

SENATE FINANCE COMMITTEE
LOG NOTES
01/10/01

GENERAL SUBJECT(S):

Budget Overview: David Teal, Director,
Division of Legislative Finance

The following overview was taken in log note format. Tapes and handouts will be on file with the Senate Finance Committee through the 21st Legislative Session, contact 465-4935. After the 22nd Legislative session they will be available through the Legislative Library at 465-3808.

Time Meeting Convened: Approximately 9:10 AM

Tape(s): SFC-01 # 1, Side A

	PRESENT:
x	Senator Donley
x	Senator Kelly
x	Senator Austerman
x	Senator Green
x	Senator Hoffman
x	Senator Lemar
x	Senator Olson
x	Senator Ward
x	Senator Wilken

ALSO PRESENT:
DAVID TEAL; Director, Division Of Legislative Finance
GINGER BLAISDELL, Fiscal Analyst, Division Of Legislative Finance

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LOG	SPEAKER	DISCUSSION
0	CO-CHAIR DONLEY	Introduction Welcome new Committee members: Senator Austerman, Senator Hoffman, Senator Olson and Senator Ward.
17		Budget subcommittee assignments are being determined and will be announced later. Invite requests from other senators who are interested in serving on a subcommittee.
30		We have been meeting with the House Finance Committee co-chairs to consider options for beginning the subcommittee process. We might hold joint meetings. Note subcommittees meet at different times, but will try to hold joint subcommittee meetings together
48	CO-CHAIR KELLY	Will schedule guests to give presentations including the State of the University of Alaska address by President Mark Hamilton, and the Denali Commission.
59	CO-CHAIR DONLEY	Welcome returning Committee members.
	SENATOR LEMAN	Greetings and welcome to new members
72	SENATOR WILKEN	We have a lot of work to do and I'm ready to start
77	SENATOR GREEN	Found the Committee interesting and an opportunity to learn
82	SENATOR WARD	We will take many challenges and turn them into opportunities. I look forward to it.
91	CO-CHAIR DONLEY	Introduce presenter
97	DAVID TEAL, DIRECTOR, DIVISION OF LEGISLATIVE FINANCE	This presentation is strictly highlights of the fiscal condition and the governor's FY 02 budget. This will not bring you up to "subcommittee speed" but will help you be better listeners to the governor's State of the State and State of the Budget speeches.
104		FY 01 is the final year of the Majority's 5-year budget plan to eliminate the fiscal gap. The fiscal gap is the difference between general fund revenues and general fund expenditures. One year ago there was a \$1.1 billion fiscal gap, equaling approximately 50-percent of the budget. According to Department of Revenue's Fall 2000 forecast, this gap is gone and there is a projected \$120 million surplus. But that's assuming oil prices are \$30 per barrel. Prices are actually lower, in the low \$20 and there will not be a surplus. There is a gap of \$528 million shown in the governor's fiscal summary.
125		For every dollar change in the price of oil there is a \$65 million impact on state

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		revenue. In FY 01 the price of oil was approximately \$30 per barrel, the average projected price for FY 02 is approximately \$24, a decline of \$6 resulting in a revenue drop close to \$400 million. The remainder of that gap is on the expenditure side.
135		The governor's budget increases \$145 million in general fund spending over last year. Of that amount, \$86 million is in the operating budget, \$28 million in the capital budget and \$31 million for debt service.
		This does not reflect several things. One is reappropriations and other non-repeatable fund sources used last year. \$30 in reappropriations, \$4 million investment loss trust funds, \$4 million in debt service that would have taken from the debt retirement fund, a special Alaska Industrial Development and Export Authority (AIDEA) dividend of another \$4 million
149		Relative to FY 01, \$200 million is the actual amount of money needed to spend to meet the governor's request
155		This is not everything. The governor has promised some bills on school construction and major maintenance and a potential increase in K-12 education funding. There is nothing in the budget for gas line promotion and there will be other bills as well.
162		The fiscal gap remains the most significant long-term issue. That deficit is made up by withdrawing money from the Constitutional Budget Reserve Fund (CBR). The balance of that fund projected at the end of FY 01, is \$3.1 billion and includes the \$120 million projected surplus.
170		Will probably end the year near zero.
173		Budget deficit of \$500 million won't break the CBR this year. The Department of Revenue is projecting it will last around five years.
178		Not here to address long-term financial planning
181		Encourage reading the Swiss Army Knife of Budget Handbooks
183		Agency books give descriptions of the transactions and summaries agency by agency
188		The covers will be gray (blue) for this year's materials, don't confuse with last year's pink covers
194		We haven't yet compiled all the agency information in the overview publication. We

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		expect to finish sometime next week. That and other reports will be available on our website. If you want other information, ask
200		Governors request includes 904 new permanent full-time positions, 41 part time and 82 temporaries. Management plan adds substantial number of new positions since the Conference Committee met last year.
207		Conclude. We are available to help when we can.
213	CO-CHAIR KELLY	Where are the major increases in the new positions? Prior years, with projects such as the new ferries, we could identify where most of those positions would appear.
221	MR. TEAL	Department of Administration adding 170 positions mostly for the change from the Pioneer's Homes to Pioneer's and Veteran's Homes
		112 additional positions to the Department of Corrections for the new jail in Anchorage.
		188 for Department of Health and Social Services, mostly social workers and juvenile detention
229		123 new positions for the University of Alaska
230		Some of the remaining departments are down slightly, most are adding 20-40 positions.
	SENATOR WILKEN	Does the \$3 billion CBR balance include the \$400 million set aside from debt service on school construction?
240	MR. TEAL	No. This is strictly cash balance. It doesn't include \$100 million Power Cost Equalization (PCE) endowment, which was removed last year. Much of debt service rolls through the Alaska Housing Finance Corporation AHFC. The school construction bonds were actually funded by diverting tobacco settlement money and has nothing to do with the CBR. It actually reduces the AHFC dividend for non-school debt. For school debt, it diverts tobacco settlement money, which has been replaced with straight general funds for the Department of Health and Social Services.
252	SENATOR WILKEN	Last year, didn't we take \$400 million and draw a circle around it, leaving it in the CBR and asked the Department of Revenue to manage that money aggressively? We expect to earn about \$35 million from that defined fund. Has that happened and do we know what it has produced?
258	MR. TEAL	No. The \$400 million is still a part of the principle and is part of the \$3 billion. It

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		just set aside as something that they can invest with a more long-term horizon. Because of that, in theory get higher returns. I don't know what the returns are on that portion of the portfolio versus the entire portfolio.
260	SENATOR WILKEN	I'd like to know how that's doing. You said the \$528 million deficit projection is based on \$24 per barrel for oil. At what production level?
	MR. TEAL	Roughly, one million barrels per day.
258	CO-CHAIR DONLEY	There is an estimate from the Department of Revenue that they are anticipating production increases next year that would increase the amount that each dollar per barrel is worth.
271	SENATOR LEMAN	Concern with governor's proposal, we loose almost all the progress made in the last five years. Wouldn't also be true there will be other cost increases other than what has been identified, because of one-time funding sources used last year.
281	MR. TEAL	Yes. For example PCE was short-funded approximately \$8 million and doesn't appear in the operating budget this year. The way the endowment works, will fund more in future years than in the first year, because the money didn't get into the fund soon enough, plus other timing issues. That \$7.8 million is in the capital budget. There are a number of non-repeatable fund sources, some I already mentioned. Also, the AHFC dividend is stated at \$103 million, but approximately \$52 million of that goes to capital projects and much of the rest goes to their own debt service. The amount of money that is flexible for the legislature is down from \$17-30 million in past years, to only \$6 million of un-earmarked AHFC money and that is put into the debt retirement fund this year. Like last year, but last year there was \$15 million. Some of these items are included in that \$200 million figure I gave you. We haven't rolled everything together yet, so I can't tell you exactly where we are yet. Will take another week or so to come up with a fiscal summary that gives firmer figures.
207	SENATOR LEMAN	Looking forward to seeing that.
309	CO-CHAIR KELLY	My question was answered.
310	CO-CHAIR DONLEY	Thank Mr. Teal. Look forward to detail report as well to see what actually is

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		contained in the governor's budget.
318		Adjourn 9:26 AM