

MINUTES
SENATE FINANCE COMMITTEE
February 01, 2001
9:02 AM

TAPES

SFC-01 # 6, SIDE A

CALL TO ORDER

Co-Chair Dave Donley convened the meeting at approximately 9:02 AM.

PRESENT

Senator Dave Donley, Co-Chair
Senator Pete Kelly, Co-Chair
Senator Loren Leman
Senator Gary Wilken
Senator Lyman Hoffman
Senator Donald Olson
Senator Lyda Green
Senator Jerry Ward

Also Attending: ANNALEE MCCONNELL, Director, Office of Management and Budget, Office of the Governor; JOAN BROWN, Chief Budget Analyst, Office of Management and Budget, Office of the Governor.

SUMMARY INFORMATION

SB 27-APPROP: GOVERNOR'S OPERATING BUDGET
SB 28-APPROP:MENTAL HEALTH BUDGET
SB 29-APPROP: GOVERNOR'S CAPITAL BUDGET

The Committee heard an overview on the Governor's proposed FY 02 budget from the Office of Management and Budget.

#SB27
#SB28
#SB29

SENATE BILL NO. 27

"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."

SENATE BILL NO. 28

"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."

SENATE BILL NO. 29

"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."

ANNALEE MCCONNELL, Director, Office of Management and Budget, Office of the Governor, expressed that she looked forward to working on the budget with the legislature during the current legislative session.

Ms. McConnell noted handouts she provided the Committee. [Copies on file.]

Ms. McConnell introduced several budget analysts from the Office of Management and Budget, Karen Elliott, Connie Nesgoda, Dawn Mach, Mary Sutton and Steve Hildebrand, and offered their services to the Committee.

Ms. McConnell began her presentation stating that the governor's proposed FY 02 budget meets four primary goals. The first, she said, is to maintain at least the existing level of services and the progress achieved in key areas such as child protection, quality education, etc. "Strategic investments" in the areas of education, early development, public health and public protection, she listed as the second goal. The third goal, she continued, is to restore the level of permitting and other services to businesses and industry that have "fallen below the level that they feel is acceptable" and what is "necessary to adequately support the economic development activities in the state." This includes the proposed natural gas pipeline, which is the newest major economic activity, she noted. She concluded with the fourth goal being to ensure that all state dollars spent, whether on existing services or the proposed strategic investments, are spent in the most cost-effective manner possible. She stressed that the concept of budget discipline has not been abandoned.

Ms. McConnell indicated that the total budget for the State of Alaska has reached \$7.2 billion. However, she pointed out that a

third of that amount consists of investment revenues, principally the permanent fund, and to a lesser extent, interest earnings from the Constitutional Budget Reserve fund (CBR). She stated that \$1.9 billion, the largest expenditure, is the permanent fund dividends and inflation proofing. She noted that this amount is \$52 million more than the current year. She commented that while this is an area of the budget that continues to grow, there are generally no complaints.

Ms. McConnell addressed the general fund increases, emphasizing that fully \$80 million in the governor's proposed budget increase is necessary to maintain the existing level of services. She stressed that it would be helpful to have the public understand this situation. She stated that the largest percentage of this increase is \$28 million for debt services. She used furniture advertisements as an analogy to debt service, in that they offer "no payment for 12 months." She said after the 12 months have passed and the customer has been using the furniture, it is time to begin making payments. The state is in the same situation, she stated, because important infrastructure investments over the last several years have been made using deferred payment plans, through bonds and other methods.

Ms. McConnell highlighted public protection and the \$3.5 million appropriation in the proposed budget to fight an increasing caseload of tuberculosis and hepatitis C and food-borne illness. She stressed that such cases are a problem in Anchorage as well as in the villages.

Ms. McConnell next spoke to the \$14 million investment proposed for other areas of public safety, including criminal justice, child protection, senior protection, emergency services and alcohol-related programs. She noted senior protection as an area of growing concern with the increasing number of older people who are unable to fend for themselves. She stated that the Committee would learn more about the alcohol-related programs during budget subcommittee meetings and as it hears related legislation such as those addressing drunken driving.

Ms. McConnell continued by detailing the requested \$14 million general fund increase for quality education from early education up through the University of Alaska. She pointed out that the governor chose to support the Board of Regents' request for \$16.9 million to rebuild and strengthen the university system.

Ms. McConnell referenced separate legislation introduced at the governor's request that would provide additional staff to increase the number of beds that could be used at the Pioneers Homes and

expand the use of the facilities to include a preference for veterans. She stated that more information on this proposal would be given later in the week.

Ms. McConnell stated that the governor transmitted the request for a \$1.5 million increase for the Alaska Court System.

Ms. McConnell next addressed the FY 02 capital budget noting that Alaska Housing Finance Corporation (AHFC) bonds and tobacco settlement bonds were used to fund projects during the previous legislative session. Because of this, she stressed, there was an unusually low level of general funds included in the capital budget, down to \$73 million in FY 01. She said it was understood that this method could not be used to maintain, or rebuild where necessary, the state's infrastructure. This was the reason the budget request proposed an additional \$30 million in general funds, she explained.

Ms. McConnell qualified that the general fund per person spending contained in the FY 02 proposed budget, adjusted for inflation, is \$1700 less than what it was in 1979, the final year before the pipeline boom brought increased revenues to the state.

Ms. McConnell drew the member's attention to documents she provided showing the Administration's Internet sites and explaining the budget. [Copy on file] She stressed that this has been a resource to legislators and also constituents. She noted that the information is written from a layperson's perspective including details on capital projects. She added that the budget information is listed both by departments and by affected communities. She elaborated on the layout and presentation of information contained on the web pages.

Ms. McConnell then refocused on the addition of \$80 million needed to maintain the current level of state services. She told of meetings where she spoke to interested parties across the state on the matter. She stressed that people do understand this necessity once it has been explained, and are actually appreciative. Part of the explanation, she said is pointing out that some actions taken in recent years have deferred costs rather than eliminated them.

Ms. McConnell continued noting new facilities, including juvenile detention facilities in Mat-Su, Anchorage and Ketchikan, the Anchorage Public Health Lab, the new jail in Anchorage, are complete or nearly so. Operating costs for the new facilities, she stressed, add almost \$7 million to the proposed budget. She noted that statutory and contract obligations, which include leases with the public sector, public employees contracts and formula funding

programs are other items that require additional funding. She emphasized that departments were making efforts to bring and keep costs down wherever possible, although these obligations remain.

Ms. McConnell stated that \$15 million is needed to maintain existing services that have been funded in the current fiscal year using one-time monies that will not be available again. She gave the \$4.4 million special Alaska Industrial and Export Authority (AIDEA) dividend as an example. She did not give specifics of the affected programs or departments.

Ms. McConnell listed another \$1.6 million requirement for increased costs for emergency broadcasts due to the installment of a new satellite system by AT&T.

Ms. McConnell stated that \$4 million was included in the budget request to address backlogs in existing programs. She explained that these were not new services but areas where service delivery had eroded to the point that it created problems for the private sector. She pointed out that not all of these services were entirely fee-supported, but still necessary in order to ensure a healthy economy. Water use permitting, habitat permitting were some examples she offered.

Ms. McConnell addressed the significant events, including the fire aboard the MV Columbia, affecting the revenue generated by the Alaska Marine Highway System. She argued that this need for additional financial support would not be an issue with roads, although road maintenance is essentially a subsidy.

Ms. McConnell referenced the Summary of Debt Obligations included in the members' files, which lists the increased obligations and notes the fewer revenues available to support the debt. [Copy on file]

Ms. McConnell then referenced the analysis of the changes in positions in state government. [Copy on file.] She stated that this issue received attention during the Division of Legislative Finance overview presented to the Committee earlier in the session. She stressed that not all of the increases have an impact on the state's fiscal gap; 24 positions are in enterprises that are fully self-supporting, such as the Ted Stevens International Airport in Anchorage, and AHFC. She continued that fee-supported programs fund another 26 positions. Other positions, she stressed, are the result of capital project decisions made by previous legislatures. She emphasized that a significant number of new positions are for major program efforts, including 123 positions for the University of Alaska, 126 positions are required to fully implement the Veteran's

and Pioneers Homes proposal, and 59 positions are for Alaska State Trooper and Village Public Safety Officer programs. She continued that 105 positions are needed to staff the new correctional facility in Anchorage and the new juvenile detention facilities.

Senator Ward shared that during a recent Department of Corrections budget subcommittee meeting, Commissioner Margaret Pugh stated that 137 new full-time positions would be needed for the new Anchorage jail.

Ms. McConnell thought Ms. Pugh's figure included the part-time positions, but stated that she would verify.

Senator Ward asked if the state and the Municipality of Anchorage could issue a request for proposals to contract-out the operation of the new jail.

Ms. McConnell replied that she would research the matter.

Ms. McConnell turned her direction to the FY 02 Capital Budget, noting a summary of projects. [Copy on file.]

Ms. McConnell pointed out the proposed \$7 million general funds and \$80 million total funds. She stressed that the majority of the capital budget is supported with federal funds, AHFC funds and other revenue sources.

Ms. McConnell stated that \$830 million total funds are proposed for Department of Transportation and Public Facilities projects and that only \$62 million of that amount is general funds. She spoke to the emphasis on maximizing federal funds for transportation projects.

Ms. McConnell shared that the Administration would offer additional proposals in the upcoming weeks to address school construction and transportation.

Ms. McConnell emphasized the "great success" in determining the best financing mechanism for the capital budget.

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ADJOURNMENT

Co-Chair Donley adjourned the meeting at 9:24 AM.