

SENATE FINANCE COMMITTEE
March 24, 2023
9:01 a.m.

[9:01:17 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 Finance Division;
Senator Cathy Giessel.

PRESENT VIA TELECONFERENCE

SUMMARY

PRESENTATION: FISCAL SUMMARY UPDATE and FISCAL SCENARIOS BY DIVISION OF LEGISLATIVE FINANCE

Co-Chair Stedman discussed the agenda. He relayed that the committee would consider all the variables concerning the crafting of the FY24 Operating Budget. Additionally, the committee would consider the balance of the Constitutional Budget Reserve (CBR) and the balance of the Earnings Reserve Account (ERA).

^PRESENTATION: FISCAL SUMMARY UPDATE and FISCAL SCENARIOS
BY DIVISION OF LEGISLATIVE FINANCE

9:03:07 AM

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, discussed a PowerPoint presentation entitled "Fiscal Summary Update and Fiscal Scenarios" (copy on file).

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

Mr. Painter looked at slide 2, " Outline":

- Response to Questions from 3/21/23 Meeting
- Oil Price Volatility
- Review of Senate Finance Committee Modeling Assumptions
- CBR and ERA Balance
- Updated Fiscal Summaries
- Updated Fiscal Models

Mr. Painter spoke to slide 3, "Historical UGF Capital Budgets," which showed a bar graph. He noted that there had been questions from a previous meeting concerning historical unrestricted general fund Capital Budgets. He said that bonding that was UGF supported had been added to the calculation on the slide. He continued that LFD had considered Capital Budgets over the last twenty years. He relayed that the nominal average of non-match UGF totaled \$554.3 million, while the total including bonding was \$655.3 million. He said that in inflation adjusted terms using FY22 dollars the totals changed to \$696.7 million and \$832.6 million, respectively.

9:04:51 AM

Mr. Painter thought that the question was in relation to the discussion about a \$400 million Capital Budget assumption and whether it was high or low.

9:05:04 AM

Co-Chair Stedman announced that Senator Giessel had joined the gallery.

9:05:19 AM

Mr. Painter referenced slide 4, "Constitutional Appropriation Limit," which showed a graph. He noted that Senator Merrick had asked a question about the constitutional appropriation limit. He noted that the black line on the slide reflected the limit, beginning at its inception in 1983. The blue bars showed agency operations, the green were statewide operations, and the red bars showed the capital budget. He stated that in the early years of the LFD reconciliation of historical bills showed that the limit may have been broken in the first few years. He said that the limit was approached again in FY28 and FY14 but were currently several billion from the limit.

Mr. Painter continued that the orange line was the line for capital projects, and he noted that the capital budget could only consume one-third of the limit; the operating budget could only consume two-thirds of the limit. He shared that the limit had been challenged several times.

[9:07:29 AM](#)

Mr. Painter turned to slide 5, "What's Changed Since LFD's 2/23 Fiscal Update":

- Spring Revenue Forecast reduced FY23 UGF revenue projection by \$246.3 million and FY24 UGF revenue projection by \$665.0 million.
- This forecast update also caused a decrease of the estimated FY23 tax credit payment by \$29.0 million and an increase of the estimated FY24 tax credit payment by \$13.0 million.
- The Alaska Permanent Fund Corporation provided an updated FY23 statutory net income forecast, reducing the FY23 projection from \$4.6 billion to \$2.5 billion.
 - This reduces the FY24 estimated statutory dividend appropriation from \$2.47 billion to \$2.25 billion, and the estimated payment per recipient from \$3,800 to \$3,450.
 - This also reduces the realized balance of the ERA accordingly.
- The Governor requested an additional \$16.0 million UGF in FY24 in an amendment package submitted on March 7, and an additional \$3.7 million UGF in FY23 an amendment package submitted March 22.

Mr. Painter elaborated that the FY 23 appropriation had been based on the statutory formule, which adjusted upwards

and downward with the price of oil. He said that the governor's budget contained the amount to pay oil tax credits in full. He explained that he would discuss the reduced realized balance of the ERA in a later slide. He noted that two different amendment packages had been released by the governor since February, which had been incorporated in the current fiscal summary.

[9:10:25 AM](#)

Mr. Painter considered slide 6, "Daily Oil Prices Since 2020," which showed a line graph depicting oil prices from January 2020 to March 2023. He remarked on the oil price volatility shown on the graph. He noted the recent relatively minor downturn in oil prices. He recounted that over the previous few years LFD had urged the legislature to pass a budget that worked with a wide variety of oil prices. He felt that it would be imprudent to pass a budget that relied solely on one forecasted number.

Co-Chair Stedman recalled that the previous year the committee had anticipated volatility in oil prices. The committee had also prepared a structure in case of changes in revenue. He imagined that members would be interested in a similar discussion about preparing for a rise or fall in oil prices.

Co-Chair Stedman thought it was a good reminder for the finance committees of both bodies to consider oil price volatility when crafting the budget.

Mr. Painter noted that both finance committees had considered various prices in their budget discussions.

[9:13:08 AM](#)

Mr. Painter displayed slide 7, "FY24 Sensitivity Graph," that showed a graph depicting the variation in revenue with the change in oil price. He pointed out that the spring forecast reflected \$73/barrel, which using the governor's proposed budget would result in a deficit of \$900.5 million. The governor's budget would break even at approximately \$87/barrel.

Mr. Painter continued that since the forecast was a single price point, he urged the committee to consider the figures in terms of the variations.

Co-Chair Stedman suggested that if the oil price was \$73/bbl, the budget from the other body would result in a deficit of \$903.5 million.

Mr. Painter clarified that that the \$903.5 million deficit was in relation to the governor's proposed budget. He noted that he would discuss the other body's proposal on a later slide.

Co-Chair Stedman clarified that the graph showed a statutory dividend.

Mr. Painter replied in the affirmative.

Co-Chair Stedman understood that the slide showed the statutory dividend using the new and updated statutory dividend calculation.

Mr. Painter answered affirmatively.

[9:15:15 AM](#)

Mr. Painter highlighted slide 8, "Comparison of Recent UGF Revenue Forecasts," which showed a line graph depicting comparisons of the previous four revenue forecasts. He mentioned the "cone of uncertainty" and the idea that there was less variation in the short-term and more in the long-term. He related that recently the opposite had been observed. The forecast for FY23 had a spread of \$2.4 billion between the high in spring 2021 and fall of 2021. He noted that the spread between forecasts had decreased over time. He related that in FY28, the difference between the lowest forecast and highest forecast was under \$400 million. He said that for fiscal planning purposes there had not been meaningful change between the long-term and short-term, even with the extreme variations in the short-term.

[9:17:19 AM](#)

Mr. Painter looked at slide 9, "Review of Committee Modeling Assumptions":

Revenue Assumptions

- LFD's baseline revenue assumptions are the Department of Revenue's Spring Revenue Forecast.

- This assumes \$73 oil in FY24, following futures market thereafter.
- DNR oil production forecast projects that Alaska North Slope production will increase from 496.4 thousand barrels per day in FY24 to 542.9 thousand barrels per day in FY32.
- For the Permanent Fund, we are using the February 2023 History and Projections update, which assumes a total return of 7.00% in FY23 and 7.05% in FY24 and beyond. For statutory net income, this update uses a blend of actuals and the low case for FY23 and a 6.90% statutory return assumption in FY24 and beyond.

[9:18:31 AM](#)

Mr. Painter addressed slide 10, "Review of Senate Finance Committee Modeling Assumptions (cont.)":

Spending Assumptions

- For agency operations, the first model assumes the Governor's amended budget including amendments through 3/7 grows with inflation (2.50%). Other models assume the House Committee Substitute grows with inflation (2.50%).
- For statewide items, 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, assumes a \$400 million capital budget in FY24, growing with inflation thereafter (2.50%).
- For supplementals assumes \$50.0 million per year. This is based on the average amount of supplemental appropriations minus lapsing funds each year.
- For Permanent Fund Dividends, we were asked to model three scenarios: the current statute, 50% of the POMV draw, and 25% of the POMV draw

[9:19:56 AM](#)

Mr. Painter advanced to slide 11, "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. Painter commented that the fiscal model did not assume any dynamic changes in spending.

[9:20:58 AM](#)

Mr. Painter looked at slide 12, "Example: 25th Percentile Result," which showed two graphs that modelled that 25 percent of trials had higher overall deficits and 75 percent had lower overall deficits:

- Example of a single case, for which 25 percent of total cases see greater overall deficits.
- Example case had average oil price of \$68.77 and average Permanent Fund return of 5.2 percent.

[9:22:15 AM](#)

Mr. Painter showed slide 13, "Evaluating Risk: Earnings Reserve Account Balance":

- Alaska Permanent Fund Corporation (APFC) provided an updated FY23 statutory net income forecast, reducing the FY23 projection from \$4.6 billion to \$2.5 billion.
- This reduces the FY23 projected realized ending balance of the ERA to \$8.8 billion, compared to a realized balance of \$13.8 billion at the beginning of the year.
- If conditions in FY24 are similar to FY23, the balance of the ERA could fall precipitously.
- At the end of February, \$7.7 billion of the \$11.8 billion of unrealized gains in the Permanent Fund were in Real Estate and Private Equity, which are relatively illiquid assets. Our realized income assumption likely understates the risk of low statutory net income over the near term, meaning that there is an elevated risk of ERA insufficiency

compared to our modeling.

[9:24:08 AM](#)

Senator Wilson thought the APFC planned to have the cash on hand for the ERA transfer. He asked whether there would be a portfolio balance to make draws in the outgoing years.

Mr. Painter explained that if the realized balance in the ERA dropped to the level of the ERA draw, the APFC might need to manage the fund in a suboptimal way. He mentioned the possible selling of assets.

Co-Chair Stedman asked whether the illiquid investments were about the same as previously, meaning that all the margin came out of the more liquid side, resulting in substantially reduced flexibility.

Mr. Painter thought there were a couple of contributing factors. He noted that the value of private equity assets was slower to respond to market changes than public equities because they were not traded as heavily. He said that the high amount of unrealized gain showing in private equity was that the market had not reflected a reduction in the value of those assets that may have occurred. He said that a start-up was not likely to go out for a new round of investment if it would show a greatly reduced valuation of the company. He related that the portfolio might not be worth as much as was shown on paper.

[9:27:29 AM](#)

Co-Chair Stedman pondered that there needed to be an inquiry to the APFC regarding the full details of the matter. He worried that the issue could be significant and should be considered.

[9:28:23 AM](#)

Senator Bishop suggested that hypothetically if the POMV was inside the constitution, the investment portfolio would be altered.

Co-Chair Stedman hoped for an update from APFC.

[9:28:57 AM](#)

Mr. Painter referenced slide 14, " ERA Balance Projections - Forecast and Hypothetical," which showed two tables. He explained that the slide showed how the ERA balance could drop quickly. He explained that the top left of the slide reflected \$13,816.0 billion ending ERA realized balance at the end of FY 22. Mr. Painter continued to read from the "forecast" table on the left-hand side of the slide:

FY23 POMV Draw - (\$3,361.0)
FY23 Inflation Proofing Transfer - 8.0 percent Inflation - (\$4,164.0)
FY23 Statutory Net Income Projection - \$2,475.0
FY23 Ending ERA Realized Balance - \$8,766.0
FY24 POMV Draw - (\$3,526.0)
FY24 Inflation Proofing Transfer - 2.5 percent Inflation - (\$1,420.0)
FY24 Statutory Net Income Projection (Official Forecast) - (\$5,140.0)
FY24 Ending ERA Realized Balance - \$8,960.0

Mr. Painter relayed that the LFD modeling showed that the ERA was fairly durable because changes in inflation were not factored into the model. He discussed the "hypothetical" table on the right-hand side of the slide:

FY22 Ending ERA Realized Balance - \$13,816.0
FY23 POMV Draw - (\$3,361.0)
FY23 Inflation Proofing Transfer - 8.0 percent Inflation
FY23 Statutory Net Income Projection - \$2,475.0
FY23 Ending ERA Realized Balance - \$8,766.0
FY24 POMV Draw (\$3,526.0)
FY24 Inflation Proofing Transfer - 6.0 percent Inflation - (\$3,408.0)
FY24 Statutory Net Income Hypothetical (Matching FY23) - \$2,475.0
FY24 Ending ERA Realized Balance - \$4,307.0

Mr. Painter did not think that the hypothetical scenario was far-fetched.

[9:32:14 AM](#)

Co-Chair Stedman reminded that the hypothetical inflation-proofing transfer of 6 percent might not happen. He admitted that it was an option that could be skipped and would be under discussion in the coming weeks.

Mr. Painter noted that the other body had not included the transfer in their version of the Operating Budget.

[9:32:53 AM](#)

Mr. Painter turned to slide 15, " ERA Balance Modeling - ERA Risk without Overdraws":

- This modeling likely understates the risk of ERA insufficiency because of the difficulty of modeling statutory net income and inflation.
- It is presented to provide context for future probabilistic slides showing fiscal plans with the change of the ERA going to zero.
- Modeling assumes the legislature will not inflation proof if the balance is below the amount of the following year's POMV draw.

Mr. Painter announced that the slide likely understated the true risk.

[9:33:51 AM](#)

Mr. Painter considered slide 16, "Short Fiscal Summary - GovAmend with Spring Forecast," which showed the updated fiscal summary of the governor's amended budget. He highlighted line 3, which offered an adjustment for the spring forecast from (\$246.3) in FY23 and (\$665.0) in FY24. He highlighted an increase of \$16 million in agency operations on line 8 due to the governor's amendments. Line 9 showed the changes factored in for oil and gas tax credit estimates in FY23 and FY24. Line 10 reflected the supplemental appropriations, resulting on Line 18 with a \$221.2 million post transfer deficit in FY23. He said that the SBR could fill the first \$20 million, leaving \$200 million to come from the CBR. He stated that the other body had a CBR vote in the fast-track supplemental bill.

Mr. Painter pointed out Lines 16 and 18 showed a \$900 million deficit, with the reduced PFD on line 15. He noted that the reserve balances were shown on a small table on the bottom right. He noted that LFD had received the Comprehensive Annual Financial Report (CAFR) and had not yet worked with OMB to establish a new FY22 agreed upon CBR balance for budgeting purposes. He did not think that there would be a big difference, but the number would change.

[9:36:40 AM](#)

Co-Chair Hoffman noted that the governor's FY24 amount for the PFD was the statutory amount. He recalled that one month previously LFD had presented the committee with the governor's budget scenario, with the statutory amount had been \$2,470.0. He asked the reason for the adjustment of the figure from a month ago versus today.

Mr. Painter noted that the change was due to the statutory net income adjustment from \$4.6 billion to \$2.5 billion. The reduction of the statutory net income reduced the amount of the projected PFD.

Co-Chair Hoffman asked whether Mr. Painter recalled the population estimate used in the calculation.

Mr. Painter believed that the estimated number, based on the previous year's calculation, was 636,000 recipients.

Co-Chair Stedman mentioned an earlier question regarding the update of statutory net income and the five-year average. He noted that the FY23 PFD number was projected but unknown and subject to change. He commented on Line 16 and recalled that LFD had recommended a \$3.5 billion CBR balance. He worried that the statutory dividend calculation could drain the CBR.

Mr. Painter agreed that it was possible the CBR could get down to zero with the surplus deficit.

[9:40:57 AM](#)

Co-Chair Hoffman emphasized that the formula for the PFD needed to be finalized. He noted that historically the dividend had not been set by finance committees. He strongly believed that the legislature needed to come up with a PFD formula that worked and was acceptable to the other body and the governor. He agreed with Co-Chair Stedman that the PFD was a critical issue, and he thought one of the key components was the POMV split and a revision of the formula.

Co-Chair Stedman hoped that the public realized that if the legislature paid a statutory dividend, there was a risk of not having dividends at all in the near future.

[9:42:43 AM](#)

Mr. Painter displayed slide 17, " Short Fiscal Summary - GovAmend with Spring Forecast, SFIN Modeling Assumptions," which showed the same fiscal summary with two changes assumptions. He noted that Line 9 showed a \$30 million increase for community assistance and Line 12 reflected an increase of \$97 million in the Capital Budget.

[9:43:28 AM](#)

Co-Chair Hoffman pointed out that additional items under consideration were not included in the presentation, the largest being an increase to the BSA.

Co-Chair Stedman noted that there was nothing in the budget to address the University of Alaska's deferred maintenance, which normally totaled \$50 million. Additionally, the Capital Budget process had yet to begin, which meant that the numbers were likely understated.

[9:44:22 AM](#)

Mr. Bell highlighted slide 18, "Senate Finance Baseline Budget - Statutory PFD," which took the budget assumptions detailed by Mr. Painter in the prior slide and compared them using DORs spring forecast. He said that the surplus deficit values were shown in red under each year of the scenario.

Mr. Bell looked at the dotted line on the left-hand table, which showed the budget before the PFD; the solid black line reflected the total including the PFD. The blue bars showed the baseline traditional revenues, the POMV revenue was shown in green, and the yellow bars signified the draws from the CBR and SBR. He noted that the small brown bar reflected ARPA revenue replacement and the red bars represented unplanned ERA draws.

Mr. Bell relayed that under the assumptions, the CBR and SBR were empty by FY25 and unplanned draws from the permanent fund began. Under the scenario, by FY32 the ERA would be empty. The table on the right showed the CBR/SBR balances in yellow, and the green showed the realized portion of the ERA.

Mr. Bell discussed the POMV draw rates delineated by year at the bottom of the slide, which would need to be $\%.8$ percent in FY25 to have a sufficient draw. The bottom line showed the PFD paid out per person under the statutory dividend.

[9:48:01 AM](#)

Co-Chair Stedman cautioned that if the scenario on slide 18 took place, it would necessitate the implementation of taxes. He asked how much would need to be raised to make payroll if the ERA was at zero.

Mr. Painter indicated that the deficit in FY32 was projected at \$2.2 billion, with no other source of revenue, \$2.2 billion would need to be raised to make payroll.

Co-Chair Stedman understood over \$2 billion would be needed to make payroll and no PFD would be paid out.

Mr. Painter mentioned that when LFD did the modelling using the assumption there were no funds in the CBR and SBR, and draws were taken from the ERA, there was a compounding effect that reduced the balance of the permanent fund, investment earnings, and the POMV draw. The revenue lines shown on the graph did not exactly match the forecast, because LFD assumed the compounding effect. He added that obviously the legislature may not choose to take the action of using the ERA. The purpose of the models was to show the effect of the policy path overtime.

[9:50:33 AM](#)

Senator Kiehl thought the model also assumed a flat 7 percent return from the Permanent Fund. He said that if the return were lower the outlook worsened.

[9:50:55 AM](#)

Mr. Bell looked at slide 19, "Senate Finance Baseline Budget - Statutory PFD," which showed the same assumptions as the prior slide and showed two graphs applying the probability assumptions. The slide would give some idea of the volatility of the state's revenues. The chart on the left showed the range of surpluses and deficits. The blue bars showed the medium deficit, and the green bars showed the 25th and 75th percentiles of forecasted outcomes for a

given fiscal year. He noted that the black lines reflected the ranges from the 10th to 90th percentile outcomes.

Mr. Bell noted that the chart on the right showed the range of fiscal year-end realized ERA balances. He said that the dotted green line showed the 25th and 75 percentiles. Under these assumptions, 10 percent of the time the ERA balance went to zero by FY26, 25 percent of the time the ERA balance went to zero by FY28, and the median outcome showed the balance emptied. He noted that no assumption for potential slow or realized return for private equities or real estate had been considered.

Mr. Bell noted that the bottom of the slide showed the CBR balance probabilities. He stated that the first row showed the probability of the CBR falling below \$3.5 billion, which was the estimated need amount to cover multiple years of large shortfalls in revenue. He said that in FY24, 84 percent of the time the CBR was below \$3.5 billion and by the end of the period the CBR was at the threshold only 7 percent of the time. He related that the bottom line showed the CBR at or below the \$500 million balance. He stated by FY25 the CBR fell below the \$500 million threshold half of the time, 75 percent of the time by FY32.

[9:55:30 AM](#)

Senator Bishop asked if the model included the FY 24 inflation-proofing.

Mr. Bell replied in the affirmative. He said that the official projections from Callan had been used.

Co-Chair Stedman understood that under the assumption, 25 percent of the time the next administration started with no ERA or cash balances.

Mr. Bell affirmed that under the assumption and with no policy changes the answer was "yes".

Co-Chair Stedman thought that alternatives would need to be sought.

[9:56:52 AM](#)

Mr. Painter addressed slide 20, " Short Fiscal Summary - House Operating Budget Committee Substitute," which showed

a fiscal summary with an additional column that showed the CS for the Operating Budget from the other body. He noted that the revenue lines were the same except for the fact that the other body had not accepted the governor's \$13.9 million deduction from the cash dividend for AIDEA. He said that Lines 8 and 9 matched what was in the CS from the other body. He noted that the other body had yet to consider the march 7th amendments. He relayed that the Capital Budget number used was the House governor amended budget and the PFD was 50 percent POMV and was estimated to pay a dividend of \$2,700. He pointed to the third column, Line 16, which reflected a deficit of \$417.9 million. He shared that the assumed \$303 million Capital Budget had been rolled out before the DOR spring forecast had been released and had shown a surplus, now there was a projected \$400 million deficit. He spoke to the box at the bottom right of the slide which showed a projected CBR balance in FY24 of \$1.9 billion.

Co-Chair Stedman asked about the PFD assumption used on the slide.

Mr. Painter noted that Line 14 showed a dividend at 50 percent POMV, an appropriation of \$1.76 billion, estimated to pay \$2689 per recipient.

Co-Chair Stedman thought the assumption was for the 50/50 dividend. He understood that the assumption did not include additional Capital Budget appropriations or additional education funding.

Mr. Painter answered affirmatively.

[9:59:53 AM](#)

Senator Wilson asked about the current CBR balance.

Mr. Painter estimated that the CBR balance was currently \$2.3 billion, with a cash balance of \$1 billion because a transfer of money from the general fund to the CBR had not yet been made.

Senator Wilson asked whether the slide included the potential CBR draw.

Mr. Painter answered "yes," without a CBR draw in FY23 there would be a \$200 million hole in FY23 that would need to be filled.

Co-Chair Stedman thought there were two things at play, one of which was that the other body had already voted to access the CBR, and the senate had yet to vote on the matter. He thought that the senate agreeing with the draw was likely. He considered that if the FY24 vote to access the CBR being blocked due to lack of votes. He queried what the legislature would do at that point.

Mr. Painter pondered that the FY23 CBR language prioritized the CBR after the SBR draw. He said that if there was no ability to access the CBR in FY24, with the SBR drawn to zero, remaining reserves to meet the budget would be the ERA or the PCE fund. Or the legislature could reduce the budget or increase revenues. He stressed that the legislature was constitutionally mandated to pass a funded budget and with no CBR draw or other changes the deficit gap would need to be closed by budget cuts.

[10:02:34 AM](#)

Co-Chair Hoffman recalled the \$1.6 billion for dividends included the \$600 energy rebate.

Mr. Painter replied in the negative and explained that the energy rebate was counted as a statewide item and was reflected on line 9.

[10:03:10 AM](#)

Senator Bishop noted that the fiscal summary did not include fiscal notes.

Mr. Painter answered affirmatively. He explained that legislation with fiscal impact was not included in the budget. Instead, bills had fiscal notes that reflected fiscal impact, and were incorporated into the Operating Budget at the end of session. He noted that the largest fiscal note pending was for the increase of the BSA.

Co-Chair Stedman considered that there were substantial potential outflows that were not reflected on the slide.

[10:04:35 AM](#)

Mr. Painter advanced to slide 21, "Short Fiscal Summary - House Operating Budget Committee Substitute, SFIN Modeling Assumptions," and noted that the fiscal summary included the \$96 million to the house Capital Budget assumption, which would increase the projected deficit to \$514.3 million. He said that this would be the starting point for the models on the 50/50 POMV split plan on the coming slides.

[10:05:05 AM](#)

Mr. Bell looked at slide 22, "Senate Finance Baseline Budget - 50% of POMV to PFD," which showed the assumptions from the prior slide. He stated that the deficits at the beginning of FY24 were approximately \$564 million, growing to \$1.4 billion by FY31. He relayed that the CBR and SBR would be drawn to make up for the deficits. He related that beginning FY26, unplanned ERA draws beyond the POMV draw began to occur. Starting FY27 there was a billion or more per year of unplanned draws from the ERA, which steadily draws down the realized ERA balance. By FY32 there was a remaining unrealized ERA balance of \$1.8 billion. If the model ran into the future the ERA would be empty by FY33. He said that the effective POMV draw rate reached approximately 6.6 percent in FY30 through FY32. He relayed that the 50/50 PFD would be at \$2,700 in FY24 and would increase year after year even as the value of the fund declined due to the unplanned ERA draws.

Co-Chair Stedman asked whether the slide assumed the updated Willow Project numbers in the projected oil prices.

Mr. Bell affirmed that the modelling included the most recent forecast from DOR, which included the updated production forecast.

[10:07:24 AM](#)

Co-Chair Hoffman queried how much revenue would need to be raised in FY 31 and FY32 to balance the budget.

Mr. Bell cited that the state would need approximately \$1.3 billion in new revenue or budget cuts to balance the budget in FY32.

[10:08:01 AM](#)

Senator Wilson asked whether the deficit numbers would change if new revenue was added in FY32 and beyond.

Mr. Bell replied in the affirmative. He noted that part of the impact was that the unplanned ERA draws lowered the value of the fund, which lowered the POMV draw amount.

[10:08:46 AM](#)

Mr. Bell spoke to slide 23, "Senate Finance Baseline Budget - 50% of POMV to PFD," which showed the same assumptions as the previous slide with 50 percent of the POMV draw going to the PFD. The slide showed probabilistic modeling with potential volatility in oil prices. On the right the realized ERA balance was shown to look like the statutory modeling; 10 percent of the time the ERA balance went to zero in FY27 and 25 percent of the time the balance went to zero in FY29.

Mr. Bell addressed the CBR balance probabilities at the bottom of the slide. He shared that the CBR balance probabilities showed the CBR below \$3.5 billion at 76 percent probability in FY24, increasing to 83 percent in FY32. The final line showed the CBR at or below \$500 million at 3 percent in FY24, increasing to 60 percent in FY32.

Co-Chair Stedman referenced a similar fiscal predicament in Alberta, Canada, and asked if the state could simply borrow money to run state operations.

Mr. Painter relayed the money could be borrowed for the Capital Budget but not the Operating budget.

Co-Chair Stedman thought that the results of borrowing funds had not been beneficial to Alberta.

[10:11:56 AM](#)

Mr. Bell referenced slide 24, "Senate Finance Baseline Budget - 25% of POMV to PFD," which showed the same budget assumptions as the previous slide. The PFD for FY24 would be \$1,304 per person, increasing to \$1,491 in FY27. Under the scenario, there were small surpluses for FY24 through FY26, with small deficits starting in FY27 and increasing to \$250 million in deficits by FY30. The SBR and CBR were sufficient throughout the period to fill the deficits, and

there were no overdrafts from the ERA. He cited that the CBR balance by the end of the period was approximately \$2.1 billion, experiencing growth in the earlier years but declining beginning FY29. The PFD remained basically at \$1,500 to \$1,600 per person throughout the later part of the period.

Co-Chair Stedman reminded the committee that the scenario did not include some other expenditures.

[10:13:49 AM](#)

Co-Chair Hoffman queried the FY23 total dividend appropriation.

Mr. Painter noted that in FY23, the PFD plus energy relief was \$2.1 billion.

Co-Chair Hoffman wondered what the figure would be in FY24.

Co-Chair Stedman interjected the number would be \$881 million.

[10:14:40 AM](#)

Mr. Bell turned to slide 25, "Senate Finance Baseline Budget - 50% of POMV to PFD," which showed the probabilistic modeling for the 25 percent POMV draw. The chart on the left showed that in FY 24, 50 percent of the time the number fell between \$300 million deficit and \$1.4 billion surplus. In FY29 the deficit was \$950 million, and the surplus was \$800 million. Since there were no overdrafts from the ERA, in almost all trials of the model, 10 percent of the time the ERA balance went to zero by FY27, and 25 percent of the time by FY30. The probability of the CBR dropping below \$3.5 billion was 62 percent in FY24, dropping to 35 percent in FY32. The probability of the CBR being at or below \$500 million was at zero percent in FY24, increasing to 17 percent by FY32.

Co-Chair Stedman thought it looked as though there was a 65 percent success rate in the modeling for FY28 and beyond to be at or above the CBR target.

Mr. Bell noted that only 35 percent of the time, in the last half of the period, was the CBR below the \$3.5 billion balance.

10:17:07 AM

Senator Merrick asked whether it was possible to get the total amounts of the fiscal notes, per year, for the last decade.

Mr. Painter agreed to provide the information.

Co-Chair Stedman offered that the figure varied a bit but was significant. He said that the office carrying legislation tracked the fiscal notes for the committee and could provide the data.

Co-Chair Stedman thanked the representative from LFD for their work. He said that more modeling could be done on other variations of the POMV split. He noted that there was legislation at play that dealt with the issue.

Mr. Painter commented that he had started fiscal modelling for the legislature in 2016 and pondered how little things had changed since that time in terms of the long-term options. He recounted that modeling over the years had shown that the 25/75 POMV split had resulted in a balanced budget with no other actions, while a 50/50 POMV split showed the need for additional revenue. He said that the long-term picture regarding policy options had remained unchanged from 7 years ago. He noted that the information presented could seem repetitive, but the end solutions had remained similar.

10:20:05 AM

Co-Chair Hoffman commented that when the legislature passed SB 26, it had balanced the budget with a 27/75 split with a POMV draw of 5 percent. Prior to that time, legislators had been reluctant to spend from the fund. He thought that the change had been a political decision that had been debated in hearings of SB 26. He said that through negotiations the senate had offered a one-time appropriation for education because long-term revenues were not available. He noted that SB 26 had passed the senate with only 12 votes because of the implications of tapping the ERA and setting up the POMV as well as the dividend calculation. He thought that the problem under discussion at the time was why was the legislature looking only to the people of Alaska to balance the states budget. He believed that other mechanisms were possible outside of revising the POMV draw. He stressed the

need for other revenue measures and the preservation for the permanent fund. He mentioned legislation from the previous year and announced that he was contemplating bringing legislation before the committee that would offer other options for balancing the state's checkbook.

10:24:07 AM

Co-Chair Hoffman continued his remarks. He stressed that the committee could make tough decisions.

Co-Chair Stedman agreed that the committee had made some tough decisions. He recounted the various work the committee had done on working to balance the budget and provide Alaskans with a PFD. He felt that discussions on the matter would continue.

Co-Chair Stedman discussed the agenda for the following week.

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ADJOURNMENT

10:26:59 AM

The meeting was adjourned at 10:26 a.m.