

ALASKA STATE LEGISLATURE HOUSE FINANCE COMMITTEE

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MEMORANDUM

DATE: January 11, 2018

TO: House Finance Members

FROM: Representative Paul Seaton, Co-Chair
House Finance Committee

RE: FY19 Operating Budget Subcommittees

A handwritten signature of Representative Paul Seaton.

INTRODUCTION

This memorandum provides a high-level framework for reviewing the operating budget by the House Finance Operating Budget Subcommittees. This process is meant to increase subcommittee members' understanding of the responsibilities and challenges facing the departments and to prompt policy discussion and changes.

Some highlights of the Governor's budget proposal include:

- \$400.0 million from the Constitutional Budget Reserve Fund, though the Legislative Finance Division (LFD) indicates \$425.5 million. The Governor's amount reflects \$25.5 million of anticipated savings pursuant to a Medicare Part D employer group waiver plan related to the public employees' and teachers' retirement systems;
- an open-ended appropriation from the SBR that still leaves a nearly \$74 million budget deficit;
- \$2.0 billion unrestricted general fund revenue;
- Nearly \$2.4 billion from the Permanent Fund's Earnings Reserve Account (ERA) to the corpus of the Fund for inflation proofing for FY16-FY19; and
- \$2.7 billion, a 5.25% draw from the ERA is deposited into the General Fund for government (\$1.9 billion) and the PFD. Nearly \$819 million is transferred from the General Fund into the Dividend Fund for a calendar year 2018 estimated PFD of \$1,216.

The Governor also included \$223.3 million (total funds) of operating and capital supplemental requests in the budget bills. In addition, the budget includes several items that require additional legislation to

enact: Public School Trust Fund, Senior Benefit Payment Program, Oil & Gas Tax Credits Financing, and the Alaska Economic Recovery Act.

The budget deficit is expected to be \$2.2 billion in FY18, to be drawn from the CBR. Without passage of the Governor's proposed legislation or an ERA draw, the FY19 budget deficit is expected to be nearly \$2.6 billion. The Department of Revenue's FY18 unrestricted revenue forecast is based upon 0.533 MBD at \$56.00 per barrel and 0.525 MBD at \$57.00 per barrel for FY19. (Note: ANS West Coast was \$68.97 on January 10, 2018.)

Long-term forecasts, however, still have the state in deficit spending. Our task is to help chart a course for state government that strikes a balance between the level of government Alaskans need and want, and what we can afford.

Please be sure to read the Legislative Finance Division's (LFD) Legislative Fiscal Analyst's *Overview of the Governor's Request* as soon as possible. There is a wealth of valuable information in this publication. A copy will be distributed to each House Finance Committee member as soon as it is available. Additional copies will be in the 5th floor copier room 523, and you'll also find it on LFD's website: <http://www.legfin.akleg.gov/Overview/DisplayReports.php>

The House Finance Committee (HFC) will start the session with the following presentations:

- Thursday, Jan. 18 Overview of the Governor's FY19 Budget, Pat Pitney, OMB Director
- Friday, Jan. 19 Fall 2017 Revenue Forecast, Commissioner Sheldon Fisher, Ken Alper, Director, Tax Division and Dan Stickel, Chief Economist
- Monday, Jan. 22 Alaska Permanent Fund Overview, Angela Rodell, CEO, APFC
- Tuesday, Jan. 23 Overview of the Governor's FY19 Budget, David Teal, LFD Director and Personal Services Vacancy Factors, Amanda Ryder, LFD Fiscal Analyst

Starting on January 24, departments will give budget overviews in HFC. There will be three department overviews per afternoon, with the last of them scheduled on January 31. The purpose of the department budget overviews is to provide an opportunity for the entire HFC to hear from department leadership about their budget, their programs and their overall performance. The department overviews help set the stage for subcommittee analysis. Key information about each program has been requested, including, but not limited to:

- FY19 funding by funding group (UGF, DGF, Other and Federal);
- Number of PFTs, PPTs, and NP budgeted and filled positions;
- Number of Alaskans served;
- Percentage of costs recovered through fees;
- Department assessment of the program's importance (critical, important, beneficial, or status quo);
- Department assessment of the program's effectiveness; and
- Whether the program is constitutionally, federally, or statutorily required.

The following instructions have been revised from those issued last year to increase consistency and transparency among the subcommittees.

SUBCOMMITTEE ADMINISTRATION AND OPERATION

Subcommittees are expected to begin their work as soon as possible. Given the continued subcommittee composition, it is critical that the subcommittee chair identify subcommittee meeting topics prior to setting the subcommittee meeting schedule.

As part of an introductory presentation, the department should include the percent of their budget that is dedicated to health care cost increases. They should be requested to present this information for the previous five years. Subcommittee chairs should inform subcommittee members that departments have no control over health care cost increases. The purpose of presenting this information is to inform members of the amount of the department's budget increase that is attributable to the cost of health care. LFD will be able to present a standardized slide of this information for each subcommittee.

Other items could include, but are certainly not limited to:

1. A brief personal services vacancy factor presentation by the Legislative Finance Division (LFD) specific to the department. OMB is working on a new report that is expected to be sent to LFD soon for review. After LFD's review, the report will be available on LFD's website, likely under the Analysis Tools tab.
2. Review of the department's program listing, with particular attention given to those programs funded with Unrestricted General Funds (UGF). Given our current fiscal constraints, are they still considered priority programs? Should they be eliminated or modified to save UGF?
3. Explanation of differences between FY17 Actuals (expenditures) to the FY19 budget request, not just the changes from FY18 Management Plan. LFD can provide reports at department-, appropriation-, and/or allocation-levels.
4. Explanation of any expected carryforward amounts from FY18 into FY19 that are not reflected in the budget request.
5. Indirect Expenditures – If not addressed last session, what are the priority statutory changes necessary to increase revenue? Did any recommendations made last year get translated into legislation?
6. Any other statutory changes that could increase revenue or decrease expenditures.

LFD's Alaska Legislative Budget Handbook (the Swiss Army Knife) on pages 21- 23 includes tips for running effective subcommittee meetings, including scheduling and communicating with departments and LFD, and information about the subcommittee process. Please note, however, that some of the subcommittee information may not apply to our subcommittee process. For instance, some subcommittees may not need to find a meeting room as the standing/special committee meeting location will be the site for subcommittee meetings. The subcommittee close-outs will be prepared like last session as there will not be a Budget Action Sheet (BA). The final work product of the subcommittee will be a narrative report with attached subcommittee amendment recommendations to be considered by HFC.

MEETINGS

Each HFC majority member is the chair of two or three agency budget subcommittees. The members of each subcommittee are an existing standing or special committee. If necessary, both HFC co-chairs may be called upon to serve as alternate subcommittee members.

Last session, the subcommittees met during the standing/special committee time, using approximately 50% of the meeting time for subcommittee work. As this is the second session, the standing/special committees will likely have a heavier workload at the beginning of this session than at the beginning of last January. **Therefore, this year subcommittees should expect to only meet during the standing/special committee time for the first and last subcommittee meetings.** (There may be some exceptions, so please coordinate with the standing/special committee chair on scheduling.) The other subcommittee meetings should take place outside of the regular standing/special committee time, such as early mornings, evenings, or on Saturdays. Some departments may need more subcommittee time while some may need less. Of course, subcommittees are not to be scheduled during the HFC's normal meeting time of 1:30 – 3:30 p.m., Monday – Friday.

If, however, a subcommittee meeting and a standing/special committee meeting are to be scheduled back-to-back, remember to leave five or ten minutes between the meetings so the House Records secretary has time to either set up to record or to close the recording and documents for the standing/special committee. If possible, scheduling the subcommittee first during the day may reduce the possibility of the standing/special committee not completing its agenda and having to recess for the subcommittee meeting and then reconvene after the subcommittee meeting.

- Meeting rooms and contacts to schedule them:
 - Senate Floor staff is responsible for the following locations – Sergeant-At-Arms 465-4987:
 - Beltz Room 105, Thomas Stewart Legislative Office Building (TSLOB)
 - Fahrenkamp Room 203, Capitol
 - Butrovich Room 205, Capitol
 - House Floor staff is responsible for:
 - TSLOB Conference Room – Micaela Bradner 465-3869 or Matt Simpson 465-6806
 - House Committee Aide staff are responsible for the following locations:
 - Finance Room 519, Capitol – Jenny Martin 465-2689
 - Judiciary Room 120, Capitol – Lizzie Kubitz 465-4904
 - Resources Room 124, Capitol – Tom Atkinson 465-6873
 - State Affairs Room 106, Capitol – Joanna Schultz 465-3875
 - Transportation Room 17, Capitol – Laura Stidolph 465-4976
- **The scheduling memo must be provided to the Chief Clerk by 4:00 p.m., Thursday for the following week's meetings.**
- Subcommittee chair is responsible for contacting departments and establishing the agenda.
 - The chair should make an announcement during the **first meeting** that the subcommittee won't hear public testimony (just invited/agency testimony) as HFC will provide an opportunity for public testimony after HFC considers the amendments proposed by the subcommittee. The **first meeting** should include a discussion regarding the LFD slide on the department's health care cost information for the previous five years, as mentioned earlier in this memo, and a recap by the LFD analyst of the personal services factor vacancy presentation given in HFC on Tuesday, January 23, 2018, along with some department-specific vacancy factor information. This meeting should be held during the standing/special committee's normal meeting day/time.
 - The subcommittee chair should contact Jenny Martin (465-2689) in my office to schedule a brief pre-closeout update with me two days before the meeting to take up amendments.

- The **next-to-last meeting** should be when amendments are voted on.
- The **last meeting, the closeout meeting**, should include a verbal recap of the amendments adopted by the subcommittee. The draft narrative report and LFD closeout reports should also be available. This meeting offers a final opportunity to make technical corrections. This meeting should also be scheduled during the standing/special committee's normal meeting day/time.
- Use a subcommittee letterhead for any communications, including the final subcommittee report (a template was provided to staff last session, so in most cases only the fiscal year in the header will need to be updated this year).
- Work cooperatively with agency staff and the LFD analyst assigned to the department when planning the number of meetings and the agenda for each meeting.
 - Coordinate your meeting schedule with the Administrative Services Director of each assigned agency to take advantage of when agency staff will be in Juneau on other business and may be available for subcommittee meetings. Avoid, to the extent possible, having the agency incur travel expenses solely for subcommittee business.
 - A fiscal analyst from LFD is assigned to each agency budget and will assist the subcommittee. Please include your respective fiscal analyst in the budget process as much as possible and in any emails sent to the subcommittee and/or agency.
 - Also include the OMB analyst assigned to your department in any budget-related correspondence.
- When necessary, schedule a pre-meeting briefing with the department the day before the scheduled subcommittee meeting to ensure that the meeting materials and presentation are what was anticipated. It is very helpful if the LFD analyst is also invited.
- Request that finalized meeting materials be provided by 5:00 p.m. the day prior to the scheduled meeting to allow for distribution to subcommittee members.
- Post **all** subcommittee documents on BASIS prior to the relevant meeting so the public may follow along, whether prepared by members, the agency, or LFD staff.
- All subcommittee meetings **must** be streamed on AlaskaLegislature.TV. Use the teleconference network to request streaming of each meeting (the form below must be submitted to have the meeting streamed) and to schedule a teleconference when necessary to accommodate testifiers not located in Juneau.
 - Use this form from the Legislature's Intranet site to schedule a teleconference:

http://intranet.akleg.gov/lio/teleconference_form.php

Call the Juneau L.I.O at 465-4648 for assistance.

- Note: As mentioned above subcommittees will not hear public testimony, just invited/agency testimony. Since subcommittees will only be covered by legislative TV streaming, there will not be a means for people from around the state to provide testimony equally on all agency budgets. Public testimony will take place in HFC after committee substitute budget bills are adopted by the HFC following the closeout of all the subcommittees.
- Subcommittee meetings are not taped or transcribed. However, a teleconferenced meeting does have an audio recording. Contact the Juneau L.I.O. to gain access.

Note: During the first week of the first session, meetings may be scheduled just 24 hours in advance. However, all meetings for the second session of a legislature must be scheduled the week before. For subcommittee meetings to be held during the week of January 22, the signed scheduling memo must be delivered to the Chief Clerk's office by 4:00 p.m., Thursday, January 18th.

RESOURCES FOR SUBCOMMITTEE MEMBERS

To ensure that all subcommittee members have access to the same information about the department, subcommittee staff is responsible for preparing a binder of information for each subcommittee member. The binder should contain at a minimum:

- This instruction memo.
- LFD's Fiscal Summary, UGF Fiscal Sensitivity graphs and Approximate Balances of Reserve Accounts from the *Legislative Fiscal Analyst's Overview of the Governor's Budget* (LFD's Overview).
- Other LFD statewide budget charts, if any.
- Department pages from LFD's Overview.
- The department's HFC Overview presentation as it will contain some department-level LFD graphs and the department's program list.
- LFD's Subcommittee book.
- Operating budget detail at the department-level from OMB's website <https://www.omb.alaska.gov/> or the detail budget books that includes
 - Mission,
 - Core services,
 - Measures by core services,
 - Major accomplishments,
 - Key challenges, and
 - Significant changes in results to be delivered.
- Any other communication/documentation provided by the department.
- Each department's portion of the statewide fee report (OMB's website).
- Tabs for each of the planned subcommittee meetings for information to be provided to subcommittee members as available, for example, a detailed meeting agenda, department presentations, etc.

There are many other additional resources available, some of which you may want to include in the binders. Those resources, include, but are not limited to:

- Other information from LFD's website (the first four will be under the Analysis Tools tab)
 - Graphs provided for the HFC Overview presentation
 - Budget highlights,
 - Transaction detail with notes,
 - Increment status sheets, and
 - FY18 Legislative Intent Letter.
- Legislative Audit recommendations and departmental response, if applicable (Legislative Audit's website).
- Only if the subcommittee is continuing work on Indirect Expenditures: the department's pages from LFD's 2015 or 2017 Indirect Expenditure Report.
 - The 2015 report is on LFD's website:
<http://www.legfin.akleg.gov/IEBooks/2015IndirectExpenditureReport.pdf>
 - Hard copies are in the 5th floor copier room 523.
 - The 2015 report includes the Departments of Commerce, Community, and Economic Development; Fish and Game; Health and Social Services; and Revenue.
 - The 2017 report is found at:
<http://www.legfin.akleg.gov/IEBooks/2017IndirectExpenditureReport.pdf>

- Hard copies are in the 5th floor copier room 523.
 - It includes the Departments of Administration, Education and Early Development, Environmental Conservation, Natural Resources, Revenue (Education Credit only) Transportation and Public Facilities (AMHS Tariff Discounts/Passes only), and the Judiciary.
- The Department of Revenue prepares a biennial Indirect Expenditure report on every department. However, it is just the data and does not include LFD's analysis. The Department of Revenue's report is found at:
<http://tax.alaska.gov/programs/documentviewer/viewer.aspx?1267r>
- Other information available on OMB's website
 - Budget Terminology,
 - Operating budget detail for each Results Delivery Unit (RDU)/component from OMB's website or the detail budget books that includes
 - Mission,
 - Core services,
 - Measures by core services,
 - Major accomplishments,
 - Key challenges, and
 - Significant changes in results to be delivered.
 - 10-Year Plan,
 - FY17 Lease – Purchase Agreements Report,
 - Links to the:
 - Department of Administration's Comprehensive Annual Financial Report (CAFR)
 - Department of Revenue's Revenue Sources Book Fall 2017 (and prior issues).
- Capital budget project list and detail (LFD's or OMB's website).

SUBCOMMITTEE REQUIREMENTS AND WORK PRODUCT

- Subcommittees are to review the numbers section of their agency budgets and discuss budget detail transactions such as increments, decrements, transfers, new positions or position changes, fund source changes, etc. Look for efficiencies where it makes sense to do so.
- Understanding the four budget fund groups is essential to the subcommittee review process:
 - **Unrestricted General Funds (UGF)** – No statutory designations or restrictions on the use of these funds. Deficits refer only to UGF. **Deficits do not occur in other fund groups.** Accordingly, UGF-funded programs will be the primary review areas.
 - **Designated General Funds (DGF)** – Although the Constitution prohibits the dedication of funds (with a few exceptions), the legislature has statutorily designated funds in this group for a specific purpose. Programs funded with DGF should also be reviewed as some unspent DGF fund sources lapse into the general fund.
 - **Other Funds** – The legislature has limited discretion (includes dedicated and duplicated funding).
 - **Federal Funds** – Funding received from the federal government. The legislature has limited discretion over the use of this funding.
- Language sections of the operating and mental health budget bills are not under the purview of subcommittees as my office reviews the language sections. **Discuss any recommendations for**

language section changes with my office prior to including any language section recommendations in the subcommittee's final closeout report.

- The subcommittee chair must discuss with me their subcommittee amendment suggestions that add funding, if any, prior to bringing them forward in the subcommittee.
- Any proposed changes to the comprehensive mental health program must be discussed with Representative Gara, Chair of the Department of Health and Social Services Subcommittee, prior to incorporation in any subcommittees' amendment recommendations.
- Subcommittees are also to review the governor's budget amendments that will be submitted on the 30th legislative day, February 14, 2018. The HFC Assistant will deliver the relevant amendments to the subcommittee chair as soon as possible. (The amendments will also be posted on OMB's website on February 14.)
- Subcommittees **may not** propose across-the-board or unallocated reductions.
- **Amendments**
 - Subcommittee members are to use the amendment form template on the LFD website (Operating/Amendment Forms/House Finance Subcommittee Operating Budget Amendment Form), not LFD's online amendment system. The online amendment system is for HFC use only.
 - All subcommittee members can introduce, debate, and vote on amendments to the department's operating budget.
 - If there is a formal or informal legal services opinion regarding a proposed amendment that indicates there may be constitutional or statutory concerns, then the sponsor of the amendment is strongly encouraged to provide this information to the subcommittee.
 - In the past some decrements have been proposed without an understanding of the statutory obligation that requires the funding. If an amendment is offered that reduces funding for a program, service or activity that the department is statutorily required to provide, then the sponsor (or the department) should cite that statute. Members should be familiar with the statutory obligations and how they affect the department's budget.
- **The subcommittee's work is to be completed and all final reporting documents submitted to LFD and a copy of the narrative report submitted to my office by 5:00 p.m., February 23, 2018.** However, if possible, subcommittees are encouraged to close out prior to February 23. I anticipate that HFC would then take up those subcommittee recommendations earlier during the following week.
 - A narrative report will be required that describes the final recommendations of the subcommittee. (Template was provided in 2017.)
 - The final recommendations of the subcommittee may take several forms:
 - Suggested statutory changes.
 - Wordage changes. Wordage is narrative within section one (the numbers section) of the budget bill.
 - Legislative Intent. All proposed legislative intent must be reviewed by the LFD analyst. Then discuss intent proposals with me prior to the draft closeout.
 - Budget structure changes. Work with your LFD analyst on these recommendations.
 - Budget changes. The subcommittee chair's staff will enter all the subcommittee's adopted amendments, whether supported by the subcommittee chair or not, into the LFD online amendment system. The amendment system will generate a report that will accompany the narrative report. That report of amendments will subsequently be considered by the HFC as Round 1 amendments.

- The closeout narrative and all accompanying documents will be posted on LFD's website to help the public understand the subcommittee's recommendations and the reasons for them.
- Once a subcommittee is closed out, that subcommittee will be scheduled in HFC for the subcommittee chair to present the subcommittee's recommendations to HFC. The subcommittee chair will go through the final narrative report, ending with the specific amendment proposals which will then be voted on in HFC. More on this later.

SUPPLEMENTAL BUDGET REQUEST

Even though the governor's operating budget includes supplemental budget requests as mentioned earlier, subcommittees **do not** take any action on supplemental budget requests as those requests will be considered by the HFC in a format and at a time determined by the co-chairs. The subcommittee chairs, however, should be prepared to discuss agency supplemental requests with me and in the HFC.

- The governor's "normal" FY18 supplemental budget request is due on the 15th legislative day, January 30, 2018.
- LFD will update their "Increment Status Sheets" on their website under the Analysis Tools tab to include Section 1 (numbers section) operating supplemental items for each department.

CLOSING

We have a lot of work to do in a very short timeframe. February 23, the anticipated subcommittee closeout deadline, is just Day 39 of this legislative session. I encourage you to be diligent in guiding the subcommittee work process to the development of reasonable recommendations that will garner support in the HFC and produce a budget that funds the services Alaskans need and can afford.

Please feel free to contact me or my staff, Joan Brown at 465-6587 or Arnold Liebelt at 465-6256, if you have questions or suggestions.

cc: David Teal, Director
 Legislative Finance Division

Pat Pitney, Director
Office of Management and Budget