

HOUSE FINANCE COMMITTEE
January 26, 2001
1:38 PM

TAPE HFC 01 - 20, Side A
TAPE HFC 01 - 20, Side B

CALL TO ORDER

Co-Chair Mulder called the House Finance Committee meeting to order at 1:38 PM.

MEMBERS PRESENT

Representative Eldon Mulder, Co-Chair
Representative Con Bunde, Vice-Chair
Representative Eric Croft
Representative Richard Foster
Representative John Harris
Representative Bill Hudson
Representative Ken Lancaster
Representative Jim Whitaker

MEMBERS ABSENT

Representative Bill Williams, Co-Chair
Representative John Davies
Representative Carl Moses

ALSO PRESENT

David Teal, Director, Legislative Finance Division; Denny Dewitt, Staff, Representative Eldon Mulder; fiscal analysts for the Legislative Finance Division.

SUMMARY

HB 45 "An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds; 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."

HB 45 was heard and HELD in Committee for further consideration.

HB 46 "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."

HB 46 was heard and HELD in Committee for further consideration.

HB 47 "An Act making capital appropriations and capitalizing funds; 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."

HB 47 was heard and HELD in Committee for further consideration.

#hb45

HOUSE BILL NO. 45

"An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds; 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."

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION provided members with information regarding the Governor's FY 02 budget. The function of the Legislative Finance Division is to help the legislature through the budget process. He encouraged members to access the Division's website <http://www.legfin.state.ak.us/> and noted that it can be utilized along with the Office of Management and Budget's site.

Mr. Teal provided members with a handout: The Fiscal Year 2002 Budget: legislative fiscal analyst overview of the governor's request (copy on file). He reviewed the graph on page 5 of the handout - General Fund Unrestricted Revenue vs. General Fund Appropriations. He noted that FY01 nominal general fund appropriations are at the same level as they were in 1988 and 1998. Current appropriations are at approximately half of what they were during the oil boom years of the early 1980's. Revenues and appropriations are volatile but both are on a downward trend. Alaska is the only state that has declining general fund appropriations. This decline would be reversed by the Governor's FY02 budget. He stressed that although general fund appropriations are declining they still exceed general fund revenues. There has been a draw from the Constitutional Budget Reserve every year since 1991, except for 1997 when money was withdrawn and paid back.

Mr. Teal observed that FY01 was the final year of a 5-year plan to eliminate the fiscal gap. He noted that the gap was closed in FY01, but acknowledged that the price of oil has been high at \$30 dollars a barrel. The gap opens again in FY02.

Mr. Teal reviewed page 6: Fiscal Summary - FY01/FY02. He noted that there is a \$500 million dollar decline in revenues and a \$155 million dollar increase in appropriations. This results in a fiscal gap of \$530 million dollars in FY02. The operating budget is up about \$97 million dollars. The capital budget is up approximately \$30 million dollars. Debt service and other appropriations are up approximately \$28 million dollars.

Mr. Teal reviewed page 7 (continuation of the fiscal summary). The total FY02 budget is \$7,237.1 billion dollars, which is an increase of \$263.7 million dollars over FY01. He noted that due to increasing population a smaller permanent fund dividend is expected for the current year.

Representative Croft asked for additional information on language appropriations. Mr. Teal explained that the language section is used to make appropriations when explanations are required. Representative Croft observed that \$25 million dollars is needed for additional debt service. Mr. Teal discussed debt service. The Anchorage jail was presented as debt service in the Governor's budget. He observed that the state of Alaska would never own the Anchorage jail. Therefore this item was moved to the general fund budget. Representative Croft reviewed the breakdown of new spending.

Vice-Chair Bunde noted that the projected surplus is dependent on the estimate of \$30 dollars a barrel for oil. He questioned where the state would be with the current average. Mr. Teal explained that for every change per dollar there would be a \$65 million dollar impact to the general fund. The price of oil retained its \$30 dollar value in the first half of the fiscal year. If it were reduced to \$25 dollars a barrel the budget would be balanced.

Vice-Chair Bunde clarified that the total budget excluding permanent fund dividends would be \$5,351.1 billion dollars in FY02. Of this amount, \$2.4 billion dollars would come from general fund revenues and \$1.95 billion dollars would be derived from federal funds. This portion is up slightly, while the capital budget is down slightly. There is also an increase in entitlement payments for Medicare.

Vice-Chair Bunde responded to constituent complaints that the state spends too much per capita. He pointed out that the per capita amount could be reduced if the state returned its federal funds.

Representative Hudson referred to page 6. Mr. Teal explained that interagency receipts appear in the department where they originate and are reflected in the department into which they are transferred. This duplicated amount is backed out of the budget.

Mr. Teal discussed other funds. There is approximately \$1 billion dollars in other funds, which is down \$40 million from FY01. The reduction is the result of AHFC bonds that were issued in FY01. They were replaced by airport revenue bonds.

Co-Chair Mulder noted that revenue assumptions for FY02 are based on a \$6 dollar per barrel drop in projected oil prices. Mr. Teal noted that projected production is slightly higher in FY02.

Mr. Teal reviewed differences between the budget analysis by the Legislative Finance Division and the Office of Management and Budget (OMB). The summary by the Legislative Finance Division shows that the fiscal gap is \$10 million dollars greater than OMB's estimate (\$155 million dollars). He explained that the Office of Management and Budget counted Investment Loss Trust funds and CBR direct appropriations as general funds. The Legislative Finance Division counts these as other funds in this year's fiscal summary, in order to be consistent with their inclusion as other funds in the legislation. Last year there were \$6.2 million dollars of Investment Loss Trust funds available for appropriation. In FY02, there are approximately \$150 thousand dollars after management fees.

Co-Chair Mulder explained that the state of Alaska made the retirement account whole during a time of bad investment. In doing so the state took over the invested junk bonds that the state thought were annuities and the Investment Loss Trust Fund. Mr. Teal observed that the money available to the state from this source is declining.

Ms. McConnell explained that portions of the trust fund are being released, as some of the investments have been made good and the funds are not needed to cover retiring employees.

Mr. Teal clarified that Investment Loss Trust Funds have traditionally been counted as other funds in the appropriation bill, but considered as general funds in the fiscal summary. The Legislative Finance Division concluded that to be consistent these funds should be considered as other funds in the fiscal summary. The Administration has continued to count the \$6.2 million dollars in Investment Loss Trust Funds as general funds in the FY01 fiscal summary. The Legislative Finance Division's fiscal summary counts these as other funds. This accounts for \$6.2 million dollars of the \$10 million dollar difference.

Mr. Teal discussed other accounting discrepancies. The Office of Management and Budget did not count section 27, which is a \$3.9 million dollar social services block grant,

because it is a contingent appropriation to be used only if there is insufficient federal funding for the program. The Legislative Finance Division also counted \$2 million dollars for fire suppression and some duplicated funds. The differences are minor. Differences are easy to account for. Technically the governor's budget was well done.

Mr. Teal noted that the fiscal summary also included debt service and transfers. There is a fairly substantial increase in capitalizing the Debt Retirement Fund: from \$9.3 million to \$34 million general fund dollars. The only significant increase was in school debt service. The Debt Retirement Fund has been drained over the years and has virtually no money remaining. The draw on the fund will equal the amount deposited. The net balance will be close to zero. There were no big changes in the capital budget or the Oil and Hazardous Waste Fund.

In response to a question by Representative Croft, Mr. Teal noted that most of the other funds are from the International Airport Fund. Debt service does not contain a significant amount of federal funds. He noted that cigarette taxes are dedicated to the school fund. He added that 40 percent of the future tobacco revenue stream was diverted to AHFC. Medicaid is missing \$10 million dollars in general funds that were diverted to AHFC for bond payments.

Co-Chair Mulder observed that the tobacco settlement funds have not been line itemed by the Legislature as was done in the Governor's budget. Mr. Teal explained that the tobacco settlement money was directed to Medicaid. The Legislature treated the tobacco settlement funds as pure general funds.

Vice-Chair Bunde thought that concern had been expressed on the federal level that not much of the funding is being used for cessation efforts. Mr. Teal thought that the issue had been resolved. There are no restrictions on state spending.

Mr. Teal reviewed page 13-position comparison. He noted that there is an increase of approximately 900 positions in the Governor's FY01 authorized amount. The increase from the FY01 management plan is 650. Mr. Teal noted that the largest increases were in the Department of Administration due to pioneer homes; the Department of Corrections due to the Anchorage jail; and the Department of Health and Social Services due to an increases in social work and juvenile justice. Representative Croft noted that the positions included non-general fund support.

Co-Chair Mulder noted that the Legislature can cut funding but has little ability to reduce positions. Mr. Teal agreed that the executive branch is free to add and change positions. The legislature controls the funding. Representative Croft noted that positions could be funded

through a variety of funding mechanisms. Mr. Teal observed that the Governor's budget includes increases in social services and alcohol programs. Positions were associated with the \$80 million dollar general fund increase. Co-Chair Mulder noted that the position count could increase even as general funds decrease if positions cost less. He emphasized that it is a management function of the governor.

Representative Hudson questioned how many of the new positions were authorized as one-time positions in FY01. Mr. Teal noted that one-time funding is a complicated issue. He concluded that there was one-time money spent in FY01 through reappropriations, the Investment Loss Trust Fund, AIDEA dividends and AHFC dividends that are not supported in FY02. The Governor's budget replaces that funding with general funds. This accounts for part of the \$150 million dollar increase. He observed that reductions in oil revenues could be considered as one-time.

Mr. Teal referred to the Agency Summary on page 18. Co-Chair Mulder asked for a summary of page 16 - formula funded programs. Mr. Teal discussed formula funded programs. Formula increases account for approximately \$20 million dollars. He noted that formula programs, once eligibility is defined, become an entitlement. Public school funding (which is driven by student count) and Medicare (which is driven by eligibility) are the two largest formula programs. Formula programs account for approximately half of the operating budget.

Co-Chair Mulder explained that the Governor generally submits the previous year's number as the baseline for the school count.

Representative Croft questioned if the baseline for the school count would be in the ballpark.

TAPE CHANGE, HFC 01 - 20, Side B

Co-Chair Mulder thought that the estimate would be close. Mr. Teal further explained that local contributions and federal impact aid affect the appropriation. Property values are going up statewide, which increases local contributions. Local contributions have a one to one offset on state aid. Co-Chair Mulder concluded that the rise in local contributions, federal impact aid and the decrease in enrollment all work to lower the public school foundation appropriation. There are a number of proposals to change the formula.

Representative Croft referred to Medicaid costs. Mr. Teal stressed that Medicaid costs increase yearly, partially due to prescription drug costs. There are also more people

eligible in FY02. He concluded that the increase in general fund requirement is not unusual.

Mr. Teal observed that the general fund budget is approximately \$1 billion dollars once other funds are subtracted.

Mr. Teal reviewed page 19 - discussion of language sections. He observed that the majority of the language appropriations are debt capitalization and the total is less than \$4 million dollars. The social services block grant accounts for \$3.8 million dollars of this amount.

HB 45 was heard and HELD in Committee for further consideration.

#hb47

HOUSE BILL NO. 47

"An Act making capital appropriations and capitalizing funds; 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."

Mr. Teal discussed the capital budget (page 42 of the Legislative Finance Divisions Overview). There is an approximately \$1.2 billion dollar capital budget in FY02, which is comparable to FY01's. The capital budget is down \$20 million dollars in federal money and up \$30 million dollars in general funds. The state's capital spending is comparable to the amount spent during the oil revenue peak in FY85. Most that of the spending is through the Department of Transportation and Public Facilities \$2 million of the increase. Most of the change in spending from FY01 to FY02 is outside of the Department of Transportation and Public Facilities.

Representative Whitaker asked how FY02 matching funds are used. Mr. Teal responded that the match varies depending on the program. Representative Whitaker asked if the federal appropriation is known. Mr. Teal stressed that the federal amount is never certain. He explained that the Department of Transportation and Public Facilities requests additional federal authorization in case additional federal funding becomes available. Federal funding to other states, which is not utilized is reappropriated to states where projects are ready.

Mr. Teal reiterated that the net decrease was due to a \$40 million dollar difference in AHFC bonds. Representative Croft concluded that there is not a real decrease in funded capital projects. Co-Chair Mulder added that voters did not approve some of the bonds authorized. The net impact on the state's economy was minimal.

In response to a question by Representative Hudson, Mr. Teal clarified that state matching funds for federal projects are not tied to particular projects.

Mr. Teal noted that there is less than \$6 million dollars appropriated in the language section; \$4.8 million dollars is appropriated to Power Cost Equalization.

Vice-Chair Bunde expressed the hope that the Power Cost Equalization program will be self-sustaining. Mr. Teal noted that the program needs approximately \$15.7 million dollars per year. An endowment was created in FY01. Not all of the transfers were made to the endowment. The endowment is not large enough to generate full funding for PCE. The appropriation is approximately \$7.8 million dollars short. The shortfall will be covered by \$2.5 million dollars in AIDEA dividends, \$620 thousand dollars from sale of loans and \$4.6 million dollars in general funds. The general fund requirement should be approximately \$2 million dollars in FY03. Mr. Teal clarified that slow loading of the endowment caused the shortfall.

HB 47 was heard and HELD in Committee for further consideration.

#hb46

HOUSE BILL NO. 46

"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."

Mr. Teal discussed mental health funding. He explained that the Alaska Mental Health Trust Board evaluates each project each year and to determine if they want to continue and at what level. Mental health projects are demonstration projects. Trust funds are replaced with general funds as projects are shown to be successful. The Mental Health Board's request is for \$14 million dollars in MHT receipts and \$137 million dollars in general funds. He observed that the Governor rejected some requests and added others. The net is slightly lower than the request. If the legislature changes the Governor's request the change must be explained to the Alaska Mental Health Trust Authority Board.

In response to a question by Co-Chair Mulder, Mr. Teal explained that the Legislative Finance Division has a spreadsheet, which compares the Mental Health Board's request to the Governor's submission.

In response to a question by Representative Hudson, Mr. Teal clarified that, while the legislature has not "rubber stamped" the Board's recommendations, the legislative

changes have been minor. Changes have been worked out with the Board and the Board has always been involved in the discussion. There are some mental health projects in Department of Corrections and Department of Administration, but most of the appropriations are in the Department of Health and Social Services.

HB 46 was heard and HELD in Committee for further consideration.

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ADJOURNMENT

The meeting was adjourned at 2:48 p.m.