
introduced himself.

[9:03:30 AM](#)

CONNOR BELL, ANALYST, LEGISLATIVE FINANCE DIVISION,
introduced himself.

[9:04:02 AM](#)

VALERIE ROSE, ANALYST, LEGISLATIVE FINANCE DIVISION,
introduced herself.

[9:04:24 AM](#)

MICHAEL PARTLOW, ANALYST, LEGISLATIVE FINANCE DIVISION,
introduced himself.

[9:04:39 AM](#)

Mr. Painter stated that Ms. Foss was also an analyst for LFD, but was not able to join the meeting.

[9:05:03 AM](#)

Mr. Painter discussed the presentation, "Overview of the Governor's FY24 Budget" (copy on file). He looked at slide 2, "Outline":

- 2022 Session and FY23 budget Recap
- Fiscal Outlook
- FY24 Budget Baselines
- Governor's FY24 Proposal
- Long Term Outlook and Governor's 10 Year Plan

[9:05:23 AM](#)

Mr. Painter looked at slide 3, "FY23 Budget Recap." He noted that in FY 23, it was the revenue sensitivity graph. He pointed out the revenue the state would receive as the price per barrel of oil changed on the axis. He noted that

the revenue curve was not linear, because there was a progressivity element in the oil taxes. He remarked that the FY 23 budget would balance before transfers at \$94 per barrel, which was the true fiscal breakeven point.

Co-Chair Stedman stated that there were upcoming supplemental adjustments that were not included in the chart. He queried the expectations of the proposed estimates.

[9:07:31 AM](#)

AT EASE

[9:07:54 AM](#)

RECONVENED

[9:08:00 AM](#)

AT EASE

[9:09:24 AM](#)

RECONVENED

[9:09:30 AM](#)

Mr. Painter stated that the governor's budget had a fiscal summary from the Office of Management and Budget (OMB) that included a placeholder of \$85 million for supplementals in FY 23. He stated that the estimate was using \$50 million for fire suppression, but would probably be closer to \$60 million. He stated that the supplemental would then be increased to \$95 million, due to OMB's public discussions. He felt that the true number may be higher than \$95 million.

Co-Chair Stedman wondered whether \$88 per barrel was required to meet the budget until the end of June.

Mr. Painter replied that the \$88 was required for the entire fiscal year.

Co-Chair Stedman felt that there needed to be a close eye on the price of oil estimate.

Mr. Painter pointed to slide 4, "FY23 Budget Recap (Cont.)":

- In FY23, the budget balances at \$94 per barrel before fund transfers this is the true fiscal balancing point
- The legislature's budget transferred the FY22 surplus (nearly \$1 billion) to the SBR and used that to fill any FY23 deficit. The Governor vetoed most of that transfer, leaving about \$20 million in the SBR to fill a deficit
- Additional revenue up to \$102 per barrel will go into the Public Education Fund to forward fund the K 12 formula
- Supplemental appropriations could change these balancing points

Mr. Painter discussed slide 5, "2022 Session Recap":

One Time Items

\$220.8 million to pay past unfunded School Bond Debt Reimbursement from FY17

\$84.0 million to repay past unfunded REAA deposits from FY17

\$199.0 million to the Permanent Fund Corpus to satisfy an audit finding relating to FY17 royalties

\$38.9 million in FY22 to bring the Community Assistance Fund balance back \$90.0 million

An additional \$60.0 million in FY22 for oil and gas tax credits in an effort to purchase the remaining outstanding credits

[9:15:45 AM](#)

Mr. Painter pointed to slide 6, "Fiscal Outlook":

- Compared to the Spring 2022 Revenue Forecast, the Fall 2022 Forecast projects \$1.1 billion less UGF revenue in FY23 and \$0.7 billion less in FY24
- While the oil price spike in the first half of 2022 contributed to the CBR balance and financed a nearly \$1 billion UGF capital budget in the 2022 session, it did not change the long term revenue picture
- Over the medium to long term, the Fall 2022 Forecast is very similar to the Fall 2021 forecast

Mr. Painter looked at slide 7, "Fiscal Outlook (cont.)." He noted that there was a substantial difference between the FY 22 and FY 23 forecasts due to the price spike. He remarked that by FY 27 and FY 28 there was virtually no difference in the forecasts from the recent forecasts. He noted that it was important to recognize that the price spike brought more revenue in the short term, but did not change the long-term fiscal picture, other than the extra \$1 billion in the Constitutional Budget Reserve (CBR).

Co-Chair Stedman remarked that there had been effort in "shoring" up the municipalities and the state with the understanding of the possible financial constraints in upcoming years.

Mr. Painter discussed slide 8, "Fiscal Outlook (cont.)." He stated that the slide showed the daily prices of Alaska North Slope crude from January 2020 to current day. He noted that the long-term forecast over year to year had been relatively stable, the short term prices over recent years had been very volatile.

[9:20:53 AM](#)

Co-Chair Stedman remarked that the statutory budget reserve (SBR) could have been used for funding, but that was not supported by the administration.

Mr. Painter displayed slide 9, "Fiscal Outlook (cont.)." He stated that the slide was the fiscal sensitivity chart for FY 24 for the governor's budget. He remarked that the dotted line represented the various revenues, and the solid line represented the governor's budget.

Mr. Painter pointed to slide 10, "Fiscal Outlook (cont.)." He stated that the last year that showed a surplus was FY 12, so that was the starting point for the slide through FY 24. He noted that the blue area was petroleum revenue, which was traditionally the largest source of revenue. However, the petroleum revenue was roughly the same as the percent of market value (POMV) draw.

Co-Chair Stedman asked for a definition about the issue.

Mr. Painter explained that the POMV draw from the Permanent Fund was one of the largest sources of revenue for the

state since FY 19. He stated that the draw was 5 percent equal to the market value for the previous five fiscal years. He stated that it was approximately \$3.5 billion for the current year. He stated that prior to the POMV creation, the Permanent Fund Dividend (PFD) came directly from the Earnings Reserve Account (ERA).

Co-Chair Stedman wondered whether the funds could be used for any purpose.

Mr. Painter replied that UGF were funds that could be used for any purpose.

Mr. Painter addressed slide 11, "Fiscal Outlook (cont.)." He stated that the slide layered on the budgets over the years. He remarked that the background was the revenue from previous charts. He stated that the foreground added the budgets for each of the displayed years. He noted that the blue color indicated the agency operations.

Mr. Painter looked at slide 12, "Fiscal Outlook (cont.)." He remarked that the slide showed the savings balances. He noted that the blue was the CBR and the red was the SBR. He stated that the total savings balance was peaked at the end of FY 13 at nearly \$15 billion. He remarked that there was a small deficit that year, and investment returns on those accounts outweighed the deficit.

Senator Bishop commented that the large transfer into the retirement system was a "smart move."

[9:29:27 AM](#)

Mr. Painter discussed slide 13, "LFD's Budget Baselines":

- Two baselines to consider: current policy and current law. These are intended to create a "clean" starting point for the current budget rather than previous years that are distorted by one-time items.
- Both scenarios use a slightly modified version of the FY24 Adjusted Base for agency operations, the FY23 capital budget as the base for FY24. Since all statewide items were fully funded in FY23, they also both include full funding of statewide items. The only difference in FY24 is the PFD.
- Current policy assumes a 50/50 PFD plus an energy relief payment. 50/50 PFD (50 percent of POMV draw)

would be \$1.76 billion, paying about \$2,700 per recipient. Adding a \$420.1 million energy relief payment would result in a total distribution of about \$3,350 per recipient.

- Current law assumes a statutory PFD.
- That is projected to be about \$2.47 billion, paying about \$3,800 per recipient.

Mr. Painter pointed to slide 14, "LFD's Budget Baselines (Cont.)." He remarked that there were a number of one-time items in agency budgets. He pointed specifically to the \$57 million for the K-12 formula, which was outside the foundation formula. He stated that it had been removed from the baseline moving into the next year. He noted that there was nearly \$30 million across the University of Alaska for a number of multi-year research projects, but it was designed as a one-time item, and not as an increase to baseline funding. He pointed to a similar item in the Department of Labor and Workforce Development (DOLFD) of \$7.4 million for the Alaska Marine Highway System (AMHS). He noted that with the uncertainty around federal funds, the legislature and governor had agreed to \$20 million of UGF as backstop if federal receipts were insufficient in FY 23. He stated that the money was also removed from the baseline for FY 23.

Co-Chair Hoffman wondered whether the one-time increase for K-12 funding was equivalent to a \$100 increase to the Base Student Allocation (BSA).

Mr. Painter replied that it was equivalent to approximately \$220.

[9:34:20 AM](#)

Mr. Painter discussed slide 15, "LFD's Budget Baselines (Cont.)." He shared that the two statewide items were identical for the baseline items. He stated that the school debt reimbursement for the year was approximately \$53.6 million of UGF plus additional DGF funds from the school fund. He stated that the amount was down significantly from past years because there was a moratorium on new debt since 2015. Therefore, the amount had decreased year to year. He explained that the moratorium was scheduled to expire on July 1, 2025.

Co-Chair Stedman queried the unfunded liability in the retirement system.

Mr. Painter replied that it was approximately \$7 billion.

Co-Chair Stedman asked whether it was a \$1 billion increase from the year prior.

Mr. Painter replied in the affirmative, and explained that there were poor returns in FY 22 which were factored into that average.

Mr. Painter looked at slide 16, "LFD's Budget Baselines (Cont.)." The slide showed the two baselines through FY 24. There was an expectation of \$6.9 billion of UGF revenue. He stressed that the numbers were identical through the "pre-PFD numbers" of approximately \$5.2 billion each.

Mr. Painter addressed slide 17, "Governor's FY24 Budget Compared to Baselines." He stated that the governor's budget for agency operations was up \$54.8 million over the baseline, which was also 1.3 percent. He stated that it was fairly close to the governor's long-term ten-year plan.

[9:40:28 AM](#)

Mr. Painter pointed to slide 18, "Governor's FY24 Budget (Cont.)"

- Includes statutory PFD payment in FY24.
- Agency Operations is \$54.8 million (1.3 percent) above LFD baseline.
- Fully funds statewide items other than Community Assistance.
- Pre transfer deficit of \$322.5 million is filled with a combination of ARPA revenue replacement (\$10.6 million), drawing from FY23 forward funding of K 12 (\$114.1 million), and the SBR (\$19.8 million) and CBR (\$178.3 million)

Co-Chair Hoffman remarked that federal government provided additional AMHS funds, and he believed that in order to receive the funds there was an additional match required of \$40 million that was not included within the presentation.

Mr. Painter replied that the infrastructure provided approximately \$156 million in AMHS funds per year over five

years. He stated that the federal government had limited how much could be spent on operating costs.

[9:45:36 AM](#)

Co-Chair Stedman stated that there would be a separate presentation from AMHS to examine the cash flow needs.

Mr. Painter continued with slide 18:

- Governor did not submit supplementals on December 15 (they are due on the 15th day of session) but includes an \$85 million placeholder in the OMB fiscal summary. Note that LFD does not include a similar placeholder, so FY23 figures in our fiscal summary are pre supplementals.
 - If FY23 forward funding is used to close the FY24 deficit, any FY23 UGF supplemental appropriation has the effect of increasing the FY24 deficit.

Mr. Painter pointed to slide 19, "Governor's FY24 Budget (Cont.)." He noted that the bottom line showed that pre-transfer there was an FY 23 deficit of \$422.5 million. He stated that the two transfers from revenue replacement and draw from the SBR to make up the deficit. He noted that there was a deposit into the forward funding of \$114.1 million, ending up with a balanced budget in FY 23.

Mr. Painter looked at slide 20, "Governor's FY24 Budget (Cont.)." The slide showed the expenditures by agency and type.

Co-Chair Stedman asked that definition for the two different colors for the year be included in the x-axis.

Mr. Painter agreed to provide that information.

Mr. Painter discussed slide 21, "Governor's FY24 Budget (Cont.)":

UGF Agency Operations are \$54.8 million (1.3 percent) above LFD baseline:

- (\$20.9) million UGF (net zero all funds) by utilizing Higher Education Fund for scholarship programs and WWAMI
- \$20.7 million UGF increase to Medicaid formula

- \$18.1 million for utilization and inflation changes, \$2.6 million to expand postpartum coverage. 12/29 federal FMAP phase out will change this number at GovAmend
- No K 12 funding outside the formula, but funds to statutory level including \$30 BSA increase authorized in 2022 session (HB 114)
 - \$6.4 million UGF in other increases from HB 114 fiscal notes
- \$7.5 million increases to institutions in Corrections, but \$7.5 million decrease in projected health care costs
- \$6.2 million for DOH for tuberculosis and congenital syphilis elimination plans

[9:53:03 AM](#)

Senator Wilson queried the estimate of the FMAP decrease, and wondered whether that would be addressed in the governor's amended budget.

Mr. Painter felt that the issue would be reflected in the governor's amended budget.

Senator Wilson recalled that agencies had struggled to hire staff, and he wondered whether there would be a similar issue in the current year. He asked if the legislature should include more direct language.

Mr. Painter replied that the issue was more a question specific to each individual agency.

[9:55:42 AM](#)

Co-Chair Stedman stated that there would be discussions with OMB on the issue of the funded employees which did not materialize.

Co-Chair Olson looked at the \$6.2 million for syphilis elimination efforts and asked how many people were affected by congenital syphilis. He also asked whether the numbers had increased or decreased over the last three years.

Mr. Painter replied that he did not have those details, and agreed to provide that information.

[9:57:22 AM](#)

Mr. Painter pointed to slide 22, "Governor's FY24 Budget (Cont.)":

Statewide Items total \$359.0 million:

- School Debt Reimbursement, REAA Fund Capitalization, State Assistance to Retirement funded at statutory levels
- Oil and Gas Tax Credits funded with an estimated \$42.7 million to purchase remaining credits
 - FY23 appropriation would have been sufficient at Spring Forecast price but leaves that amount unpaid based on the Fall Forecast price
- No appropriation to Community Assistance Fund (leaving \$60.0 million balance, for a distribution in FY25 of \$20.0 million)

Co-Chair Stedman explained that there would be more detail in a review of the Community Assistance Fund.

Mr. Painter looked at slide 23, "Governor's FY24 Budget (Cont.)":

Capital Budget totals \$276.4 million UGF, \$2.1 billion all funds:

- \$171.3 million UGF to match federal funds
 - \$125.8 million UGF for DOTPF federal match
 - \$25.0 million UGF for Village Safe Water match
- Alaska Marine Highway System budget is incomplete in Governor's December request due to timing issues with federal funds
 - DOTPF received a response from the federal government last week on its application for these funds, so the Governor's amendments should provide more clarity

[10:00:58 AM](#)

Mr. Painter discussed slide 24, "Long Term Outlook and Governor's 10 Year Plan":

- LFD modeling baseline grows the current (FY23) budget with inflation and all statewide items are funded to statutory levels (this includes the PFD)

- With these baseline assumptions, deficits increase from about \$900 million in FY24 to \$2.3 billion in FY32, draining the CBR in FY26
- The Governor's 10 Year Plan makes several policy changes relative to the baseline that reduce the deficit, but still shows deficits each year that would drain the CBR in FY27 absent new revenue
- The Governor includes new revenue targets increasing from \$300 million in FY24 to \$900 million in FY27+, with no specified source

Mr. Painter pointed to slide 25, "LFD Baseline Model." He stated that the scenario was the current year's budget adjusted for inflation in the out years.

[10:04:33 AM](#)

Co-Chair Stedman felt that there should be a focus on the upcoming five years' cash flow to the state.

Co-Chair Hoffman looked at FY 26, and felt that there could be a reduction of government or additional revenues. He stated that in order to accomplish the goals there would be breaking of state laws because the draw was over 5 percent in the POMV.

Co-Chair Stedman remarked that the Alaska Mental Health Trust Authority (AMHTA) had a draw of 4.25 percent, which was much more resilient.

Mr. Painter discussed slide 26, "Long Term Outlook and Governor's 10 Year Plan (Cont.)":

- Policy changes in Governor's 10 Year Plan:
 - Agency operations grow at 1.5 percent in FY 25+
 - PERS and TRS health care contributions are not funded (as they were not in FY23/24)
 - Does not fund Community Assistance with UGF
 - Capital budget decreases to \$276.5 million in FY24, \$220.0 million in FY25, and then grows by 1.5 percent per year
- Assumption Differences in LFD Model:
 - Governor assumes supplementals and lapse cancel out, LFD includes \$50.0 million placeholder
 - LFD includes a placeholder for new school debt after the moratorium ends in 2025, Governor does not

10:11:11 AM

Co-Chair Stedman remarked that there should be a capital budget that, at minimum, maintains the assets.

Senator Bishop added that there were two spending cap bills in the current session.

Co-Chair Stedman stated that the people want spending caps until there was an unfunded project.

Mr. Painter pointed to slide 27, "Long Term Outlook and Governor's 10 Year Plan (Cont.)." He stated that the slide compared the LFD baselines to the governor's proposed budget.

Co-Chair Stedman remarked that nearly half of the \$4.2 billion it took for the agencies was formula driven, and the other half was reductions.

10:16:04 AM

Mr. Painter addressed slide 28, "Governor's 10 Year Plan, No New Revenue." He stated that the governor's plan would run out of money starting in FY 26.

Co-Chair Stedman noted that the projections were status quo with the statutory PFD.

Mr. Painter agreed.

Co-Chair Stedman felt that there should be a discussion about how to meet the obligations while working with the statutory PFD.

Mr. Painter looked at slide 29, "Governor's 10 Year Plan, with New Revenue (\$300 900m per year)." He stated that the slide showed the governor's plan with the new revenue targets.

Co-Chair Stedman thanked LFD for the presentation. He discussed following day's agenda.

SB 40 was HEARD and HELD in committee for further consideration.

SB 41 was HEARD and HELD in committee for further consideration.

SB 42 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

10:20:43 AM

The meeting was adjourned at 10:20 a.m.