

HOUSE FINANCE COMMITTEE
March 1, 2010
1:38 p.m.

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CALL TO ORDER

Co-Chair Hawker called the House Finance Committee meeting to order at 1:38 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

SUMMARY

HB 300 APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 300 was HEARD and HELD in Committee for further consideration.

HB 302 APPROP: MENTAL HEALTH BUDGET

HB 302 was HEARD and HELD in Committee for further consideration.

#hb300

#hb302

HOUSE BILL NO. 300

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

HOUSE BILL NO. 302

"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."

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Co-Chair Hawker explained that the committee substitutes for HB 300 and HB 302 represented the work completed by the House Finance Committee subcommittees and stated his intent to have a high-level discussion of the changes.

Vice-Chair Thomas MOVED to ADOPT CS for HB 300(FIN) (26-GH2823\M, Bailey, 3/1/10) as a working document before the committee. There being NO OBJECTION, it was so ordered.

Vice-Chair Thomas MOVED to ADOPT CS HB 302(FIN), (26-GH2825\P, Bailey, 2/27/10) as a working document before the committee. There being NO OBJECTION, it was so ordered.

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Co-Chair Hawker described the Mental Health Trust bill (HB 302) as a derivative of the transactions in HB 300 and did not expect further discussion.

Co-Chair Hawker noted that the governor's office had introduced operating budgets involving "austere" agency operations, including a modest 5.6 percent increase in general funds for agency operation spending and a 13 percent increase in state-wide spending. He added that approximately 43 percent of the agency operations bill represented formula changes, largely increases related to Medicaid programs, the Department of Health and Social Services, the education funding formula, and implementing statutory cost differentials.

Co-Chair Hawker continued that that the other major components in HB 300 included increases for replacing one-time items such as the fuel requester based on the price of petroleum products, accounting for approximately 26 percent of the growth. He explained that \$68 million (30 percent of the governor's request) were in discretionary categories.

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Co-Chair Hawker informed the committee that a summary of the work of the subcommittees to date was found in the handout, "Agency Summary, House Structure" (copy on file). The upper left-hand corner indicates fund groups, general funds (a numbers and language aggregate). The first column includes the governor's amendments and the right-hand column (column four) has the House Finance CS recommendations. He added that the right-hand column gave the appearance of reducing the governor's budget by \$43 million; he warned that the numbers could be misleading. The subcommittees had removed from the budget and set aside the governor's requests for additional oil and gas increments. He noted that the oil and gas increments would be considered in committee as a separate issue.

Co-Chair Hawker continued that the second report (a single page distributed by his office) details the oil and gas requests (particularly the gasline request) that have been removed from the budget pending further committee hearing and determinations. The incremental requests are broken into two significant categories; the top half are those that occurred in the original budget in the language section, and the bottom half are additional items removed by the subcommittee on the Department of Law for the numbers section requests. He reminded listeners that the process was procedural; the issues are still being considered and no final judgment has been made.

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Co-Chair Hawker pointed out that the detail behind the reductions proposed in the CS is encompassed in the budget subcommittee closeouts, which are available online. He acknowledged the work done to establish consistent formatting of the subcommittee work.

Co-Chair Hawker addressed column two. The committee has tried to bring expenditures "back on budget"; earlier in

the process, zero-change CSs had been adopted that converted the governor's initial budget document to the new roll-up format. The subcommittees worked through the detailed budget requests and Legislative Finance aides had a chance to study each agency at a transaction level; the last round of fund-source changes were identified. He called the process "properly classifying by consistent definition" of items that had been categorized in the past as general fund program receipts, statutorily designated program receipts, and receipt-supported services. The detail about the fund-source shift transactions found in the column is available on the Legislative Finance website. He commented that "receipt-supported services" is a category used for programs intended to be self-sustaining and operate entirely on self-generated funds.

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Co-Chair Hawker provided the example of the Regulatory Commission of Alaska, which exists solely within its authority to generate its own revenues separate from general fund program receipts. An agency bills for services not intended to be the sole funding source for the operation (such as in the Department of Motor Vehicles). Both categories (self-sustaining programs and program collections) are still in the category of designated general funds, which are designated for specific purposes, as opposed to the fund source that remains in other funds, or "off budget." Statutorily designated program receipts reflect contractual arrangements that the state may have. The legislature does not have discretionary authority over how the funds are used. He gave the example of a bequest to the state that is limited to certain uses and specific service contracts.

Co-Chair Hawker summarized that the purpose of column two was to clarify the distinctions across the budget. He noted a net change of \$479,000 of monetary consequence on the budget; the remaining transactions are zero net. In the past, funds being appropriated out of the Alaska Industrial Development Authority were used for other unrelated purposes, which was contrary to legislative intent.

Co-Chair Hawker turned to agency summary reports with language and numbers. The last detailed summary report addresses financial changes that occurred in the language section, especially the changes removing oil and gas

appropriations. There is about a \$297,000 differential between the total amount removed and the amount of the oil and gas transactions; the amount relates to FY 09 stimulus money left in the governor's budget in the Department of Revenue for Child Support Enforcement Services that was moved into the language section from the numbers section.

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Co-Chair Hawker directed attention to page 59, Section 4 of the HB 300 CS. He explained the findings section as saying that the stimulus money had been used the year before to help the state.

Co-Chair Hawker turned to Section 5, "Ratification of Small Amounts in the State Accounting System." He stated that he was proposing the idea for the committee's consideration. The concept was developed with Legislative Finance and the Office of Management and Budget (OMB) regarding ratifications in supplemental budgets. He thought ratifications of significant amounts should be scrutinized, but since each ratification costs a lot to implement, he did not think very small ones were necessary. The proposed mechanism would allow agencies to absorb ratification items of less than \$500 into the on-going agency budget, and a list of the items absorbed would be provided to the legislature. He believed the proposal would increase efficiency and lower costs as well as frustration.

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Co-Chair Stoltze asked the reason for the cut-off number of \$500. Co-Chair Hawker responded that the number was a judgment call. He did not see anything under \$500 that raised questions.

Co-Chair Stoltze asked whether unclaimed property or uncashed checks would show up in the ratifications numbers. Co-Chair Hawker replied that the unclaimed property division would continue to operate independently. Co-Chair Stoltze asked about uncashed checks. Co-Chair Hawker believed they would show up in another section of the budget.

Co-Chair Hawker remarked that the language used was similar to that in previous budgets. He highlighted a few programs, beginning with page 62, items (e) and (f) providing full

funding for the state's Power Cost Equalization (PCE) program.

Co-Chair Hawker pointed to page 63, item (a) related to management practices in the Department of Health and Social Services. The department is subject to a penalty or fine of \$1.2 million each year for three years; the item is the first installment. He highlighted item (b), noting that the legislature is operating through the end of the fiscal year on a stimulus funds enhanced Federal Medical Assistance Percentage (FMAP). Unless additional federal law is passed extending the increased FMAP, the budget expects that the enhanced rate remains in effect. The language states that the legislature will revert back to the original general funds allocation if the FMAP does not remain in effect.

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Co-Chair Hawker emphasized that the committee does not traditionally prepare a budget based on speculation, but he was confident about the assumption in the item.

Co-Chair Hawker noted that page 65, Section 21 contained language related to the "fuel trigger." Agencies have a base level of funding in their budgets for fuel and utilities; the agencies would receive additional money if the price of oil reached a certain level during two benchmark dates during the year. He stated that the fuel trigger has worked well. The language was originally brought into the budget in 2007. He noted that the market is currently fairly stable.

Co-Chair Hawker flagged an upcoming amendment to the section that would trip the fuel trigger at \$50 per barrel instead of \$35 and take the base level below that into the base budget of agencies.

Representative Gara referenced page 68, line 15, related to the 8 percent of the fuel trigger amount going to the University of Alaska. He pointed out that the university had asked for \$2 million in extra fuel cost reimbursement in subcommittee; because of the fuel trigger they would get around \$1.2 million. He queried the analysis.

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Co-Chair Hawker clarified that the mechanism would give the university approximately \$4 million extra. He recalled that previous conversation with the university had established that the fuel trigger would work for them. He recalled that the university had asked for a budget amendment the previous year increasing their fuel, in addition to the fuel trigger amounts. He noted that the Department of Corrections needed \$2 million more in base funding.

Co-Chair Stoltze questioned the fuel trigger at \$35. Co-Chair Hawker spoke to the proposed change of a \$50 threshold.

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Co-Chair Hawker believed that the budget clarification project had brought the separate fund sources back into the rollup and review. The language accounts for the receipts by source so that people know where the money comes from. The money can be seen moving out of the funds. The subcommittees are exploring the items in detail.

Co-Chair Hawker pointed out item (n) on page 71, related to full forward funding of the FY 12 public education fund. He underlined significant items on page 72, beginning with line 14. The Department of Revenue estimates that the \$180 million would need to be deposited into the oil and gas tax credit fund in order to meet the tax credit claims for exploration incentive credits. He explained that the amount had been looked at the year prior and the amount in the oil and gas credit fund was in excess of what was needed. The balance was lowered by \$200 million; this year \$180 was proposed to be replaced. He thought the number was reasonable.

Co-Chair Hawker moved to line 16 (e) regarding full funding of the state's revenue-sharing program. The item would replace \$60 million distributed for municipal revenue sharing. Page 73 has the retirement system funding. He emphasized that the funding amounts are statutory; the municipalities had a maximum fixed rate and the state would pick up the balance of the addition retirement funding rates; Public Employees Retirement System (PERS) contributions from communities are maintained at 22 percent and Teachers Retirement System (TRS) contributions are at 12.56 percent. The state picks up the continually inflating service-cost liability.

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Co-Chair Stoltze interjected that the item was another form of revenue sharing though more substantial than actual statutory revenue sharing.

Representative Gara asked whether the number was bigger than last year and if it was by formula. Co-Chair Hawker answered in the affirmative.

Co-Chair Hawker noted that there were collective bargaining units currently working on settlements. Section 29 provides broad authority to take care of the settlements, which would be brought specifically into the budget as needed.

Co-Chair Hawker mentioned routine payment of debt-service costs for the state and the various bond obligations that are statutory. He highlighted Section 32, page 79, the coverall provision in which the Constitution Budget Reserve (CBR) will be fully repaid after the FY 10 supplemental budget passes. Next year, there will be an ability to turn to the statutory budget reserve (SBR) to meet budget requirements.

Co-Chair Hawker relayed that Section 33 has the one CBR provision in the bill. He emphasized that there is no appropriation from the CBR in the bill, but there is a section about the CBR. He detailed that since the state's money is managed under combined management authority in the treasury division, the division has authority to utilize funds that belong in the CBR to meet temporary shortfalls in state cash flow. The provision stipulates that money used from the CBR for cash-flow needs will be paid back with interest in order to keep the CBR whole. Interest earned on general fund balances is appropriated into the CBR. The middle section addresses fund compensation for lost earnings caused by use of the fund's balance for general fund principals; at the end there is a limiting factor stipulating that the amount appropriated by the section may not exceed an amount equal to the earnings lost on the CBR. He thought the section might be more understandable if it addressed the rule, the limit, and then the intent.

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Representative Doogan asked why temporary loans for cash-flow purposes did not come out of the SBR, as the money was theoretically easier to get to. Co-Chair Hawker did not know.

Co-Chair Stoltze called one of the funds a savings account and the other a checking account. Co-Chair Hawker's theory was that money has been in the CBR for 25 years, while the SBR has only existed for two years. Co-Chair Stoltze recalled short-lived SBRs that were not paid back. Co-Chair Hawker noted that [David Teal from Legislative Finance] was nodding.

Co-Chair Hawker turned to a language change on page 80, paragraph (b). He stated that in the past when there was a debt to the CBR, the state paid the CBR management fees out of the CBR. Since there is a general fund surplus, the management fees would be taken out of general funds.

Co-Chair Hawker explained that Section 34 (lapsed extensions) would re-enact a 2007 provision scheduled to lapse in 2010 that still has money. The item extends the lapse date and is part of a \$5 million Department of Public Safety appropriation that has been used for domestic violence and sexual assault programs. He commented that the language in the item above in 18 (b) was the \$600,000 from the state to bail out the Matanuska Maid dairy.

Co-Chair Hawker turned to lines 12 through 23, the spending authority for federal stimulus money appropriations. He explained that the original bill passed was budgeted for FY 10; the \$82 million in aggregate is the amount that is currently estimated to not be expended by the end of 2010; not lapsing the provision would allow the money to still be available for FY 11.

Co-Chair Hawker remarked that item (d) on line 24 affects the 2009 budget. The governor was given money to work towards redistricting. He noted that little of the money has been spent and the money was extended; another \$1 million was added in the governor's budget as well.

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Co-Chair Hawker reported that the budget would take effect July 1, 2010 except for lapsed extensions.

Representative Austerman pointed to page 80 regarding the management fees being paid out of the general fund and asked why the item was for only one year. Co-Chair Hawker replied that every appropriation is for one year. Another option would be moving items into the agency number budget.

Representative Austerman asked whether there would be consideration of moving the appropriation to the agency budget. Co-Chair Hawker had concerns about having to re-make the decision in future budget cycles.

Co-Chair Hawker noted one large appropriation that was missing: \$400 million for the governor's scholarship program. He explained that the item would be a fiscal note item if passed, and should not be in the budget.

Co-Chair Hawker reviewed the current plan for the budget process in committee.

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Co-Chair Hawker provided an overview of expected amendments:

- Oil and gas language appropriation: how much and how funded
- Fuel trigger
- Common budget location for therapeutic courts
- Governor's domestic violence/sexual assault plan: he believed the committee had come to the conclusion that the plan must be broader
- Medicaid: increased funding and the policy change at the federal level; an Department of Health and Social Services amendment to increase prescription drug benefits
- Other items from members

Representative Doogan, Co-Chair Hawker, and Co-Chair Stoltze appreciated the work of staff on the budget.

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ADJOURNMENT

The meeting was adjourned at 2:35 PM.