

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

February 19, 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 Sharon Cissna
Representative Max Gruenberg

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 125

"An Act relating to budget planning and a long-range fiscal plan for the State of Alaska."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 125

SHORT TITLE: LONG-RANGE FISCAL PLAN

SPONSOR(s): WAYS & MEANS

02/08/07	(H)	READ THE FIRST TIME - REFERRALS
02/08/07	(H)	W&M, FIN
02/14/07	(H)	W&M AT 3:30 PM HOUSE FINANCE 519
02/14/07	(H)	Heard & Held
02/14/07	(H)	MINUTE(W&M)
02/19/07	(H)	W&M AT 3:30 PM HOUSE FINANCE 519

WITNESS REGISTER

JOHN BOUCHER, Senior Economist
Office of Management & Budget (OMB)
Office of the Governor
Juneau, Alaska

POSITION STATEMENT: Presented the administration's position on HB 125 and answered questions.

Marie Darlin, Coordinator
AARP Capital City Task Force (AARP)
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 125 and answered questions.

ACTION NARRATIVE

HB 125-LONG-RANGE FISCAL PLAN

CHAIR MIKE HAWKER called the House Special Committee on Ways and Means meeting to order at [3:34:39 PM](#). Present at the call to order were Representatives Hawker, Fairclough, Gruenberg, Roses, Seaton, Wilson, and Cissna.

[3:35:37 PM](#)

CHAIR HAWKER stated that the only order of business would be HOUSE BILL NO. 125, "An Act relating to budget planning and a long-range fiscal plan for the State of Alaska." [Before the committee was proposed committee substitute (CS) for HB 125, Version, 25-LS0546\C, Cook, 2/8/07, which had been adopted as the work draft on 2/14/07.]

CHAIR HAWKER, speaking as a joint prime sponsor of HB 125, explained that AS 37.07.020(b) requires the governor to submit an annual financial plan, but nothing in that statute delineates or further describes what the financial plan should cover. The approach taken by the bill amends the statute to require the governor to submit a fiscal plan. He said that HB 125 was drafted to detail what is meant by the term "fiscal plan," although he acknowledged that the language of the bill may need some editing for clarity. He emphasized that the intent of the bill is to make the fiscal plan a simple and objective exercise to project estimates of revenue and expenses for 10 years. The fiscal plan will not set forth policy; but will lay the ground work for future policy decisions, he indicated. In essence, to prepare the fiscal plan, the OMB would integrate work already done by the Department of Revenue (DOR) in its biannual "Revenue Sources Book," with broad projections about significant future uses of funds. These would be aggregate lump sum projections of significant uses of funds, he noted.

CHAIR HAWKER emphasized that the bill requires the executive branch identify sources of revenue and the means to keep the revenue funds balanced. The fiscal plan would also state projected balances of significant funds held in separate savings accounts such as the constitutional budget reserve fund or the public education fund. The goal of HB 125 is to require the executive branch to set forth a broad picture of state revenue trends. He said he believes that the simple baseline fiscal analysis required by HB 125 is a necessary prerequisite for long-range fiscal decision making, as well as a way to put a current year's budget and spending decisions in context. In summary, HB 125 creates a process through which to approach long-range fiscal planning.

REPRESENTATIVE WILSON asked whether there is some type of accepted budget model used by other states to project their long-range financial situations.

[3:46:37 PM](#)

JOHN BOUCHER, Senior Economist, Office of Management & Budget (OMB), Office of the Governor, answered that although there may be some standard methodologies for some pieces of the plan, there is likely not a comprehensive accepted methodology for state long-range fiscal plans. He noted that any plan is only as good as its assumptions. Some assumptions, such as the future growth of Alaska's senior population, are somewhat factual. However others, such as which revenue sources will be tapped to pay for increased costs, require policy determinations. Therefore, the usefulness of a standard plan is limited, he opined.

CHAIR HAWKER asked whether it is reasonable for OMB to make some type of predictions for future expenditures based on likely future cost increases.

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MR. BOUCHER replied that the aforementioned type of analysis is currently practiced by the administration when it prepares the budget for the next year. He said that administrators feel a certain level of discomfort when they are required to budget for a 4 to 5 year period because assumptions can change. Therefore, either the projections must change, or the assumptions, such as the amounts of the federal medical assistance percentage (FMAP) that the state will receive, must be specified within the budget document itself.

CHAIR HAWKER stated that the drafters of HB 125 recognized future projections cannot be precise due to some factors, such as the state's future share of FMAP. Therefore, he acknowledged that the fiscal plan's forecast will become less detailed the farther into the future it projects.

REPRESENTATIVE SEATON expressed concern over the usefulness of a fiscal plan. He referred to this year's prior presentations to the legislature that predicted a budget gap for Alaska in the near future, yet pointed out that the legislature is now considering eliminating certain taxes and concentrating the state's entire revenue generation on oil. He cautioned that a fiscal plan may be of limited use if the information presented does not influence legislative actions.

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CHAIR HAWKER replied that he believes it is important for this committee to raise these revenue issues and to support development of a record of testimony on fiscal issues. Since this committee is a special committee which must be re-authorized, it may be useful to codify the requirement that there be baseline revenue and spending information similar to the information brought forth by this committee in its first few hearings of 2007. He suggested the existence of such information will help the public see where the executive branch is leading the state in the area of fiscal policy.

MR. BOUCHER opined that a fiscal plan should be flexible, quick to respond to change, and contain some idea of the plan's objective. He said it appears HB 125 requires a fiscal plan that is part reminder, part educational effort. Furthermore, it seems to require an appropriate level of effort; although the executive branch is, he related, capable of putting in a greater level of effort if the legislature feels that is advisable. He indicated that it may be important for this committee and the executive branch to consider what the objective of any fiscal plan will be. If the objective is clear, it will help put into context the recognition that long-range expenditures have consequences, he noted. Referring to past OMB presentations, he relayed the observation that a relatively simple presentation can give a picture of future budget predictions.

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REPRESENTATIVE WILSON, referring to the difficulty of making funding decisions in light of the many groups that request funding and the amount of expenses the state has, and opined that there needs to be some information to help make these decisions.

REPRESENTATIVE GRUENBERG questioned whether OMB and the governor should be required to update any fiscal plan more frequently than on the annual basis currently required by the bill in light of possibly fast-changing information about revenues and spending.

MR. BOUCHER replied that the usefulness of any adjustments would depend on the size and effort it would take to do them. In the last 12 months for example, there has been an increase in oil prices, a policy decision to address unfunded pension liabilities, and the passage of a production profits tax. Any one of these aforementioned events can affect future budget predictions. Furthermore, some of these events were not in play until September or October 2006, and if a fiscal plan were to require a detailed analysis of changes like this, the plan may "die from its own bulk."

REPRESENTATIVE GRUENBERG noted that with the November 2006 initiative which statutorily limits legislative sessions to 90 days, the legislature may be facing more special sessions and may have to respond to any fiscal plan and updates. Since HB 125 is concerned with the initial fiscal plan, but not with what happens after the plan is submitted, he questioned whether OMB has an opinion on what should happen once any fiscal plan is submitted.

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MR. BOUCHER said he believes there should be some sort of legislative response to a fiscal plan, although he is not sure what appropriate vehicle for this response should be. He pointed out that prior administrations have made policy proposals that have not been implemented by the legislature. In that type of situation, the failure to implement key components essentially negates a plan's chance for success, he suggested. When considering how to craft a plan, it may be more productive to consider any fiscal plan process as a dialogue between such bodies as the Legislative Finance Division and OMB, with some sort of response by the legislature, he opined. He responded to a query by stating he is not aware of other state's financial planning efforts.

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CHAIR HAWKER informed the committee that Hawaii requires its governor to prepare a very detailed six-year program and financial plan. He said he does not want Alaska to utilize such a detailed route and fall victim to the fallacy of false precision in the budget planning process.

REPRESENTATIVE ROSES suggested that one advantage of a fiscal plan is that agencies can be made aware of their future budget for items such as deferred maintenance. He noted that the process of predicting future income and expenses is an accepted business practice, and each year those figures are adjusted to meet the needs of the business' long-range plan. He warned that using financial planning information from other states may be of limited usefulness since Alaska's revenues are based mainly on income from natural resources, which can be volatile compared to a resource base that comes mainly from taxes. He said that a planning process could be very helpful, especially for areas such as the unfunded pension liability and deferred maintenance issues.

REPRESENTATIVE SEATON opined that some sort of legislative response is critical, but in reality it is already done by the budget process. He stated that there may be a helpful educational component to a fiscal planning process that involves the Legislative Finance Division and OMB, but those agencies are not able to give any type of commitment or implementation authority to the plan.

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MARIE DARLIN, Coordinator, AARP Capital City Task Force (AARP), testified that the AARP supports the efforts of the committee to establish a long-term fiscal plan and is willing to provide any help the committee deems necessary.

CHAIR HAWKER asked Ms. Darlin her opinion of whether a fiscal plan should be a set plan, or whether fiscal planning should be considered more of a continuing process that does not dictate a one time solution.

MS. DARLIN opined that it would be beneficial for the state to put forth some long-range policy goals, but that anyone who follows the legislature knows it cannot pin everything down to finite details. However, in general people like to know where

the state is headed, and within that framework there can be changes and adjustments made as necessary, she said.

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REPRESENTATIVE FAIRCLOUGH asked about AARP's position on the long-term impacts of an increased senior population and how the state can provide the resources necessary to meet their needs, especially in view of potential future decreases in federal funding for health care services.

MS. DARLIN stated that AARP looks at many factors and studies every report on Medicaid and other issues, and that one has to review the many angles when trying to balance the numerous senior population issues. The AARP does look at many issues, such as the longevity bonus, to determine what the state is going to be able to afford.

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REPRESENTATIVE FAIRCLOUGH acknowledged that seniors who migrate to the state bring benefits, and that AARP may have a greater understanding of some needs related to the senior population.

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Mr. BOUCHER paraphrased from the following written testimony [original punctuation provided]:

The Administration's FY08 budget proposal reflects some of the principles that have been emphasized in previous iterations of fiscal plans:

- Examining state spending to insure that state services are being delivered in the most efficient and cost effective manner possible, and
- Insuring that surplus revenue is set aside for use at a future time when the state's revenue is less plentiful.

Conceptually, the administration believes that a fiscal plan should be a useful tool, and that any processes or plans developed should be flexible enough to quickly respond to changes in the fundamental realities that determine the state's fiscal health—such as changes in world oil markets or North Slope oil and gas production.

- One overarching concern is that the plan or process may become a bulky annual exercise that sits on a shelf and [gets] ignored. OMB has some experience with planning efforts that sit on the shelf and we would like to avoid that occurring.

Another thing that the committee might consider is what the objective of the plan or planning process is and what the appropriate level of resources should be devoted to achieving that objective.

[4:33:20 PM](#)

MR. BOUCHER went on to say that if the intent of the fiscal plan is to outline the magnitude of the fiscal challenges facing the state that could be accomplished by presentations to this committee by DOR, OMB, and the Legislative Finance Division. He opined that most of the revenue options available to fill the fiscal gap have been studied, and in some cases presented to the legislature, yet the state is not really any closer to a solution. He questioned whether the addition of a planning process will help the state solve its fiscal problems. He raised the issue of whether the resources that would be spent preparing a fiscal plan might be better spent focusing on targeted solutions to major spending issues, like Medicaid, the Public Employees' Retirement System (PERS), or deferred maintenance of state facilities. He said it is within the normal course of any administration's work to bring major issues to light and to frame the effect those issues may have on the fiscal gap.

MR. BOUCHER further paraphrased from the following written testimony [original punctuation provided]:

As far as the mechanics of the bill- our reading is that just like the budget, a new administration would be obligated to release a fiscal plan at the same time as the December 15th budget release. As such, it

- Puts a new administration in the position of submitting the previous administration's plan- and potentially distancing itself from the plan immediately. Therefore, we support the idea that was discussed by several members that a new administration might be exempt from submitting a plan until it's been in office for a year or so.

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MR. BOUCHER stated that OMB's current understanding of the detail desired by the bill would require OMB to add a new full-time staff position and possibly to contract out some work for specific issues, such as Medicaid. If a lesser product is intended by HB 125, OMB may not need an additional position to prepare the fiscal plan. He stated that while the administration supports the efforts of the committee to raise profile of long-term fiscal planning, it has some questions as to whether this legislation is the most cost-effective way to achieve the goals of a long-term plan, as well as some other concerns about the details of plan implementation when an administration changes. He responded to Chair Hawker by reiterating the administration's concern is whether this legislation is the most cost effective approach to long-range planning. He stated that if HB 125 is designed to require development of a large document, the administration may question whether its efforts could be better spent by having a staff member look in depth at a targeted issue, such as pension fund debt issues.

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CHAIR HAWKER stated he does not envision the fiscal plan being a huge document. He asked Mr. Boucher to suggest where in the current bill language could be changed to ameliorate that concern.

REPRESENTATIVE WILSON opined that it might be beneficial to clearly state any fiscal plan's intentions for a future legislature to consider, even though one legislature cannot bind a future legislature.

CHAIR HAWKER suggested that the committee not create an overly precise work product; instead, it should craft a process that can evolve to become a work product an administration may desire to bring forward.

REPRESENTATIVE GRUENBERG pointed out that a prior legislature passed missions and measures legislation, which was "kind of spotty," was only used during one administration, and is in uncodified law, where "people can't find it." A fiscal plan may predict the source and amount of projected revenues, but not much more than that. If the legislature wants to do anything more than that, the plan has to get into government operations, he opined. He offered that in his opinion, a part-time

legislature is not able to do enough oversight of governmental operations. Furthermore, a 90-day legislative session may make it more of a challenge to have the required governmental oversight needed to do the people's work right, he said. The planning function the committee is looking at is concerned with what the state should be doing in the next 10 years. However, to do that properly, the legislature needs to determine how to act as a board of directors. He proposed that as part of the legislature's response to any fiscal plan, there should be some discussion as to the extent and timing of legislative oversight.

MR. BOUCHER said that OMB is responsible for the existing missions and measures programs, and he believes it has come quite far in the last several iterations. He offered to provide some information on OMB's performance oversight work.

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REPRESENTATIVE GRUENBERG responded to Chair Hawker's inquiry about the appropriate legislative response by opining that the legislature ought to respond point-by-point to the annual update, either in the budget or by resolution. This would give the legislature, the executive branch, and the public an idea of what the legislature plans to do in response to the executive's fiscal plan. Furthermore, there should be a process whereby the legislature sets out what the legislative oversight function shall be and as part of that, a process by which the missions and measures concept is updated. The product of the oversight would include updating the missions and measures piece of legislation, he offered.

REPRESENTATIVE CISSNA observed that the legislature has to have an understanding where various state departments are going so as to have oversight. She related her understanding that other states have simplified this process of oversight, and therefore there are some tools available to help on this issue.

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REPRESENTATIVE SEATON stated that a fiscal plan can begin to include too many factors and agencies. He suggested that it may be helpful and financially sound to include any fiscal plan as an addendum to DOR's "Revenue Source Book," because coordination with various agencies may be helpful and could eliminate some cost concerns. He said that in his experience as a legislator, he has not seen the administration put forth plans to resolve the larger issues facing the state, such as pension fund

liabilities and deferred maintenance of state facilities. As a result, the legislature is left to try and resolve these problems. He opined that the executive department, with its large staff in DOR, should have a much better handle on some of these issues than the legislature. He would like to see a fiscal plan identify long-term problems and possibly require that the executive branch address at least one of the identified problems. He suggested it could be helpful to internalize in the process a requirement that there be suggested solutions to the big pieces of the plan that are causing budget problems.

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CHAIR HAWKER said he had not considered the idea of a fiscal plan being an OMB appendix to DOR's "Revenue Sources Book," to work as a reconciliation of revenue forecasts with a reasonable approximation of expenditures, but that it was an intriguing consideration.

REPRESENTATIVE FAIRCLOUGH suggested that HB 125 be amended to reduce the fiscal plan forecast from 10 years to 6. While there are good reasons to have a long-term target, she noted that the governor's capital improvement plan has a 6-year timeline. She questioned how valuable a forecast would be beyond a 3-year period. She also stated that any budget should not be based on policy decisions that have to go before the legislature, because the state cannot balance its budget based on predictions of what another body may do. Any budget should be based on real facts and numbers from DOR, not on policy decisions that the executive cannot control, she opined. She highlighted that in the past, the legislature has balanced the budget in the last few weeks of the session, which is why certain needs, such as deferred maintenance and pension liabilities, are not met. She observed that it is difficult to base fiscal policy on actions that are up to a different body of government. A reality based budget would give reality to the budget choices made, she opined.

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CHAIR HAWKER pointed out that the 10-year timeline in the proposed CS to HB 125 is derived from the current revenue process, which provides a 10-year forecast.

REPRESENTATIVE FAIRCLOUGH pointed out that AS 37.07.020(b) requires the governor to submit a 6-year capital improvements program, and thus requiring a fiscal plan to be for 10 years seems inconsistent. She opined that it would seem to be easier

to predict a 10-year capital improvements plan than a 10-year budget.

CHAIR HAWKER noted that Version C of HB 125 leaves the capital improvements section of AS 37.07.020(b) which have been largely ignored in the past, intact.

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REPRESENTATIVE SEATON agreed that budgets need to be constructed on real numbers, but he stated that a plan can give the decision makers means to look to the future to consider options for how to resolve long-term problems.

REPRESENTATIVE FAIRCLOUGH responded that she is contemplating an amendment that states "a fiscal plan should present policy choices to the legislature to reduce state [expenses] and/or increase return on investment." She observed that one can make assumptions about future revenues, but policies are more of a strategic plan that would be implemented over time.

CHAIR HAWKER offered that the points brought up by Representative Fairclough might be appropriate to include in an amendment to the proposed CS to HB 125, Section 4, on policy determinations.

REPRESENTATIVE GRUENBERG suggested that the committee consider whether to propose any changes to the capital improvements program in AS 37.07.020(b). He went on to say it can be difficult for committee members to agree on revenue raising measures. He opined that there is no reason to require the executive branch to come out with a fiscal plan, without also requiring the legislature to make some type of strategic decisions based on the proposed fiscal plan.

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MR. BOUCHER responded to Chair Hawker's hypothetical of how OMB would respond if nothing in AS 37.07.020(b) was amended by describing OMB's experience with the capital improvements program required by that statute. He recalled that the capital improvements program was done sequentially for several years during the first administration of former governor Tony Knowles, with the intent "to get a hearing on that bill ... that either didn't happen ... and so the effort over time ... was not desired." In reference to a financial plan, as required by AS 37.07.020(b), he opined that the budget is the financial plan.

[HB 125 was held over.]

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at [5:13:01 PM](#).