

HOUSE FINANCE COMMITTEE
January 22, 2010
1:32 p.m.

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CALL TO ORDER

Co-Chair Hawker called the House Finance Committee meeting to order at 1:32 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Karen Rehfeld, Director, Office of Management and Budget, Office of the Governor; David Teal, Director, Legislative Finance Division

PRESENT VIA TELECONFERENCE

None

SUMMARY

FY2011 GOVERNOR'S BUDGET: OFFICE OF MANAGEMENT AND BUDGET OVERVIEW

FY2011 GOVERNOR'S BUDGET: LEGISLATIVE FINANCE DIVISION OVERVIEW

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^FY2011 GOVERNOR'S BUDGET OVERVIEW: OFFICE OF MANAGEMENT AND BUDGET

Co-Chair Hawker presented an overview of today's meeting.

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KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced her Senior Economist, John Boucher. She reiterated her department's readiness to work with the House Finance Committee on the Governor's FY2011 budget.

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Co-Chair Stoltze paid tribute to John Boucher's father for his help, friendship and assistance in the past and presented his son with a special DVD.

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Ms. Rehfeld began a PowerPoint presentation on the "FY2011 Budget Overview, House Finance Committee, Office of Management and Budget, January 22, 2010" with a quote on the governor's mission to "position Alaska's economy for growth and Alaska's families for opportunity" (copy on file). This overarching mission was used to plan the focus of this year's budget. The governor's priorities were mandated by Alaska's Constitution for Education, Public Safety, Transportation and Resource Development. Ms. Rehfeld noted that the governor's guiding principles were to maintain budget discipline by limiting agency growth, to focus on results for Alaskans, and to take a long-term view (page 3).

Ms. Rehfeld presented the FY2011 Budget Summary noting the total FY2011 Authorization with the Permanent Fund was \$10,767.5 million (page 4). Ms. Rehfeld referred to the FY2011 Expenditures by a category pie chart (page 5). She began with education funding noting K-12 Education at \$1.15 billion or 11 percent of the total budget (burgundy color). Education funding is distributed statewide to 53 school districts and approximately 130,000 students. She noted the governor's budget request fully funds K-12 education and incorporates the funding increase in student allocation and intensive needs students. The increase from the current year to next year's budget is \$56 million. The "Other" Formula at 14 percent or \$1.5 billion primarily reflects Medicaid (yellow color). She commented that the drivers within Medicaid are enrollment and utilization of the program.

Ms. Rehfeld moved to the Capital Budget with 14 percent and \$1.47 billion (blue color). Key elements within the Capital Budget request are the matching funds for the federal highway, aviation, and village safe water programs. The governor also highlighted \$100 million for deferred maintenance over a five year period to address significant project backlogs. This request also included some resource

development access projects important for Alaska's economic future, including \$75 million funding for the Crime Lab and \$109 million for the University of Alaska Fairbank's Life Sciences building.

Ms. Rehfeld commented that the Permanent Fund at 14 percent and \$1.52 billion was for both inflation proofing and dividends (gray color). The Transfer/Savings category at 3 percent and \$290.5 million reflected money being transferred into or taken out of a reserve (orange color). The category reflects forward funding of education, the governor's proposal for the merit scholarship program at \$400 million, and \$177 million for gas line development.

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Ms. Rehfeld continued with Agency Nonformula (dark purple). This category reflects 36 percent of the budget or \$3.85 billion, for state agencies, including the University of Alaska, the Court System, and the Legislature. She reported that the governor focused on limiting state agency operating growth, but there was an increase in the fuel trigger. The governor felt it was important to invest additional dollars in the Domestic Violence and Sexual Assault Prevention initiative. She noted the \$7 million investment in Public Safety and the Department of Law with just under \$3 million for fund replacement to keep current capacity for rural prosecution, rural outreach, and shelter funding. Ms. Rehfeld added that there was also additional funding for Village Public Service Officers, shelters and sexual assault investigation and training.

Ms. Rehfeld indicated that about 8 percent of the total budget, or \$881.5 million, was for Statewide Appropriations funding the retirement system, unfunded liability, debt service and revenue sharing.

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Ms. Rehfeld summarized that that the governor had primarily focused on fully funding K-12 education, depositing \$400 million to fund the Governor's Performance Scholarship, and forward funding of K-12 education. The Public Safety focus was for \$75 million for the statewide Crime Lab and \$7 million for the Domestic Violence Prevention initiative. The Resource and Economic Development initiative reflected the ongoing efforts for gas line development, both for the Alaska and in-state gas line. It also addressed deferred maintenance, the UAF Life Sciences Building and transportation infrastructure. Ms. Rehfeld stated that these components of the budget would drive economic development creating some in-state jobs. She noted that the budget included an energy component to continue traditional efforts to make areas that rely on diesel fuel more efficient

through rural power system upgrades, fuel storage, renewable energy, heating assistance, and conservation efforts.

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Co-Chair Hawker stated in the renewable energy fund, House Bill 152, requested \$50 million, but the governor's budget only contained \$25 million.

Ms. Rehfeld replied that the initial thought was to put \$50 million a year, up to \$300 million, over six year period. She remarked that over the past few sessions, \$125 million had been put in for projects currently funded. The \$25 million reflected the governor's overall funding goals, but the governor was open to other suggestions from the Legislature.

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Co-Chair Stoltze remarked that this past summer reflected an untraditional mode or effort and wondered if the governor had factored this into the energy policy. He questioned where the energy policy might be heading. Ms. Rehfeld responded that it was a work in progress, adding that in some communities there were projects being pursued to help supplement diesel with renewable forms for energy. The effort is to make sure that these resources are in the budget. She reported that at present there was about \$20 million for the Alaska Energy Authority (AEA) traditional projects for more efficiency in these communities.

Co-Chair Stoltze projected that this was an evolving discussion, but \$20 million seemed a low projection. Ms. Rehfeld agreed that the funding of power projects and discussing new ideas would continue.

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Representative Gara asked if decisions to make current diesel production more efficient and cost effective were only passing through Denali Commission money or was there projected additional AEA money.

Ms. Rehfeld responded that in addition to the Denali Commission, state funds for AEA projects have been included to work down a list of projects to upgrade rural power systems and bulk fuel tanks. There are concerns that the Denali Commission has base funding in the federal budget, but there has also been a shift at the federal level to secure earmarks for the Denali Commission.

Representative Gara restated that the Denali Commission and commission match for diesel power upgrades was welcome, but he wondered if the state was doing anything beyond what the

federal government required to receive those monies or was the state just doing the minimum.

Ms. Rehfeld responded that there was not a specific match required for these funds so the state has been putting in additional money for the Denali Commission. She added that the direction and focus of additional funds for the future needed further discussion.

Representative Gara requested information on what the state was doing on top of the Denali Commission money for diesel efficiency upgrades. Ms. Rehfeld responded that she would send additional information to the committee.

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Representative Joule stated that natural gas discussions were usually presented in two venues; acquiring gas to market for the world outside of Alaska and acquiring gas for in-state use. He added that discussions on renewable energy usually was limited to communities, so he wanted to know if any thought had been given for drilling gas in some communities. Ms. Rehfeld remarked that the state and the AEA have been working hard to identify energy sources and how to best to move forward, help finance and partner with rural communities.

Representative Foster emphasized when Power Cost Equalization (PCE) money was spent, it was gone, whereas renewable energy money acts as an investment for the future to save money. He advised that investing for the future be kept in mind when funding renewable energy.

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Vice-Chair Thomas added that when Gustavus put in a hydro plant with \$2.75 million, \$750,000 from the renewable energy funds and \$200,000 from appropriations, the community power costs dropped from 58 cents to 30 cents a kilowatt.

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Ms. Rehfeld continued with the next slide entitled Revenue Forecast Revised Upward (page 7). The slide showed that the revision between the spring and Fall Forecast had improved and the forecast for FY2010 and FY2011 reflected a significant increase in the projected revenue based on the oil prices to date. Ms. Rehfeld showed with the next slide, Save/Invest, the projected surplus and indicated the governor's interest to forward fund education with the FY2010 surplus and to keep the forward funding in FY2011 (page 8). She also indicated the governor's interest in using some of the FY2010 surplus to work with the Legislature on rural school construction and adding money to

the reserve accounts. Ms. Rehfeld indicated that in the FY2011 budget the governor was asking the Legislature to consider the Governor's Performance Scholarship program, and, if approved, set aside \$400 million for the program. She showed another \$93 million in savings, based on the current revenue forecast. She reminded the Committee that there would be another revised schedule in April.

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Representative Doogan pointed out that the forward funding of K-12 education and the Governor's Performance Scholarship totaled \$1.5 billion which is listed under the Transfers/Savings category at \$290.5 million (page 5). He inquired where the additional \$1.2 billion would come from. Ms. Rehfeld indicated that in the fund transfer what is shown as expenditures in FY2011 is the amount of the school funding formula and people transportation that would be paid out of the fund and then a transfer will be proposed into the public education fund to pay for FY2012. The difference between the two transactions and the increase for FY2012 would net out.

Representative Doogan questioned if Transfer/Savings at 3 percent or \$290 million, was the remnant of the forward funding and Governor's Performance Scholarship. Ms. Rehfeld agreed that was correct, but she added that there was a proposal to spend \$177 million from the Alaska Housing Capital Corporation which is another reserve account for gas line related expenditures.

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Co-Chair Hawker clarified that the Transfer/Savings wedge of pie was an aggregated part of whole. Money is put aside one year that requires an appropriation and then is spent the next year. The issue of moving money has been a primary focus of simplifying and clarifying the budget for the public. He explained that the more detailed budget report account reflects more accurately than the pie chart the \$1.5 billion put into the savings account, but when taken out, nets out to zero. It is still money moving among the savings accounts. The net of the \$400 million proposed for the Governor's Performance Scholarship is going into the savings account this year, but cutting against it is \$177 million proposed to be taken out of the Parking Garage money over at Alaska Housing Finance Corporation (AHFC).

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Representative Salmon asked what would be the yearly interest on the \$400 million in the Governor's Performance Scholarship. Ms. Rehfeld replied that it would depend on the earnings, but approximately \$20 million a year.

Co-Chair Hawker asked if a bill had been introduced for the Governor's Performance Scholarship and if it included a fiscal note for reference. Ms. Rehfeld believed it was read across the floor on the first day of session with fiscal notes attached.

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Ms. Rehfeld moved to some of the key elements being worked on this year in the next chart, FY2011 Results-Based Budgeting (page 9). She indicated the governor's interest in reengaging agencies and the public in the process to utilize the state's performance framework to measure results for Alaskans. She noted that OMB looked at department statutory missions, core services, priorities within the core services, relevant keys to performance and then finally presenting to the legislature what had been learned. She hoped the legislature would see the value in this type of presentation.

Ms. Rehfeld referred to the Long-Range Fiscal Plan that will be transmitted early February 2010 (page 10). She noted that the executive summary had been posted on the department website on December 14, 2009, putting all the agencies into the detailed package. She indicated that an IT person would be helping with the programming to link all relevant agency sites together. Ms. Rehfeld moved to the FY2011 Fund Code Project which would provide a good segue to the next presentation (page 11). She observed that the numbers aligned with Legislature Finance for the FY2011 Revenue and Expenditures. She remarked that as these issues moved into the subcommittees, there would be different levels of understanding and concerns.

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Co-Chair Hawker observed that the Alaska budget report is clearer and more transparent for the public to understand how the state's finances work. He added that this process could be more difficult to understand as the state moved from budget deficit spending to budget surpluses. Co-Chair Hawker indicated his appreciation to OMB and Legislative Finance for their work on this issue. He noted sometimes there was confusion that money put into a savings account was not really spending. He indicated that clarification was needed to better recognize state fund money that could be used for anything, but had really been designated to specific purposes. There was a reclassification of money in the summary categories that had been called "other federal" and "general state fund" into two general funds, Undesignated (UGF) and Designated (DGF). Co-Chair Hawker pointed out that the short form books are all prepared under this new classification. The OMB system, from which the

actual budget bill is generated, has not been put on the new classification system at this time. Co-Chair Hawker explained that in the process of moving forward there will be a committee substitute for the original bill. He added that there would be no changes in funding or appropriations in the committee substitute, but will just move the classifications. He stated that in addition to the committee substitute, a reconciling report will be generated to show there is no change in the budget.

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Vice-Chair Thomas pointed out that in many rural areas, the local school system does not always have all the required subjects for their students to participate in the governor's scholarship program. He requested that the governor look at a debt retirement loan program for rural students to attend schools outside of their areas to obtain these needed subjects.

Co-Chair Hawker reported the governor's accessibility to meet with any individual legislator to discuss any subject.

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Ms. Rehfeld acknowledged there was some concern if all students throughout the state would have access to the required curriculum to be part of the governor's scholarship program. She stressed that OMB is working closely on this element of the bill because it would be important on a statewide basis. She pointed out that there were a number of options being explored by the department.

Representative Kelly stressed that the governor's Scholarship program was a needs based and non-needs based program open to all. He believed that awarding scholarships should be performance based.

Vice-Chair Thomas clarified that not all rural school districts have all the required programs necessary for the students to qualify for the program. He stressed that the debt forgiveness program would allow those students to travel to schools to receive the necessary courses to qualify them for the scholarship program. Representative Kelly believed the scholarship program was a huge step for needs based and non-needs based students.

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Representative Gara expressed his doubts regarding the efficiency of the governor's proposal. He cited a University of Alaska study indicating that \$8 million would cover the scholarship cost for those students who could not afford to go to college. The governor's proposal spends \$20 million,

an extra \$12 million, on those who can afford to pay, including money being extended to "C" students whose families could afford to send them to college. He pointed out that a more efficient plan, spending less than half of the proposed money, would send everyone who could not afford to go to college into a state university. Representative Gara remarked that in the governor's scholarship program, children in foster care were cut off at ten students. He asserted that rather than spend extra money for "C" students, who can afford to go to college, he asked that the governor make more scholarship money available for children in foster care.

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Ms. Rehfeld indicated the governor's interest in providing all students with the opportunity to attend college. She continued that the governor wanted to increase high school graduation rates and improve the academic quality of Alaska's schools.

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Co-Chair Hawker thanked Ms. Rehfeld for her overview.

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Co-Chair Hawker reported that his request from Legislative Finance was to clarify the long term goal for spending.

^LEGISLATIVE FINANCE DIVISION OVERVIEW

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DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION summarized the roles of OMB and Legislative Finance. He pointed out that OMB presents the governor's budget, with the policy priorities and the spending amount on those priorities, but Legislative Finance's role was to add context to the governor's budget. Mr. Teal indicated he would be referring to some pages in The Fiscal Year 2011 Budget: Legislative Fiscal Analyst's Overview of the Governor's Request (copy on file). He pointed out the increase in the general fund spending of about \$550 million or 10.7 percent (page 5, line 35).

Co-Chair Hawker indicated that at the general spending level the finance committee agrees completely with the numbers.

Mr. Teal referred to the FY10 General Fund Revenue-Fiscal Sensitivity chart (page 6). This chart refers to the breakeven price of oil that needs to be understood to put the budget requests in context. He noted the flat expenditure line reflects the proposed FY2010 level of

appropriations and the axis shows oil prices in dollars. Mr. Teal explained that the revenue line changes with the price of oil and is curved due to the progressive tax. The intersection of the revenue line and expenditure line is the breakeven point.

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Co-Chair Hawker interjected that this is an approximation based on annualized numbers done on monthly and quarterly bases which can have significant circumstances in a very volatile oil price period. He noted that in a period of relative stability it creates a reasonable forward projection.

Mr. Teal agreed. He continued that the FY2010 budget was \$4.1 billion before forward funding for education. He believed there to be a general agreement that the governor will be submitting a supplemental request that most legislators will probably approve. Mr. Teal observed that the real budget was probably \$5.1 billion therefore the breakeven point for oil would not be \$53 a barrel, but closer to \$64 a barrel. Mr. Teal noted the good news is that the projected revenue is \$67 a barrel, which creates a surplus of approximately \$450 million. He reported that the current price of oil is up to \$73 a barrel generating a \$2.2 billion surplus.

Co-Chair Hawker noted that the average year-to-date price of oil is \$73 a barrel and, if this is maintained until the end of June 2010, there would be a \$2 billion surplus.

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Representative Gara believed these numbers were similar to the numbers the governor's office presented in November.

Mr. Teal explained that there were no differences between the governor's office oil forecast projections and Legislative Finance. He pointed out that Legislative Finance's role is to put the governor's budget in context with revenue, not discuss the governor's budget spending decisions. He continued with the next chart on the FY2011 General Fund Revenue-Fiscal Sensitivity (page 7). The two charts differ in that in FY2010 at \$90 a barrel, the surplus would be \$9 billion whereas in FY2011, \$90 a barrel oil translates into \$8 billion. The expenditure line has also moved up to \$5.6 billion from \$5.1, therefore the breakeven oil price has moved from \$64 per barrel to \$74 per barrel to balance the budget. When the extra \$1.1 billion was spent to prefund education, the breakeven point was raised by eleven dollars. He elaborated that for every dollar change in the price of oil the revenue impact is approximately \$100 million. Mr. Teal added that as expenditures shift up, the

revenue curve shifts down because of lease expenditures, also known as CAPEX and OPEX, which are deducted as a profit tax. This shift is reflected in the FY2010 chart at \$16 per barrel, whereas the FY2011 shows revenue lease expenditures at \$19 per barrel.

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Mr. Teal continued that even if there were no increase in capital lease costs, as production falls, there will be less barrels of oil which translates into less revenue. The average cost per barrel continues to climb and the profit per barrel falls, therefore the revenue falls, shifting the curve downward. The combination of the shift up in the expenditure line and the shift down in the revenue line bounces the line to \$74 per barrel in FY2011.

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Representative Fairclough questioned if the assumption was being made that no new barrels would be brought online. Mr. Teal remarked that the Department of Revenue's oil projection showed a constant 4 percent decline in production. Representative Fairclough asked if the number took into account the cost of new barrels production for the lease expenditure credit and the cost of the old production, usually less per barrel, or would these remain constant or were the figures just reverting back to the Revenue Sourcebook. Mr. Teal responded that was more complicated than reported on the chart.

Co-Chair Hawker reported that the numbers used by Mr. Teal came directly from the Revenue Sourcebook projections. Representative Fairclough questioned the lease expenditures and calculations of those dollars and asked for a confidence level inside the Revenue Sourcebook. Co-Chair Hawker agreed that he shared a concern for the accuracy of the projected operating numbers within the Revenue Sourcebook.

Representative Doogan asked if it was a combination of fewer barrels and more expensive barrels. Mr. Teal agreed, but noted that even if the barrels are not more expensive, the cost of production does not change. When fewer barrels are being produced, the production costs are spread out over fewer barrels making the cost per barrel higher. Representative Doogan asked if the barrels were then more expensive in two ways. Mr. Teal agreed.

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Mr. Teal referred to the Department of Revenue (DOR) graph, "10-Year Revenue and Spending." He remarked on the assumption at the top stating "Assumes Fall 2009 Revenue and 3% budget escalation from FY11." He noted the fiscal summary

shown earlier reflected two numbers: 10.7 percent was approximately \$550 million in increased expenditures and 3 percent was only about \$150 million. The difference is \$350 million in compounding rate of growth and expenditures, so when DOR states that FY2011 grows by 3 percent with a surplus of \$700 million, it is really being overstated by \$350 million. In FY2013, the surplus is being overstated by two years of \$350 million or \$700 million, so the surplus is about \$200 million. Co-Chair Hawker interjected that the bars were cumulative.

Mr. Teal agreed because it was being assumed that there was a growth rate of 10 percent instead of 3 percent. At three years the surplus is gone. As oil production declines, the revenue and surplus drops and the revenue curve will shift down. Mr. Teal remarked that with oil production declining by 4 percent, there will be a 4 percent shift down in the revenue curve. This reflects another \$200 million shift downward, therefore the breakeven price of oil will increase by approximately \$4 per year. This translates to \$78 breakeven price in FY2012 and \$82 breakeven price in FY2013. Mr. Teal stressed that he did not want to misrepresent the surplus funding for the state over the long run.

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Representative Kelly queried the variance between the Department of Revenue numbers and the Legislative Finance calculations.

Mr. Teal replied he had no disagreements with the projections for FY2011, but only with the projections for the future years. He pointed out that the price of oil needed to remain at \$74 per barrel to breakeven. He emphasized that if the price of oil fell to \$64 per barrel a deficit would open up very rapidly. He stressed that there are years of reserves available, but the more spent each year pushes up the breakeven point.

Representative Kelly emphasized that spending freely was not his goal, but noted that 10 percent and 3 percent were huge differences in the budget. Co-Chair Hawker agreed that there is a perception of a budget surplus until FY2020, but there figure is very different when looking at 10 percent versus 3 percent growth escalation.

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Co-Chair Hawker recommended that Representative Austerman's budget subcommittee needs to work on these figures.

Mr. Teal agreed that the budget needs to be looked at with the goal of long-term plans, not in isolation from year to year.

Representative Gara questioned where information would be available on tracking how efficiently government agencies work with existing funds.

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Mr. Teal believed that subcommittees considered efficiency and long-term planning, even though it was difficult to always accomplish. He thought that OMB and the governor's office needed to lead on the subject of efficiency performance results. He acknowledged that it was difficult for the legislature to look at the budget for 90 days and always understand it to the depth required.

Representative Gara reiterated that the subcommittees have to rely on the information provided by the agencies. Mr. Teal responded that it would be difficult to reduce expenditures both at the agency and statewide level. Historically the capital budget is frequently larger than the governor's budget.

Co-Chair Stoltze mentioned that in his Public Safety and Department of Law subcommittees efficiency questions were addressed, but acknowledged there are frustrations.

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Representative Doogan remarked that if the operating budget has been increasing by a compound rate of 10 percent a year since 2001, he surmised that no matter how high the price of oil rises, it would not be possible to keep up with revenue spending. He questioned why consecutive governors for the last ten years have not seen this problem and flattened out the rate of increase in the budget.

Co-Chair Hawker replied this was more a question for the Legislative Finance Committee or OMB. He noted the increases in the budget are primarily in Education, the University of Alaska, Medicaid and Human Services, and employee costs both in collective bargaining increases and retirement benefits. He reported that the legislature has lowered the rate of growth in agency operation spending outside of the just listed areas. Co-Chair Hawker remarked that the growth in Medicaid has occurred because of the changes in federal government reimbursement toward Medicaid, adding \$175 million to the state budget spending. He emphasized that the budget often rises because the public feels strongly if certain programs are not funded, such as education. He remarked that the public often reacts negatively when the governor has reduced budgets. Chair Hawker emphasized that the legislature has paid close attention to fiscal discipline with the budget.

Representative Doogan recognized the difficulty in making budget decisions, but stated that at some point if the budget surplus continues to fall and oil prices fall there could be big problems in the future.

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Co-Chair Hawker agreed that it is time to really focus on curbing budget spending. Representative Joule questioned when the first meeting of the budget subcommittee would begin. Co-Chair Hawker said the strategy and timeline meetings would start as soon as the overview meetings were completed.

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Representative Fairclough remarked that new technology was available to refurbish old buildings within the state, with up to 25 percent costs savings in operation. As this approach would involve the capital budget not the operating budget, it would be easier to affect immediately. She observed that there are no standardized building practices throughout the state so often there is a bid for a new design in every city. She asserted that standardizing could save money. Representative Fairclough added that in rural Alaska the goal was often to make everything unique which translates to added expense. She believed that on the procurement side it would be more cost effective to hire local residents to build in the rural communities putting more local individuals to work. She added that rural areas are being penalized because of supply and demand issues and not being able to attract urban building supplies.

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Vice-Chair Thomas reiterated that in many departments federal grants were expiring and those departments were looking to have the state replace them with general fund money.

Representative Fairclough agreed that federal grants are changing out to state funds. Co-Chair Hawker remarked that Senator Stevens often warned that federal funding may not be there in the future and the state would have to take over that funding. Representative Fairclough asked Mr. Teal if the federal stimulus money was being tracked in all departments.

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Mr. Teal responded that the question was difficult to answer. He knew the amount of federal stimulus money appropriated to each department, but not how the money was used. He suggested that all subcommittee chairs look at this

situation. Mr. Teal commented that the two prior governors were concerned about constraining the budget and legislators have been talking for several years about unsustainable spending, but it is difficult to do anything about it. He contended that when federal money evaporates, the people of Alaska may still want to see the state provide and fund popular or necessary programs. It is a question of how to deal with the loss of federal money when people still want to see the benefits. He continued that up until 2005, the budget was flat at about \$2.5 billion, but then it began to rise very rapidly. Legislative Finance cannot tell precisely how the agencies are using the federal stimulus money, how many new employee positions have been created, if the money is being treated as a one-time funding, or if it is being built into the base.

Ms. Rehfeld interjected that at the agency level OMB has expenditure plans in place with good reports on how the federal stimulus money is being spent. She believed it was clear on the agency level that this would not be continued funding.

Co-Chair Hawker noted that there are some recognized exceptions, such as the federal stimulus money that went to the Department of Public Safety to hire and train new troopers. It was known that this would be a continuing increment. He agreed it should be the responsibility of subcommittees to verify and look into agency spending in more depth. He voiced his confidence in the Administration's efforts to comply with the intent language provided in statute.

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Mr. Teal interjected that he had been referring to the Medicaid matching rate. The federal stimulus bill included a reduction of the federal rate which saved the state \$25 million a quarter, \$100 million a year. He observed that this was probably one-time money which was scheduled to expire on December 31, 2010. Unless the federal government extended this rate, \$50 million more will be needed for Medicaid than is presently reflected in the governor's budget. This translates to a \$100 million increment in FY2012 to replace the lost federal funding.

Representative Fairclough said she is asking her budget subcommittee to recognize that the federal stimulus money is one-time money. She suggested that all the jobs hired by federal stimulus money be revisited and that these positions would end after the stimulus money runs out. She contended that there is not enough state money to continue funding these newly created positions. It could be a problem for present and future legislators if positions created by federal stimulus funds could not be identified as such. She

hoped all departments would be forthright in identifying positions created by stimulus funds.

Mr. Teal commented that this issue did not just involve stimulus money, but it is the reason the Legislative Finance Committee and Legislative Finance have for the last several years always emphasized the reporting of one-time items everywhere in the budget. He realized that departments would prefer not to have to come back to the Legislature every year asking for money. A one-time item is not put in the base budget, but the items must be brought back to the legislature to review the decision every year.

Representative Fairclough asked the Co-Chair Hawker if positions created by the federal stimulus money positions should be floated above the line. These positions are buried on a line, named stimulus, in the short form, but when the money line drops, no one will be able to identify stimulus-created positions.

Co-Chair Hawker reiterated that federal stimulus money all came in as onetime items and are no longer in the budget for the future. Mr. Teal agreed that all onetime items created by the stimulus funding have been taken out of the budget.

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Representative Kelly observed that, in the area of the onetime federal stimulus funds, the subcommittees should not have authority to replace federal stimulus money at all, but these decisions would only be brought before the entire House Finance Committee. Representative Kelly continued that when adding new employees to the system, it is often difficult to remove them later. He suggested that no new employee be added unless another employee is laid off, but even that would still need approval from the House Finance Committee. He agreed with Representative Fairclough that there is the potential for some positions created by the federal stimulus money to be buried and suggested that a separate report be generated to account for all the stimulus money received and where it went. He applauded the governor for creating a lean budget, but there is a significant problem when public hears there is a 3 percent increase at the agency level, but the entire budget growth is more in the 10 percent range.

Co-Chair Hawker thought it would help to sit down with the governor to talk about a more reasonable growth picture. The legislature needs to take a harder line on the budget than the governor in considering long-term future prospects.

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Mr. Teal pointed out that the agency operating budget is often seen in the public eye as "the budget" and noted that the governor has tried to keep the agency operation spending increase to 3 percent. The legislature deals with the entire budget, not just agency operations.

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Co-Chair Hawker remarked on the committee meetings for the following week.

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ADJOURNMENT

The meeting was adjourned at 3:41 PM