

SENATE FINANCE COMMITTEE
LOG NOTES
01/17/02

GENERAL SUBJECT(S):

Overview: Possible Supplemental Requests for FY 02
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: 9:33AM

Tape(s): SFC-02 # 1 Side A

	PRESENT:
x	Senator Donley
x	Senator Kelly
x	Senator Austerman
x	Senator Green
x	Senator Hoffman
x	Senator Lemans
x	Senator Olsen
x	Senator Ward
x	Senator Wilken

ALSO PRESENT:
DAVID TEAL, DIRECTOR, DIVISION OF LEGISLATIVE FINANCE

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LOG	SPEAKER	DISCUSSION
0	Co-Chair Donley	Call to order This meeting to hear overview from the Division of Legislative Finance on what the legislature might anticipate budget-wise. \$16.5 million for supplemental expenses planned - already receiving some notification of some requests from the Executive Branch.
145	DAVID TEAL, Director, Division of Legislative Finance	Noted co-chair also requested highlight of FY 03 requests to give the Committee a "starting point".
214		Don't know that much about supplemental budget requests at this point.
228		Referenced "The Fiscal Year 2003 Budget: legislative fiscal analyst overview of the governor's request" [Copy on file]
253		There are some very minor differences between the budget as we analyze it and Office of Management and Budget assessment.
308		Express appreciation for efforts of the Office of Management and Budget and the agencies on making this budget understandable.
322		Difference on four open-ended language provisions - three in Department of Health and Social Services and one for the Longevity Bonus Program, where the Governor estimates a zero fiscal impact, but we calculate slightly less than \$15 million. Governor Tony Knowles says the FY 03 contains a \$179 million spending increase, we say it is actually \$193 million. This difference is an improvement over last year, is minor and easy to explain.
355		Revenue is down \$98 million so the fiscal gap is \$1.2 billion.
		Perspective: revenue covers only 55% of expenses- the remaining 45 comes from the Constitutional Budget Reserve (CBR) fund.
434		This shows us that the CBR is not being used as a cushion but as a major funding source.
455		Depletion of the CBR is no longer three years away as earlier anticipated but rather, the fund will be exhausted by FY 05.
513		FY 03 capital budget is break-even
524		Big increase is in the operating budget; primarily the Department of Health and Social Services - \$69 million
537		Without a Medicaid refinancing plan, which

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		<p>is built into the governor's proposed budget but not yet approved by the federal government, there will be a \$56 million hole in the budget.</p> <p>This would put this department's request at over \$123 million increase, almost equivalent to the total increase for the rest of the budget last year and would be equal to 2/3rds of the increase this year.</p>
604		<p>The Department of Health and Social Services budget increases are not just Medicaid-also foster care, alcohol and drug abuse, and other programs.</p>
619		<p>No suggestions on how to deal with it, but inform you this is a huge and growing part of the budget.</p>
628		<p>University of Alaska increase request is \$22.6 million.</p> <p>Department of Corrections requesting \$10 million increase.</p>
651		<p>University of Alaska increases are for a continuation and expansion of their initiatives of the last 2 years.</p> <p>The Department of Corrections general fund increases are to replace \$5 million federal money that has been lost.</p>
710		<p>Big issue - not related to money but to the process: the governor's request contains no recommendations for reductions.</p> <p>This means more work is now required of the budget subcommittees and the Committee to determine where reductions should be made.</p>
756		<p>Alaska Marine Highway System (AMHS) fund balance has been draining, which is now dry. General fund appropriation for the AMHS rose from under \$30 million in recent years to over \$45 million in FY 03.</p>
823		<p>Alaska Housing Finance Corporation (AHFC) dividend is approximately \$103 million a year. However, more and more is being diverted to cover debt service over the years.</p> <p>This year, in combination with their reduction of the dividend, the amount is down \$17 million from last year.</p> <p>Essentially, the state has \$23 million out of the \$103 million that is discretionary.</p>
857		<p>In the governor's budget request, this has been replaced with general funds</p> <p>These items are what the Governor is referring to when he states \$81 million in increased spending is unavoidable.</p>
919	Co-Chair Donley	<p>Is AHFC still claiming they are supplying the state with the agreed-upon \$103</p>

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		million?
925	Mr. Teal	<p>No. The board decided to reduce the dividend to \$96.3 million. From that, according to the language provisions, they would keep an additional \$4.9 million for debt service on bonds they anticipate issuing.</p> <p>In our opinion, this should be considered normal internal corporate receipts. There is also another formula being used for housing programs. You could say they are converting the dividends to normal internal corporate receipts, not leaving it for you to spend.</p> <p>There are also debt service increases as well.</p>
1014		<p>Labor costs account for another spending increase.</p> <p>The general fund cost to pay for salary increases is approximately \$15 million. Plus general funds replace other funding sources that are no longer available to pay for salaries, which brings total to \$17 million.</p> <p>The total of those is just over \$50 million. Those are not one-time items. They will continue into FY 04 and beyond.</p>
1053		<p>So does Medicaid.</p> <p>If Fair-Share is not approved there will be a hole, not just in this year's budget but every year in the future.</p>
1103		<p>In summary the Governor proposes a \$179 million general fund spending increase - we bump it up to \$193 million.</p> <p>Fair-Share is \$53 million.</p> <p>Plus the governor is requesting \$47 million general funds for homeland security.</p> <p>This totals approximately \$296 million increase.</p> <p>The homeland security spending is presented as FY 02 supplemental.</p> <p>Either way, the funds still come from the CBR and shorten the length of time before the CBR is gone.</p>
1149	Co-Chair Donley	<p>What is the amount of spending requested by the Executive Branch last year in the form of amendments to the governor's budget?</p> <p>How many can the legislature expect this year?</p>
1221	Mr. Teal	<p>Not sure. Certainly we will expect amendments.</p> <p>Only certain of an amendment relating to the proposed gas pipeline-because they told us. But we don't know how much money the request will be for.</p>

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1256	Senator Olson	Where is the \$56 million Medicaid figure coming from?
1312	Mr. Teal	The Governor's budget uses the assumption that the federal government will approve the Fair-Share proposal to partially fund Medicaid. The federal government has already stated that Pro-Share can't be used to fund Medicaid. If that program goes away and is not replaced with the yet to be approved Fair-Share proposal, the budget is out \$56 million because governor assumes it would be accepted.
1405	Senator Olson	
1410	Mr. Teal	
1423	Co-Chair Donley	Plus we don't know how many additional amendments to the FY 03 governor's budget request will be submitted by the Office of Management and Budget.
1438	Mr. Teal	There is also new legislation sponsored by the governor that includes additional spending. The Governor has proposed bills mostly for education that would total \$22 million.
1502	Senator Hoffman	Is any of those federal dollars?
1512	Mr. Teal	Just general funds.
1519		List of supplemental requests from recent years - not necessarily what will be requested this year. Office of Management and Budget just started working on the supplemental this week and won't decide what items to include until the February 11 deadline. This list is from our office showing what has been requested over last 3-5 years Department of Administration: Leases: \$1-1.5 million Office of Public Advocacy and Public Defenders: \$.5-1 million Power Cost Equalization: \$1-7 million. (It should not be on the high end this year.)
1626	Co-Chair Donley	Don't we have a strange situation where the governor did not request an appropriation from the Power Cost Equalization (PCE) Endowment last year?
1647	Mr. Teal	Yes. But this does not involve general funds but rather PCE endowment funds. Explain the \$100 million endowment was established to fund the PCE program. Seven percent of the market value was supposed to transfer from the endowment fund to the PCE fund every year to make the grant payments.

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		Somehow the 7-percent transfer from the endowment was overlooked by everyone last year and was not put into a budget. There should therefore be a supplemental request for that 7-percent transfer from the endowment.
1735	Co-Chair Donley	But the endowment did not earn 7 percent last year.
1745	Mr. Teal	The last we knew, the endowment was less than \$100 million at this point.
1757	Co-Chair Donley	So it has actually lost money since it was created. So if we were to subsequently withdraw \$7 million from it, we would actually making the problem worse because it would have even less earning value for the next funding cycle.
1807	Mr. Teal	True. This year, it would certainly eat into the principal. The hope is that in the future it would earn 7 percent or more and would not have to use principal to fund the program. However, it is also known that 7 percent of the endowment value is not enough to fund the PCE program. There is some Four Dam Pool debt service that goes into the grant program as well. That gets close to the \$15.7 million that is the agreed upon level of funding, but it's actually been funded at \$16.9 million for the last couple of years.
1858		There is question if the endowment could support the program even after Four Dam Pool is sold and the money goes into the endowment. It is even more complicated then that because now the transfer is supposed to be done as of February 1. If Four Dam Pool were sold after February 1, it wouldn't count as market value on February 1, which would affect the transfer for FY 02. There is also a supplemental request to fund FY 02 grants. You will probably have to tweak the 7 percent withdrawal and determine level of funding either in a subcommittee or the full Committee.
2018		Return to listing previous supplemental requests. Education- typical supplemental request in the recent years has been negative because the foundation formula has been over funded in the past three years and funds were returned. The Department of Education and

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		Early Development usually requests how the department would like to spend the excess funds. Don't know if the formula is over funded this year.
2100		Department of Health and Social Services: Medicaid: \$14 - 96 million (includes both general funds and federal funds) Based on FY 03 increase and FY 01 actuals, looking at a supplemental this year of \$15 million or more - up to twice that.
2122		Purchase services-Foster Care and Guardianship: \$1-3 million
2129		Department of Law: Attorney General: \$3 million
2133		Disaster relief fund: \$.5-24 million
2140		Fire suppression: \$4-18 million, it's unpredictable.
2152		That's as far as we can go until February 11 when the legislature receives the supplemental budget request from the Governor.
2206	Senator Hoffman	Do you expect a supplement request for high fuel costs.
2221	Mr. Teal	Fuel costs have gone down slightly. Some budgets-Marine Highways and Department of Transportation and Public Facilities- did have an increase for high fuel costs in FY 02. We don't know. There could be one for PCE
2244	Senator Wilken	Understood University of Alaska request is for a \$17 million increase but you stated it is \$21 million.
2303	Mr. Teal	They are telling you about the increments, but not about fund source changes. There is about \$2 million worth of Post Secondary Education receipts and \$2.6 million of Alaska Science and Technology Foundation receipts. Both have been replaced with general funds in the FY 03 budget.
2320	Senator Wilken	Two years ago \$400 from the CBR was identified to help support some bond payments. How has that worked out?
2338	Mr. Teal	The funds are earning about 8 percent, which the rest of the CBR is earning about 5 percent.
2348		Could you give a report on the matter? Realize we are at the end of the 5-year agreement with AHFC - was co-chair made aware of that board was going to take the action it did?
2415	Co-Chair Donley	No, don't remember receiving any

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		information they were going to reduce the amount of funds provided to the state.
2437	Senator Wilken	I would like to discuss this matter in future meetings. Did they reduce the amount of money spent on advertising?
2451	Co-Chair Donley	Any other questions or comments Seeing we are faced with a large deficit it will be important that we review supplemental requests closely and start to "strongly" request the Administration set priorities in their spending to make room for supplemental spending. Don't want to make this problem any worse. Target is \$16.5 mill will be tough to make.
2614	Senator Austerman	Ask that the Committee concentrate on our priorities. On what to spend and what to fund rather than just telling each budget subcommittee how much it could spend. We also have to figure out the opposite end: supply. Can't know supplemental requests until we receive them. When I was in the House of Representatives, there was discussion about consolidation of departments to try to find efficiencies.
2752	Co-Chair Donley	Thank Mr. Teal. Look forward to working with you. Thank Division of Legislative Finance for work done on the budget last session
2813	Senator Hoffman	Regarding figures for the tourism industry their request for funds. If the request is not addressed, there will be an impact on the economy. Request report from Division of Legislative Finance showing the possible impact of not funding the request. Governor's recommendation gives some consideration of the economy after the September 11, 2001 terrorism attacks. We as a Committee also have to help ensure the economy doesn't crash. Oil companies' staff reductions will also affect the economy. Need to give special attention to how this budget would impact the state's economy.
2943	Co-Chair Donley	Thanked Mr. Teal. Welcome Committee back Looking forward to this year. Last year we did a lot of clean up on the budget process.
3041		Adjourn 10:04 AM