

ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE

April 7, 2009

8:05 a.m.

MEMBERS PRESENT

Representative Bob Lynn, Chair
Representative Paul Seaton, Vice Chair
Representative Carl Gatto
Representative Craig Johnson
Representative Peggy Wilson
Representative Max Gruenberg
Representative Pete Petersen

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE JOINT RESOLUTION NO. 8

Proposing amendments to the Constitution of the State of Alaska limiting appropriations from certain mineral revenue, relating to the balanced budget account, and relating to an appropriation limit.

- MOVED HJR 8 OUT OF COMMITTEE

HOUSE JOINT RESOLUTION NO. 24

Urging the United States Congress and the United States Department of Agriculture to extend the basic housing allowance exclusion to all military families for purposes of the school nutrition program.

- MOVED HJR 24 OUT OF COMMITTEE

HOUSE BILL NO. 24

"An Act relating to a public procurement preference for Alaska veterans."

- HEARD AND HELD

HOUSE BILL NO. 128

"An Act relating to introduction of measures and to fiscal notes for measures."

- SCHEDULED BUT NOT HEARD

HOUSE CONCURRENT RESOLUTION NO. 8

Proposing amendments to the Uniform Rules of the Alaska State Legislature relating to withdrawing measures, to sponsors of measures, to prefiling measures, and to the three readings of bills.

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: HJR 8

SHORT TITLE: CONST. AM: APPROP. LIMIT/MINERAL REVENUE

SPONSOR(S): REPRESENTATIVE(S) KELLY

01/26/09 (H) READ THE FIRST TIME - REFERRALS
01/26/09 (H) STA, JUD, FIN
04/02/09 (H) STA AT 8:00 AM CAPITOL 106
04/02/09 (H) Heard & Held
04/02/09 (H) MINUTE(STA)
04/07/09 (H) STA AT 8:00 AM CAPITOL 106

BILL: HJR 24

SHORT TITLE: FED. SCHOOL LUNCH PROGRAM/MILITARY

SPONSOR(S): REPRESENTATIVE(S) RAMRAS

03/13/09 (H) READ THE FIRST TIME - REFERRALS
03/13/09 (H) MLV, STA
03/31/09 (H) MLV AT 1:00 PM BARNES 124
03/31/09 (H) Moved Out of Committee
03/31/09 (H) MINUTE(MLV)
04/01/09 (H) MLV RPT 4DP
04/01/09 (H) DP: RAMRAS, LYNN, BUCH, GATTO
04/07/09 (H) STA AT 8:00 AM CAPITOL 106

BILL: HB 24

SHORT TITLE: PROCUREMENT PREFERENCE FOR VETERANS

SPONSOR(S): REPRESENTATIVE(S) FAIRCLOUGH, GATTO, LYNN

01/20/09 (H) PREFILE RELEASED 1/9/09
01/20/09 (H) READ THE FIRST TIME - REFERRALS
01/20/09 (H) MLV, STA
03/31/09 (H) MLV AT 1:00 PM BARNES 124
03/31/09 (H) Moved CSHB 24(MLV) Out of Committee
03/31/09 (H) MINUTE(MLV)
04/01/09 (H) MLV RPT CS(MLV) 2DP 2NR

04/01/09 (H) DP: LYNN, GATTO
04/01/09 (H) NR: RAMRAS, BUCH
04/07/09 (H) STA AT 8:00 AM CAPITOL 106

WITNESS REGISTER

REPRESENTATIVE MIKE KELLY
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: As prime sponsor, provided comments during the hearing on HJR 8.

DEREK MILLER, Staff
Representative Mike Kelly
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Provided answers to questions on behalf of Representative Kelly, prime sponsor of HJR 8.

JOHN BOUCHER, Senior Economist
Office of the Director
Office of Management & Budget (OMB)
Office of the Governor
Juneau, Alaska

POSITION STATEMENT: Testified during the hearing on HJR 8.

DANA STROMMEN, Staff
Representative Jay Ramras
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Introduced HJR 24 on behalf of Representative Ramras, prime sponsor.

CRYSTAL KOENEMAN, Staff
Representative Anna Fairclough
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 24 on behalf of Representative Fairclough, co-prime sponsor.

VERN JONES, Chief Procurement Officer
Division of General Services
Department of Administration

POSITION STATEMENT: Answered questions during the hearing on HB 24.

RICHARD DAVIDGE, Member

Board of Directors
Alaska Veterans Business Alliance;
President
State Council
Vietnam Veterans of America
Anchorage, Alaska

POSITION STATEMENT: Testified during the hearing on HB 24.

ACTION NARRATIVE

[8:05:15 AM](#)

CHAIR BOB LYNN called the House State Affairs Standing Committee meeting to order at 8:05 a.m. Representatives Seaton, Gatto, Johnson, Wilson, Petersen, and Lynn were present at the call to order. Representative Gruenberg arrived as the meeting was in progress.

HJR 8-CONST. AM: APPROP. LIMIT/MINERAL REVENUE

[8:05:34 AM](#)

CHAIR LYNN announced that the first order of business was HOUSE JOINT RESOLUTION NO. 8, Proposing amendments to the Constitution of the State of Alaska limiting appropriations from certain mineral revenue, relating to the balanced budget account, and relating to an appropriation limit.

[8:06:17 AM](#)

REPRESENTATIVE MIKE KELLY, Alaska State Legislature, as prime sponsor of HJR 8, noted that questions had been asked by the committee at the previous hearing of HJR 8, and the answers to those questions had been prepared and would be provided by his staff, Derek Miller.

[8:07:23 AM](#)

DEREK MILLER, Staff, Representative Mike Kelly, Alaska State Legislature, noted the first question that had been asked was in regard to the source of the definition of "mineral revenue" - a term used on page 1, lines 8-10, of HJR 8. The answer is Article 9, Section 15, of the Constitution of the State of Alaska, which read:

At least twenty-five percent of all mineral lease rentals, royalties, royalty sale proceeds, federal

mineral revenue sharing payments and bonuses received by the State shall be placed in a permanent fund, the principal of which shall be used only for those income-producing investments specifically designated by law as eligible for permanent fund investments. All income from the permanent fund shall be deposited in the general fund unless otherwise provided by law.

MR. MILLER also defined mineral production and mineral transportation - two other terms used in the proposed resolution - as the state's production tax on oil and the state's tariff on transporting oil via the Trans-Alaska Pipeline System (TAPS), respectively.

MR. MILLER said question two had to do with the remaining indebtedness to the Constitutional Budget Reserve Fund (CBRF), and the amount is \$150 million "and change." He said [in fiscal year 2008 (FY 08)] the legislature appropriated \$3 billion from the General Fund (GF) to the CBRF. Additionally, over \$2 billion were transferred from a variety of GF sub-funds and accounts to the CBRF.

[8:09:55 AM](#)

MR. MILLER addressed question three, which was to discern whether or not the state could include fish receipts and tourism in the proposed 5-year appropriation limit. Mr. Miller said the answer is yes; however, the state receives minimal revenue from these sources compared to mineral revenue. For example, he noted, if the \$22 million total unrestricted income from fish tax in FY 07 and FY 08 was added to the HJR 8 model, those receipts would represent a little less than half a percent of the total revenue for those years. He noted also that there are other fish receipts, but since they are restricted, they should not be included in the HJR 8 model. In response to Chair Lynn, he indicated that restricted receipts are like designated funds.

[8:11:02 AM](#)

MR. MILLER, in response to Representative Gatto, said the unrestricted income from tourism, which could be included in the HJR 8 model, includes: \$9 million from the Car Rental Tax, [\$12.3] from the Cruise Corporate Income Tax, \$3.5 million from the Tourism Corporate Income Tax, and \$6.7 million from the Cruise Gaming Tax.

[8:12:01 AM](#)

MR. MILLER moved on to the fourth question, which asked whether it would be feasible to calculate a 3-year average, deleting the high and low extremes. The answer to that question is yes, he said, and the numbers are illustrated on a line graph labeled, "State of Alaska General Fund Spending FY 00 - FY 10," which is attached to the aforementioned handout. Mr. Miller explained that the blue line depicts the actual GF spending, the red line shows the five-year average discussed at the last hearing of HJR 8, and the green line depicts the three-year average. The green and red lines track together until FY 09 and FY 10, when the green line is less by several hundred million dollars.

[8:13:55 AM](#)

REPRESENTATIVE SEATON interpreted that no matter which plan was used - the five-year average proposed by HJR 8, shown as the red line, or the three-year average comparison, shown as the green line - the amount of money available from GF spending would be less than the amount shown through FY 10 for actual GF spending - the black line.

MR. DEREK answered that's correct.

[8:14:26 AM](#)

REPRESENTATIVE GATTO pointed out a second line graph attached to the handout, [which is entitled, "5-year and 3-year Average Comparison"]. He observed that because the values for the horizontal and vertical scales of each line graph are not compatible, it is difficult to make a comparison between the two graphs. For example, one chart shows FY 00 - FY 10, while the other shows FY 04 - FY 17. The first and second graphs have different coordinates, which makes it difficult to compare the two.

MR. MILLER explained that those two line graphs are not meant to be compared, since the one shows GF spending, while the other shows how much the state received in mineral revenue.

[8:15:52 AM](#)

REPRESENTATIVE KELLY commented, "That was in response, I think, to Representative Wilson's question about projecting it out, and of course what we used was the state estimates for ... the elements."

8:16:00 AM

REPRESENTATIVE WILSON said she was comparing this to [slide] 10 of the presentation the other day [included in the committee packet]; however, she observed that the colors of the lines are not consistent.

8:17:55 AM

REPRESENTATIVE JOHNSON noted that the day before, committee members had received information from Representative Gruenberg relating that the amount the state owes the CBRF is \$650 million, while Mr. Miller today told the committee that amount is \$150 million. He said he wants to know what the state actually owes and what the source was for the information from both parties.

MR. MILLER said the information that the amount of indebtedness was \$150 million was obtained from Rob Carpenter in Legislative Finance. He said the number is from FY 08.

8:19:03 AM

REPRESENTATIVE SEATON drew attention to [a memorandum in the committee packet from Pat Davidson, Legislative Auditor, Legislative Budget and Audit Committee, Division of Legislative Audit], which shows that the balance owed at the end of FY 08 is [\$150,093,111], while the estimated amount currently owed the CBRF in 2009 is [\$620,578,218]. He said, then, that neither this source nor Mr. Miller's contradict one another, because both list the amount owed in FY 08 as approximately \$150 million.

8:19:57 AM

CHAIR LYNN asked Representative Kelly which comparison - the five-year or the three-year - he thinks would be best for the state.

8:20:18 AM

REPRESENTATIVE KELLY answered that both comparisons are similar. He indicated that if there had not been a spike in the revenue, as seen on the line graph, he would stay with his 5-year averaging plan. However, because there was a spike in revenue, the three-year average comparison "wipes that effect out and smoothes it so the net effect would be ... less spending as the

price plummeted." The effect would be "even more budgetary disciplines being imposed," he added. Representative Kelly said he would leave the decision to the committee. He said no one anticipated the spike in revenue when HJR 8 was formulated.

CHAIR LYNN stated that if [the spike in revenue] doesn't happen for another 20 years, "that's one thing," but if it happens every three or four years, "it's quite another."

REPRESENTATIVE KELLY concurred.

[8:23:16 AM](#)

REPRESENTATIVE WILSON said she can understand why the sponsor chose to show the first graph with vertical scale increments of a billion dollars, because she opined doing so illustrates "more of a difference ... just at a glance."

REPRESENTATIVE SEATON observed that the difference between the first and second graphs is apparent in the years FY 08, 09, and 10. He interpreted that with the three-year average, there would never have been "a penny out of this fund since 2000 that would ever have come back for supporting the General Fund budget." He pointed out that the difference between the averages and actual GF spending in FY 05, as shown on the first line graph, is approximately \$600 million. He said that represents 26 percent of the total GF in the operating budget in 2005, and represents 100 percent of the capital budget. Representative Seaton surmised that the intent is that in future years the state would create a [Balanced Budget Account (BBA)] fund with its mineral revenue that exceeds the three- or five-year average. However, that revenue would be unavailable in the BBA, and would only be available if the legislature were to "violate the statute" or access the CBRF via the required three-quarter vote.

REPRESENTATIVE SEATON, referring to the first graph, surmised that if the proposed constitutional amendment had been in play over the last decade, then "the only thing that we could do is take a CBR vote to fund every one of these years and make up the difference between the green or the red line and what we actually would have spent."

[8:29:14 AM](#)

REPRESENTATIVE GATTO said he believes what the resolution intends is forced savings to prepare for a bleak [revenue]

future. He said Representative Seaton is right that [if the averaging had been done over the past decade] the state would have had less to spend; however, the state would have had more money saved. He said the question is, "Which one of those scenarios is the preferable scenario."

8:30:20 AM

REPRESENTATIVE KELLY said the short answer to Representative Seaton is yes. In response to Representative Gatto, he said the purpose of HJR 8 is to place constraints on the legislature. He said he has never met an Alaskan who would say the state should not have a fiscal plan. The debate is what the fiscal plan should look like, and many agree that the plan will be comprised of many elements. One of the elements put in place last year, he related, was a bill that passed [requiring departments to develop a 10-year forecast]. He indicated that the people of the state have attempted in the past to place limits on [state spending]; however, "the efforts to this point have caused quite a few problems." He opined that HJR 8 is "an averaging method" that "avoids the problems," is flexible, and takes into account both the past and the future.

REPRESENTATIVE KELLY drew attention to a page attached to the aforementioned handout, on which is a model of HJR 8. He said the [BBA ending balance] shown for the years [FY 04 - FY 17] illustrates "that it would show off in some years considerable dollars." He said Representative Seaton's point is that those are dollars that the legislature would have some difficulty "getting their hands on." Representative Kelly confirmed, "That's exactly what this does." He spoke of the benefit of having a discipline wherein the state saves revenue earned during "good times." He said he would like to ask the people of Alaska if they support that idea. He pointed out that the constraints proposed by the resolution would be predictable and would help the administration and the legislature to know more easily what funds will be available.

8:35:04 AM

CHAIR LYNN offered his understanding that the managers of the Alaska Permanent Fund recently switched to a five-year averaging plan to avoid giving out too much in any single year.

REPRESENTATIVE KELLY stated, "We didn't begin this exercise when prices were plummeting, we began it when prices seemed to be rising." He added, "It performs as we would expect."

[8:35:41 AM](#)

REPRESENTATIVE WILSON remarked that in many regions across the state, the capital budget is the engine that drives the economy, and she questioned [how HJR 8 would affect] those communities. She said she agrees with Representative Kelly's premise, but warned that the State of Alaska must be careful to avoid devastating parts of the state which may not be able to "handle it" as well as other parts of the state.

REPRESENTATIVE KELLY responded that HJR 8 is formulated to avoid severe plummeting [of the state's revenue income], thus it would sustain a predictable capital budget.

REPRESENTATIVE WILSON said it can take six years to pull out of a sharp drop in revenue, but she doubts the state would ever be without a capital budget for six years, because of the balance in the CBRF. She said the legislature is not going to take anything out [of the CBRF] unless it absolutely has to do so. She related that in some years the capital budget has been high, in others it has been low, and in still others it could have been kept lower than it was.. She predicted that under the HJR 8 scenario, part of the state may fare well, while the other part may find its economy torn apart, and she encouraged the legislature to look for solutions that would benefit the entire state.

[8:41:20 AM](#)

REPRESENTATIVE KELLY reiterated that HJR 8 is designed to provide a capital budget in years when it would otherwise be empty.

REPRESENTATIVE WILSON countered that the resolution would take away the capital budget "during the other years."

REPRESENTATIVE KELLY responded that HJR 8 would not make or lose money for the state, but would signal the need to stop spending as much.

[8:43:06 AM](#)

REPRESENTATIVE GRUENBERG directed attention to a pie chart in the committee packet, labeled, "State of Alaska Expenditures by Category FY 05 Operating & Capital Budgets (\$ millions)," which shows varying types of expenditures. He said he would focus on

those types of expenditure "as measured against the matrix of time," as well as in terms of whether or not they are legally or practically required expenditures. One category, he said, are expenditures that must occur because they are legally required. They include expenditures such as federal "pass-throughs," entitlement programs, education, keeping streets safe, and economic stimulus funds. The second category, he highlighted, relates to those expenditures that must be spent practically, but do not have to be spent immediately, such as for deferred maintenance. The third category, he said, are those expenditures that are discretionary funds, such as celebrating Alaska Day.

REPRESENTATIVE GRUENBERG said that Alaska cannot dedicate funds, but its legislature has much more discretion than legislatures in other states. He pointed to the pie chart, which shows that 30.6 percent of it is money from the General Fund. He said HJR 8 affects the matrix of time by delaying expenditures which do not fall under the legally required category. He said those who want an Alaska Day celebration "will still have the political pressure to do it." Conversely, he stated, issues such as children being crowded into schools and bridges that will not get repaired until they collapse, which do not have the kind of lobby to push them through, will just get delayed. He stated, "I think you have to measure your concept against the concepts of time and requirements." He asked Representative Kelly to specifically address that issue.

[8:47:37 AM](#)

REPRESENTATIVE KELLY said he has a different view. He said the state cannot print money and must discipline itself. He stated that a fiscal plan prevents over spending and sets aside money in case of decreased income. He reiterated that he would like to offer this plan to the public.

CHAIR LYNN commented that this [fiscal plan] could be done without amending the constitution, but the legislature probably would not adhere to it.

REPRESENTATIVE KELLY concurred.

[8:50:52 AM](#)

REPRESENTATIVE PETERSEN talked about the difficulty the state has had in projecting revenue. He said last year's projections were well over \$1 million off the mark, and that discrepancy

will have to be corrected with a supplemental budget. He stated that he thinks it is difficult to lock the state into a spending plan when it does not know what its revenue will be.

CHAIR LYNN said projecting revenue will be difficult whether or not [HJR 8 is adopted].

[8:52:49 AM](#)

REPRESENTATIVE KELLY stated that he agrees with Representative Petersen, and he said he believes that is a strong argument for this model, because this model projects only one year.

[8:54:28 AM](#)

REPRESENTATIVE JOHNSON stated that HJR 8 has brought about more discussion about allocating dollars in a finite world and actually making financial decisions than he has heard in any other committee. He opined that this is where the focus of the discussion should be. He stated that "the 800-pound gorilla in the room" is the state's operating budget. He emphasized that that is the issue that really needs to be addressed, and HJR 8 brings about that discussion. He said perhaps HJR 8 needs to be "tweaked," but he is encouraged by the discussion the proposed legislation has generated. He told Representative Wilson that he knows there are varying needs in different parts of the state, but he said he would like the committee to focus on the control HJR 8 will exercise rather than what the state will or will not have.

[8:56:47 AM](#)

REPRESENTATIVE WILSON expressed that the loss of the House Ways & Means Committee was sad, because that committee held this type of discussion all the time.

REPRESENTATIVE JOHNSON said he never sat on the House Ways & Means Committee, but he has never heard substantive decisions made regarding where the state will spend each dollar.

[8:57:35 AM](#)

REPRESENTATIVE SEATON said Alaska's capital and operating budgets are separate for a reason, and the legislature violates the constitution every year because it is unable - because of the needs of the state - to meet the statutory requirement that one-third of the state's budget must be "capital." He directed

attention to the pie chart previously referred to by Representative Gruenberg, and another pie chart, labeled, "FY 06 Operating & Capital Budgets Unduplicated Appropriations by Category." Each chart shows a section of the pie as the General Fund, which [handwritten to the side] has been broken down into the operating and the capital budgets. Representative Seaton said if the plan proposed in HJR 8 had been in play in FY 05, when the legislature was already initiating a tire tax and increasing business taxes, \$600 million would have had to be taken out of the GF. That means the state would have been required to raise \$600 million either by initiating a [state] sales tax or income tax. In FY 06, he noted, the legislature came up with \$338 million in capital and funded a lot of projects; however, if the plan proposed in HJR 8 had been in existence then, it would have required 100 percent of that capital budget and 26-30 percent of the GF operating budget. Representative Seaton remarked that between \$900 million - \$1.2 billion would have had to be put aside, out of reach of the legislature, until the five-year average raised the balance, and there would have been a zero capital budget and at least 25 percent less in the GF.

REPRESENTATIVE KELLY responded that he wishes the state had taken that money off the table. He said there are many times this plan would "dampen down" spending, but he believes that is the kind of discipline the people of Alaska are requesting.

[9:04:31 AM](#)

REPRESENTATIVE GATTO noted that in the past, when oil was down to \$10 a barrel, at least there were 1.4 million barrels a day. Today, he indicated, there are only 650,000-700,000 barrels a day being produced. He stated that in times when the state does not have money to spend, there are alternatives. For example, a roof can be repaired instead of being replaced or an alternative building can be used for a classroom when one burns down. He suggested, "If you want to go to Disneyland for two years in a row, then maybe you can't go to college." He explained that this issue boils down to making choices and giving up one thing to fund another.

[9:06:09 AM](#)

REPRESENTATIVE WILSON acknowledged there are many points of view, and she stated that she does not have a problem with the idea of the state having a fiscal plan. However, she warned that there is no guarantee there will ever be a gas pipeline,

thus the state should be "planning on other ways that revenue is coming into this state besides oil."

CHAIR LYNN remarked that [some committee members] had [during a prior meeting when HJR 8 was heard] suggested that other forms of revenue might be considered.

[9:07:26 AM](#)

REPRESENTATIVE JOHNSON stated, "I think Representative Seaton is absolutely right, and ... where he thinks it's a negative thing, I think it's a good thing." Money could still be accessed from the CBRF via a three-quarters vote. He talked about being accountable to the public, and he stated that he thinks it is "high time that we start looking to the future through the past." He said that he has not heard any argument that would keep him from "wanting to take this first step towards a fiscal plan."

[9:09:18 AM](#)

REPRESENTATIVE GRUENBERG, in response to Representative Gatto's previous remarks, said, "It's not just a question of whether you go to Disneyland or whether you go to college; it's a question of whether you put the money in savings or go to college." He said he recently attended a health caucus, during which an issue was addressed regarding the high number of children in rural Alaska who have health problems because they cannot get good drinking water. He stated, "The question really - to really put this in terms of rural Alaska - is whether we get those kids some good drinking water and get them out of the hospital or whether we save the money."

CHAIR LYNN suggested that a good fiscal plan could - over a period of time - help the state address some of its critical problems.

[9:10:37 AM](#)

REPRESENTATIVE JOHNSON responded that he agrees that decisions have to be made; however, he said he does not think it's a decision between savings and health, but rather it's a choice to spend money in a responsible manner.

REPRESENTATIVE GRUENBERG said he did not intend to "trivialize it."

REPRESENTATIVE JOHNSON emphasized that he takes the issue of children's health seriously.

[9:11:36 AM](#)

JOHN BOUCHER, Senior Economist, Office of the Director, Office of Management & Budget (OMB), Office of the Governor, told the committee that since its members had, during the previous and current hearings on HJR 8, mentioned the 10-year fiscal plan required by House Bill 125, he wanted to report on the progress related to it. He said he got the feeling during the last hearing that committee members thought nothing had been done regarding this fiscal plan, and he stated that that is "far from the truth." He revealed that he is the lead person at OMB regarding the fiscal plan.

MR. BOUCHER, regarding HJR 8, said he thinks having a certain amount of money out of reach may result in "a tremendous tension to try to get at those resources." He indicated that he thinks [the proposed Balanced Budget Account] would be a replication of the CBRF. He stated, "The bottom line to me is you're removing the three-quarter vote calculation." He credited the legislature for restraining itself from spending all available monies over the years, noting that a significant amount of money went into the CBRF. He said he thinks the administration has, in partnership with the legislature, tried to encourage that behavior. He said "we all" are aware of the increases in the operating budget.

[9:15:12 AM](#)

MR. BOUCHER stated that with big revenue comes the possibility to create new opportunities or fix big problems. He questioned how the state might have dealt with AGIA or the state's retirement system if state revenue had been "off the table." He explained, "Because a significant amount of the growth in the operating budget during the past several years has been that stepped up obligation that we have taken on ... to deal with the unfunded liability." Mr. Boucher said "if it had been constructed that way" the state would have had to consider alternate revenue sources, and he said one alternative would have been the earnings reserve. He indicated that [HJR 8] does not address "the whole revenue picture," and he said "we" need to think about unintended consequences.

[9:17:03 AM](#)

REPRESENTATIVE WILSON said she was the person who had remarked at a previous meeting that legislators had not been issued a report regarding the 10-year fiscal plan. She said having that report would be assuring for many legislators.

MR. BOUCHER explained that the report was submitted by OMB during "one of the first several meetings" of the House Finance Committee. It was an overview of the entire state plan, and it exists on line at OMB's web site. He said no hardcopy was produced, because OMB did not see the need for one, but he offered to rectify that. Each agency provided its own 10-year, forward forecast, he explained.

MR. BOUCHER stated that the shortcomings of [House Bill 125] are similar to those of HJR 8: neither takes into account "the whole picture." He noted that much of the debate he has heard has been focused on unrestricted GF revenues and has ignored the categories of "other" revenue or federal revenue. He said, "Because that - if we look in the rear view mirror - has been the most unpredictable piece between one year to the next and has caused the most angst in forums like this."

MR. BOUCHER, regarding federal revenue, said the only possibility is to consider current programs and predict what the "match rate" may be in the future. For programs such as Medicaid, the state has "some pretty good ideas." Other programs are more difficult to predict, and the state almost has to "assume status quo" or a potentially inflated rate. He expressed his willingness to discuss "the pieces of the fiscal plan" - those pieces that have been successful, as well as those that have caused a struggle.

CHAIR LYNN said he hopes Mr. Boucher would come to the next committee of referral and "expand upon" what he just said.

[9:20:21 AM](#)

REPRESENTATIVE WILSON said she knows how important the House Finance Committee is, but not everyone hears what is said in that committee when they are busy with their own committees.

[9:20:46 AM](#)

REPRESENTATIVE GRUENBERG cited part of AS 37.07.060(b), which read as follows:

(b) The governor shall present the proposed comprehensive operating and capital improvements programs, and fiscal plan if it is required under AS 37.07.020(b), in a message to a joint session of the legislature before the fourth legislative day following the convening of the legislature in regular session.

REPRESENTATIVE GRUENBERG stated that that language clearly requires a message from the governor that must be sent to the legislature as a hard copy, not just sent electronically. He expressed his hope that the governor would follow this statute in the future.

[9:21:58 AM](#)

REPRESENTATIVE GATTO said Alaska is trying to avoid the difficulties other states are experiencing. California, for example, is a state with "enormous resources," but it acquired a huge deficit by spending more money than available. In response to Mr. Boucher's comment regarding AGIA, Representative Gatto indicated that the state would have done without other things in order to fund AGIA. He spoke about looking to the future, and he said it should be younger people in the legislature deciding what needs to be addressed. He added, "And that's what scares me is we're doing the thinking for them without them doing the thinking for us."

[9:24:08 AM](#)

MR. BOUCHER said he is not against the resolution conceptually. He emphasized that the administration is "on record as trying to promote saving."

[9:25:38 AM](#)

REPRESENTATIVE SEATON said if the mechanism [of HJR 8] had been in place in 2007, the state would have had to reduce the GF contribution to the budget by \$1.4 billion - by \$1.7 billion if the mechanism had been in place in 2008. He asked if OMB could have done that "in any mechanism that wouldn't, basically, almost destroy the fabric of the state as we know it know, and the procedures that are in place."

MR. BOUCHER responded that when talking about numbers of that magnitude, there would have been some extremely difficult decisions to be made, and the administration would "have to do

that in partnership with all the citizens of the state through the legislature."

REPRESENTATIVE SEATON recalled the fiscal restraints of 2003 and 2004, and indicated [how difficult it would have been for] the legislature to remove \$.5 billion from its revenue stream, "in addition to everything else." He said he has not ever seen the administration come forward with an austere, draconian budget; therefore, he questioned Mr. Boucher's support of a mechanism that would directly result in such a budget.

[9:28:15 AM](#)

MR. BOUCHER responded, "Representative Seaton, we're interested in mechanisms to save. I think I've tried to outline some of the tensions that I see in this."

[9:29:07 AM](#)

REPRESENTATIVE KELLY summarized that the proposed resolution would not take away the prerogative of the legislature relative to the capital budget, would smooth out the spikes and drops in the state's savings, and would force budgeting discipline on the legislature. He expressed his hope that the resolution could be passed so that the public could have the issue brought before it.

[9:33:13 AM](#)

CHAIR LYNN closed public testimony.

[9:33:22 AM](#)

REPRESENTATIVE WILSON stated that although she does not think HJR 8 is the answer to a fiscal plan, she thinks the committee might use it as "an idea of what direction we could go." She suggested that five-year averaging could be used. That number could be divided by three, with one-third of that going to the capital budget, one-third to deferred maintenance, and one-third to the balanced budget account. She explained that HJR 8 is a good idea, but she warned against "putting so much down that we're destroying what we ... have already." She agreed that "we've gone up maybe further than we should"; however, she stated that given the present economy, the state must be careful not to take away from its people anything it has already given them. She suggested that the sponsor of HJR 8 is on the right

track, but that the idea needs to be "tweaked a little bit more."

CHAIR LYNN asked Representative Wilson if she would be comfortable allowing the next committees of referral - the House Judiciary Standing Committee and the House Finance Committee - to consider those issues. He pointed out that three members of the House State Affairs Standing Committee also serve on the House Judiciary Standing Committee.

REPRESENTATIVE WILSON replied, "I think it would be good to look at a few things like that."

[9:35:44 AM](#)

REPRESENTATIVE SEATON opined that [HJR 8] is "poor public policy," because it is saying that since 2000, the legislature has been irresponsible in its budgeting. He stated that he does not think that is the case. He said the proposed resolution would force the legislature to pass further tax increases on individual citizens, because it would be taking money into "an untouchable tank" via a constitutional amendment. He talked about all the edifices and services that would not get funding. Representative Seaton told Chair Lynn that if his intent is to move HJR 8 out of committee, he would move it out, but would vote "do not pass."

CHAIR LYNN said he also does not think the legislature has been irresponsible.

[9:37:41 AM](#)

REPRESENTATIVE JOHNSON moved to report HJR 8 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, HJR 8 was reported out of the House State Affairs Standing Committee.

HJR 24-FED. SCHOOL LUNCH PROGRAM/MILITARY

[9:38:28 AM](#)

CHAIR LYNN announced that the next order of business was HOUSE JOINT RESOLUTION NO. 24, Urging the United States Congress and the United States Department of Agriculture to extend the basic housing allowance exclusion to all military families for purposes of the school nutrition program.

[9:39:06 AM](#)

DANA STROMMEN, Staff, Representative Jay Ramras, Alaska State Legislature, introduced HJR 24 on behalf of Representative Ramras, prime sponsor. She read part of the sponsor statement, which read in entirety as follows [original punctuation provided]:

House Joint Resolution 24 enables military families that are living off the base to qualify for the school nutrition programs.

Families who live off the base are given an additional basic allowance for housing (BAH). Due to this increase of income children of these families are not qualified for the school nutrition programs. Many of these families are struggling financially. This presents a major issue for families that have one or multiple children to feed and a vital program such as the free lunch program is denied to them because of the location of their homes and increased income due to the basic allowance for housing.

HJR 24 encourages the United States Congress and the United States Department of Agriculture to look at the issue presented to the heroic military men and women and thus their families. This is an opportunity to ensure our military families do not have to endure additional hardships while a family member is defending our country.

[9:40:17 AM](#)

CHAIR LYNN, after ascertaining that there was no one to testify, closed public testimony.

[9:40:27 AM](#)

REPRESENTATIVE GRUENBERG moved to report HJR 24 out of committee with individual recommendations and the accompanying fiscal notes.

[9:41:09 AM](#)

REPRESENTATIVE GRUENBERG if suggested copies of HJR 24 should be sent to other members of Congress, since it urges U.S. Congress to extend legislation.

MS. STROMMEN responded that she worked closely with Josh Tempel in Senator Huggins' office regarding this legislation, and she said she thinks Mr. Temple, Senator Huggins, and Representative Ramras would agree "that we could extend that."

REPRESENTATIVE GRUENBERG renewed the motion to moved HJR 24 out of committee with individual recommendations and attached fiscal notes. There being no objection, HJR 24 was reported out of the House State Affairs Standing Committee.

HB 24-PROCUREMENT PREFERENCE FOR VETERANS

[9:42:11 AM](#)

CHAIR LYNN announced that the last order of business was HOUSE BILL NO. 24, "An Act relating to a public procurement preference for Alaska veterans."

[Before the committee was CSHB 24(MLV).]

[9:42:23 AM](#)

CRYSTAL KOENEMAN, Staff, Representative Anna Fairclough, Alaska State Legislature, presented HB 24 on behalf of Representative Fairclough, co-prime sponsor. She stated that currently in statute, [bidder] preference is given to Alaska bidders, local agriculture and fisheries, Alaska product preference, recycled products, employment programs, Alaskans with disabilities, and employers of people with disabilities. She indicated there is a preference for Alaska officers in Alaska Administrative Code.

MS. KOENEMAN said the co-prime sponsors feel that because of what veterans give, the state should give back to them what it can. She said HB 24 is a step in that direction; it would give a 5 percent [bidder] preference to Alaska veteran business, up to \$5,000.

[9:44:13 AM](#)

MS. KOENEMAN, in response to Representative Gatto, noted that the definition of an Alaska veteran is found in Section 2 of HJR 24, and the change in statute would be permanent. In response to a follow-up question, she cited the language on page 2, lines 7-8, which read:

(b) A preference under this section is in addition to any other preference for which the bidder qualifies.

[9:45:36 AM](#)

MS. KOENEMAN, in response to Chair Lynn, said the bill does not address the issue of disability; however, it can be "attached to the Alaskans With Disabilities preference."

CHAIR LYNN asked, "And so, this and the disability would go together then?"

MS. KOENEMAN answered that's correct.

[9:46:20 AM](#)

REPRESENTATIVE GATTO noted that language on page 1 sets a \$5,000 limit, while language on page 2 states that the preference is "in addition to any other preference for which the bidder qualifies." He questioned whether that might be conflicting.

[9:47:28 AM](#)

VERN JONES, Chief Procurement Officer, Division of General Services, Department of Administration, responded that the \$5,000 cap is for a particular preference; it has no impact on the value of any other preference for which a veteran-owned business would qualify. In response to Representative Johnson, he confirmed, "This preference would be in addition to any other preference that that business or individual otherwise qualified for." He told Representative Johnson that there are some federal preferences that do not involve the state.

[9:49:47 AM](#)

REPRESENTATIVE GRUENBERG directed attention to language beginning on page 2, line 11, which read:

"or the bidder must have sold supplies of the general nature solicited to other state agencies, governments, or the general public."

REPRESENTATIVE GRUENBERG suggested that would discriminate against someone who is new in business.

MR. JONES drew attention to the first part of the sentence, which states that value must be added "by the bidder itself

actually performing, controlling, managing, and supervising a significant part of the services provided". He pointed out that the word in between those two parts of the sentence is "or".

REPRESENTATIVE GRUENBERG noted that the first part of the conjunctive sentence does not deal with goods - only services. The second part of that sentence refers to supplies. He said there may be a bidder who is not dealing with services or supplies, but rather is dealing vehicles, which is not a supply, unless it is included somewhere in the language within a definition of supply.

MR. JONES said this language is what is currently used in disability statute and "we" suggested it be used in HJR 24. He stated the intent is to prevent a person from "shopping their preferences around their status as a disabled bidder or, in this case, an Alaska vendor, and actually being a front person and bidding on jobs and not actually performing them and skimming off the preference." He said "we" have interpreted this language to mean that the bidder would actually have to perform, do the work, or have been in business performing this kind of business in the past.

REPRESENTATIVE GRUENBERG emphasized that that is not the way he reads the language; he opined that it is very misleading. He expressed concern that the language would not aide a start-up business. He said he supports the legislation but thinks it needs some work.

CHAIR LYNN suggested Representative Gruenberg might consider addressing these concerns via an amendment.

[9:53:48 AM](#)

REPRESENTATIVE GRUENBERG noted that the House State Affairs Standing Committee is the only committee of referral. He remarked that there may be a bidder who provides services but will not be supervising; therefore, he recommended changing the "and" to an "or" in the previously provided language from page 2, line 10.

REPRESENTATIVE GRUENBERG directed attention to the language on page 2, lines 3-6, which read as follows:

(3) limited liability company organized under AS 10.50 if a majority of the members are Alaska veterans; or

(4) corporation that is wholly owned by individuals and a majority of the individuals are Alaska veterans.

REPRESENTATIVE GRUENBERG said companies differ in the amount of people involved and the amount of shares controlled. He offered an example. He said, "What you're doing is inviting somebody who doesn't qualify to get nine of her buddies who do qualify, give them 1 percent of the stock, and lo and behold they get the break and get the bid." He said he thinks "the opposite is true," but said he cannot think of a hypothetical example at present. He recommended that language be "tightened up."

[9:55:56 AM](#)

REPRESENTATIVE JOHNSON said he wants this legislation to benefit Alaskans, not a veteran who moves up to Alaska and becomes a resident in 30 days. He asked if the words "at time of discharge" could be added following "resident of this state" on page 2, line 14, without running afoul of the constitution.

[9:57:06 AM](#)

REPRESENTATIVE SEATON directed attention to the aforementioned language on page 2, beginning on line 9. He asked if the leasing of an office building to the state would be covered under supplies or service.

MR. JONES responded that leases are defined in statute as a supply.

[9:57:47 AM](#)

RICHARD DAVIDGE, Member, Board of Directors, Alaska Veterans Business Alliance; President, State Council, Vietnam Veterans of America, stated that when people volunteer to protect America, they "disadvantage themselves from staying home and being involved in the development of all the other things that we do in our community." He spoke of giving veterans a little bit of an advantage once they return home, so that they can be competitive even though they have been disadvantaged by their service and, most often, separation from the state.

MR. DAVIDGE congratulated [Representatives Gruenberg and Johnson] for "their technical observations," and said he looks forward to working with their staff in an effort to solve those problems. He stated that "we" do not want veterans to "hire a

vet" to qualify a company. He said "we" support the changes that were made to HB 24 in the House Special Committee on Military and Veterans' Affairs.

[10:00:02 AM](#)

CHAIR LYNN, after ascertaining that there was no one else to testify, closed public testimony.

[10:00:10 AM](#)

REPRESENTATIVE GRUENBERG, in response to Chair Lynn, said he is not prepared to propose any amendments at this time.

[10:00:24 AM](#)

MS. KOENEMAN stated:

In order to qualify for the veterans' preference, they have to qualify as an Alaska bidder, and under current statute ... I don't believe that it qualifies for a start-up company initially. So, that would be dealing with the entire procurement code, instead of this bill itself.

CHAIR LYNN said the House State Affairs Standing Committee is the last committee of referral. He relayed that he would not be opposed to having amendments made on the House floor. He asked Representative Gruenberg if he would prefer to hold the bill in committee.

The committee took an at-ease from [10:01:21 AM](#) to [10:01:44 AM](#).

[10:01:50 AM](#)

CHAIR LYNN said Representative Gruenberg's suggestions should be addressed. He suggested that Representative Gruenberg work with the bill sponsors and have some new language ready to consider at the next committee meeting.

[HB 24 was held over.]

[10:02:49 AM](#)

CHAIR LYNN discussed the upcoming committee calendar.

[10:03:19 AM](#)

ADJOURNMENT

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 10:03 a.m.