

HOUSE FINANCE COMMITTEE
February 04, 2003
1:34 P.M.

TAPE HFC 03 - 10, Side A
TAPE HFC 03 - 10, Side B
TAPE HFC 03 - 11, Side A

CALL TO ORDER

Co-Chair Harris called the House Finance Committee meeting to order at 1:34 P.M.

MEMBERS PRESENT

Representative John Harris, Co-Chair
Representative Bill Williams, Co-Chair
Representative Kevin Meyer, Vice-Chair
Representative Eric Croft
Representative Richard Foster
Representative Mike Hawker
Representative Carl Moses
Representative Gary Stevens
Representative Bill Stoltze
Representative Jim Whitaker

MEMBERS ABSENT

Representative Reggie Joule

ALSO PRESENT

Representative Bruce Weyhrauch; Representative Kelly Wolf; Cheryl Frasca, Director, Division of Management & Budget, Office of the Governor; Jeff Jesse, Executive Director, Alaska Mental Health Trust Authority; Phil Younker, Sr., Alaska Mental Health Trust Authority Board Member; Nelson Page, Chair-Budget Committee, Alaska Mental Health Trust Authority Board Member; Stephen Planchon, Executive Director, Alaska Mental health Trust Land Office, Department of Natural Resources; Dan Fauske, Executive Director, Alaska Housing Finance Corporation, Department of Revenue; Bryan Butcher, Legislative Liaison, Alaska Housing Finance Corporation, Department of Revenue; Joseph Dubler, Chief Financial Officer/Finance Director, Alaska Housing Finance Corporation, Department of Revenue.

PRESENT VIA TELECONFERENCE

*Listen only

GENERAL SUBJECT(S):

HB 75-APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 76-APPROP:MENTAL HEALTH BUDGET

Agency Overviews:

Alaska Mental Health Trust Authority (AMHTA)

Alaska Housing Finance Corporation (AHFC)

The following overview was taken in log note format. Tapes and handouts will be on file with the House Finance Committee through the 23rd Legislative Session, contact 465-2156. After the 23rd Legislative Session they will be available through the Legislative Library at 465-3808.

LOG	SPEAKER	DISCUSSION
		TAPE HFC 03 - 10, SIDE A
000	Co-Chair Harris	Convened the House Finance Committee meeting at 1:45 P.M.
114	Representative Stoltze	Requested that Representative Kelly Wolf be seated at the Committee table.
160	Co-Chair Harris	HOUSE BILL NO. 75 "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." Co-Chair Harris noted that HB 75 was before the Committee for review by the Office of Management and Budget.
222	CHERYL FRASCA, DIRECTOR, DIVISION OF MANAGEMENT & BUDGET, OFFICE OF THE GOVERNOR	Explained and highlighted the handout. (Copy on File). <ul style="list-style-type: none">• Page 1 - total funds appropriations by funding source since FY1992 in the Operating and the Capital budgets. General fund spending has remained constant since FY95. The federal funding has doubled in the State.• Page 2 - Outlines the Operating budget since FY92. The general fund is approximately 2/3 of the current budget.• Page 3 - Indicates the Operating budget versus the formula Programs since FY92- the general funds and the other State funds;

		<ul style="list-style-type: none"> • Page 4 - Formula growth by fund source since FY99 through FY03. She noted that federal funds fuel the operating budget. • Page 5 - Provides a recap of all the formula program changes during the past five years. The biggest changes are to the Longevity Bonus Program, which has decreased 25%. She listed other decreases. Ms. Frasca pointed out the 99% increase to the Medicaid program since 1993. • Page 6 - FY03 total funds operating budget of \$6.5 billion dollars by program category. The All funds are listed by program category. The Department of Health and Social Services consumes 23% of the entire operating budget. • Page 7 - FY03 Operating budget: \$5.2 billion all funds (except Permanent Fund) by an appropriation categories. She noted the amount for Personal services category. The amount that goes to grants consumes 27% of the budget; personal services amounts to 27% of the budget by contracts. • Page 8 - FY03 General Fund operating budget categories: \$2.2 billion general funds only by program category. She noted that education consumes 35% of that budget and that budget is primarily formula driven. The Governor's priority is to minimize the impact on the public of the reductions to services. Ms. Frasca noted that was the challenge being faced by the new Administration. As a result the budget is not currently available and that they are attempting to have the budget available by February 25th. • Page 9 - Provides the FY02 authorized/fiscal year 2003 authorized fiscal summary. She noted that there are approximately \$40 million dollars of proposed increases to the formula driven programs, about \$55 million dollars in increased debt service costs.
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		approximately \$85 million dollars to replace lost one time monies, \$39 million from lost federal funds, \$19 million dollars to replace non general fund sources and an increase request by the University.
1232	Ms. Frasca	Admitted that those needs and costs need to be balanced.
1321	Co-Chair Harris	Asked to have a zero line budget, the State will need to reduce spending by \$159 million dollars. Ms. Frasca replied that would be the scenario with a flat budget.
1342	Representative Stoltze	Asked if there had been statutory recommendations at present time.
1357	Ms. Frasca	Replied that the goal was not to present a budget that depends upon statutory changes.
1417	Representative Stoltze	Asked if it was foreseeable that the Administration would be making recommendations for statutory changes. Ms. Frasca replied it was probable.
1451	Representative Croft	Referenced Page 9, noting that Habitat was still in the Department of Fish and Game, not Department of Natural Resources.
1516	Ms. Frasca	Responded that was the FY03 management plan approved by the Legislature last session. It has not been rewritten to reflect the current proposal for FY04.
1526	Representative Croft	Summarized that what was being overviewed was the FY03 budget.
1533	Representative Croft	Referenced Page 1 & 2 of the handout. He noted the general fund and operating funds and asked if they were inflation-adjusted numbers.
1616	Ms. Frasca	Replied that they are 'raw' numbers.
1628	Representative Croft	State that those numbers would not keep up with inflation.
1641	Ms. Frasca	Stated that it would not reflect "buying power".
1650	Representative Croft	Noted that the numbers did not reflect any increase in the State's population. He thought that numbers was approximately 600.
1704	Ms. Frasca	The chart shows the amount appropriated by the Legislature last year.
1720	Representative Croft	The graph indicated that the graph shows mostly federal funds.
1746	Co-Chair Harris	Noted that the bill would be HELD in Committee for further consideration.
1814		ALASKA MENTAL HEALTH TRUST AUTHORITY

		(AMHTA)
1832	PHIL YOUNKER, SR., ALASKA MENTAL HEALTH TRUST AUTHORITY BOARD MEMBER	<p>HOUSE BILL NO. 76</p> <p>"An Act making appropriations for the operating expenses of the state's integrated comprehensive mental health program; and providing for an effective date."</p> <p>Mr. Younker introduced the members of his group, Nelson Page, Steve Planchon and Jeff Jesse.</p>
2001	JEFF JESSE, EXECUTIVE DIRECTOR, ALASKA MENTAL HEALTH TRUST AUTHORITY	<p>Distributed the handout. (Copy on File). He spoke to the history of the Alaska Mental Health Trust Authority (AMHTA). In the times of territorial Alaska, if a person had any type of disability, and could not make it with the support of family and or church and came to the attention of the territorial officials, that person was tried and convicted of being an "insane person at large". When statehood was being discussed, then the state would then have had to take over this responsibility. There was no means of support at that time. Within a few years, a three-prong strategy was created to work out the problem. The first was an initial appropriation of \$8 million dollars that built the first wing of Alaska Psychiatric Institute (API) and bought the original Harborview. Additionally, there was some federal operating support. The third part was to allow the State to select acres of land to hold a trust to generate income to pay for mental health services. The State did a good job of choosing the land. It was well chosen land. As the State grew, mental health services increased. Unfortunately, the State then took that million acres and rolled it into their 100 million acre federal entitlement and treated it all like general state lands. Half of that land was removed into federal trust status. When the local governments were able to select State land, they selected mental health trust lands. He admitted that was a problem. It took three years and then in 1982, the original lawsuit was filed. By 1985, it went to the Alaska Supreme Court who ruled that the land must be returned.</p>
2428	MR. JESSE	Referenced Page 2, which listed the key

		<p>terms of that Court settlement.</p> <ul style="list-style-type: none"> • Trust authority free to use Trust resources to act as a catalyst for change; • Trust authority funding recommendations considered in a single appropriation bill; • Trust authority to aid in comprehensive planning for mental health program; • Mental Health Trust Lands and associated state lands released for development.
2541	Mr. Jesse	<p>Claimed that AMHTA is proud of the land office. He recapped the beneficiaries:</p> <ul style="list-style-type: none"> • People with mental illness • People with developmental disabilities • People with Alcoholism/other addictions; • People with Alzheimer's disease 7 other dementia.
2613	Mr. Jesse	<p>Referenced those people with traumatic brain injuries that are also beneficiaries of the Trust. The Board will work with the Alaska Traumatic Brain Injury Advisory Board.</p>
2705	Mr. Younker	<p>Referenced Page 3, Land and Resources. When the settlement actually came, the Trust received 994,000 acres, managed for the long-term. He listed the breakdown of the lands:</p> <ul style="list-style-type: none"> • Fee estate • Mineral estate • Coal, Oil & Gas
2842	Mr. Younker	<p>Continued, highlighting the revenue from the Trust land office and how the operating and capital expenditures versus the revenue earned. That budget is broken into two portions, Capital expenditure and the Operating.</p>
3001	Mr. Younker	<p>Referenced Page 5, 2002 Alaska Business Monthly TOP 49 by \$ per employee operations. The Trust land office with just nine employees, ranks #7 on the chart. He compared that to some Native Corporations that have some large land holdings.</p>
3050	Mr. Younker	<p>The chart on Page 5 also indicated the value from 1996 versus 2002.</p>

3110	Mr. Younker	The pay out rate changed from 1996 at 3% to 3.5% in 2002. The Trust is designed to 'self-inflate'. That is why a little less than 5% is paid out.
3136	Mr. Younker	Noted that the system is that there is a 4-year payout. Currently at 2 years. Added additional policy to insure
3222	Mr. Younker	Referenced Page 6, Trust FY04 and the Trust Major Accomplishments. The general fund mental health base amounts to \$134.400 million dollars. The alcohol tax, which was added last year, \$3.6 million dollars was committed in last year's budget.
3350	NELSON PAGE, CHAIR-BUDGET COMMITTEE, ALASKA MENTAL HEALTH TRUST AUTHORITY BOARD MEMBER	Referenced the handout. (Copy on File). He highlighted the accomplishments of the first six years. <ul style="list-style-type: none"> • Closure of the Harborview Developmental Center in Valdez. For years the State had been trying to find a way to close that center. When closing down an institution, there is a period of time with there are two sets of bills that need to be paid. The Trust ended up coming forward and paying 1/2 of those bills. The State then spent their money on new programs.
3635	Mr. Page	Continued listing the accomplishments: <ul style="list-style-type: none"> • API. For years, everyone knew that API needed to be replaced. The Trust helped with the change. API was on Trust land. The system involved what a new API building would look like and that system currently is in place.
3820	Mr. Page	Provided another example: <ul style="list-style-type: none"> • The Fort Knox Gold mine. The Trust was able to collect some revenue and at the same time, there was an opportunity to have permits to make the site a regional mill site. That created a place for milling.
3942	Mr. Page	Referenced Handout 1, Page 7, noting that the Trust works in conjunction with the Four Advisory Boards. The four boards help to create the Mental Health Budget bill to determine the needs of the

		<p>beneficiaries.</p> <ul style="list-style-type: none"> • Alaska Mental Health Board • Governor's Council on Disabilities & Special Education • Advisory Board on Alcoholism & Drug Abuse • Alaska Commission on Aging
4135	Mr. Page	<p>Comprehensive Integrated Mental Health Plan provides for Department of Health & Social Services and AMHTA be responsible for preparation of a plan for an integrated comprehensive mental health program that is coordinated with federal, state, regional, local and private entities involved in mental health services.</p>
4220	Mr. Page	<p>Listed the result-based planning areas: Health, safety, economic security and living with dignity.</p>
4233	Mr. Jesse	<p>Stated that the priorities are the result based planning concerns that are building infrastructure and creating workforce development.</p>
4340	Mr. Jesse	<p>Listed the prior collaborations.</p> <ul style="list-style-type: none"> • API 2000 - Anchorage Emergency Services • Assisted Living Rate Increase • Medicaid Options • Women's Mental Health Unit in Department of Corrections • Closure of Harborview • Suicide Prevention Council • Alcohol Evaluation
4500	Mr. Jesse	<p>Noted that the Trust had split a \$200 thousand dollar study costs to determine the results of alcohol treatment programs. He advised that good results need to happen from those investments.</p>
4548	Mr. Jesse	<p>API/Anchorage Emergency System. He noted that AMHTA was being pushed into the 'corner' to build a larger hospital was because Anchorage was using API as a short-term psychiatric facility. In other parts of the State, they do not do that. The Trust worked with U.S. Senator Stevens to develop a hospital for Anchorage. The first job was to create a single point of entry. In Anchorage, the police officers have to access the people that they pick up.</p>

		TAPE HFC 03 - 10, Side B
4659	Mr. Jesse	Added that with the help of the federal monies, a single point of entry was created for detoxing. A 24-hour nursing coverage was also provided with the federal money. He stressed that there must be an emergency system within Anchorage to address these concerns and the federal money is going away. There is a scheduled cycle to address this and over the years those federal dollars have been replaced with general fund dollars.
4501	Mr. Jesse	Spoke to the Alcohol Fund Package. <ul style="list-style-type: none"> • Alcohol Tax increased in 2002 • Alaska Legislature committed one-half of the alcohol tax revenue to be set aside for alcohol prevention and treatment • \$3.6 million dollars for Alcohol Fund revenue was utilized in the FY03 budget for existing services
4314	Mr. Jesse	Listed the reforming mandated treatment consisting of five components of alcohol fund package: <ul style="list-style-type: none"> • Child protection • Adult Offenders • Emergency Services • Youth/Juvenile Justice • Capital/Infrastructure
	Representative Stevens	Questioned if the Trust had an inventory of their properties and the present value of those.
4141	STEPHEN PLANCHON, EXECUTIVE DIRECTOR, ALASKA MENTAL HEALTH TRUST LAND OFFICE, DEPARTMENT OF NATURAL RESOURCES	Responded that there was a detailed inventory of where the parcels are located. As a result of the settlement process, there was an extensive appraisal process done for the bulk of the lands. As of today, there is not a complete inventory.
4018	Representative Stevens	Asked how long it would take to prepare that information.
4000	Mr. Planchon	Noted that it would not be much different that some of the Alaska Native Corporations who have concluded that it would take a lot of time and a lot of money. The settlement clarified that the Trust was not to take over the obligation of the State in respect to funding Mental Health programs. The Trust does not have the resources to take over the State's funding requirements.

3834	Representative Stoltze	Inquired if the Trust has been expanded since the inception of including mental health.
3811	Mr. Jesse	Explained that early on, the Trust went through the entire State budget and determined what should be allocated in a separate appropriation bill. Following that discussion, the concept of what was under the Trust has remained consistent.
3747	Representative Stoltze	Referenced the history of the Trust.
3725	Mr. Jesse	Advised that the beneficiaries have not changed, but rather the methods of service. He noted that home health care, family supports, community based services, etc. have been added. He conceded that the program had changed dramatically.
3635	Co-Chair Williams	Referenced a discussion he had with a constituent regarding the method of timber sales involved through the Trust.
3550	Mr. Planchon	Confirmed that a bulk of the timber sales had gone to an export market, however, he noted that small mills in Alaska have benefited from the sales.
3433	Mr. Page	Noted that the initial suit occurred when the State forgot that the land was held in 'trust'. That had been overlooked. The Trust's Fiduciary responsibility is to safeguard the beneficiary's interests.
3330	Representative Croft	Followed up on previous comments that the State would receive less money if it were restricted for shipping out raw.
3310	Mr. Planchon	Confirmed that there was a significant price difference between the foreign and domestic markets in timber. He noted that some of that was based upon volume. The domestic market is not able to accommodate the large quantities. The Forest Service sales included an export ban. The domestic sales would be a significant reduction in Trust income. At present time, the timber revenue for the Trust represents 50 percent of the gross income. The Trust attempts to diversify the revenue sources. Timber is a faster resource to liquidate. The timber resource will decline in the next three years.
3122	Representative Croft	Asked if Alcoholism was considered a mental illness in 1955.
3015	Mr. Jesse	Responded that the territorial authorities applied a 'blunt instrument'

		that people with any kind of mental disabilities that fell back on the territorial government for their care were considered as such.
3004	Representative Croft	Asked if it was expanding the client base or a more sophisticated way of talking about the issues.
2940	Mr. Jesse	Stressed that the issue of prevention. In some areas, the Trust has better strategies than the others.
2928	Representative Croft	Asked about HB 76.
2917	Mr. Jesse	Commented that HB 76 is the same situation as the general fund bill and that the Trust was in consultation with the Office of Management and Budget regarding the concern.
2900	Representative Croft	Noted that it was the same funding as last year.
2847	Mr. Jesse	Acknowledged that was correct. He pointed out two more aspects of the Alcohol package. <ul style="list-style-type: none"> • Evaluation - he noted that they were proposing that a significant amount of the money would be used for an ongoing, independent evaluation of the outcomes of the alcohol programs • Workforce development - The State is not good at taking what is known nationally of what are the best practices and putting them into play.
2733	Mr. Jesse	Stated that partnering with the University of Alaska could play a key role in all areas, which could benefit the State.
2650	Mr. Younker	Addressed the success of the Mental Health Trust. He admitted that the Trust looks forward to working with the Legislature and the Administration. He concluded that the management of the State's land continues to serve a wide variety of needs throughout Alaska.
2453	Representative Hawker	Asked if the Trust had been subjected to an independent audit.
2427	Mr. Jesse	Replied that the Trust only participates in the State audit.
2416	Representative Croft	Asked for further information on the alcohol assessments and which programs work.
		ALASKA HOUSING FINANCE CORPORATION
2320	DAN FAUSKE, EXECUTIVE DIRECTOR,	Provided the Committee with a handout. (Copy on File). He noted that the

	ALASKA HOUSING FINANCE CORPORATION, DEPARTMENT OF REVENUE	mission of the Alaska Housing Finance Corporation (AHFC) was to provide Alaskans access to safe, quality, affordable housing.
2227	Mr. Fauske	Explained that the: (Page 3) <ul style="list-style-type: none"> • Housing industry accounts for 24% of the gross State product • Expenditures for housing amounts to 28% of the average Alaskan family's disposable income
2140	Co-Chair Harris	Asked if those numbers could be divided between the rural and the urban.
2123	Mr. Fauske	Replied that those percentages were statewide.
2111	Mr. Fauske	Referenced Page 4 - Operations: <ul style="list-style-type: none"> • Offers Home Loan programs emphasizing housing for low and moderate income and rural residents; • Administers statewide housing, energy efficiency and weatherization programs; • Operates the State's Public Housing; • Assists in the statewide financing, development and sale of dwelling units.
1958	Mr. Fauske	Page 5 - Special programs for low to moderate income & rural residents: <ul style="list-style-type: none"> • Interest rate reduction for low-income borrowers; • Energy efficiency interest rate reduction; • Rural Housing Assistance loan fund; • Multi-family loans. He commented that the low interest rates are 'fueling' the current robust market.
1855	Representative Hawker	Inquired if those were residential loans.
1826	Mr. Fauske	Replied that they were. Referenced Page 6 - Statewide housing, energy efficiently and weatherization programs. He explained that this was a very successful programs and then listed the items: <ul style="list-style-type: none"> • L.I.H.T.C. Program • Senior & special needs housing • Statewide weatherization & energy programs • Supplemental housing
1702	Mr. Fauske	Page 7 - the Public Housing Division. He noted that there would be a pilot program

		taking place in Barrow and that it would be administered through the federal government. Mr. Fauske noted that there are over 4,000 people on the wait list for that program.
1600	Mr. Fauske	Page 8 - The Financing Programs. Mr. Fauske noted that the Veterans Mortgage program was about to sunset. The programs include: <ul style="list-style-type: none"> • Tax-exempt first time homebuyer program • Veterans mortgage program • Taxable first time homebuyer program • Taxable program
1399	Representative Stevens	Inquired the rough number of veteran loans that are out within the State.
1339	JOSEPH DUBLER, CHIEF FINANCIAL OFFICER/FINANCE DIRECTOR, ALASKA HOUSING FINANCE CORPORATION, DEPARTMENT OF REVENUE	Offered to provide that information. He estimated that there was roughly \$300-\$400 million dollars out.
1308	Representative Stoltze	Questioned the amount of the AHFC advertising budget.
1255	Mr. Fauske	Replied that AHFC works with public awareness. On the veteran's side, there are public service announcements and no voting restrictions have been violated. He reminded members that AHFC is in a competitive market and they want awareness 'out there' particularly regarding the taxable programs. He reiterated that it is a competitive market and that AHFC is 'up against' the commercial market.
1155	Representative Stoltze	Admitted that he was overly suspicious.
1140	Mr. Fauske	Continued highlighting Page 8.
1118	Mr. Fauske	Outlined Page 9 - the long-term debt issuance process that emphasizes the subjective nature of the rating agencies review of capital adequacy.
1050	Mr. Fauske	Referenced Page 10 - reiterated the rating criteria and requirements selected excerpts emphasizing the subjective nature of the rating agency's' review of capital adequacy. AHFC is currently rated as an AA-. He hoped to receive an AAA rating. That would have an impact on the cost of capital to the State.

		Currently, Alaska has a positive image and that frees up the operating system and lowers the capital to investors. The criteria is important will become more important in discussions within the Capitol budget.
906	Mr. Fauske	Page 11 - Highlights the transfers to or on behalf of the State General Fund from 1986-2002 percentages in the amount of \$1,219,040.
830	Mr. Fauske	Page 12 - Summary of AHFC equity, net income, State appropriations and transfers to the State.
744	Representative Croft	Noted the difference between direct cash transfers and dividends. He asked the distinction between those two.
715	Mr. Dubler	Replied that in 1990, AHFC began a dividend program, which included a cash transfer for the dividend program.
638	Representative Croft	Asked if it was ½ direct cash and ½ taking over projects. Mr. Dubler replied that was correct.
630	Mr. Fauske	Continued, referencing Page 12, the summary of AHFC equity, net income, State appropriations and transfers to the State.
608	Mr. Fauske	The rating agencies focus onto these amounts. He stated that it is important to be careful with these plans. The plans must outline what is foreseeable with the future transfers within the State. Mr. Fauske noted that he would work with the Committee in order to formulate that plan.
422	Mr. Fauske	Page 13 - Summary of financial information. From a business perspective, AFHC is satisfied with the corporation's market share, however, he pointed out the drop in the investment income. The original base was based on 6% as an interest rate. Currently, that rate is at 1.2%. That percentage falls in line with interest rates throughout the country. AHFC does not now invest in equities; all money loaned is short-term.
226	Mr. Fauske	Discussed that these are trusted money and they have no equity.
207	Representative Hawker	Asked the portion of the portfolio that is on a fixed rate basis versus the variable rate base.
142	Mr. Dubler	Replied that everything at this time, is on the fixed rate loan scheme.

127	Representative Hawker	Asked the average maturity rate on the portfolio.
113	Mr. Fauske	Replied that the average loan in Alaska is seven years.
54	Mr. Fauske	Referenced Page 14, the Short-Term Investment rates.
		TAPE HFC 03 - 11, Side A
020	Mr. Fauske	Continued, noting that the business of AHFC is currently doing well.
038	<u>ADJOURNMENT</u>	The meeting was adjourned at 3:15 P.M.