

HOUSE FINANCE COMMITTEE
January 27, 2009
1:33 p.m.

CALL TO ORDER

Co-Chair Hawker called the House Finance Committee meeting to order at [1:33:48 PM](#).

MEMBERS PRESENT

Representative Mike Hawker, Co-Chair
Representative Bill Stoltze, Co-Chair
Representative Bill Thomas Jr., Vice-Chair
Representative Allan Austerman
Representative Harry Crawford
Representative Anna Fairclough
Representative Richard Foster
Representative Les Gara
Representative Reggie Joule
Representative Mike Kelly
Representative Woodie Salmon

MEMBERS ABSENT

None

ALSO PRESENT

David Teal, Director, Legislative Finance Division; Jeff Jessee, Chief Executive Director, Alaska Mental Health Trust Authority; Laraine Derr, Vice Chair, Alaska Mental Health Trust Authority

PRESENT VIA TELECONFERENCE

SUMMARY

^Legislative Finance Division - Budget Overview
Alaska Mental Health Trust Authority - Budget Overview

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Co-Chair Hawker called the meeting to order for the Legislative Budget and the Alaska Mental Health Trust overviews. He reported that this year the committee has instituted real-time document availability on the web. When documents become available to the committee, they are simultaneously accessible on the the State of Alaska, BASIS site.

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DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, reviewed his agency's responsibility to analyze the budget then provide assistance to the legislature in shaping the governor's requests. He remarked that after receiving the governor's budget his division spends the next month ensuring that the technical details are correct. The division generates a series of reports to look at the budget from the larger overview to ever increasing detail. Mr. Teal referred to four charts in The Fiscal Year 2010 Budget: Legislative Fiscal Analyst's Overview of the Governor's Request, House Finance Committee, January 27, 2009 (copy on file).

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Mr. Teal remarked that it is possible to see potential unprecedented fiscal gaps in the future. He noted the good news that there is about \$8 billion in reserves but cautioned how quickly this could be spent down without the addition of new savings. He warned that in FY09 the fiscal gaps are real with the result of a likely deficit.

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Co-Chair Hawker asked for a brief description on how to read the FY10 General Fund Revenue-Fiscal Sensitivity chart.

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Mr. Teal pointed out that the top horizontal line represented the \$74 per barrel break-even point and the curved green line represented the revenue at various prices per barrel. As the price increases, revenue will in turn increase. He noted that the curved function line is a result of a change to a progressive profits tax.

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Vice-Chair Thomas asked about a reference to a one billion dollar deficit and wondered if these charts were made before that prediction.

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Mr. Teal believed the one billion dollar deficit referred to FY09. In looking at the FY09 General Fund Revenue Chart 2, it reflects a budget of \$7 billion. The first half of the year experienced high oil prices but figures shown at the bottom reveal what would happen if it was spent at a lower per barrel price for the next six months. The chart shows that oil must be at \$78 per barrel for the remainder of the year to break even for the fiscal year. Mr. Teal commented that at the present average of \$40 per barrel there could be a deficit approaching \$2 billion. He believed the

administration was looking at revenue in the \$50 per barrel range which would translate into a one billion dollar deficit. He stressed that the charts are not particularly accurate because they do not reflect the volatility of revenue when looking at the average for the year.

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Representative Gara asked if the FY09 chart showed the operating, capital and supplemental budgets combined.

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Mr. Teal responded that there are no supplementals yet for FY09. Representative Gara asked if the FY10 chart reflected the governor's combined capital and operating budgets. Mr. Teal responded that it showed the entire budget. Representative Gara asked about the proposed capital budget.

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Mr. Teal disclosed that this year a clearer, simpler and more informative way to present the budget was agreed upon by The Office of Management and Budget and Legislative Finance. He referred to State of Alaska-General Fund Budget History, Chart 4 (copy on file). This chart shows general fund revenues and expenditures since FY75. The solid fluctuating green line reflects revenue which peaked in FY08. He pointed out that savings, represented by the yellow line at the top of the bars, clearly showed that savings only occurred when there was available money. In the early 80s savings grew but as oil revenue declined, followed by flat growth through FY05, there were no savings. When oil prices rose again in FY05, savings climbed but by FY10 negative savings are shown. The capital appropriation budget follows a similar pattern to savings (the black line on the bar). Mr. Teal declared that when revenue climbs the capital budget grows, when revenue is flat, the capital budget is small. In FY05 when revenue returned the capital budget became substantial but has since dropped off.

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Mr. Teal continued with his explanation of the statewide operations. He explained when loan funds were capitalized, during the big oil boom of the 80s; it was high because of the Government Obligation (GO) bonds debt service and as these bonds were paid off, statewide disappears. New bonds issued in FY03 caused a jump in statewide operations because of oil and gas credits at \$300-400 million a year, the retirement payments of \$450 million per year and FY09 resource rebate of \$750 million. Mr. Teal moved to the bottom base bar reflecting the agency operating section that most people think of when the term "budget is used. He

pointed out the pattern for an agency operation is different. It does increase when there is revenue but it also stays up when revenue is down. This pattern often causes the legislature to be mischaracterized as spending too much but the legislature saved a lot of money when revenue was high. The way the budget is reported makes it hard to differentiate a savings appropriation from a spending appropriation. This is part of the reason for the redesign of the fiscal summary because it was hard to interpret the numbers when there were savings.

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Mr. Teal referred back to the State of Alaska Fiscal Summary, Current Fiscal Year Appropriations, page 3, line 11. He noted that the far right column reflects changes to the general fund expenditures. He showed that the agency operating budget is \$92 million higher in FY10 than in FY 09. He explained that \$51 million was K-12 formula but what might be difficult to see is the \$31 million salary increases. This means that \$85 million of the \$91 million increase was predetermined by legislative action last year. Two important objects are fuel and power costs equalization. In FY09 the fuel trigger was \$44 million, but in the FY10 budget the governor reduced it to \$24 million. This reflects a \$20 million reduction in the operating budget. Mr. Teal also alleged during the special session that the Power Cost Equalization (PCE) received an extra \$23 million not reflected in the FY10 budget leaving \$45 million that appeared last year but not in the FY10 budget. Mr. Teal moved to statewide appropriations showing a reduction of \$840 million but \$750 million is due to the resource rebate and another \$100 million due to reducing oil tax credits from \$400 million to \$300 million.

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Representative Gara asked if the Fund Capitalization, on the State of Alaska Fiscal Summary chart 3, line 22, showing a reduction from \$790 million to \$34 million, was the resource rebate. Mr. Teal agreed. Co-Chair Hawker added that the fund capitalization includes the resource rebate with other funds involved.

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Mr. Teal remarked that the capital budget fell by \$113 million with a \$234 million withdrawal from savings; most of it came from \$238 million indicated on line 53 from the House Finance Committee (HFC) savings account. The \$300 million deposited in FY07 in the HFC savings account was set aside to avoid the CBR fund. Mr. Teal revealed that the governor proposes to withdraw \$238 million from that fund and spend it. The traditional way to show withdrawal from a

fund is to classify it as "other" funds because it had already been recorded in FY07 as an expenditure of general funds. This would be a zero in expenditures because it has already been counted. He explained that the finance chairs prefer the legislative finance method of showing that the money was put into the savings account as a parking place but when money is withdrawn it should be shown as a withdrawal from savings then spending the money as general funds. Therefore the legislature shows a capital budget that is \$240 million higher in general funds than the governor.

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Representative Gara remarked that there was a big capital budget appropriation funding a number of projects vetoed by the governor the year before in a supplemental bill that is not reflected in FY09 expenditures. He was curious how much money was involved in that supplemental bill.

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Mr. Teal agreed that for the last several years money is spent according to the amount of money that was believed to have existed but next session more money is discovered. He remarked that for the last couple of years there have been substantial capital budgets.

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Co-Chair Hawker remarked that the supplemental capital seemed to have a large number but it did include the money that went into weatherization and other programs.

Representative Gara asked how much money was spent on capital last year.

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Mr. Teal responded that the Constitutional Budget Reserve (CBR) sweep is distorting the picture. If money was not owed to the CBR fund there would be no sweep because any money would simply be left in the general fund. He did not believe there would be a supplemental capital budget this year.

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Co-Chair Hawker asked Mr. Teal to make available for Representative Gara the summary spread sheet of the supplemental appropriation bill that included the \$3 billion into savings in the CBR in addition to the weatherization grants.

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Mr. Teal continued that the bottom line showing a surplus of \$150 million, and after savings \$380 million, is likely to go negative when the new forecast is released. He indicated that the legislature has several options including increasing revenue, spending less, or using reserves. The easy solution is to spend reserves with the understanding the money will not last forever. Mr. Teal recalled that Alaska has never been successful in implementing personnel taxes, leaving a final option of spending less but he did not see a way to cut the budget to close the fiscal gap.

Co-Chair Stoltze noted that the lack of success in implementing taxes has been due to lack of effort or desire.

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Mr. Teal responded that taxes proposed in the past have not had a welcome reception in the legislature. He proposed an example that if oil was at \$55 a barrel in FY10 then there would be expected \$3 billion revenue which would translate to the amount in the FY05 and FY06 budgets.

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Co-Chair Hawker responded he will be asking subcommittees not just look at the single increments but to revisit the creeping growth of programs over the past three years.

Mr. Teal responded that when looking back at the FY05 and FY 06 figures it was before the \$450 million to retirement and the \$400,000 in tax credits. Again he reiterated that he did not believe it was possible to cut the way out of the deficit.

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Co-Chair Hawker believed it was possible to cut the way out of the deficit but it may not be the proper course of action. Representative Joule cautioned when cost cutting has occurred before it ended up costing more money.

[2:20:32 PM](#) AT EASE

[2:25:45 PM](#) RECONVENED

Alaska Mental Health Trust Authority - Budget Overview

JEFF JESSEE, CHIEF EXECUTIVE DIRECTOR, ALASKA MENTAL HEALTH TRUST AUTHORITY, presented a brief history of the Alaska Mental Trust, The Trust, The Alaska Mental Health Trust Authority, Fact Sheet (copy on file). He remarked that in 1982 a lawsuit stated that the trust was not fulfilling its obligations due to mismanagement of the land and money. The State Supreme Court in 1984 ordered the original trust

restored and in 1994 one million acres of land and \$200 million in cash reconstructed the original trust. The trust is governed by an independent board of trustees appointed by the governor and confirmed by the legislature who manage trust interests and spends the trust income.

Co-Chair Hawker signified that one of the issues in front of the legislature this year is instate gas development that involves mental health trust lands. Mr. Jessee agreed that mental health land is involved in Alaska's resource development in gas, coal, and timber.

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LARAINÉ DERR, VICE CHAIR, ALASKA MENTAL HEALTH TRUST AUTHORITY revealed that she is also the head of the trust finance committee. She listed the present board of directors and the governor's recent appointment of two new members, Mary Jane Michael and Dan Hoffman. Ms. Derr referred to her PowerPoint presentation, House Finance Committee FY 2010 Budget, Alaska Mental Health Trust Authority, January 27, 2009 (copy on file). She listed the Trust Beneficiaries on page 2. She indicated that the staff had been directed to provide data showing what is being done for the beneficiaries and its effectiveness.

Mr. Jessee referred to the Alaska Scorecard, Key Issues Impacting Alaska Mental Health Trust Beneficiaries, December 2008 (copy on file). This yearly report describes the status of the beneficiaries. He noted at the bottom of the page the list of the trust beneficiary population in Alaska.

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Ms. Derr listed the outside boards that help advise the trust, Trust Advisors, page 3. The trust based their \$27 million budget on an endowment projection of \$460 million at four percent in September 2008 but has seen it erode to \$21 million (p. 4).

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Co-Chair Hawker referred back to the Alaska Scorecard and questioned why "needs improvement" was listed in almost all areas. Mr. Jessee agreed that improvements have been made but noted there were as lot of behavioral and mental health issues in the state.

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Representative Fairclough asked if the website gives information on where the information was drawn. Mr. Jessee stressed that by entering the website detailed information was available on the specific data sets used. Representative

Fairclough questioned where the majority of the data was drawn. Mr. Jessee responded that page 2 of the Alaska Scorecard reveals many of the sources used for statistics.

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Representative Joule suggested that more than just looking at the drill down, the trust needs to look beyond the problem and look at the core issues behind addictions.

Mr. Jessee affirmed that the trust and partner boards look at core issues such as cultural dislocation, economic difficulties, and historical trauma, not just the symptoms.

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Representative Gara remarked he would like to see substantial progress in areas of alcoholism and substance abuse but noted that there were so many different providers around the state trying to deal with this problem. He wondered if there was any sort of comprehensive blueprint for the state to use in tackling this problem.

Mr. Jessee replied that there is no coordinated statewide vision of how to deal with substance abuse problems. If the legislature would like to move in that direction, the Department of Health and Social Services and the governor view alcohol abuse as a priority. The trust is working with the Rasmussen Foundation, the state, and tribal entities to put together a unified vision for solving the problem.

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Co-Chair Hawker described the difficulties he has seen over the years without a unified vision. He noted the territorial fights within agencies have often caused the problems in arriving at a statewide vision.

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Representative Gara asked what legislators should do to support a more comprehensive blueprint.

Mr. Jessee suggested supporting the Department of Health and Social Services (HSS) in implementing their priority on addressing the issue. He also mentioned bringing the Advisory Board on Alcohol and Drug Abuse and the Mental Health Board as well as the private sector forward to review their plans.

Representative Gara elaborated that he is just trying to get an idea what the state is doing. He asked if the funding has been reduced in these programs. Mr. Jessee responded that in the last couple of years there have been additional

resources added to programs but still not at the level to meet the true need. Representative Gara agreed that funding had been added in the past but wondered if less is being done today.

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Mr. Jessee replied that over the past six years the funding remained even but he reminded the committee that even when money increases so do medical expenses. He added that substance abuse program are not reimbursed by Medicaid at anywhere near the level of mental health.

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Ms. Derr continued with the Trust Funding FY 2010, p. 5 showing that the trust fund payout of 4.25 percent equaled \$15 million for next year when there had been an anticipated \$20 million. This money, with the prior year lapse, land office income, and interest equaled a total trust projection of \$21,854,253.

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Mr. Jessee listed the Joint FY 2010 Legislative Priorities, page 6. He emphasized the necessity in community coordinated transportation systems.

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Vice-Chair Thomas added that the community of Haines uses school buses for community transportation.

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Mr. Jessee declared that a great idea, but emphasized the necessity of dealing with liability issues in rural school districts to use the existing buildings and transportation for community programs. Co-Chair Stoltze commented the same issue exists in Anchorage. He noted the exit on the board of Mr. Hawkins who he considered one of the most knowledgeable members of land issues and natural resource development and believed more of such board members are needed.

Mr. Jessee responded that there are still very experienced board members moving aggressively on natural resource development.

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Vice-Chair Thomas noted he represents a district that lost jobs from natural resource slowdowns particularly in the fishing and mining industry. He fears job loss during the

present economic downturn will accelerate issues of domestic violence, lost homes, and incarceration.

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Mr. Jessee revealed his excitement hearing legislative support in developing more from natural resources jobs. His goal would be to hire trust beneficiaries and put them to work on some of these projects.

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Vice-Chair Thomas believed that a key problem was unemployment. He also mentioned veterans with post traumatic stress syndrome that have been turned away from employment. Mr. Jessee interjected another veteran issue of traumatic brain injury.

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Mr. Jessee continued with the Projected Bring the Kids Home (BTKH), page 10 and Results for Beneficiaries, page 11. In 2006 there were 429 kids in out-of-state psychiatric hospitals at costs of over \$40 million. As of December 2008, there was a 59.2% drop to 175. He referred to page 10 showing the reinvestment of money spent outside into instate programs. The four left columns from FY05 to FY08 were actuals but the numbers in FY09 to FY13 are projections. He commented that the strategy of pulling together with agencies, communities, and the support of legislature could provide phenomenal results. He proposed the year's projection was to work in the education area.

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Mr. Jessee showed Ahead in FY 2010, page 12, the budget recommendations for FY10. He commented that in the course of conversations with OMB about the governor's budget, he reported the \$3 million decrement in Medicaid. He believed if the trust was charged for the increments, they should be credited for the decrements; this was considered good public policy. Co-Chair Hawker believed that progress was being made without a net increase in general fund budget.

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Representative Gara asked where the \$8 million decrement occurred. Mr. Jessee replied the \$8 million represented the out-of-state Medicaid costs.

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Mr. Jessee moved to Affordable, Appropriate Housing, page 13, and mentioned that on any given night 3500 Alaskans are

homeless, more than twice the federal number. He referred to the Alaska Scorecard, line 19, which showed 85 percent of minimum wage income was needed for average two-bedroom housing as opposed to the national statistics of 30 to 35 percent. A solution to the problem was shown on the Bridge Home Pilot Project, page 14 and with the Bridge Home Results on page 15. The provided housing comes with engaged case management to help people think through where they are going in their life.

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Co-Chair Hawker reported that last year the legislature was looking at \$150 million program for the housing trust, but there are concerns about embarking on what could appear to the public as government subsidized housing. He believed incorporated into the housing should be a timeframe where the goal was to motivate people to self sufficiency and out of public housing.

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Mr. Jessee agreed that was a good point to set time limits although he reminded the committee that there will always be individuals in need of some ongoing support. The goal is for trust beneficiaries to complete the programs and move into the community. He referred again to the Alaska Scorecard, line 21, illustrating the percent of SSI recipients who are working. He stressed that even after obtaining employment the reality is most will not get beyond minimum wage jobs and will not make enough to afford housing in the community.

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Representative Kelly disclosed his concerns about public housing. He believed not enough was being done for the mentally ill because the state was trying to do too much for everyone else. He elaborated that nationally the public housing record has not been successful.

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Mr. Jessee agreed many national public housing programs have failed but there are success stories especially when public housing has been integrated into mixed income communities. Mr. Jessee showed on the Bridge Home Results, page 15, that if money isn't appropriated for housing, the requests for money will just appear in other budgets, such as corrections.

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Representative Kelly agreed that employment solves so many issues within communities. He did not understand communities that do not support resource development.

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Mr. Jessee believed people want to work and the goal of the trust is to get them employment but most of these jobs are at lower wages so the issue of affordable housing still exists.

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Representative Salmon referred to Trust Funding FY 2010, page 5 and asked if the total budget was \$21 million. He asked what other federal grants are received by the trust.

Mr. Jessee responded that the trust does not receive any other federal grants. The only funding source received in the last year was \$1 million from Rasmussen Foundation.

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Mr. Jessee continued to Disability Justice, page 19 indicating a commissioned study found that 42 percent of those incarcerated in correction facilities are trust beneficiaries. He elaborated that when looking at those incarcerated for alcohol related or mental health issues, the number rose to 90 percent. Mr. Jessee noted that the trust is working with the administration and legislative finance to construct a better trust budget. At present only the actual treatment costs are included in the Department of Corrections but he believed this understated the role corrections plays in the mental health program. Mr. Jessee explained that the criminal justice working group is looking at investing in a portfolio of recidivism-reducing strategies in order to drive down the curve of constructing and paying for the operation of more prisons.

Representative Joule requested the percentage of Alaska Natives in the 42 percent figure. Mr. Jessee responded it was a little over 40 percent.

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Representative Gara remarked that he is aware that the trust wants to move people into productive areas, off public funding, and out of jail. He pointed out that the mental health and substance abuse courts provide incentives for those who stay in the programs or on the job and out of the court systems. He wondered if there was a blueprint to maximize the effectiveness of this policy.

Mr. Jessee referred to Improving Outcomes for Trust Beneficiaries Involved with the Criminal Justice System, page 22 and Ahead in FY 2010, page 23, line 4. This showed the \$500,000 for Treatment Funding for Therapeutic Court participants. He expressed his disappointment for the \$500,000 increment in this focus area because, although there has been an excellent evaluation of the effectiveness of these courts, the courts must purchase the treatment services directly.

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Mr. Jessee moved to Workforce Development, page 24 that showed a shortage of qualified health care workers in Alaska. He emphasized that the key focus areas were recruitment, retention and training. He reported in Ahead in FY 2010, page 26, that the trust was looking to support student loan repayment strategies for health professions, support increments for University of Alaska health programs, researching a psychiatric residency program in Alaska and finalizing plans for a PhD psychologist internship program. The trust was not asking for any money in the Trust Beneficiary Projects Initiative, page 27 but it was probably a wave of the future. The trust has invested over \$1 million for beneficiaries to develop their own programs and support networks to reduce dependency on government programs.

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Co-Chair Hawker looked forward to continuing to define mutual responsibilities and relationships. Representative Kelly asked if there was any system of internship within the private sector. Mr. Jessee affirmed there were a number of such programs but the capacity problem still exists in making it available to all who want to participate. Representative Kelly remarked that it would be interesting to canvas businesses and see if they had ever been approached about hiring trust beneficiaries. Mr. Jessee recounted that in the past employment consisted of sheltered workshops without a future but he believed the way forward was through supportive employment in real jobs with the assistance of job coaches. Representative Kelly believed businesses need more information on the possibility of hiring trust beneficiaries.

#

ADJOURNMENT

The meeting was adjourned at 3:32 PM

