

SENATE FINANCE COMMITTEE
February 21, 2023
9:02 a.m.

9:02:07 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:02 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.

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.

SB 54 APPROP: SUPPLEMENTAL; REAPPROP; AMENDING

SB 54 was HEARD and HELD in committee for further consideration.

FISCAL POSITION WITH GOVERNOR'S BUDGET AMENDMENTS

#sb40

#sb41

#sb42

#sb54

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."

SENATE BILL NO. 54

"An Act making supplemental appropriations, reappropriations, and other appropriations; amending appropriations; capitalizing funds; and providing for an effective date."

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^FISCAL POSITION WITH GOVERNOR'S BUDGET AMENDMENTS

[9:02:19 AM](#)

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, discussed the presentation, "Fiscal Position with Governor's Budget Amendments" (copy on file). He pointed to slide 2, "Outline":

- Responses from 2-7-23 Meeting
- Updated Fiscal Summary - GovAmend
- FY23 and FY24 Oil Price Sensitivity and Outlook

[9:04:10 AM](#)

Mr. Painter looked at slide 3, "Responses to Questions from February 7 Meeting":

Senator Kiehl asked about the percentage of Minnesota's budget reserve compared to its budget, and Senator Bishop asked about Minnesota's current budget status.

- In 2022, the Minnesota Management and Budget recommended a reserve level of 4.8 percent of the biennium's budget, or \$2.7 billion (or about 9.6 percent of the budget on an annual basis). That is in addition to a separate cash flow account that has a target balance of \$350 million.
- By comparison, OMB's \$2 billion recommendation is equal to 27.1 percent of the Governor's FY24 UGF budget, and LFD's estimate of \$3 billion to apply the Minnesota calculation to Alaska is 40.1 percent of the Governor's FY24 UGF budget.
- In December 2022, Minnesota Management and Budget estimated that the state would have a surplus of \$17.6 billion available in the FY24-25 biennium (including additional amounts left from the FY22-23 biennium).

Mr. Painter addressed slide 4, "Responses to Questions from February 7 Meeting (cont.)":

Senator Kiehl asked about the amount of new school debt assumed in Legislative Finance's model.

- LFD assumes that the state share of new debt would be \$7.8 million annually.
- This figure was derived by taking a 10-year average of the state share of new debt before the moratorium began in 2015, prorated for the lower reimbursement rates when the moratorium ends.
- The actual amount of new school debt will depend on current interest rates and actual utilization of the program, so this is a very rough estimate.

Mr. Painter highlighted slide 5, "Responses to Questions from February 7 Meeting (cont.)":

Legislative Finance Division 5 Senator Stedman asked for the graph of the capital budget compared to oil prices to be restated as the capital budget compared to Alaska's GDP.

Co-Chair Stedman recalled that there was some stagnancy over several years, and Alaska was being surpassed by northwest states. He felt that there should be a question of whether the current policies were the most effective in increasing the GDP.

Mr. Painter discussed slide 6, "Responses to Questions from February 7 Meeting (cont.)":

Senator Stedman requested a sensitivity table showing the likelihood of various Constitutional Budget Reserve (CBR) balances in a single fiscal year.

The table shows the likelihood that the CBR balance at the end of FY28 exceeds a given value based on the Senate Finance Committee modeling assumptions across the three PFD scenarios. Note that these are illustrative projections which may understate potential volatility.

[9:10:17 AM](#)

Mr. Painter addressed slide 7, "Short Fiscal Summary - Governor's Amended Budget." He remarked that the Office of Management and Budget (OMB) had shown a version of their fiscal summary the day prior. He remarked that the

Legislative Finance Division (LFD) summary differed from OMB's in some respects.

[9:15:34 AM](#)

Co-Chair Stedman asked for an explanation of the reserve balance.

Mr. Painter replied that the statutory budget reserve (SBR) was available with majority vote by the legislature, and that balance going into FY 23 was approximately \$20 million. He noted that the constitutional budget reserve (CBR) was not available without a further vote from the legislature, with a balance of approximately \$2.3 billion. He stated that, in FY 23, there was a projection for an increase in the CBR. He stated that the deficit draw for FY 24 would drop it back to \$2.1 billion. He stated that the Earnings Reserve Account (ERA) balance assumed that the statutory net income would match the forecast. He noted that, currently, the true balance may be a couple of billion dollars lower in FY 23. He stated that the ERA was not a true budget reserve.

Co-Chair Stedman asked about how those funds could be accessed.

Mr. Painter noted that the ERA could be appropriated, but there may be an issue of selling assets.

Co-Chair Hoffman recalled that the CBR balance did not have a sufficient vote to access that account. He stressed that for FY 24, the number to get to a vote would be very difficult. He did not envision the legislature accessing the CBR. He looked at line 19, and noted that the \$7.8 million as a transfer from the Renewable Energy Fund. He asked about that number.

Mr. Painter replied that \$7.5 million in FY 24 was a transfer from the general fund (GF) to the Renewable Energy Fund. He remarked that the capital budget had an appropriation from the Renewable Energy Fund to the Alaska Energy Authority (ERA) for the projects. The money was put into the fund by the GF transfer.

[9:20:24 AM](#)

Senator Bishop stressed that there were many needs that were not yet addressed in the budget.

Co-Chair Stedman asked about funds for the university deferred maintenance.

Mr. Painter replied that it was not included in the current budget.

Co-Chair Stedman wondered whether there were funds to replenish community assistance.

Mr. Painter replied in the negative.

Co-Chair Stedman stressed that the committee would decide what to do with those items. He asked about Mustang Road. He recalled about ten years of challenges with that project.

Mr. Painter replied that the change was new in the amended budget, but did not know the purpose of that decision to transfer assets. He agreed to provide further information.

Co-Chair Stedman felt that the information would be helpful, and possibly have a meeting on that issue. He wondered whether the presentation would address the fast-track supplemental requests.

Mr. Painter replied that the fast-track items were included in the governor's supplemental budget request, so they were included in the totals.

[9:25:14 AM](#)

Senator Kiehl asked about the relationship between the K-12 forward funding and any decision the legislature would make to increase K-12 school funding for FY 24.

Mr. Painter replied that, without forward funding, the appropriation in the governor's budget would cover FY 24 as its currently written. He explained that there would need to be additional funds if the legislature were to increase the Base Student Allocation (BSA).

Co-Chair Stedman stressed that addressing the university needs would put more pressure on the budget.

Co-Chair Hoffman asked about the \$1.6 billion and how that translates into the Permanent Fund Dividend (PFD).

Mr. Painter replied that the prior year's dividend had two separate payments, and were taxed differently according to the federal government. The total payment was \$3284, with approximately \$2600 as the actual PFD payment.

Co-Chair Stedman asked for a restatement of the proposed dividend.

Mr. Painter replied that it would be approximately \$3800 per person in FY 24.

Co-Chair Hoffman felt it was important for comparison purposes.

Senator Wilson wondered whether the PFD should be called an energy rebate so it would not be taxed.

Mr. Painter replied that he did not want to speculate about how the IRS would treat it.

Mr. Painter looked at slide 8, "Oil Price Volatility Since 2020." He stated that the purpose of the slide was to show how things change.

[9:30:52 AM](#)

Mr. Painter highlighted slide 9, "Fiscal Sensitivity - FY23." He stressed that oil prices have a very strong affect on revenue.

Mr. Painter discussed slide 10, "FY23 Budget Situation":

- As of Friday, February 17, oil prices to date averaged \$91.72. They would need to average about \$82.70 to match the \$88.45 forecast. The price on Friday was \$79.85.
- Based on the forecast, the post-transfer deficit would be \$0.3 million with the Governor's supplementals. The FY23 budget currently has deficit-filling language from the Statutory Budget Reserve, which has a balance of about \$20 million.

- Deficits beyond the SBR balance currently have no source - the FY23 budget does not have CBR access (which would require a ¾ vote of the legislature to add).
- Even if oil prices and production do match the forecast, there is a margin of error in revenue forecasting. \$20 million is not sufficient room to ensure that the FY23 budget is fully funded.
- If the legislature adopts the Governor's supplemental budget, it should designate a source for deficits beyond the SBR balance.

Co-Chair Hoffman remarked on the substantial difference between the budget and the actual spending.

Mr. Painter recalled that the difference was between \$70 and \$80 million.

[9:37:33 AM](#)

Co-Chair Stedman recalled that the committee chose to increase the SBR in the year prior, so it would not be in the CBR. He asked what would occur if there was a shortage without access to the CBR.

Mr. Painter replied that an unbalanced budget could enact the impoundment clause, which would allow the governor to restrict appropriations. He noted that there were some that would be easier to restrict than others. He stated that the Port of Anchorage would be easier to restrict.

[9:40:51 AM](#)

Co-Chair Stedman wondered whether there was an estimate of cash flow needed at the end of session.

Mr. Painter replied that the legislature historically designated a reserve balance to cover any shortfall.

Co-Chair Stedman surmised that the FY 24 fiscal year would fix the FY 23 fiscal year.

Mr. Painter agreed, and explained that things could be changed with a retroactive effective date.

Senator Merrick asked for a history of the CBR vote.

Mr. Painter replied that CBR liabilities had occurred beginning in the 1990s. He stated that in 2004 the legislature did not have the vote, before 2010. He stated that since then FY 21 and FY 22 had failed CBR votes.

Mr. Painter displayed slide 11, "Fiscal Sensitivity - FY24." He stated that the slide showed the Department of Revenue (DOR) forecast, and the breakeven price of \$87 per barrel.

[9:45:33 AM](#)

Co-Chair Stedman recalled that firms used a \$60 price range, as a point of profitability.

Mr. Painter pointed to slide 12, "FY24 Budget Situation":

- Governor's FY24 budget has a pre-transfer deficit of \$434.3 million.
- This includes a statutory PFD estimated to be \$2,470.9 million. However, this estimate includes \$4.6 billion of projected statutory net income in FY23. Through December, statutory net income was about \$1.0 billion. If that trend continues and the total is \$2.0 billion, the projected PFD would decrease to \$2,196.7 million.
 - That would reduce the projected FY23 deficit to \$160.1 million.
 - That would also decrease the projected payment from \$3,800 to about \$3,400 per recipient
- With no K-12 forward-funding available in FY24 after the Governor's supplementals, the FY24 deficit is made up in the Governor's budget from a combination of ARPA Revenue Replacement (\$10.6 million), the remaining SBR balance (\$19.6 million), and the CBR.

Co-Chair Stedman discussed the agenda for the next meeting.

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ADJOURNMENT

9:53:45 AM

The meeting was adjourned at 9:53 a.m.