

SENATE FINANCE COMMITTEE
January 23, 2008
9:05 a.m.

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at [9:05:17 AM](#).

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Kim Elton
Senator Donny Olson
Senator Joe Thomas
Senator Fred Dyson

MEMBERS ABSENT

Senator Charlie Huggins, Vice-Chair

ALSO PRESENT

Darwin Peterson, Staff, Co-Chair Stedman; Representative Mike Hawker, Sponsor; John Boucher, Senior Economist, Office of Management and Budget, Office of the Governor; Wayne Stevens, Alaska State Chamber of Commerce; Marie Darlin, AARP; Representative Bob Roses; Jack Kreinheder, Senior Policy Analyst, Office of Management and Budget

PRESENT VIA TELECONFERENCE

None

SUMMARY

CSHB 125(FIN)

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

CSHB 125 (FIN) was heard and HELD in Committee for further consideration.

[9:05:48 AM](#)

CS FOR HOUSE BILL NO. 125(FIN)

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

Co-Chair Hoffman MOVED to ADOPT the Senate Finance CS to CSHB 125, labeled 25-LS0546\V, Cook, 1/21/08.

Senator Dyson OBJECTED. He explained that the section the new CS deletes seems to do no harm and is helpful. He wondered why it should be deleted. Co-Chair Stedman reported that the language was removed to make the fiscal plan more specific.

Senator Dyson MAINTAINED his OBJECTION. He pointed out that the CS is a working document and the suggested changes are important to work through.

Co-Chair Hoffman reported that the sponsor of the bill recommended the changes.

Senator Elton thought it would be helpful to list what those changes were. Senator Dyson agreed.

DARWIN PETERSON, STAFF, CO-CHAIR STEDMAN, walked through the changes made by the Senate Finance Committee in the Committee Substitute. He explained that the first change is on page 2, line 9, following the word "including", the language "but not limited to" is deleted. The reason behind the change is due to a memo from Legislative Legal Services dated March 15, 2007.

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Mr. Peterson related that the second change is on page 2, following line 11. He thought that this was the change that Senator Dyson was referring to. Sections 4 and 5 from the previous version of the bill were deleted. These sections included a litany of recommendations for the governor to consider when putting together a fiscal plan. Mr. Peterson maintained that some of those recommendations have merit, but the language is suggestive and doesn't require the governor to actually do anything. Statutes should be a mandate, not a proposal. Mr. Peterson offered to work with the sponsor and the committee to vet all proposals and see which ones should be included in law.

Mr. Peterson explained that the third change is found on page 3, subsection 7, line 16, following "governor's budget workbooks". The words "at least seven days before the legislature convenes in a regular session" were added. The purpose of that change was to conform to the new reporting dates which became law last session when the legislature passed HB 171 to accommodate a 90-day session.

Mr. Peterson related that the last change is on page 6, lines 13 and 16. Dates were changed to conform to the new reporting requirements resulting from HB 171.

[9:15:15 AM](#)

Senator Dyson MAINTAINED his OBJECTION. He said his preference was that Sections 4 and 5 remain in the bill.

Senator Dyson WITHDREW his OBJECTION.

There being NO further OBJECTION, version V of HB 125 was adopted by the committee.

[9:16:38 AM](#)

REPRESENTATIVE MIKE HAWKER, SPONSOR, concurred with Senator Hoffman's comments. He stated agreement with the proposed changes to the bill. He spoke of a need to provide a focus on fiscal planning for the state of Alaska. He talked about preparing for the future. He emphasized that the bill is intended to create a foundation as to "how the state can conduct itself into the future."

[9:18:24 AM](#)

Representative Hawker related that the bill is sponsored by the House Ways and Means Committee, which has attempted to take personalities out of the bill process. He reported that many interest groups are in agreement that the state must have a long-term fiscal plan. Representative Hawker maintained that rather than a fiscal plan, the state needs a planning process, which is what HB 125 does.

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Representative Hawker reported that during research for such a plan, it was discovered that the Executive Budget Act (EBA) includes a requirement for the Governor to annually submit a "financial plan" for the state. The Office of Budget and Management (OMB) reported that that has not been done.

Representative Hawker explained that the bill revises parts of the EBA and addresses this oversight. It removes the "financial plan" language and requires the Governor to submit a fiscal plan in a very clear and simple statement. It mandates that the Governor submit a fiscal plan along with the budget. It would be the foundation; a projection and estimate of the significant sources and uses of funds for the succeeding ten fiscal years.

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Representative Hawker used the term "sources and uses of funds" to describe how all of the state's resources should be evaluated. He maintained that "income" and "expenses" are not specific enough. There are several sidebars on the degree of information requested. He stressed that expectations should not be overly optimistic when looking

ten years into the future. He emphasized that the financial plan should be sufficiently inclusive of significant sources and uses of funds. The bill was crafted to ask for reasonable projections, not detailed budget information. He thought that this activity could be accommodated by existing state resources. He did not think the addition of one position in OMB was unreasonable.

[9:27:49 AM](#)

Representative Hawker referred to an important aspect of the bill on page 2, line 6, where the projection tool "must balance sources and uses of funds." It should demonstrate that the state is living within its means. He pointed out that when there are multiple sources of funds, the financial plan has to also reconcile the balances of those funds. Each year a review of the budget would be done in the context of the ten-year reality of where state funds are going to come from, where they are going to be sourced, and where they are going to be used.

[9:29:56 AM](#)

Representative Hawker recalled a joint committee meeting several days previous where the budget proposal was addressed. The budget proposal showed how money was moved amongst funds. He questioned whether it reflected the totality of the expenditures being committed. HB 125 bill would use the information developed by the two finance committees and would be a good addition to the budget process. The ten-year plan would focus on making ends meet.

[9:31:37 AM](#)

REPRESENTATIVE BOB ROSES, commented that the House Ways and Means Committee had a very comprehensive, non-partisan discussion about this bill. He shared a personal experience from small business budget planning. He maintained that looking forward ten years allows the state to re-adjust for long-term planning. He spoke strongly in support of the bill.

[9:34:17 AM](#)

Senator Elton inquired about Section 5 where it says "the legislature shall consider the governor's proposed comprehensive operating and capital improvement programs and fiscal plan if it is required under AS 37.07.020(b)". It is required for three of the four years of a governor's term. He thought there was a fundamental difference between the operating and budget plan and a fiscal plan. Saying "you shall consider" implies that action should be taken in the same way as is done for the operating and capital budgets. Senator Elton reported that there is confusion in line 4, on

page 6, where it says "the presiding officer of each house may refer the fiscal plan to one or more committees. If the fiscal plan is referred, the first committee of referral shall hold at least one hearing on it". Senator Elton said he cannot recall anywhere in law a requirement that a committee chair shall hold a hearing. He requested more information about the differences in the ways the legislature is being asked to deal with the fiscal plan compared to the operating and the capital budgets. He also wanted more information about the language used in the requirement of a hearing.

Representative Hawker responded that those points were raised during the House Ways and Means Committee process. He concurred with Senator Elton's concerns. Other committee members felt that a legislative response should be mandated because it prevents future legislatures from doing what they will with the document. The provision on legislative review was a result of strong opinion regarding commitment on the legislature's part.

Representative Hawker added that the bill states that the governor, during the first year of a term, does not have to prepare the fiscal plan. He questioned if the first year of a governor's term should be exempted. He disagreed with the majority in his committee on this point.

[9:40:46 AM](#)

Senator Dyson commented that proceeds from the gas pipeline or "first gas" are at least 10 years down the line. He thought that the fiscal plan would need to consider that issue. He wondered why the fiscal plan requirement did not go beyond a 10-year period.

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Representative Hawker responded that the 10-year time period is arbitrary and could be changed. It was chosen after looking at oil price projections by the Department of Revenue and after conversations with OMB, who had comfort with a 10-year period. A critical need is addressing the window when limited resources are available and costs are shifted from the federal government to the state. He opined that there would be profound policy challenges.

Senator Dyson referred to "missions and measures" on page 3, line 4, and again on page 4. He referred to Alaska Statute 37.07.050 where missions and measures are found. He termed it a "genius system with the accountability." He thought the legislature and the governor should be bound by the mission statements within the statutes and the departments should be held accountable for the measures. He questioned what page 3, line 4, "the legislature's mission" refers to.

[9:46:13 AM](#)

Representative Hawker responded that Section 3 of the bill is the statutory authority and direction given to OMB. It refers to existing statute and is in the bill because there were technical changes that needed to be made. The bill should not affect existing statute. Representative Hawker thought that the issue of missions and measures merited separate consideration.

Senator Dyson recommended that the Senate Finance Committee consider that issue. He maintained that the state has not been following the law and should take it seriously and should force the administration to comply with existing law. He stated strong support for not ignoring existing statute.

Senator Stedman agreed that the committee could take a look at that issue, but that it may be a separate item for discussion. Senator Dyson stressed that the Senate Finance Committee should obey the law, define the role of government, and hold the administration accountable.

[9:50:24 AM](#)

JOHN BOUCHER, SENIOR ECONOMIST, OFFICE OF MANAGEMENT AND BUDGET (OMB), OFFICE OF THE GOVERNOR, thanked Representative Hawker and the House Ways and Means Committee for its work on HB 125 and for involving OMB in the discussion.

Mr. Boucher reported that the administration and OMB have been actively involved in the discussion about bringing long-range planning to the forefront. He noted that ACES intent language devoted a portion of the anticipated additional resources to the development and implementation of a long range fiscal plan.

He said that, conceptually, the administration believes that a fiscal plan should be a useful tool, and that any plan or process developed as a result of this legislation should be flexible enough to quickly respond to changes in the fundamental realities that face Alaska's economy. OMB's overarching desire is that the plan or process avoids becoming a bulky annual exercise that sits on a shelf and is ignored.

Mr. Boucher reported that from OMB's perspective it is paramount to clarify what the objective of the plan or planning process is. For example, from a high-level vantage point, the need for Alaska to be conservative when it comes to long-term spending commitments or outlining the magnitude of the potential challenges involved in finding additional sources of revenue can be outlined in a relatively short presentation. OMB supports the concept of having the

legislature weigh in on a plan. He noted that previous administrations have gone beyond the planning phase and proposed legislation packages that attempted to implement solutions to the fiscal gap. These options were ultimately not accepted by the legislature. It would be ideal to have the plan stimulate discussion about policy directions.

Mr. Boucher turned attention to a subject that he deemed worth deliberating; whether or not the resources spent on a macro level fiscal plan might be better spent working on targeted solutions to major spending issues, like Medicaid, or retirement system issues. He emphasized that OMB is supportive of the concept of fiscal planning and is willing to work with the legislature "to get from here to gas".

He reported that conceptually the administration supports the idea of a fiscal plan, but does not want to see a document made that sits on the shelf. He questioned the goal of the plan, whether it is to "get the state to gas" or something else.

Mr. Boucher supported the concept of having the legislature weighing in on a plan. The plan should stimulate discussion on policy changes.

Mr. Boucher questioned whether the resources spent to develop a plan might be better spent on something else. Overall, the administration is supportive of the development of a fiscal plan.

[9:55:55 AM](#)

Senator Elton agreed with Mr. Boucher that the plan should be a useful document. He believed the fiscal plan should inform the operating and capital budgets as presented by the executive branch and should be considered by the legislature as it deliberates on those budgets. It should have a deadline for the governor to meet so that the legislature can have the plan in place to use when dealing with the budget. Mr. Boucher said there has been discussion about the mechanics of developing the document and consideration of "marrying this up with the Revenue Sources book." The challenge is to forecast beyond the six or seven year cliff. He agreed that "the revenue looking forward" is important.

[9:59:02 AM](#)

Senator Hoffman agreed with the "cliff" idea. He brought up the fact that in six or seven years the Permanent Fund would be more than \$50 billion. He noted the current political reluctance to access the Fund. He suggested determining the public purpose of the Fund. He stated support for spending from the Fund, but not at the expense of the dividend program. He wondered what the administration's take on the

role of the Fund in the future might be. Mr. Boucher said he could not speak for the Governor. He thought there was no immediate need to look at spending the earnings reserve today. Senator Hoffman thought that at some point a fiscal plan would need to address how the Fund will be used. He wondered what the target growth of the Permanent Fund should be and if inflation proofing should be kept at the same level. He questioned if the Fund was only a dividend program or a source of revenue to bridge the gap between the cliff in 6 or 7 years and when the state gets the first gas.

[10:02:50 AM](#)

JACK KREINHEDER, SENIOR POLICY ANALYST, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, suggested that this topic would be addressed at a future joint Senate and House Finance Committee hearing. Co-Chair Stedman agreed that these topics would be taken up later on during this session.

[10:04:15 AM](#)

Co-Chair Stedman thought that HB 125 would help keep the government out of the Permanent Fund. He stated that that was also his personal goal.

Senator Dyson asked what the intention of the committee was regarding HB 125. Co-Chair Stedman responded that the bill would be discussed by a variety of committees and have full support by both sides and avoid conference committee. Senator Dyson restated his question. He wondered if the bill would guide this year's work on this year's budget. Co-Chair Stedman thought that was optimistic and the soonest it would be utilized would be next year.

[10:07:56 AM](#)

Senator Elton commented that if the purpose of the bill is to have informed discussions within the executive branch as they prepare the budget and to help the legislature as they consider the budget, it would be helpful to have a timeline for when the financial plan should be done. He voiced doubt that the bill could be applied to this budget process or even next year's.

[10:09:00 AM](#)

Co-Chair Stedman requested information about the differences between the old and the new fiscal notes. Last year's fiscal note was \$11,800 higher for an additional employee and did not include the addition of a computer.

Mr. Kreinheder addressed the new fiscal note from OMB. The reduction in personal services is due to changes in the PERS retirement system. The direct cost on to personal services

budget is a 22 percent rate instead of the full actuarial rate. Co-Chair Stedman requested that explanation in writing.

Mr. Kreinheder pointed to an additional operating expense of \$1,500 needed for a computer and other equipment, which was overlooked when preparing last year's fiscal note. He explained the request for one new position needed in order to work on a formal annual fiscal plan. The Department of Health and Social Services spent over \$200,000 just to try to project future Medicaid costs, for example. Mr. Kreinheder recalled the history of staffing reductions at OMB from 13 to 2 positions.

[10:14:27 AM](#)

WAYNE STEVENS, PRESIDENT, CEO, ALASKA STATE CHAMBER OF COMMERCE, read from a statement:

The Alaska State Chamber of Commerce urges the legislature to adopt a comprehensive fiscal policy. The State Chamber recognizes that the first problem in adopting a comprehensive fiscal policy is to have a common definition of what is a fiscal policy. While the State Chamber recognizes that no policy can bind future legislatures, the policy should reflect long-term sustainability and the best combination of the following considerations.

Economic development and business opportunities need some level of fiscal certainty. That certainty can only be accomplished with a comprehensive fiscal plan which addresses state spending in times of shortfall and identifies essential priorities.

A comprehensive fiscal policy should use the operating budget from FY 06 as the base operating budget and hold future increases to no more than 3 percent per year. A comprehensive fiscal policy should seriously consider a two-year budget cycle based on funding essential government services.

The Alaska State Chamber of Commerce supports saving the FY 2008-2009 general fund surplus in the Constitutional Budget Reserve to pay back past withdrawals used to cover previous budget shortfalls. The Alaska State Chamber does not support depositing surplus funds into the Permanent Fund unless the deposit is linked to the passage of a percent of market value management plan.

A comprehensive fiscal policy shall recognize the complex dependency of locally delivered services that are funded through state revenue sharing and factor that into the policy.

A comprehensive fiscal policy should address the PERS/TERS issue making this state obligation actuarially sound.

A comprehensive fiscal policy should include the utilization and sustainability of the Constitutional Budget Reserve.

A comprehensive fiscal policy should adopt the percent-of-market (POMV) management tool for the Alaska Permanent Fund.

A comprehensive fiscal policy should reasonably anticipate scenarios of growth predicated on realistic resource development and its affect on budgets.

A comprehensive fiscal policy should not preclude the continuation of the Alaska Permanent Fund Dividend program.

No additional business taxes should be enacted by the legislature until a fiscal plan is developed. Further, the State Chamber reiterates that fiscal discipline and legislative accountability must precede any new taxes.

The Alaska State Chamber of Commerce strongly supports HB 125. State fiscal planning has been a top priority of the State Chamber for many years. We believe the state needs stability in its budget planning as volatile state revenues create unforeseeable budget gaps and revenue excesses. Any smart business plans for future years through detailed planning of revenues and expenditures, with adjustments made each year.

Amending Alaska Statutes regarding the Executive Budget Act, HB 125 assigns a long-term fiscal plan requirement to the Governor's duties of providing yearly budgets. Under HB 125, the Governor's fiscal plan reaches forward 10 years into the future, showing legislators and the public what to expect in lean years and in years of excess. The bill may fall short of enacting an actual fiscal plan; however, HB 125 will provide for a constantly evolving framework-a fiscal plan, for the legislature and the public to follow as budgets are enacted from year to year.

With new legislators every two years, a volatile oil market, a PFD citizenry, and a new governor every four years, the bill hurdles many of the states political quagmires that may prevent adopting a long-term fiscal plan. Simply, requiring that a plan be submitted each year along with a budget, creates a first in Alaska, fiscal planning. The Alaska State Chamber strongly

advocates for HB 125 and we hope the bill will move quickly through the legislative process.

10:19:55 AM

MARIE DARLIN, AARP, referred to last year's letter of support for HB 125. She spoke strongly in support of this year's improved bill. She voiced concern about the need for more municipal funding.

CSHB 125(FIN) was heard and HELD in Committee for further consideration.

ADJOURNMENT

The meeting was adjourned at 10:22 AM.