

SENATE FINANCE COMMITTEE
February 7, 2023
9:01 a.m.

[9:01:32 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;
Conor Bell, Fiscal Analyst, Legislative Division.

SUMMARY

^FISCAL SCENARIOS: LEGISLATIVE FINANCE DIVISION

[9:04:51 AM](#)

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, (LFD) addressed the letter dated February 1, 2023 from the LFD, which is a response to a question from Co-Chair Olson (copy on file):

Senator Olson asked about the number of people affected by tuberculosis and congenital syphilis, and whether those rates have increased or decreased over the past few years.

Congenital syphilis:

The Department of Health, Division of Public Health, Section of Epidemiology recently released CY2021 data for Alaskans diagnosed with syphilis. In CY2021, 447 Alaskans were diagnosed with syphilis and 5 of those were classified as congenital cases. The total number of new cases in CY2021 represents a 24 percent increase over CY2020.

The Section of Epidemiology first identified a syphilis outbreak in Alaska in CY2018, when a total of 114 cases were reported and none were identified as congenital. In CY2019, a total of 242 new cases (none congenital) were reported in Alaska - an increase of 112 percent over CY2018.

In CY2020, 361 new cases (49 percent increase over CY2019) were identified and 8 of those cases were classified as congenital. While the most recent data point for congenital syphilis is lower than the prior year, the total number of cases continues to rise.

Tuberculosis:

The Department of Health, Division of Public Health, Section of Epidemiology recently released the provisional tuberculosis (TB) case counts for CY2022, and 96 Alaskans were diagnosed with active TB. The CY2019-CY2021 case counts had remained steady at 58 active cases per year, so the CY2022 figure represents a 66 percent increase over the prior three-year period.

The Northern and Southwest regions of Alaska have significantly higher rates of incidence than other regions of the state, and the Alaska Native population has consistently borne a disproportionate number of TB cases as a result.

Co-Chair Olson queried the distribution across the state of those with congenital syphilis.

Mr. Painter agreed to provide that information.

Co-Chair Stedman noted the deaths from tuberculosis.

Senator Bishop queried the number of the active and inactive cases of tuberculosis.

Mr. Painter agreed to provide that information.

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CONOR BELL, FISCAL ANALYST, LEGISLATIVE DIVISION, introduced himself.

Mr. Painter discussed the presentation, "Fiscal Modeling: Senate; Finance Committee; Scenarios" (copy on file). He addressed slide 2, "Outline":

- Review of LFD Modeling Baseline Assumptions
- Review of LFD Probabilistic Model
- Evaluating Risk: Earnings Reserve Sufficiency and Reserve Targets
- Senate Finance Committee Modeling Scenarios
- Fiscal Models Using Committee Assumptions

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Mr. Painter pointed to slide 3, "Short Fiscal Summary - Governor's Budget with Supplementals." He noted that when the governor's budget had been presented the week prior, there was not an inclusion of the supplemental figure.

Co-Chair Stedman queried the definition of a "pretransfer surplus."

Mr. Painter replied that that the pretransfer surplus, or deficit as it pertained to the presentation, was the true fiscal deficit of the state before transfers were made between accounts and sources.

Mr. Painter highlighted slide 4, "Review of LFD Modeling Baseline":

- Legislative Finance's fiscal model is designed to show policy makers the longer-term impact of fiscal policy decisions.
- The baseline assumptions are essentially that current (FY23) budget levels are maintained, adjusted for inflation. Policy changes are then applied against that baseline.
- Our default is to assume that statutory formulas will be followed, including the PFD formula.

Mr. Painter discussed slide 5, "Review of LFD Modeling Baseline (cont.)":

Revenue Assumptions

- LFD's baseline revenue assumptions are the Department of Revenue's Fall Revenue Forecast.
 - This assumes \$81 oil in FY24, following futures market thereafter.
 - DNR oil production forecast projects that Alaska North Slope production will increase from 503.7 thousand barrels per day in FY24 to 543.3 thousand barrels per day in FY32.
- For the Permanent Fund, we use Callan's return assumption of 7.00 percent total return in FY23 and 7.05 percent thereafter.

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Senator Wilson felt that the 7 percent may be slightly high, and wondered whether Callan had updated their projections.

Mr. Painter replied that Callan updated for the Permanent Fund once a year in July, so there has been no update since then.

Co-Chair Stedman stated that Callan and the Permanent Fund would present to the committee.

Mr. Painter pointed to slide 6, "Review of LFD Modeling Baseline (cont.)":

Spending Assumptions

- For agency operations, our model assumes that the FY24 Adjusted Base grows with inflation (2.50 percent), including in FY24.
- For statewide items, the baseline assumes that all items are funded to their statutory levels in FY24 and beyond.
 - This includes School Debt Reimbursement, the REAA Fund, Community Assistance, oil and gas tax credits.
- For the capital budget, we assume that the FY23 budget grows with inflation (2.50 percent).
- For supplementals we assume \$50.0 million per year. This is based on the average amount of

supplemental appropriations minus lapsing funds each year.

Mr. Painter addressed slide 7, "LFD Modeling Baseline Statutory PFD." He remarked that the slide showed the modeling baseline from the Legislative Finance Division (LFD). He explained the details of the modeling.

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Co-Chair Stedman surmised that there was a linear expectation of the return in terms of the financial markets on the Permanent Fund.

Mr. Painter agreed.

Co-Chair Hoffman queried the delta between the 5 percent draw and the 7.04 percent draw.

Mr. Painter replied that in FY 27 it was approximately that deficit number of \$1.5 billion.

Mr. Painter discussed slide 8, "Governor's 10-Year Plan No New Revenue, Statutory PFD."

Co-Chair Stedman felt that the presentation referred to the inputs and not the numbers behind the governor's plan.

Mr. Painter agreed.

Senator Kiehl queried the assumption for new school debt.

Mr. Painter replied that it was approximately \$7.5 million per year.

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Senator Bishop commented that there may be some more federal funding that would require a GF match to utilize those funds.

Co-Chair Stedman remarked that a subcomponent of the modeling was deferred maintenance.

Mr. Bell pointed to slide 9, "Probabilistic Modeling":

- LFD has two versions of the fiscal model: a linear model which assumes that revenue matches DOR's forecast, and a probabilistic model that shows the impact of revenue volatility
- The probabilistic model allows for variation in three variables:
 - Oil prices (using a range centered around DOR's forecast)
 - Oil production (using the range between DNR's "high" and "low" production forecast)
 - Permanent Fund investment returns (using the ranges developed by Callan for APFC)
- This leaves out potential variation in non-oil revenues and inflation

Mr. Bell looked at slide 10, "Example: 25th Percentile Result":

- Example of a single case, for which 25 percent of total cases see greater overall deficits.
- Example case has average oil price of \$67.20 and average Permanent Fund return of 7.4 percent.

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Co-Chair Stedman noted that the committee would focus on ensuring that the 10-year plan required the years in between to not go broke.

Mr. Painter pointed out that the second half of the decade looked significantly more negative than the first half.

Mr. Bell pointed to slide 11, "Example: 50th Percentile Result":

- Example of a single case, for which 50 percent of total cases see greater overall deficits.
- Example case has average oil price of \$75.85 and average Permanent Fund return of 8.3 percent.

Mr. Bell addressed slide 12, "Example: 75th Percentile Result":

- Example of a single case, for which 75 percent of total cases see greater overall deficits.
- Example case has average oil price of \$82.17 and average Permanent Fund return of 5.0 percent.

Mr. Painter pointed to slide 13, "Evaluating Risk: Permanent Fund Earnings Reserve Balance":

- Even without considering potential overdrafts of the POMV, there is a risk that the ERA will not have a sufficient balance to pay out the POMV draw.
- LFD estimates a 46 percent risk that the ERA will have an insufficient balance to pay out the full POMV draw through FY32, based on Callan's projected returns, assuming statutory inflation proofing based on 2.5 percent inflation per year.
- If we assume the legislature will not inflation proof if the balance is below the amount of the following year's POMV draw, the risk is reduced to 38 percent.
- Note that these figures are based on the FY23 statutory net income meeting the \$4.6 billion projection. Through December, the actual statutory net income was just \$1.0 billion.
- Since the inflation amount in the model is fixed and the fixed FY23 statutory net income figure is optimistic, the true risk is higher than what the model shows.

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Co-Chair Stedman queried the balance of the revenue from the Permanent Fund relative to the tax structure. He wondered whether one was more significant than the other.

Mr. Painter replied that they were expected to be about the same amount.

Mr. Painter addressed slide 14, "Evaluating Risk: Permanent Fund Earnings Reserve Balance." He stated that the slide showed some of the chances that there would not be sufficient amount without an overdraw.

Co-Chair Stedman queried the definition of the median.

Mr. Painter replied that the median was the middle case.

Co-Chair Stedman surmised that there were three averages.

Mr. Painter replied in the affirmative.

[9:40:49 AM](#)

Mr. Painter pointed to slide 15, "Evaluating Risk: Constitutional Budget Reserve Target Balance":

- \$500 million is needed for cashflow. How much is needed as a shock absorber? Alaska does not have a formal reserves target. OMB told this committee that they are targeting \$2 billion in the CBR.
- A challenge in Alaska is that we do not have a structurally balanced budget to start with, so reserves are needed not just as a shock absorber but also to fill structural deficits.
- Many states do have formal reserves targets. For example, Minnesota targets a reserves level such that there is a 95 percent probability that the budget could be funded for the next two years based on projected revenue volatility.
- Applying the Minnesota rule to Alaska, based on a hypothetical budget that balances at projected revenue for FY24, Alaska would need a CBR balance of \$3.5 billion.

Senator Merrick wondered whether the reserve targets were in statutes of the states that have formal reserve targets.

Mr. Painter agreed to provide that information.

Co-Chair Stedman noted that there were different conversations about targeted minimums, and hoped to clearly define it.

[9:46:36 AM](#)

Senator Kiehl noted that the Minnesota state budget did not come from a single commodity or stock market. He wondered what their general fund spend would be in the state.

Mr. Painter agreed to provide that information.

Senator Bishop asked about the surplus within the state government of Minnesota.

Mr. Painter addressed slide 16, "Evaluating Risk: Constitutional Budget Reserve Target Balance":

Assumes FY24 and FY25 budgets balanced based on revenue projected in DOR's Fall Revenue Sources Book, ARPA revenue replacement and use of K-12 forward funding. In FY24, this would require a budget \$198 million lower than the Governor's proposal.

[9:50:09 AM](#)

Mr. Painter highlighted slide 17, "Obligations and Funding Needs of the State of Alaska":

- This is not an exhaustive list. The total for these items is about \$13.1 billion":
- PERS/TRS Unfunded Liability: \$7.1 billion
 - Payment plan: annual payments through FY39. FY24 payment is \$140.3 million
- General Obligation Bonds and State Supported Debt: \$1.1 billion
 - Payment plan: annual payments through FY41. FY24 Governor's Budget includes \$90.9 million UGF
- State Share of Municipal School Debt Service: \$457.0 million
 - Payment plan: annual payments through FY39. FY24 Governor's Budget includes \$67.2 million GF
- Oil and Gas Tax Credits: \$42.7 million
 - Payment plan: remaining payment in full is in FY24 Governor's Budget.
- Deferred Maintenance: \$2.2 billion
 - Payment plan: annual appropriations using Alaska Capital Income Fund (\$32.3 million in FY24).
- State Share of School Major Maintenance and Construction Lists: \$413.5 million
 - Payment plan: FY24 Governor's Budget does not include an appropriation for this. REAA fund can also be used for some projects
- Rural Alaska Sanitation Funding Need (per DEC FY21 list): \$1.8 billion
 - Payment plan: Village Safe Water capital program. FY24 Governor's Budget includes \$25.0 million UGF, \$247.7 million all funds

Mr. Painter suggested that some of the bullet points indicated "good news".

Senator Wilson asked about the \$2 billion about rural sanitation.

Mr. Painter responded to the question. He said that a substantial dent could be made in the backlog.

Mr. Painter discussed slide 18, "Historical UGF Capital Budgets and Oil Prices."

[9:55:26 AM](#)

Co-Chair Stedman noted that he would like to see a comparison of GDP with the other northwest states over the last decade.

Mr. Painter pointed to slide 19, "Senate Finance Committee Scenarios":

Committee Chair asked for modeling with the following assumptions:

- Governor's FY24 agency operations budget
- \$400.0 million capital budget
- Fully funding statewide items
- Three PFD scenarios: current statute, 50 percent of POMV draw, 25 percent of POMV draw

Co-Chair Stedman understood that the analysis could be run for any number that a committee member may request.

Mr. Bell looked at slide 20, "Senate Finance Baseline Budget Statutory PFD."

Co-Chair Stedman stressed that the state would be under the \$2 billion target.

Mr. Painter agreed, and stated that the current CBR balance was about \$2.3 billion.

[10:00:06 AM](#)

Mr. Bell pointed to slide 21, "Senate Finance Budget Statutory PFD."

Co-Chair Stedman felt that the slide was alarming.

Mr. Bell addressed slide 22, "Senate Finance Baseline Budget 50 percent of POMV to PFD."

Mr. Bell discussed slide 23, "Senate Finance Budget 50 percent of POMV to PFD."

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Co-Chair Stedman wanted to see a sensitivity chart of the CBR below \$2 billion.

Mr. Bell pointed to slide 24, "Senate Finance Baseline Budget 25 percent of POMV to PFD."

Co-Chair Hoffman queried the amount of the PFD at 25 percent POMV.

Mr. Painter replied that in FY 24 it would be \$1300 per PFD recipient.

Mr. Bell looked at slide 25, "Senate Finance Budget 25/75 PFD."

[10:11:07 AM](#)

Co-Chair Stedman expressed concern about the need to take corrective action in the future.

Senator Kiehl asked about the trustee's recommendation for the balance in the ERA as a multiple of the annual draw.

Mr. Painter replied that there was a recommendation of keeping at least three times the draw.

Senator Kiehl felt that the risk level was relatively high.

Co-Chair Stedman stressed that there was no guarantee in any scenario.

Co-Chair Olson noted that Minnesota had elected celebrities to hold government positions.

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Co-Chair Stedman remarked that LFD had examined several states.

ADJOURNMENT

10:16:39 AM

The meeting was adjourned at 10:16 a.m.