

HOUSE FINANCE COMMITTEE
February 21, 2008
1:41 P.M.

CALL TO ORDER

Co-Chair Chenault called the House Finance Committee meeting to order at [1:41:36 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 Reggie Joule
Representative Mike Kelly
Representative Mary Nelson
Representative Bill Thomas Jr.

MEMBERS ABSENT

Representative John Harris

ALSO PRESENT

Representative Ralph Samuels; Representative Sharon Cissna; Representative Peggy Wilson; Representative Scott Kawasaki; Representative Bob Buch; Sharon Kelly, Staff, Representative Mike Chenault.

PRESENT VIA TELECONFERENCE

There were no teleconference participants.

SUMMARY

HB 310 An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds; making supplemental appropriations; and making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska; and providing for an effective date.

HB 310 was HEARD and HELD in Committee for further consideration.

HB 312 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.

HB 312 was HEARD and HELD in Committee for further consideration.

#HB310

#HB312

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HOUSE BILL NO. 310

An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds; making supplemental appropriations; and making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska; and providing for an effective date.

HOUSE BILL NO. 312

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.

Co-Chair Meyer MOVED to ADOPT work draft 25-GH12015\M, Bailey, 2/20/08, as the version of HB 310 before the Committee. There being NO OBJECTIONS, it was so ordered.

Co-Chair Meyer MOVED to ADOPT work draft 25-GH12008\C, Bailey, 2/20/08, as the version of HB 312 before the Committee. There being NO OBJECTIONS, it was so ordered.

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Co-Chair Chenault noted that copies of the bills and agency summaries were available online for review. There will be public testimony taken on the bills on Friday, Saturday and Monday (2/22, 2/23 & 2/25).

Co-Chair Chenault discussed the amendment process and observed that the proposed committee substitute contains \$4.291 billion General Fund dollars. The Governor's amended bill totaled \$4.392 billion dollars, equaling a savings of \$101.45 million dollars between the two proposals.

He pointed out that two joint finance committee meetings had been held discussing the differences between the Governor's and Legislative Finance Division (LFD) fiscal summary. Following discussions, the four Finance Co-Chairs brought forward a letter to the Governor, requesting that budget amendments be submitted to help reach a common starting point for the FY09 budget comparisons. No amendments were received nor was contact made by the Administration to discuss the items.

Co-Chair Chenault advised that the Chair's office instructed the Legislative Finance Division (LFD) to include a column labeled GAMDADJ (Governor's Amend Adjustment) column. He noted that Ms. Kelly would review the changes added to that column.

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Co-Chair Chenault continued subcommittee's chairs were given the following instructions:

- Start with the adjusted base.
- Review impact statements requested from the departments relating to funding change requests.
- No new programs added and will be addressed at full finance meeting.
- Did not accept any fuel adjustments, which will be addressed in the Language section.
- Review language pertaining to each department and make any appropriate recommendations to the Co-Chairs.
- Review personnel services & do not add any new positions if vacancies exist; review the administrative positions to determine if overhead can be cut.
- Review Travel costs.
- Look at how department funds computers because some departments receive a base allocation for replacement; some do not.
- Review Mental Health Trust Authority (MHTAAR) requests. He pointed out that the MHTAAR fund continues to grow. They then turn those programs over to the State requiring General Fund dollars. He noted that even though the program continues to grow, State funds are anticipated to decline, which should be discussion with the Mental Health Trust Board, determining the base funding they can provide and when those programs would be turned over to the State for funding. He advised that discussion will continue through the budget process and during the interim.
- Assist the Governor in keeping the increases to a minimum in an effort to control State spending.

Co-Chair Chenault noted that the subcommittees recommended cuts totaling almost \$90 million dollars; the largest was made to the Department of Health and Social Services in the amount of \$34.8 million dollars.

He added many subcommittee chairs and members expressed frustration in an inadequate short time to review the budgets.

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Representative Gara asked if the changes were to the Governor's budget or the Governor's amended budget.

SHARON KELLY, STAFF, REPRESENTATIVE MIKE CHENAULT, explained that she would address that during her comments. She pointed out that the original Governor's bill was submitted on December 10, 2007. She noted there had been two House Finance meetings to discuss the differences in the presentation. The four Finance Co-Chairs requested that the Governor submit amendments in the interest of reaching a common starting point, allowing for the FY09 budget to be comparable to the FY08 budget. Copies of that letter are posted on the House Finance Committee website. None of the requested amendments were received; consequently, a new column on the handout labeled GAMDADJ was added. (Copy on File).

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The letter to the Governor requested that four items be addressed:

- Consistent use of funding sources: Corporate dividends including Alaska Industrial Development and Export Authority (AIDEA), Alaska Housing Finance Corporation (AHFC), Alaska Student Loan Corporation (ASLC) & the Alaska Capital Income Fund (ACIF); all of which are traditionally reserved for capital projects were replaced with General Funds. These transactions total \$49.3 million dollars, and were incorporated into the GAMDADJ as net zero. The dividends were removed and replaced with General Funds.
- Consistent treatment of capital & operating items: Five items considered capital items were removed from the work draft totaling \$114.9 million dollars. Thirteen items considered operating items but listed in the capital budget were not included. In discussions with the Office of Management and Budget (OMB), four remained in the capital budget, subject to committee approval and the other nine items were removed from capital budget.
- Consistent linkage between the year of the appropriation and the year of the expenditure: Four items proposed by the Governor were supplemental budget items and were removed from the bill, which includes the \$1.75 billions dollars to the Public Education Fund, the \$450 million dollars to the Teachers Retirement System Fund (TRS), \$5 million dollars to the Information Service Fund and \$223.7 million dollars to the Constitutional Budget Reserve (CBR).

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- Full exposure of expenditures: The Co-Chairs requested the Governor to fund the Public Education Fund in the manner the Legislature was seeking & prefunding one year of education in the budget. To fund FY2010 education, requires an additional appropriation of \$4.1 million dollars added to the draft. Increases due to the Education Task Force legislation will be added through the fiscal note process.
- Requested an amendment funding TRS at the full contribution level: A transaction adding \$43.9 million dollars has been added to the draft. The only changes between the Governor's amended proposal are the net zero replacement of corporate dividends in the Capital Income Fund with General Fund dollars.

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Ms. Kelly reminded members that the subcommittees began work at the beginning of session. Due to numerous fund change requests from other funds to General Funds, the departments were requested to provide impact statements to assist the subcommittees in that work. The information is posted on Legislative Finance Division (LFD) web page.

She noted that on February 13th, the Governor submitted 189 budget transactions for the operating budget. Some were considered by the subcommittees. All subcommittees closed out by February 19th. Amendments not included in the work draft will be added during the amendment process or in the Senate process at the time of the Conference Committee.

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Ms. Kelly commented that the language changes came to the bill including recommendations from the subcommittees and changes made by the Co-Chairs. She noted the attached spreadsheet, which outlines the changes made: "Summary of Language Sections in the Operating Budget (HB 310)". (Copy on File.) She provided an overview of the changes indicated in the handout:

- Governor's bill sections
- Committee substitute sections
- Topics
- Actions

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Ms. Kelly recapped what had been included in the work draft. It was modified from the original amended Governor's bill by the proposed amended adjust net zero transactions including

the subcommittee and Co-Chair changes to the language section.

She pointed out that HB 312, the Mental Health bill, was generated from transactions in the operating bill (HB 310). Some changes were automatically generated to coincide with what happened in the operating bill. In addition, one change was made to HB 312 in the customary fashion with one capital item removed. All items will become subject to conference considerations. The item removed was located in Section 3 under (HESS), the mental health essential program equipment for \$250 thousand dollars.

Ms. Kelly stated that LFD would up-date their website reports as relating to the committee substitute. She indicated that there were over 4,000 transaction included in the bill and offered to answer questions from the Committee.

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Representative Crawford requested further information on the following changes:

- Section 12(e), which removed a \$450 million dollar supplemental appropriation to the Teachers Retirement System (TRS).
- Section 18, the Governor's fuel trigger, which extended the table to \$99 dollars or more, while modifying the payout schedule and revised allocations for certain agencies.
- Section 26, a change for Kodiak.
- Section 27, removal of the Constitutional Budget Reserve (CBR) deposit.

Ms. Kelly referenced Section 12(e), noting it was a supplemental request and should not be in the operating budget. With regard to Section 18, the fuel trigger last year, was increased to \$59 dollars, which was not enough for the departments with the price of oil moving closer to \$100 dollars a barrel; hence, the price was moved closer to the \$99 dollar scale.

Representative Crawford asked what the fuel trigger was. Ms. Kelly explained that a couple years ago in the budget process and given the price of fuel as high as it was, instead of having the departments adding it into the base, as it increased and perhaps declined, it would not be removed from the base. The departments were requested to keep their FY04 level. With the addition of a trigger, provides an appropriation delegated to the Governor's office, to be spread between the departments. The main purpose was that it not be added to the base.

Ms. Kelly addressed the question regarding Section 26 on Kodiak. She noted that the request had not been enough to issue a Capital Improvement Project (CIP). The Co-Chair determined that rather than issuing dollars, it would be more preferable to offer it as a grant for purposes of an addition to the community jail.

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Representative Hawker corrected Ms. Kelly; the acronym is Certificate of Participation (COP) not CIP.

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Ms. Kelly added that Section Q indirectly appropriates \$2 million dollars to the Kodiak jail. The appropriation is intended to substitute for the \$2 million dollars that Kodiak would have received from the proceeds of the COP.

In response to Representative Crawford's query on Section 27, the CBR, which is addressed by two items. The first removed dollars from FY08 & removed it from the bill because it was not in the supplemental. The second item was removed as those funds will automatically be directed to the CBR.

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Representative Joule referred to the Governor's Section 23@, regarding the removal of the bulk loan fund. Ms. Kelly explained that it was removed and was placed into the bulk Revolving Loan Fund. It was determined that since it was a revolving loan fund, the payments should fill the fund without continuing appropriations. She stated that they had not received any information for additional requests.

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Representative Gara asked for more information on Section 29, the CBR and the difference between what the Governor proposed in relationship to what the committee substitute proposes. He noted the two items, one a supplemental and one a sweep. Ms. Kelly explained that there had been a FY08 supplemental appropriation, which would sweep funds into the CBR. That was removed; the funds will automatically sweep for FY09 unless there is language in the bill that sweeps it to another account. Problem could occur if a dollar amount is included if it is an incorrect number. The preference is for an automatic sweep to the CBR.

Representative Gara understood that the Governor proposed a CBR deposit for savings. He asked what had happened to that request. Ms. Kelly responded that was not part of the bill; that money will go to the CBR savings.

She added that the proposed amount from the Governor was \$155.3 million dollars FY 09; the sum for FY08 is \$223.7 million dollars.

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Representative Gara concluded that the Governor had proposed in total roughly \$378 million dollars be moved to the CBR; he noted that those deposits had not been included in the committee substitute. Ms. Kelly stated that the deposit that relates to the FY09 budget is in the bill because it will automatically go into the CBR not including language having the money swept to another account.

Representative Gara indicated that \$155.3 million dollars had not been taken out. Ms. Kelly responded it had been. She added that the FY08 amount would also sweep into the CBR. It is the same for FY08, with excess money going into the CBR. As long as there is not language in the operating bill that has it swept somewhere else. Co-Chair Chenault interjected that any funds that are unencumbered for a specific issue, if it is unencumbered, it sweeps automatically to the CBR.

Representative Gara expressed concern whether those dollars would actually go into the CBR. Co-Chair Chenault advised that in the proposed bill, there is no language to sweep any money into any other fund; all unencumbered money will be swept into the CBR.

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Co-Chair Chenault added that if the price of oil drops, there might not be the amount of funds to put into the CBR. Money could be placed into that fund ahead of time, which would require a three-quarter vote to take a draw from that account.

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Representative Gara referred to Sections 4 & 5 and asked how much of the Alaska Housing Finance Corporation (AHFC) funds were removed from the operating budget for placement in the capital budget. Ms. Kelly stated that \$49.3 million dollars was transferred. Co-Chair Chenault pointed out that those funds are traditionally used in the capital budget.

Representative Gara asked if removing those funds, dollars from the Alaska Student Loan and the Alaska Industrial Development and Export Authority (AIDEA) dollars, would not unfund previous proposals made by the Governor. Ms. Kelly stated that the Governor's amended adjust only changes the funds from the dividend funding source to General Funds.

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Representative Gara asked about the other two dividends from AIDEA and ASLC. Ms. Kelly advised that:

- AHFC amounted to \$11.8 million dollars
- AIDEA amounted to \$23.8 million dollars
- ASLC amounted to \$2.755 million dollars
- Alaska Capital Income Fund consisted of two increments of \$9.6 million dollars & \$845 thousand dollars

In response to Representative Gara, Ms. Kelly noted that the Alaska Capital Income funding source was initially included in the operating bill, which funded the Department of Law gas-line work for \$9.6 million dollars. That was changed to the General Fund in the Governor's amended adjust and then was changed in the committee substitute from a multiple year transaction to \$5 million dollars, a one time item. Representative Gara did not agree with that proposed logic.

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Representative Gara questioned Section 22 and the removal of the Ocean Ranger Program. Ms. Kelly explained that section identifies certain items which need to be addressed by the Legislative Budget and Audit (LBA) Committee for additional appropriations. Rather than having the program go to LBA, because their funding source is not General Funds, the appropriation was moved above their anticipated needs.

Representative Gara questioned if the proposed level of funding would exist for the program as indicated by the Governor and be just a different funding source. Ms. Kelly replied that the appropriation had been increased. She offered to research & provide those numbers to the Committee. Co-Chair Chenault added that it would not be a fund source change, while allowing the program access to the receipts without going through LBA.

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Representative Gara referenced Section 11, pointing out that the Governor had proposed forward funding schools an additional year; the work draft removed that funding. Ms. Kelly explained that Section 12(a) had a capitalization of the Public Employees Federation (PEF) fund from FY08 for \$1.75 billion dollars, which was removed. Section 12(b) includes the \$1 billion dollars for the PEF. Section 21(t) funds the PEF funded.

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Representative Gara asked about the funding for the School Incentive Program. Ms. Kelly clarified that in the Governor's bill, the component had been left open-ended; the Department of Education and Early Development stated that the \$4.8 million dollars would fund what was necessary for performance bonuses for next year. Representative Gara argued that was not the number that the Department had provided to him.

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Representative Gara pointed out that the Co-Chair had removed the Governor's recommended appropriation for the Head Start program. Ms. Kelly advised that item had been removed during the subcommittee process.

Representative Gara asked if the items deleted during the subcommittee process were not been included in proposed bill draft. Ms. Kelly clarified that the handout only addresses the language section of the bill. The subcommittee determinations were posted on the on-line website with accompanying narratives.

Representative Gara requested an information comparison to what has been proposed by the Governor versus what the committee substitute proposes.

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Ms. Kelly referenced the agency summaries, which provide the General Fund Governor's adjust proposal and the House subcommittee proposed. The total amount equals \$101 million dollars, and indicates all the transactions taken out from the Governor's proposed. Representative Gara argued that the graph does not indicate which items have been removed, only the total agency budgets. Ms. Kelly understood that the LFD could provide that information requested.

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Representative Gara pointed out that funding for the behavioral health grants over the past number of years had declined and that the Governor had proposed to return dollars to those grants in the FY09 budget. He did not see that inclusion. Representative Hawker clarified that had been fully addressed during the closeout report from that subcommittee. Representative Gara requested further clarification. Co-Chair Chenault offered to provide that information.

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Representative Crawford asked about concerns related to the CBR and the approximate estimation of unencumbered funds

remaining for FY 08 & FY 09. Ms. Kelly would not know about FY 08 until the new tax was in place; FY 09 numbers amounted to the direct appropriation; however that number was overstated because the Department of Corrections had not included funding they needed for leap year. The appropriation needs to be increased by \$100 million dollars and then reduced by \$15.0 thousand dollars. She acknowledged that it is difficult to project with such volatile oil prices.

Representative Crawford inquired if there were a "place holder". Ms. Kelly stated that the best information available is that the Governor had \$155.3 million dollars; the committee substitute decreased the bill by \$100 million dollars for a total of \$255 million surplus. Representative Hawker pointed out that estimate was based on a price of oil @ \$66.32 per barrel. He maintained that there is a "cushion" in the budget.

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Representative Gara requested further identification from the work submitted by the subcommittees on behavioral health grant concerns and how it would differ from that proposed by the Governor. He acknowledged the difficulty in attempting to understand the complexity of the budget. He emphasized that the subcommittee reports should be available. Representative Gara emphasized that he wanted that information on the record. Co-Chair Chenault reiterated that the information is available on the website.

Co-Chair Chenault related concerns resulting from the pressure of the narrowed time allocation and the 90-day session process.

HB 310 and HB 312 were HELD in Committee for further consideration.

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The meeting was RECESSED to Friday, February 22, 2008.

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