

**ALASKA STATE LEGISLATURE  
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**

February 9, 2007

3:34 p.m.

**MEMBERS PRESENT**

Representative Mike Hawker, Chair  
Representative Anna Fairclough, Vice Chair  
Representative Bob Roses  
Representative Paul Seaton  
Representative Peggy Wilson  
Representative Max Gruenberg

**MEMBERS ABSENT**

Representative Sharon Cissna

**COMMITTEE CALENDAR**

HOUSE BILL NO. 68

"An Act relating to adoption and revision of a comprehensive long-range fiscal plan for the State of Alaska."

- HEARD AND HELD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 68

SHORT TITLE: LONG-RANGE FISCAL PLAN

SPONSOR(S): REPRESENTATIVE(S) GRUENBERG, HARRIS, DOLL, WILSON

01/16/07	(H)	PREFILE RELEASED 1/5/07
01/16/07	(H)	READ THE FIRST TIME - REFERRALS
01/16/07	(H)	W&M, FIN
02/09/07	(H)	W&M AT 3:30 PM HOUSE FINANCE 519

**WITNESS REGISTER**

No witnesses to record

**ACTION NARRATIVE**

**CHAIR MIKE HAWKER** called the House Special Committee on Ways and Means to order at [3:34:12 PM](#). Present at the call to order were Representatives Hawker, Roses, Seaton, Wilson, and Gruenberg.

Representative Fairclough arrived as the meeting was in progress.

HB 68-LONG-RANGE FISCAL PLAN

3:34:44 PM

[Contains discussion of a proposed committee substitute (CS) for HB 125, Version 25-LS0546\C, Cook, 2/8/07, which the committee indicated would become the vehicle for the concepts embodied in both HB 68 and HB 125.]

CHAIR HAWKER announced that today the committee would consider HOUSE BILL NO. 68, "An Act relating to adoption and revision of a comprehensive long-range fiscal plan for the State of Alaska".

3:36:00 PM

REPRESENTATIVE GRUENBERG, speaking as joint prime sponsor of HB 68, explained that a prior version of this bill had been introduced as House Bill 52 in a previous legislative session. In prior legislative sessions, past versions of this bill have gone to the House Finance Committee, but not beyond that. The bottom line is that HB 68 requires the state to adopt a fiscal plan.

REPRESENTATIVE GRUENBERG asked leave of Chair Hawker to refer from time to time to proposed committee substitute (CS) for HB 125, Version 25-LS0546\C, Cook, 2/28/07. He directed the committee's attention to AS 37.07.020(b), which is referenced in Section 1 of the proposed CS for HB 125. This statute requires the governor to submit to the legislature a capital improvements program and financial plan. This statutory requirement has not really been fleshed out or gone anywhere recently, he told the committee. However, since it already exists in statute, it has been considered in crafting the proposed legislation to require the legislature or the state to adopt a long-range fiscal plan. He explained that ever since a planning group from a prior legislature took up the issue of Alaska's financial problems, there has been a real recognition of the state's need for a fiscal plan. He disclosed that in 2002 Alaska had the largest percentage fiscal gap (around 37 percent) of any state. This realization of the extent of Alaska's fiscal issues led some legislators to consider the need to adopt some type of fiscal planning structure, with the exact form to be decided by the legislature, he said. This year, with the leadership of Chair Hawker, there have been a number of meetings regarding long-term

state revenue issues, he noted. These meetings have been designed to culminate in some type of action by this committee and the legislature, he opined.

REPRESENTATIVE GRUENBERG explained that the proposed CS for HB 125 directs the executive branch to prepare a fiscal plan. He believes this is a better approach than HB 68 for a variety of reasons. First, the executive branch employs hundreds of professionals whose job it is to develop and implement plans for running state government; therefore this type of work may be best suited for the executive branch. Second, AS 37.07.020(b) already requires the governor to submit a financial plan, so it makes sense to modify this requirement to require a long-term fiscal plan. Last, the recent initiative which limits legislative sessions to 90 days shortens the amount of time available to the legislature to thoroughly consider and develop a quality long-range fiscal plan, he noted. He reminded the committee that the legislature is usually a reactive institution that must respond to whatever bills are introduced that session. This makes the legislature less suited to come forth with general policy proposals. In contrast, the executive branch may have a broader, more statewide perspective than individual legislators, and may therefore be better suited to develop proposals for a long-term financial plan for the state.

[3:45:20 PM](#)

REPRESENTATIVE GRUENBERG noted the proposed CS for HB 125 requires the governor to prepare and submit a 10-year fiscal plan. This timing takes advantage of the governor's four to eight year term in office. The proposed CS for HB 125 does not specifically state what the legislature must do in response to the governor's plan. Therefore, Representative Gruenberg suggested, one item this committee needs to consider is whether to put anything in the proposed CS for HB 125 which invites or requires a legislative response to the governor's fiscal plan. He compared HB 68 with the proposed CS for HB 125, and pointed out that HB 68 contained a legislative findings requirement in Section 1. He sought the committee's input as to whether some type of legislative findings section should be included in whatever version of HB 68 the committee considers in the future. He said that HB 68 requires the governor to submit a 5-year fiscal plan, while the proposed CS for HB 125 extends that time period to 10 years. The 10-year requirement would provide some consistency and long-term planning beyond any one governor's term, he explained.

CHAIR HAWKER thanked Representative Gruenberg for his counsel in this matter and for his review of HB 68 and noted that the committee has been provided with the proposed CS for HB 125, to review for consideration next week.

REPRESENTATIVE SEATON offered the possibility of considering the proposed CS for HB 125 as an amendment to HB 68 for ease of discussion.

CHAIR HAWKER reminded the committee it was considering a potential amendment to HB 68 that might follow some of the language of the materials in the committee packet.

[3:53:45 PM](#)

REPRESENTATIVE SEATON observed that a requirement for a governor to annually submit a fiscal plan covering the next 10 years could overlap into an incoming governor's term. Furthermore, he noted that it could be very difficult, if not overwhelming, for a new governor to develop a 10-year plan at the same time the new governor is working on a budget. Budgets are time consuming to prepare he reminded the committee, noting that this year's budget will not be ready until March. He suggested that perhaps the governor should only be required to submit a long-range fiscal plan every two years, which would give a new governor one year to prepare a plan.

CHAIR HAWKER reminded the committee that an important policy consideration is whether the term "fiscal plan" means a continually evolving process, or whether it is a set plan. He stated that many legislators have been told by their constituents that the state needs "a fiscal plan"; however he suggested that a more useful approach may be a continuing process through which to approach state spending and revenues. A continuing fiscal planning process could transcend individual legislators and administrations in favor of a long-range planning process with its own integrity, he suggested. This process could be built on by succeeding legislatures and administrations. Long-term forecasting is already done by the Department of Revenue (DOR) in its "Revenue Sources Book," and each revenue forecast builds on the prior ones; this concept could help with fiscal planning if it was considered as a continual, long-range process, he offered.

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REPRESENTATIVE GRUENBERG proposed that he would draft an amendment that takes into consideration the suggestion that a new governor would not have to submit a fiscal plan until his or her second year in office. Since AS 37.07.020(a) requires that the governor's proposed budget be released annually by December 15th, he suggested that any fiscal plan could also be released December 15th. Furthermore, it might be a good idea to allow an incoming governor until December of the year after he or she takes office to release a fiscal plan, he opined.

REPRESENTATIVE SEATON observed that development of a fiscal plan could be a very time-consuming process and indicated there are different possibilities for what could constitute a fiscal plan. He noted that it can be hard to plan for a period as long as 10 years. He suggested that maybe it is a process, but acknowledged that it takes a lot of effort to do a good job.

[4:04:07 PM](#)

CHAIR HAWKER assured the committee that the sponsors of HB 68 did take these aforementioned types of concerns into consideration, although he acknowledged that critical details still need to be worked out. He explained that the eventual wording will be critical, but that this is not designed to be a budget, or just revenue, but rather a projection of the sources and uses of funds in aggregate. The preparation of a fiscal plan is not designed to be an overwhelming burden on anyone, particularly if the planning entity is able to incorporate already completed work, such as that in DOR's "Revenue Sources Book." Chair Hawker said he recognizes that any predictions will get less precise farther out into the 10-year forecast. In considering any amendments to HB 68, the emphasis should be on significant sources and uses of funds, he suggested. He referred favorably to language on page 2, line 9 of the proposed CS for HB 125, which provides that the proposed long-range fiscal plan "may" provide certain recommendations, emphasizing the optional language leaves room for policy considerations.

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REPRESENTATIVE FAIRCLOUGH endorsed the efforts of the committee to bring this issue forward and offered some suggestions for consideration. First, she questioned whether there is some way to assure legislative approval of any fiscal plan, noting that if the legislature does not agree with the parameters of the plan, the governor will not be able to implement it. She offered that perhaps there could be legislative confirmation or

acceptance of some kind. Second, she opined that when the legislature uses one-time money for expenses, it can contribute to instability in a program. She suggested that one-time use of money could perhaps be limited to capital projects, or other one-time expenses so as to achieve sustainability for important long-term programs. Next, she raised the issue of the need to consider which groups or services should or can pay their own way, and which groups or users the legislature may want to subsidize or invest in to a certain extent. Furthermore, she questioned whether any fiscal planning requirement should require the governor to identify the plan's revenue sources and to identify what expenses should be subsidized or invested in. Last, she suggested that the legislature may want to give the governor direction by developing some type of matrix system that would allow the governor or legislature to consider the effect of certain scenarios on any fiscal plan.

REPRESENTATIVE FAIRCLOUGH referred to the constitutional mandates which require the legislature to provide for public education, safety, and healthy communities and noted that it is important to consider how much to invest in all Alaskans to make sure all citizens are treated with dignity and respect. In making this determination, she referenced the difficulty the legislature faces in determining how to allocate scarce funds among competing user groups, and suggested that the University of Alaska could perhaps ask its researchers to develop a matrix system that would provide guidance to those who must make funding decisions. She agreed with a prior observation that it may be difficult for a new governor to come up with a meaningful plan in a timely fashion; therefore a year's delay for a new governor may be advisable.

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REPRESENTATIVE GRUENBERG advised the committee that he intends to consider the comments made so far today and hopes to take them up in more detail next week.

REPRESENTATIVE FAIRCLOUGH acknowledged that there is a need to manage the state's cash flow in a meaningful way.

CHAIR HAWKER endorsed the free flow of debate on the issue of fiscal planning and noted that this committee considers matters to which there is often no ready solution.

[4:20:21 PM](#)

REPRESENTATIVE WILSON observed that it may be a very good idea to give a new governor a year to come up with a plan that reflects the new administration's goals. She supports the positive benefits of fiscal planning and emphasized the need to plan ahead for items such as deferred maintenance.

[4:23:08 PM](#)

CHAIR HAWKER raised the issue of whether a new governor should potentially have a year's hiatus to produce the "Revenue Sources Book."

REPRESENTATIVE SEATON reminded the committee that past governors and legislatures have presented solutions to budget issues through policy suggestions. For example, former governor Tony Knowles proposed a state income tax, ex-governor Frank Murkowski proposed a statewide sales tax and the House membership of a prior legislature adopted a percent of market value methodology for the permanent fund. None of these proposals ever became law, he reminded the committee, and this raises the issue of how effective any long-range plan can be if the policies behind the plan are not ever enacted into law. He opined that planning for 10 years without agreement as to the source of funding would not be useful. He observed that a governor could suggest a single revenue source, such as the earnings reserve account, but if the legislature does not approve of using that fund, the entire long-term plan just hits a brick wall. He suggested it may be more helpful to concentrate on the issues that are creating serious revenue shortfalls, such as revenue sharing or retirement benefits funding, and really focus on solving those issues.

CHAIR HAWKER observed that Representative Seaton's point supported the argument that the fiscal plan should be more of a noun than a verb.

[4:27:15 PM](#)

REPRESENTATIVE FAIRCLOUGH observed that there are a number of problems that influence the state's financial situation. She suggested that perhaps the legislature could somehow put forth some goals it would like to accomplish and the means to achieve those goals.

REPRESENTATIVE ROSES said he supports the planning process, but cautioned that plans which lack funding go nowhere. He offered that planning can be very helpful in areas such as deferred

maintenance where a group or agency could be told how much level funding it can expect to receive for maintenance for the next 10 years. This type of budgeting allows an entity to plan for future maintenance based on the funding allocated, and requires the entity to budget in a responsible way, he said.

[4:31:30 PM](#)

CHAIR HAWKER acknowledged the difficulty of planning when external factors, such as the price of oil, change annually. This is why the planning process should perhaps require an unspecified response from the legislature, so that the legislature retains flexibility in ways to solve fiscal problems. He said he looks forward to continuing this dialogue and recognizes that with all the factors to consider, it is too complex to propose an amendment to HB 68.

REPRESENTATIVE GRUENBERG suggested the committee consider the comments made today and proceed in the future with a proposed CS to HB 125.

REPRESENTATIVE SEATON emphasized the need to consider how a governor's proposed policy can actually come to fruition and suggested that the committee consider ways to make any long-range fiscal plan functional.

REPRESENTATIVE GRUENBERG suggested that the committee may want to consider the possibility that any legislation on this matter contain some type of funding alternatives.

[4:40:19 PM](#)

REPRESENTATIVE FAIRCLOUGH posed the possibility that the governor be restricted to using existing funds when developing a long-range plan. This could allow creativity on the part of the governor to use existing funds to achieve policy goals, but would also assure that the means to achieve those goals were available. This approach would not prohibit the governor from suggesting new sources of revenue, or changes in state spending patterns. It would allow a way to measure a governor's effectiveness, both in use of known resources and in the governor's ability to develop other sources of income, she suggested.

CHAIR HAWKER commented that since Alaska is a resource-based economy, whether the aforementioned suggestion include revenue projections of both known and unknown natural resources.

REPRESENTATIVE FAIRCLOUGH replied that some revenue projections, such as the "Revenue Sources Book," are produced by year-round staff in the spring and fall. This type of information could be used to provide a range of possible revenue scenarios which consider the possible fluctuations in the price of oil.

[HB 68 was held over.]

#### **ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Ways and Means was adjourned at [4:44:49 PM](#).