

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

February 21, 2007

4:01 p.m.

MEMBERS PRESENT

Representative Mike Hawker, Chair
Representative Anna Fairclough, Vice Chair
Representative Bob Roses
Representative Peggy Wilson
Representative Sharon Cissna
Representative Max Gruenberg

MEMBERS ABSENT

Representative Paul Seaton

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
02/19/07	(H)	Heard & Held
02/19/07	(H)	MINUTE(W&M)
02/21/07	(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: Testified regarding the administration's position on certain aspects of HB 125.

ACTION NARRATIVE

CHAIR MIKE HAWKER called the House Special Committee on Ways and Means meeting to order at [4:01:26 PM](#). Present at the call to order from the Chair were Representatives Gruenberg, Roses, Fairclough, and Cissna. Representative Seaton was excused. Representative Wilson arrived as the meeting was in progress.

HB 125-LONG-RANGE FISCAL PLAN

[4:03:44 PM](#)

CHAIR HAWKER announced 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, 25-LS0546\C, Cook, 2/8/07, which had been adopted as the work draft on 2/14/07.]

CHAIR HAWKER moved to adopt Amendment 1, which read:

Page 1, lines 6-7, following "fiscal plan"

Delete "covering projected sources and uses of funds during"

Insert "estimating significant sources and uses of funds for"

REPRESENTATIVE FAIRCLOUGH objected for purpose of discussion.

[4:04:42 PM](#)

CHAIR HAWKER explained that Amendment 1 was intended to address concerns put forth by the OMB. Amendment 1 is designed to make it clear that the fiscal plan described in HB 125 is to be a macro work product which requires that projected sources of revenue be matched with projected expenses for a 10-year period, in an aggregate manner rather than department by department.

CHAIR HAWKER explained that replacing the word "covering" with "estimating" provides better guidance by making it clear that preparation of a fiscal plan requires inherently imprecise estimates of future revenues and expenses. Amendment 1 also proposes to insert "lump-sum" after the word "including" in

Version C, page 1, line 10. Use of the term "lump-sum" clarifies that the proposed fiscal plan is at the macro level of financial modeling, and is not designed to be overly complex or to create false precision by requiring excessive detail.

[4:07:36 PM](#)

CHAIR HAWKER explained that Amendment 1 proposes insertion of "held" following "funds" in Version C, on page 2, line 5, in recognition that there are numerous state savings accounts such as the budget reserve fund and the capital income fund. Amendment 1 clarifies that the fiscal plan designates funds "held" in these accounts. He went on to say that Amendment 1 further clarifies that the governor has discretion to set forth recommendations in any fiscal plan; as specified by the language proposed to be inserted in paragraph (4).

REPRESENTATIVE GRUENBERG questioned whether Amendment 1 would require the fiscal plan to list all sources of funds, such as oil revenues, production profits taxes, and federal highway dollars, for example.

CHAIR HAWKER responded that the Department of Revenue's (DOR) "Revenue Sources Book" identifies many significant sources of the state's funds.

REPRESENTATIVE GRUENBERG questioned what level of detail is anticipated by the term "operating expenditures."

[4:12:10 PM](#)

CHAIR HAWKER explained he does not believe there is any prohibition against a fiscal plan containing a detailed statement of "operating expenditures" but the bill as proposed does not mandate that any projected operating expenditures be broken down any further than into a single line item for the operating budget.

The committee took an at-ease from [4:15:07 PM](#) to [4:17:23 PM](#).

REPRESENTATIVE FAIRCLOUGH withdrew her objection to Amendment 1.

[4:18:05 PM](#)

REPRESENTATIVE GRUENBERG then objected to Amendment 1, stating that he would like to see expenditures broken down by department. He said he is not comfortable with the term "lump-

sum" because in his view, for a fiscal plan to be helpful it may need to set forth more than one figure.

REPRESENTATIVE GRUENBERG moved the following conceptual amendment to Amendment 1:

Page 1, line 11 following "operating expenses";
Insert "by department"

CHAIR HAWKER objected to the conceptual amendment to Amendment 1. He explained that the conceptual amendment would require work that is inherently impossible for an administration to achieve. Furthermore, it would not be appropriate to ask for operating expenses to be projected by department for a 10-year forecast. He reminded the committee that in his opinion, the fiscal plan described in Version C should focus on aggregate amounts. First, the fiscal plan is to consider general revenue trends and give the legislation a macro view of the state's projected revenues and expenses. Second, if the fiscal plan requires departmental detail, it may set up unhealthy tensions between departments as it may require the administration to choose specific amounts for each department.

[4:23:46 PM](#)

REPRESENTATIVE ROSES opined that a 10-year fiscal plan should provide a framework within which to do more detailed budget work.

REPRESENTATIVE FAIRCLOUGH noted her opposition to the conceptual amendment to Amendment 1.

REPRESENTATIVE GRUENBERG withdrew his conceptual amendment to Amendment 1.

CHAIR HAWKER reminded the committee that the motion to adopt Amendment 1 is before it.

REPRESENTATIVE GRUENBERG withdrew his objection to Amendment 1.

There being no objection, Amendment 1 was adopted.

REPRESENTATIVE FAIRCLOUGH stated that she has discussed with accountants and other legislative members her concern that the requirement for a fiscal plan to cover a 10-year period is onerous, but apparently a 10-year time period is consistent with some bonding policies and other strategies the legislature may

be considering later. She announced that she does not plan to offer an amendment reducing the fiscal plan outlook from 10 years to 6 years.

[4:27:58 PM](#)

CHAIR HAWKER suggested that committee members consider concerns that they may have about HB 125, and that perhaps it could be moved from committee after one more hearing.

REPRESENTATIVE GRUENBERG inquired whether there should be language in the bill about the details of any legislative response to the executive's fiscal plan.

CHAIR HAWKER related his belief that consideration of an appropriate legislative response is one of great merit. Although he said he does not know exactly what form the legislative response should take, he is receptive to the idea, as he believes are other members of the committee.

REPRESENTATIVE GRUENBERG queried the committee for suggestions on how to proceed with a section detailing the legislative response to a fiscal plan.

CHAIR HAWKER responded that the committee should be careful not to require an over-formulated legislative response, such as a vote, because it is difficult for the legislature to agree on some issues, especially something with a 10-year forecast. If an administration used the fiscal plan to set forth strong policy recommendations, there may be more objection by the legislature. However, he suggested that some sort of legislative acknowledgement is reasonable.

[4:31:19 PM](#)

REPRESENTATIVE GRUENBERG questioned whether Version C, page 1, line 5, should be amended to read "submit to the legislature" rather than "submit."

CHAIR HAWKER replied that in the context of the entire statute [AS 37.07.020] he does not believe the aforementioned change is necessary.

REPRESENTATIVE CISSNA referenced the history of long-range planning efforts and opined that they do not really seem to go forward. She questioned how one could make past information available to later legislatures.

CHAIR HAWKER stated that he believes there is a good legislative record, and referenced the "Revenue Sources Book" as a very helpful source of information, reminding the committee that past versions of that book are available.

REPRESENTATIVE CISSNA voiced that it can be difficult to know what type of information is available that would describe steps taken by prior legislatures.

CHAIR HAWKER responded that the fiscal plan requirement of HB 125 may alleviate some of Representative Cissna's concerns as he hopes that it will assist in creating a simple, yet precise document for future legislatures and administrations to build upon year-by-year.

[4:38:46 PM](#)

REPRESENTATIVE CISSNA suggested language to this effect could perhaps be added to Version C on page 2, line 9.

CHAIR HAWKER mentioned that the committee could entertain an amendment in the permissive vein to accomplish the prior point.

REPRESENTATIVE CISSNA offered that she would bring forth such an amendment.

REPRESENTATIVE GRUENBERG referred to Version C, page 1, line 8, and suggested that he may propose additional language somewhere in that section to allow an administration to provide additional details in its fiscal plan. Furthermore, he noted that while one legislature cannot bind a future legislature, it may be possible to amend HB 125 to provide guidance for future legislatures.

[4:43:05 PM](#)

REPRESENTATIVE FAIRCLOUGH suggested that the governor could present a fiscal plan to a committee, so there could be language inserted in Version C requiring a fiscal plan be submitted to a finance committee or subcommittee. She also suggested that the legislature could require a report to be submitted to the clerk and distributed to the entire body. These options would not require a formal action by the legislature.

REPRESENTATIVE GRUENBERG referred to Version C, page 1, lines 4-6, which requires that an administration submit a plan, and queried to whom that plan should be submitted.

[4:44:32 PM](#)

CHAIR HAWKER put forth that AS 37.07.020(a) states that the governor's budget and appropriations bills "shall be delivered to the rules committee of each house before the fourth legislative day of the next regular session" Furthermore, AS 37.07.070(b) states that in addition to the budget and bills submitted under subsection (a), the governor "shall submit a capital improvements program and financial plan," which also suggests submittal to the chairs of the rules committees for the House and Senate, he said.

REPRESENTATIVE GRUENBERG stated he would feel more comfortable if the fiscal plan was submitted to the presiding officers of the House and Senate.

CHAIR HAWKER said that an early draft of HB 125 proposed that the fiscal plan be submitted to the Senate president, the Speaker of the House of Representatives, and the chair or co-chairs of any existing finance committees.

REPRESENTATIVE GRUENBERG pointed out that the House and Senate Rules Standing Committees introduce legislation at the request of the governor.

[4:46:36 PM](#)

REPRESENTATIVE WILSON said she would like to hear a presentation of the governor's fiscal plan and queried whether it would be appropriate to require presentation of a fiscal plan to the entire legislature, both House and Senate.

CHAIR HAWKER acknowledged that such a presentation would be valuable. However, he said he recognizes that a governor's time is valuable, so he is not sure if requiring an address to both bodies of the legislature would be necessary. He suggested that in addition to delivery of a written fiscal plan to the Senate President, the Speaker of the House of Representatives, and the chair or co-chairs of any existing Finance committees, perhaps the bill could also require the administration to make a presentation to both House and Senate finance committees.

[4:48:46 PM](#)

REPRESENTATIVE GRUENBERG recalled that in past years the governor gave a State of the State and a Budget Address to the whole legislature, although this was not done in recent years. He suggested that perhaps it would be appropriate to bring back some type of broad overview for the entire legislative body.

CHAIR HAWKER said he was looking to Representative Gruenberg to coordinate an amendment regarding this issue.

REPRESENTATIVE GRUENBERG asked the committee its opinion regarding any legislative response to a fiscal plan.

CHAIR HAWKER replied that he would like to see a streamlined process with an effective result. He said that he was comfortable with a requirement that OMB present the administration's fiscal plan to the entire legislative body.

[4:51:06 PM](#)

REPRESENTATIVE FAIRCLOUGH suggested that requiring OMB to present a fiscal plan could be inserted by adding a paragraph (11) to, Section 3 on pages 3-4. She opined that it may be helpful for OMB to present a fiscal plan due to that department's skill and familiarity with budget issues. She stated that it may not be worthwhile to have a requirement that OMB present a fiscal plan to the House Special Committee on Ways and Means because this committee is a special committee, which must be re-authorized each [legislature].

REPRESENTATIVE CISSNA indicated she agrees with the idea of a presentation to less than the whole body so as to make it more of a deliberative exchange than a presentation.

REPRESENTATIVE WILSON opined that it may be appropriate to schedule a presentation so that all interested parties can attend.

[4:55:07 PM](#)

REPRESENTATIVE GRUENBERG suggested that some language be inserted through a new paragraph (11) on page 4, line 18, detailing that perhaps the fiscal plan be presented by OMB to the appropriate committees at a time that does not conflict with other committees' schedules.

CHAIR HAWKER noted that the language could be "shall" be presented at a time that is available to all legislators to make clear that the presentation should not conflict with other legislative commitments.

[4:56:22 PM](#)

REPRESENTATIVE ROSES referenced page 5, lines 2-7, which states that the "governor shall present the proposed comprehensive operating capital improvements programs and fiscal plan [FINANCIAL PLAN] in a message to a joint session of the legislature before the fourth legislative day" He questioned whether that applies to the legislative response that the committee is currently debating.

CHAIR HAWKER indicated that the aforementioned message to the legislature is the process of transmitting the documents to the legislature.

[4:57:13 PM](#)

REPRESENTATIVE FAIRCLOUGH opined that a presentation, such as one to both legislative bodies, is more formal and does not lend itself to dialogue. In contrast, a presentation to a committee can allow for dialogue and questions, which may be a more useful format.

REPRESENTATIVE ROSES agreed that there is a distinction between a formal presentation and a more informal, interactive presentation.

[4:58:38 PM](#)

JOHN BOUCHER, Office of Management & Budget (OMB), Office of the Governor, said that in his experience, the initial presentations by the administration are generally revenue and the budget. He suggested that a presentation which includes revenue, the budget, and a fiscal plan may be appropriate. The format of the presentation may be a judgment call depending on the policy focus for that year; for example, this year there is a focus on the unfunded pension plan liabilities. If there is a strong policy component to the governor's fiscal plan, an oral presentation may be more appropriate than just submission of a written fiscal plan, he opined.

[5:00:35 PM](#)

REPRESENTATIVE GRUENBERG suggested that any amendment regarding the legislative response to the fiscal plan coordinate and dovetail into AS 37.07.060 so that they work together, noting that he did not recall the governor giving a separate budget address the past four years. He queried whether the committee thought there should be a statutory requirement that the governor make a separate budget address to the legislature.

CHAIR HAWKER opined that requiring a separate budget address imposes a greater duty on the governor than is appropriate.

[5:02:57 PM](#)

REPRESENTATIVE GRUENBERG put forth that in addition to a possible amendment to Version C, Section 1, the committee may propose to amend AS 37.07.040, Version C, Section 3, by adding a new paragraph (11) to require that OMB orally present and discuss the governor's fiscal plan to the committees.

[5:03:57 PM](#)

CHAIR HAWKER cautioned that the term "orally" may be a bit vague as it could encompass a variety of multi-media presentations. He also pointed out that the Executive Budget Act, AS 37.07.014(c), states that the "legislature shall analyze the comprehensive operating and capital improvements programs and financial plans recommended by the governor," and suggested this provision may also require amendment to coordinate with any further amendments to Version C.

REPRESENTATIVE FAIRCLOUGH suggested that the term "address" means the listener will sit passively and listen to decisions that have already been made, while the term "presentation" encompasses an interactive process.

[5:06:18 PM](#)

REPRESENTATIVE WILSON agreed that dialogue is important and useful because it allows for questions to clarify certain points. She went on to say it may be appropriate for the OMB to present the fiscal plan.

CHAIR HAWKER requested that Representative Gruenberg draft an amendment for Version C, taking into consideration today's discussion.

[5:07:44 PM](#)

MR. BOUCHER suggested that if the fiscal plan was separate from the governor's budget, its presentation could be a discretionary item; noting that when there is a new administration, the legislature may not want to hear the prior year's fiscal plan.

REPRESENTATIVE FAIRCLOUGH stated she believes the committee has considered the issues faced by a new administration, and is contemplating a possible future amendment allowing a new administration a year to develop a fiscal plan.

CHAIR HAWKER related that he desires the fiscal plan be designed to be an iterative process so that a new administration can pick up and go forward; yearly review is critical to that process.

[5:10:22 PM](#)

REPRESENTATIVE FAIRCLOUGH explained that her concern is timing, and questioned whether a new governor could have a fiscal plan prepared by December 15th.

CHAIR HAWKER emphasized that there is professional staff in DOR and OMB who can work on the baseline assumptions in any fiscal plan, which is why HB 125 specifically makes permissive the inclusion of policy initiative in a fiscal plan. An administration can decide whether to include optional policy recommendations in its fiscal plan. He said he believes it is important to consider a fiscal plan as part of an annual iterative process to assess the state's financial health in light of the volatility of natural resource revenues.

[5:14:21 PM](#)

CHAIR HAWKER clarified that he would like Representative Gruenberg to consider drafting an amendment to Version C detailing the appropriate legislative response to any fiscal plan, while Representative Fairclough could consider whether to allow a grace period for a new administration to submit a fiscal plan.

[5:15:13 PM](#)

REPRESENTATIVE FAIRCLOUGH stated that she will not be offering an amendment regarding when the administration must submit a fiscal plan. However, if the administration offered any proposed amendment regarding when a fiscal plan should be

presented, she said she is willing to present it to the committee.

REPRESENTATIVE CISSNA referenced the challenge of a 90-day session and that perhaps there would be a need to schedule some work sessions.

CHAIR HAWKER responded that the issue of implementation of a 90-day legislative session involves a great deal of scheduling, a task which has been assumed by the chairs of the House and Senate Rules Standing Committees. He opined that it would be appropriate to leave the aforementioned issue in that venue, although it may be appropriate to forward some comments on this issue to those committees.

REPRESENTATIVE GRUENBERG summarized that the committee has considered the possibility that the OMB make a presentation to finance and other special committees. Furthermore, there was discussion of adding a paragraph to AS 37.07.040(c) regarding the legislative response. He indicated he would draft an amendment regarding the appropriate legislative response to a fiscal 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 [5:21:01 PM](#).