

HOUSE FINANCE COMMITTEE
January 24, 2007
1:35 P.M.

CALL TO ORDER

Representative Chenault called the House Finance Committee meeting to order at [1:35:56 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Harry Crawford
Representative Les Gara
Representative Mike Hawker
Representative Mike Kelly
Representative Mary Nelson
Representative Bill Thomas Jr.

MEMBERS ABSENT

Representative Richard Foster
Representative Reggie Joule

ALSO PRESENT

Karen Rehfeld, Director, Office of the Governor, Office of Management and Budget (OMB)

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GENERAL SUBJECT(S):

OVERVIEW: OFFICE OF MANAGEMENT & BUDGET

The following overview was taken in log note format. Handouts are on file with the House Finance Committee through the 25th Legislative Session, contact 465-6814. After the 25th Legislative Session they will be available through the Legislative Library at 465-3808.

TIME	SPEAKER	DISCUSSION
1:36:25 PM	Representative Chenault	Convened the House Finance Committee meeting in order to hear a presentation from the Governor's Office of Management and Budget proposed budget strategy.
1:36:44 PM	KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT &	Introduced the staff for the Office of Management and Budget (OMB): Budget Analysts including Karen Elliott, Kym Mauseth, Steve Hildebrand, Mike Crabb,

	BUDGET	Tuula Marquardt, Lena Simmons & Mary Sutton; Management Analyst Jo Ellen Hanrahan, performance based budgeting; Internal Auditor Diane Burnham; the two Policy Analysts are Jack Kreinheder and John Boucher; and the Chief Budget Analyst for the entire office is Joan Brown. Ms. Rehfeld added appreciation for the Legislative Finance Division employees for the work that they do each year.
1:39:02 PM	Ms. Rehfeld	Provided a general overview of the Governor's FY08 proposal. The Governor has been clear that her intent is to spend less, control the growth of government, save surplus and live within the State's means. The FY08 Capital and Operating budget was prepared with those goals in mind. The budget was based on a revenue estimate of \$3.9 billion dollars from the \$52.25 bbl oil price.
1:39:43 PM	Ms. Rehfeld	Budget estimates will be adjusted as the Department of Revenue updates their forecast. At this point, a decline has been indicated, which reinforces that the State needs to look at ways to control spending.
1:40:04 PM	Ms. Rehfeld	The Governor intends to save the surplus by depositing \$1.9 billion dollars into the Constitutional Budget Reserve (CBR), based on an estimated FY07 surplus of \$1.4 billion dollars; in FY08 of about \$500 million dollars.
1:40:37 PM	Ms. Rehfeld	In the FY08 budget package, the Governor introduced HB 97, a separate education funding bill. That bill includes full funding for the foundation program and pupil transportation. The Governor is also committed to cost increases in the retirement system; she is hoping that there is legislative consideration & action on that bill prior to the March 2007 deadline.
1:41:44 PM	Ms. Rehfeld	The Governor has introduced the operating and comprehensive mental health budget bills - HB 95 and HB 96. The Governing is intending to cover approximately \$77.5 million dollars in the retirement system cost increases for local governments to cover the costs of State government. The

		<p>Governor plans to restore the Longevity Bonus Program at just under \$34 million dollars.</p> <p>Ms. Rehfeld highlighted focus on the Public Offices Commission, funding of a new investigator position. A \$150 million dollar spending reduction was included for State government and all departments are in the process of program reviews. That review will look at the effectiveness of the programs and the changes that could be made resulting in cost savings. She noted the perforce-based budgeting - mission and measure guidelines.</p>
1:43:50 PM	Ms. Rehfeld	<p>Referenced the handout - "Results at a Glance", a summary of the mission and measures framework. [Copy on File]. The handout provides a highlighted summary. The Governor's Office is looking at ways for savings within each agency. The targets were established to provide departments with a goal to work toward. She added that the Governor would be asking the University, the Court System and the Legislature to contribute toward the savings plan.</p>
1:45:49 PM	Ms. Rehfeld	<p>Stated that the Governor has introduced a barebones FY08 Capital budget, including a general fund match, federal funds and school construction projects. The spending plan highlights approximately \$133 million dollars available for allocation to priority projects in the capital budget. The Governor wants to work with the Legislature to develop those priorities.</p>
1:47:01 PM	Ms. Rehfeld	<p>Pointed out the early supplemental bill request components including a general fund request in the amount of \$1.2 million dollars for the April 2007 election on the same-sex benefits. Those costs are related to the printing of the ballots & the costs of that election. Another cost relates to the Copper River - Prince Williams Sound Development Association, which began collecting taxes in FY05. Also, large component of that request is the \$12 million dollars for litigation in the Department of Law for actuarial</p>

		<p>services for the State of Alaska. The Department looks forward to discussing that request with the Legislature. The regular supplemental request includes information from the agencies. OMB is targeting \$60 million dollars. Ms. Rehfeld understood that the deadline for requests was February 14th.</p>
1:49:30 PM	Ms. Rehfeld	<p>Highlighted other items in the Governor's proposed packet: The repeal of the studded tire tax [HB 106], a \$1.4 million dollar reduction in revenue.</p> <p>There will be legislation to reduce the cost of business license fees.</p> <p>The Governor has introduced HB 99, the proposed appropriation to the principle of the Permanent Fund in the amount of \$1.3 billion dollars, leaving \$1.7 billion for dividends and inflation proofing. The Governor anticipates working closely with the Legislature to help Alaska sustain in the future.</p>
1:51:04 PM	Representative Gara	<p>Asked about full-funding for education and if it would be full funding at last year's level with no increases. Ms. Rehfeld responded that full funding meant, full funding of the current formula entitlement, based on the current formula. There has been no change proposed to date of the base student allocation.</p> <p>Representative Gara asked about increases to the budget to cover retirement costs. Ms. Rehfeld explained that the Governor is committed to providing resources for the retirement system costs.</p>
1:52:51 PM	Representative Gara	<p>Mentioned the memo dated January 19th regarding the Governor's proposed operating budget reduction. He questioned how those cuts could be offset with the proposed program increases. Ms. Rehfeld advised that the memo had a spreadsheet attached, indicating how the calculations had been determined. The General Fund identified for the agencies, (excluding the University, the Legislature and the Court System), \$3 billion dollars, backing out priority items. A 10% reduction was applied to the main General Fund.</p>

<p>1:55:19 PM</p>	<p>Representative Gara</p>	<p>From that testimony, Representative Gara understood that the Administration was not attempting to get a \$150 million dollar budget reduction as far as the overall budget. Ms. Rehfeld clarified that the Governor's fund proposal for General Fund spending is approximately \$3.9 billion dollars and within that, the agencies will attempt to find savings of about \$150 million dollars. If they are successful in getting the savings on the operating side, it will impact what is done on the capital side of the budget.</p>
<p>1:56:31 PM</p>	<p>Vice Chair Meyer</p>	<p>Asked if the FY07 surplus of \$1.4 billion dollars had been updated. Ms. Rehfeld responded that was the best number on hand at this time. Vice Chair Meyer understood the surplus would be placed into the Capital Budget Reserve (CBR). He noted historically, the amount was placed into the education fund; he questioned the unfunded liability debt, currently existing. He proposed using ½ the savings for the education fund and half for the CBR. Ms. Rehfeld advised that the proposal was only a starting point and that the Governor was willing to discuss options. Vice Chair Meyer inquired regarding discussion about the unfunded liability. Ms. Rehfeld stated that they were working with the Department of Administration regarding various approaches to the retirement system.</p>
<p>1:59:55 PM</p>	<p>Vice Chair Meyer</p>	<p>Questioned if the collective bargaining contracts would be brought forward. Ms. Rehfeld responded that there are 8 contracts up for negotiation in FY08. Vice Chair Meyer acknowledged that they can not be budgeted for. Co-Chair Meyer mentioned the Longevity Bonus being revisited & substitution of the Senior Care program, which is needs based. He asked if that program would "go away". Ms. Rehfeld responded that both programs are included in the FY08 budget. Vice Chair Meyer questioned if the Administration believed that the \$150 million dollars budget reduction could be met. He stated it would not be easy</p>

		to meet that goal. Ms. Rehfeld agreed.
2:02:16 PM	Representative Nelson	Voiced concern with the targeted reduction of \$150 million dollars statewide. She said her greatest concern was with cuts to the Department of Health & Social Services and Department of Public Safety. Ms. Rehfeld reiterated that the Governor looks forward to discussions with legislators regarding impacts resulting from the proposed budget.
2:04:47 PM	Representative Hawker	Agreed that the Legislature is capable of making such reductions; however, he worried about the consequences of such drastic cuts. Ms. Rehfeld advised that the Governor has identified a "placeholder" in the amount of approximately \$133 million dollars. If the \$150 million dollar goal is not met, the priorities will be established by the Legislature. Otherwise, the dollars would be removed from either the operating or capital budget.
2:06:44 PM	Representative Chenault	Emphasized that it will be difficult to reach that \$150 million dollar reduction, especially in 90-days. He pointed out the schedule for closing-out the budget within 90-days. He did not want to see a diminished public process and hence had concerns.
2:10:42 PM	Representative Stoltze	Added concerns regarding the accelerated schedules, reiterating comments about the enhanced challenges meeting proposed budget reductions.
2:11:53 PM	Vice Chair Meyer	Addressed expended boundaries at Prudhoe Bay to cover some of the marginal fields. He asked about the higher tax rate and if that was currently being collected. Ms. Rehfeld did not know but offered to provide that information to the Committee. Vice Chair Meyer asked when the State would receive money from the Crew Ship Initiative. Ms. Rehfeld understood that would begin to be collected in the beginning of May 2007. That money would not be built into the budget until FY09.
2:13:36 PM	Representative Chenault	<u>ADJOURNMENT</u> The meeting was adjourned at 2:13 P.M.