

HOUSE FINANCE COMMITTEE
March 2, 2009
1:39 p.m.

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CALL TO ORDER

Co-Chair Hawker called the House Finance Committee meeting to order at 1:39 p.m.

MEMBERS PRESENT

Representative Mike Hawker, Co-Chair
Representative Bill Stoltze, Co-Chair
Representative Bill Thomas, Jr., Vice-Chair
Representative Allan Austerman
Representative Anna Fairclough
Representative Les Gara
Representative Woodie Salmon

MEMBERS ABSENT

Representative Harry Crawford
Representative Richard Foster
Representative Reggie Joule
Representative Mike Kelly

ALSO PRESENT

David Teal, Director, Legislative Finance Division

PRESENT VIA TELECONFERENCE

None

SUMMARY

HB 81 "An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds; making supplemental appropriations; and making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska; and providing for an effective date."

HB 81 was heard and HELD in Committee for further consideration.

HB 83 "An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

HB 83 was heard and HELD in Committee for further consideration.

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#hb81

HOUSE BILL NO. 81

"An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds; making supplemental appropriations; and making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska; and providing for an effective date."

Co-Chair Hawker reported on last year's professional services contract with Janet Clarke for \$25,000 regarding health and social services issues, especially Medicaid. Co-Chair Hawker stated a wish to extend that contract.

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Co-Chair Stoltze MOVED that the House Finance Committee authorize the Co-Chair to amend the professional services contract with Janet Clarke for an additional amount, not to exceed \$25,000. There being NO OBJECTION, it was so ordered.

Co-Chair Hawker clarified the meeting's agenda.

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Co-Chair Stoltze MOVED to ADOPT the work draft to HB 81, labeled 26-GH1002\P, Bailey, 3/1/09.

Co-Chair Hawker OBJECTED for discussion purposes.

Co-Chair Hawker referred to the packet of materials supporting the new Committee Substitute (CS), which include subcommittee reports. He termed the work draft (CS) an admirable product, a refining of the governor's initial frugal proposal. He emphasized that the official budget documents are those published by Legislative Finance and are posted on their website. In addition to the official finance documents, there are closeout narratives by each subcommittee. He explained the transactional abstracts and described the format used. He stated that the abstracts are working documents, not official documents.

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Co-Chair Hawker turned to four sequentially numbered documents. He focused on Document #1 and pointed to the total funds column, which depicts agency operations that

total about \$50 million less than the governor's proposed budget. He reported a minor change in debt service funding. The fund capitalization of a negative \$32 million is a change in approach. The House Finance Committee recommends fully funding Power Cost Equalization (PCE) regardless of any legislative action to increase or decrease benefits. The method of funding directly through the Department requires less capitalization of PCE.

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Co-Chair Hawker pointed to a special appropriation of a negative \$200 million, which is due to not being required to fund the oil and gas tax exploration credits. At the beginning of the legislative session, \$400 million had been appropriated to those credits the prior year. In the supplemental budget, the administration proposed to reduce that appropriation by \$200 million and appropriate another \$200 million in the FY10 budget. The House Finance Committee proposes to get to the same amount by leaving the original \$400 million appropriation in place, letting it go forward, and not adding any more funding to the budget this year.

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Co-Chair Hawker observed that there is a shortfall in anticipated revenues to operations.

Co-Chair Hawker stated that at this point in time, the only item from the federal stimulus money included in the operating budget is the change in the Federal Medical Assistance Percentages (FMAP) rate for Medicaid. He reported on the history of changes in the FMAP rate. The intent language in the federal economic stimulus program is to take pressure off of state budgets, so it is appropriate to include it in the operating budget. That resulted in a general fund savings of \$74 million in the FY10 budget.

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DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, clarified that the \$74 million was included in the governor's amended budget, which results in a net zero when comparing the budget versions.

Representative Gara requested clarification on the amount of federal stimulus money coming to Alaska. Mr. Teal reported that the stimulus package is a separate bill not before the committee. The \$74 million FMAP change is a known entity, retroactive to October, and also affects the FY09 budget. Beyond that, the components are not known.

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Co-Chair Hawker clarified that the FMAP change was effective October 1, 2008, and extends through December of 2011. The \$74 million amount applies to the FY10 budget. About \$45 million of that is allocable back to the FY09 budget. The remainder will carry over into the FY11 budget. There is a bonus calculation of additional FMAP money, based on unemployment numbers, for which Alaska does not currently qualify.

Representative Gara asked if more information would be forthcoming. Co-Chair Hawker said it would.

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Mr. Teal pointed out that the CS for HB 81 and the CS for HB 83 will be posted on BASIS this year.

Mr. Teal referred to the agency summary, Document #2. He said he would describe the changes made in the House Finance subcommittee reports, plus the chairman's recommendations, which resulted in the CS. He explained that column one is the actions the subcommittees took and column two is the chairman's actions. Those added together result in the CS. The focus is on agency operating budgets.

Mr. Teal reported that what is in the CS is a combination of subcommittee reports and other actions by the chairman, which are contained in Document #3.

Mr. Teal turned to Document #3 to note that the new method of dealing with PCE - the \$28 million "reduction" - occurred in the chairman's office. Mr. Teal referred to a transaction on page 2, labeled "cap to op". It's one of many in the report with that label. Legislative Finance, OMB, and the chairman determined that some items the governor had proposed as capital budget items were better placed in the operating budget. An example in Commercial Fisheries is on page 2; another from the Department of Labor and Workforce Development is on page 3. On page 4, a number of Department of Natural Resources projects better suited for the operating budget are listed.

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Representative Gara asked about the proposed changes from the capital to the operating budget. Mr. Teal clarified where those changes were. Representative Gara asked what the subcommittee action entailed. Mr. Teal explained that the subcommittee action began with the adjusted base and then reviewed all of the governor's amendments.

Representative Gara inquired if any columns represent the governor's proposal. Co-Chair Hawker explained that

Document #1 is the reconciliation of the governor's budget proposal, with amendments, to the subcommittee proposals.

Mr. Teal reiterated that his discussion began with an explanation of the differences between the subcommittee action and the CS.

Representative Gara requested further clarification.

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Representative Austerman requested more information about Document #2.

Mr. Teal clarified that the governor's budget was the starting point for the subcommittees' reports. Column one represents the subcommittees' actions. In some cases, the governor's requests were accepted, in other cases, changes were made. Co-Chair Hawker pointed out that the information has been on the web since Friday.

Mr. Teal continued to explain the first column. In most cases, the subcommittees accept or reject the governor's amendment, but they can also modify it or add their own items. They can also make reductions. Column two is the chairman's prerogative to change the bill, especially the language section of the bill. Document #3 contains the detailed changes made to the subcommittees' reports by the chairman. He used PCE as an example and commented on the advantages and disadvantages of the proposed method of funding PCE.

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Mr. Teal referred to capital items that were moved to the operating budget, as shown in Document #3. The last item on page 5, Marine Highway System, Marine Vessel Operations, is the addition of a very late amendment for the bargaining unit contract terms. Co-Chair Hawker related that the bargaining unit settlement was included in the CS in order for it to be as comprehensive as possible.

Mr. Teal pointed out that all items are subject to the amendment process. Capital project detail is available on Legislative Finance's website and on OMB's website.

Co-Chair Hawker commented that the purpose of the documents is to disclose changes to the CS. Page 6 shows a change to the University of Alaska budget.

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Mr. Teal referred to changes to the language section of the bill. On page 58 of HB 81, Sections 4-6 show intent

language that was in the FY09 operating bill. Co-Chair Hawker offered that the language section analysis is available in a booklet for the public to read.

Representative Austerman requested clarification of the language section changes. Mr. Teal explained that Sections 4-6 consists of intent language from last year's bill, which the chairman wishes to reinstate. It says that program receipts will be used before general funds are used. The costs of job reclassifications are already included in the budget. Transfers should not be made between personal services and other line items without filing a report.

Mr. Teal referred to page 60, Section 10, subsections (d) and (e), the changes to the PCE program. The money now flows directly to the Department of Commerce, both from the endowment and from the general fund. The amount in (e) is the amount needed to fully fund the program.

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Mr. Teal referred to a fuel trigger on page 62, Section 16, Office of the Governor. Last year it was down to one trigger.

Representative Salmon asked for an explanation of the fuel trigger. Mr. Teal explained that it is a method used to attempt to avoid building short-term, high fuel prices into the base budget of the agencies. He recalled last year's experience when the fuel trigger occurred in August during high prices and then prices fell. Some agencies may have gotten more money than they needed to pay fuel costs. This year there are two triggers, one in August and one in December, with half of the amount given with each of the triggers. The trigger is the year-to-date ANS price of oil.

Co-Chair Hawker added that the administration has total latitude in allocating the fuel triggers within the parameters provided in the bill. Mr. Teal informed the Committee that 75 percent goes to DOT and most of that goes to the Alaska Marine Highway System.

Mr. Teal explained that the fuel trigger was removed from the Office of the Governor and a pseudo agency called "Branchwide Unallocated" was created because the fuel trigger distorted annual budget comparisons.

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Mr. Teal related that a section of the bill was missing - Section 16. Included in Section 16 were a number of transactions for oil and gas development. Co-Chair Hawker reported that the section was omitted until more information was received from the administration.

Co-Chair Hawker reported that a great deal of money has been spent on oil and gas through various budgets and spending authorities. He said that in order to evaluate the current requests for additional funding for oil and gas projects, he has requested a summary of appropriations from OMB. He hoped to get that analysis in the next few days and work up an amendment to address Section 16.

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Representative Austerman asked how far back the information request went. Co-Chair Hawker said FY04.

Mr. Teal referred to a change on page 69, Section 22. It is a large change from the governor's original budget. The CS now matches the governor's amended contributions to the retirement system funding, which is roughly \$170 million less than originally proposed. The amount covers the full actuarial recommendations; however, it does not include the additional \$170 million. Co-Chair Hawker reiterated that the budget includes full funding of all actuarial obligations.

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Mr. Teal turned to page 70, Section 23. There is an addition for the Inland Boatmen's Union and for the Masters, Mates, and Pilots, due to new contract negotiations. The terms of the contracts are funded in Section 1 of the bill.

Mr. Teal explained Section 26, the Constitutional Budget Reserve Fund (CBR). He noted that subsection (d) is the FY09 CBR draw. Standard CBR language says when there is a shortage of unrestricted revenue to cover general fund expenditures, the money comes from the CBR. Co-Chair Hawker offered that during the course of the previous budget year, the legislature appropriated almost \$5 billion into the CBR when oil prices were high. Since the market decline, some of those funds will be removed from the CBR.

Mr. Teal reported that subsection (e) states that the amount going to revenue sharing is appropriated directly from the CBR. Normally, that account is funded from revenue from the progressive portion of the petroleum tax.

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Representative Gara referred to last year's formula for municipal revenue sharing. He wondered what that amount was. Co-Chair Hawker replied that the fund was capitalized at \$180 million. One-third of the amount in the fund each year is committed to revenue sharing. The fund gets

refilled each year by progressivity earnings and depends on the price of oil. There is an expectation to put \$60 million back into the revenue sharing fund out of the FY10 budget in order to forward fund the next year's amount.

Representative Gara asked if there is another provision in the bill related to the \$60 million appropriation. Co-Chair Hawker replied that in FY10 the \$60 million is fully funded. Mr. Teal clarified that there is not another appropriation in the bill; this section obligates the \$60 million to revenue sharing. He described different scenarios depending on if this appropriation passes or not.

Representative Gara wanted assurance of revenue sharing regardless of the price of oil and the progressivity factor. Mr. Teal emphasized that the \$60 million that flows out of the fund to the communities does not require appropriation.

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Mr. Teal explained subsection (f) where the sum of \$1.1 billion is appropriated from the CBR to the public education fund. Without further appropriation, the balance of the fund is available and probably would be used for FY10 education. The \$1.1 billion would fund FY11 education. The governor requested \$1.06 billion, about \$50 million less than was required to fund FY11 education. The governor used a \$50 million cushion in the reserve account. This appropriation adds an additional \$50 million more than the governor requested. It will not impact the CBR until 2011.

Mr. Teal stated that subsection (g) is the CBR draw for 2010.

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Mr. Teal referred to Document #4, the "language only" section, and explained three items that have changed. One change is \$32 million that appears in the agency budgets column under the Department of Commerce, Community and Economic Development. That amount is offset by a reduction in fund caps "because we are now going direct". The second change is the removal of \$200 million in oil and gas credits. That amount is being kept in the FY09 budget, which results in a net zero. The third change encompasses all the oil and gas appropriations in Section 16 of the governor's bill.

Co-Chair Hawker summarized that the CS was the result of subcommittee work and chairman input. Co-Chair Hawker preferred not to have a second CS. He related that he was still looking at FY09 supplemental requests, agency requests, and amendments.

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Mr. Teal clarified that BASIS contains the bill and subcommittee reports, but not the Legislative Finance technical reports, which are on the Legislative Finance website.

Representative Gara requested further information about Document #4. Mr. Teal reviewed that column one was the governor's amended requests. Co-Chair Hawker interjected that Document #4 is exclusively language section components.

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Co-Chair Hawker WITHDREW his objection to adopt the work draft for HB 81. There being NO OBJECTION, it was so ordered.

HB 81 was heard and HELD in Committee for further consideration.

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#hb83
HOUSE BILL NO. 83

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

Co-Chair Stoltze MOVED to ADOPT the work draft for HB 83, labeled 26-GH1004\R, Bailey, 2/28/09.

Co-Chair Hawker OBJECTED for discussion purposes.

Co-Chair Hawker explained how any consequence of the CS can be negotiated.

Co-Chair Hawker WITHDREW his objection to adopt the work draft for HB 83. There being NO OBJECTION, it was so ordered.

HB 83 was heard and HELD in Committee for further consideration.

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Co-Chair Hawker requested that the Committee submit amendments. He referred to a template on the Legislative Finance website for further information.

ADJOURNMENT

The meeting was adjourned at 2:42 PM.