Office of the Governor





OFFICE OF MANAGEMENT AND BUDGET Neil Steininger, Director

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February 25, 2021

The Honorable Senator Stedman Co-Chair, Senate Finance Committee Alaska State Capitol Room 518 Juneau, AK 99801 The Honorable Senator Bishop Co-Chair, Senate Finance Committee Alaska State Capitol Room 516 Juneau, AK 99801

Dear Co-Chairs Stedman and Bishop,

Thank you for inviting the Office of Management and Budget to present on the Governor's fiscal year 2021 supplemental budget to the Senate Finance Committee on Monday, February 8th. Responses to questions and requests for follow-up information from the committee hearing are included below:

Senators von Imhof and Olson asked for an explanation of how Technical and Vocational Education Program (TVEP) funds are collected and allocated, and how much TVEP funds are projected to decline. TVEP revenue is collected from employer contributions to the unemployment insurance (UI) trust fund equivalent to 0.16% of wages subject to UI contributions. These funds are allocated in statute for distribution to named recipients. This distribution will sunset on June 30, 2021 if legislation is not introduced and passed to reauthorize the program.

The amount of TVEP funds collected dropped from \$13 million in FY2020 to \$11 million in FY2021, which resulted in a \$1.3 million reduction to the FY2021 distribution. The reduction would have been greater, but the program had some unexpected carryforward from FY2020 due to recipients shutting down early to minimize coronavirus (COVID-19) exposure. Currently, FY2022 TVEP fund collections are projected to be \$12 million. However, this projection is highly volatile.

Senator Stedman requested additional information on savings reserve targets to address revenue volatility. Meaningful savings reserve targets assume there is typically sufficient revenue to cover the budget and that the reserve is meant to address occasional short-term revenue shortfalls. Until the structural deficit is resolved it is not possible to calculate a meaningful savings reserve target.

State savings reserve targets (or limits) vary significantly and range from 2% to 20% of general fund expenditures. In general, reserve targets should reflect the risk volatility of the revenue. According to the Government Finance Officers Association's (GFOA) Fund Balance Guidelines, governments vulnerable to natural disasters; more dependent on a volatile revenue sources; and subject to cuts in federal grants likely need higher reserves. For Alaska in FY2021, the 2-20% reserve amounts would mean a reserve of \$92.6 million to \$925.8 million. Per the GFOA guidelines Alaska would fall at the higher end of this range.

From FY2013 to FY2020 the State of Alaska spent around \$20 billion in reserves.

Senator Olson asked for additional information regarding the Alaska Psychiatric Institute (API) \$6 million supplemental, a general update on API's financial situation and capacity, and whether the Wellpath contract is still ongoing. API's supplemental request is due to the inability to fully collect budgeted statutory designated program receipts (SDPR) and interagency (I/A) receipts. Additionally, API continues to rely on contractors and/or locum tenens to provide professional services at the hospital in areas where API is unable to fill or retain medical professionals. These contractors and locum tenens result in a higher cost than in-house medical professionals. API capacity allows a maximum daily census of 60, but there have been setbacks in filling beds due to COVID-19. The most recent daily census has increased to 50. Quarantining and isolation requirements prevent API from filling double occupancy rooms. API is planning on opening the adolescent unit in April, which could potentially increase the census by an additional 10 beds and result in a revenue increase.

Senator Olson asked for a list of the boards within the Division of Corporations, Business and Professional Licensing Commercial (CBPL) that require support from the Department of Commerce, Community, and Economic Development (DCCED) supplemental and additional information on why they are experiencing shortfalls. Senate Bill (SB) 254 included a provision halting the increase of professional licensing fees for professions licensed by CBPL for the duration of the public health emergency. This supplemental request will offset those program deficits to ensure that programs are sustainable while fee increases are halted. The programs supported by this supplemental request are Dental, Dispensing Opticians, Euthanasia Services, Guardians/Conservators, Marital and Family Therapy, Massage Therapists, Nursing Home Administrators, and Optometry.

Per AS 08.01.065, DCCED regularly reviews the licensing fees and costs to ensure that a licensing program does not go into deficit or build up an excessive reserve balance. In calendar year 2020, 14 programs were identified for fee adjustments with eight programs running a deficit if fees are not increased by their next renewal. Of those eight, five of the licensing programs are projected to be in deficit at the end of FY2021 and three will be in deficit spending by the end of FY2022. Programs that go into deficit will need to include both future and past costs in their next fee package. Allowing these programs to go into deficit now will require more substantial increases in fees in future years.

Senator Stedman requested statistics on the foster care system for the past several years, and whether the measures of House Bill (HB) 151 have been effective. HB151 put federal requirements that the Office of Children's Services (OCS) was already compliant with into state law. Therefore, HB151 has not had an impact OCS' statistics. Provided below is a table with the requested statistics. Additional information can be found on the following OCS website:

	FY14	FY15	EVIC	FY17	FY18	FY19	FY20	FY21
Adoptions	2959	3188	3217	3365	3480	3575	3649	3684
Guardianships	117	121	113	121	165	224	288	336
SAG Total	3076	3309	3330	3486	3645	3799	3937	3984
		7.6%	0.6%	4.7%	4.6%	4.2%	3.6%	1.2%
							25.3%	
							4.2%	

http://dhss.alaska.gov/ocs/Pages/statistics/default.aspx

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Senator Bishop asked whether the contractor the Department of Revenue used for their security review was an Alaska-based operation and for information such as the length of the contract. The Department of Revenue (DOR) contracted with Worldwide Technologies (WWT) for their risk assessment. WWT is a US-based company with a satellite office in Anchorage. DOR originally contracted with WWT in FY2020 and the work was completed in August 2020.

Senator von Imhof requested a list of cases the Department of Law is working on that relate to statehood defense issues, and a holistic look at the issues this appropriation is intended to address. Provided as attachment 1 is a list of the federal issues the state faces. The Department of Law would welcome an opportunity to present to the Senate Finance committee on this topic.

Senator Olson asked if the state ever wins settlements, and if so, what happens with any funding received as a result. Yes, the state is also on the receiving end of awarded judgments or settlements at times. In many cases the funds are deposited to the general fund although that may depend on the negotiated terms of the settlement.

Don't hesitate to reach out to my office if you have further questions.

Sincerely,

no

Neil Steininger Director

cc: Miles Baker, Legislative Director, Office of Governor Mike Dunleavy Alexei Painter, Director, Legislative Finance Division