

SENATE FINANCE COMMITTEE  
January 27, 2010  
9:05 a.m.

[9:05:25 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:05 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Charlie Huggins, Vice-Chair  
Senator Johnny Ellis  
Senator Dennis Egan  
Senator Donny Olson  
Senator Joe Thomas

MEMBERS ABSENT

None

ALSO PRESENT

Karen Rehfeld, Director, Office of Management and Budget, Office of the Governor; John Boucher, Senior Economist, Office of Management and Budget, Office of the Governor.

PRESENT VIA TELECONFERENCE

None

SUMMARY

^FY2011 Budget Overview & Fiscal Summary

[9:05:36 AM](#)

Co-Chair Stedman reminded that the revenue prediction by Commissioner Galvin warranted additional committee time.

KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced Steve Hildebrand as the new Chief budget analyst for the Office of Management and Budget (OMB). She stated that OMB is willing to work through the budget process with the legislature. Today's presentation includes a high level view minus the agency details via PowerPoint presentation, "FY2011 Budget Overview" (Copy on File).

[9:09:13 AM](#)

Ms. Rehfeld discussed Slide 2: "Budget Guidance"

- The FY2011 budget supports Governor Parnell's number one mission: "Position Alaska's economy for growth and Alaska's families for opportunity."

Ms. Rehfeld continued with Slide 3: "Budget Guidelines"

- Focus on the priorities mandated by Alaska's constitution-Education, Public Safety, and Resource Development.
- Maintain budget discipline by limiting agency growth
- Focus on results for Alaskans
- Take a long-term view

[9:10:27 AM](#)

Ms. Rehfeld discussed Slide 4: "FY2011 Budget Summary." She highlighted the savings components. Currently "all funds" equal \$10.7 billion including the permanent fund expenditures and savings components of the spending plan before the committee.

Co-Chair Stedman requested further discussion regarding restricted and unrestricted general funds. He asked for further clarification about restating the general fund figures.

[9:11:41 AM](#)

Ms. Rehfeld communicated that the column identified as "recast general funds" includes both the unrestricted general fund and funding identified through the recast project. She mentioned that Mr. Teal will address the subject in greater detail for the public tomorrow.

Co-Chair Stedman added that the Legislative Finance Department will revisit the historic numbers for the \$700 million necessitating restate. The process clarifies the general fund. He explained that the process requires a great amount of time.

[9:14:42 AM](#)

Ms. Rehfeld pointed out the key components of the budget development that must be refreshed with the new fund code assignment including the performance framework and the long range fiscal plan, which were built on the current model as opposed to the recast.

Ms. Rehfeld returned to the Slide 4 and the expenditures broken down by agency operations including formula programs, statewide pieces, capital budget and transfers in savings. She noted that the formula programs are statutorily designated including increases in the budget.

[9:16:11 AM](#)

Ms. Rehfeld continued with the pie chart on Slide 5. She explained that education is a significant component of the budget at \$1.1 billion serving approximately 53 school districts with 130 thousand students. The budget proposal fully funds the K-12 formula including a \$56 million increase from the prior year.

Ms. Rehfeld informed that the Medicaid component equals 14 percent of the budget. She explained that the state served over 120 thousand Alaskans with Medicaid in FY09.

Co-Chair Hoffman commented that the largest component of the increase for education is due to the increase in the Base Student Allocation (BSA) by \$100. Ms. Rehfeld agreed that the intensive needs portion extends from 11 to 13 times the BSA.

Ms. Rehfeld addressed the capital budget at fourteen percent of the total budget. She mentioned that resource development remains a high priority for the governor, including \$150 million for the Alaska Gasline Inducement Act (AGEA) reimbursement. The proposed spending for the instate gas project is outlined in the operating budget. She noted that the governor highlighted \$100 million for deferred maintenance. The governor requested that the legislature consider moving the \$100 million to an immediate effective date as seen in the supplemental budget due out next week.

Ms. Rehfeld noted the deferred maintenance obligations, which allow medium and small contractors to continue working. Examples of these maintenance obligations include a request for the \$75 million crime lab and \$109 million for the University of Alaska life sciences building.

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Ms. Rehfeld continued that the capital budget includes the general fund necessary to capture the federal highway and aviation programs and continue to maintain the Dalton Highway, which is important to the efforts on the North Slope. The governor requested funding to open access to the Umiat area for resource development. Included is \$25 million for the renewable energy fund.

Co-Chair Hoffman requested further information regarding the \$8 million for Umiat. He wondered about phase funding and

timelines. Ms. Rehfeld responded that the \$8 million is half of the funds required for the road's environmental impact study. She acknowledged that the funding is phased. Co-Chair Hoffman asked if the funding is to gain access to the National Petroleum Reserve-Alaska (NPR-A). Ms. Rehfeld understood that the desired access was the Gubik oil field.

Senator Huggins asked Ms. Rehfeld to clarify the federal match. Ms. Rehfeld answered that the federal general fund match in the budget is \$50 million allowing the capture of \$700 million in federal highway and aviation program funds. She noted the general fund match for the village safe water program of \$23 million.

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Co-Chair Stedman discussed the acceleration in time required to move the \$100 million of deferred maintenance into the FY10 supplemental. He asked if the funds will be deducted from the 2011 capital budget presentation. Ms. Rehfeld responded that the governor's interest is to jumpstart the first installment of the \$100 million proposed for FY11. She noted the due date of February 2 for the supplemental bill along with another of February 17 for budget amendments.

Co-Chair Stedman requested revisiting Slide 3. He pointed out the quote "focus on the priorities mandated by Alaska's constitution-education, public safety, and resource development." He expressed concern about the operating budget consuming the entire budget, leaving little money for water, sewer, roads and bridges. He asked for a definition of the quoted clause from the administration. He expressed concern about the impact that the operating budget has in slowing down economic development in the future.

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Ms. Rehfeld responded that the constitutional discussion about the amount allocated for the capital budget has been reviewed for several years. She mentioned formula program increases, debt service components, and unfunded liability as significant areas of discussion. She noted that debt service for capital projects is an ongoing portion of the operating budget.

Senator Olson asked Ms. Rehfeld to address the revenue sharing aspect. Ms. Rehfeld responded that the revenue sharing remains in the budget at \$60 million. The ten year planning model includes \$60 million for revenue sharing as well.

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Co-Chair Hoffman recalled the governor's State of the State address and the emphasis on new school construction in rural Alaska. He expressed particular interest in the resolution of the Kassayulie case. He requested feedback regarding the governor's comments in his speech. Ms. Rehfeld replied that the governor is interested in working with the legislature on school construction using the potential FY10 surplus.

Co-Chair Hoffman stressed that rural Alaskans are interested in the resolution of the Kassayulie case. The case is long standing with political implications. He opined that ignorance of the case is a mistake. He sought a long term solution for new school construction. He stressed that all children in Alaska deserve adequate schools. He opined that this was a good year to address the problem.

[9:30:45 AM](#)

Ms. Rehfeld agreed that the governor was sincere in his desire to resolve the Kassayulie case. She revisited the pie chart on Slide 5.

Senator Thomas requested an explanation about certificates of participation in other types of bonding. He understood that some provisions in the recovery act allow other types of bonds that may prove useful for the crime lab and life sciences building. He encouraged familiarity with all available options. Co-Chair Stedman agreed that different methods of financing are available. He requested a presentation addressing bonding indebtedness of the state, different mechanisms for financing, and a review of the state's bond status.

[9:32:57 AM](#)

Ms. Rehfeld agreed that Devin Mitchell would welcome the presentation.

Ms. Rehfeld continued with Slide 5. She explained that the permanent fund is a key component of the spending plan at \$1.5 billion or 14 percent of the budget. The 14 percent includes the amount necessary for both Permanent Fund Dividend (PFD) and inflation proofing based on projections from the Permanent Fund Corporation. Co-Chair Stedman asked if OMB used zero for inflation.

JOHN BOUCHER, SENIOR ECONOMIST, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, stated that the FY11 projections have inflation proofing, but the projections for FY10 do not.

Co-Chair Hoffman commented that Mr. Boucher resembled his father. Mr. Boucher stated that today would have been his 89th birthday.

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Ms. Rehfeld stated that the governor's proposal for \$400 million is intended for increasing academic rigor in high schools and improving graduation rates. The goal is improved success for Alaskan children.

Ms. Rehfeld discussed Agency Nonformula at 36 percent or \$3.8 billion. The governor did limit growth in the operating budget. The individual agency budgets show very little increases. Fixed costs will be absorbed. She explained that Power Cost Equalization, heating assistance programs, and public safety including domestic violence prevention are included in the operating budget.

[9:38:11 AM](#)

Ms. Rehfeld discussed the statewide appropriations and the \$881.5 million or 8 percent of the budget. Co-Chair Stedman asked about the rates of the bonded indebtedness. He addressed Page 5, Line 22 of the document titled "Legislative Fiscal Analyst's Overview of the Governor's FY2011 Request" (Copy on file). The total tax credits equal over \$500 million.

Co-Chair Hoffman asked how much of the \$276 million in debt service is allocated toward school debt service in the 2011 budget. Ms. Rehfeld replied that she would provide the committee with the debt schedule, which is also published on OMB's web site.

Co-Chair Hoffman stated that the figures would exceed \$100 million. Mr. Boucher clarified \$106 million. Co-Chair Stedman asked about the cost of the prison debt. Ms. Rehfeld answered that the debt service amount for Goose Creek Correctional Center is also broken down on the debt schedule.

[9:41:15 AM](#)

Ms. Rehfeld continued with Slide 6 and the FY10 prediction versus FY2011. She expected even greater surplus available at the end of FY10. One important part of the long range plan is to use savings accounts to provide core services. She highlighted the forecast provided yesterday.

Co-Chair Hoffman asked about the proposal to forward fund education with the appropriation of \$1.15 billion. He asked if the funds were classified as savings. Ms. Rehfeld answered that the amount is classified as savings.

[9:43:13 AM](#)

Ms. Rehfeld described the pie chart on Slide 7. She discussed the surplus and the construction. She noted the savings plan and the surplus were combined in the savings account. The governor is interested in working with the legislature on the surplus, with rural school construction in the forefront.

Co-Chair Stedman remembered that the legislature did not forward fund education. An opportunity to allow one year of K-12 funding for the future exists now.

Ms. Rehfeld described Slide 8, "Utilizing the State's Performance Framework to Measure Results for Alaskans."

- Agency Missions
  - Consistent with statutory authority.
- Core Services
  - Activities to accomplish the mission
  - End Results-planned goals and achievements
  - Strategies and Targets-planned actions and targets to measure success
  - Status and Analysis of Results-How are we doing and what does the data show?
- System Changes
  - Align agency and state priorities
  - Identify department priority programs and key performance indicators
  - Distribution of current budget capacity (FY10)
  - Key performance indicators to reflect progress toward desired results
  - Link proposed budget changes with desired resultsSystem Changes
- Legislative Review
  - Part of the annual review and approval of the budget
  - Process outlined in AS 37.07.014
  - Promote results-based government and method to measure results for each agency

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Co-Chair Stedman remembered a comment by the governor referencing a request from the agency for a 10 percent growth factor during a year without inflation. He explained the challenge for the legislature of maintaining the operating budget with revenue to prevent future draconian cuts. Ms. Rehfeld agreed that some challenges include methods of service delivery. Agencies must modify to an acceptable level of funding for a greater period of time.

Chair Hoffman pointed out that Commissioner Galvin discussed the growth of the Constitutional Budget Reserve (CBR) to approximately \$20 billion. He referenced the governor's comment in the State of the State address that Alaska's savings account would last more than ten years. He requested realism in the assumptions, enabling truthful projections. He opined that the public portrayal was misleading.

[9:50:12 AM](#)

Ms. Rehfeld agreed that 10 year predictions are difficult. She believed that the assumption spoken by the Commissioner was in the event of a three percent growth. She described the baseline scenarios, initiative scenarios, gasline scenarios, etc. The various discussions include investment timelines for infrastructure. She agreed that the changes along the way would not lead to a flat three percent growth. The ten year plan does provide the opportunity to view the pressure points over a long term horizon. The impacts on the savings accounts are viewed using the varying scenarios.

Senator Huggins addressed Slide 3 and the focus of priorities mandated by the constitution. He addressed Slide 8, and the priority of instate gas. He was interested in alignment of the issues. He requested accountability.

Ms. Rehfeld explained that the instate gasline project does align with the resource development priority at the state level. The effort will continue with the new instate gasline coordinator at approximately \$6.5 million. Extension of the appropriation made last year which expires in February will be requested in the supplemental bill due next week. Senator Huggins opined that agency alignment was a key component.

[9:53:47 AM](#)

Ms. Rehfeld continued with Slide 9 "Long-Range Fiscal Plan"

- Guiding Principles
  - Responsibly develop Alaska's natural resources-oil, gas and other natural resources.
  - Restrain spending-focus on essential services, results for Alaskans, promote economic growth and fiscal stability
  - Save for the future-build reserves, forward fund when appropriate, preserve and grow the permanent fund
- Assumptions
  - 3% annual growth rate in beginning in FY12
  - Inflation at 2.75%
  - Population growth at 1% annually
  - Requires state service delivery to become more efficient over the 10 year period

- Major Challenges
  - Formula program increases-Education and Medicaid
  - Infrastructure development
  - Unfunded Liability of Retirement Systems
  
- Planning Tool
  - The long-range fiscal plan is a tool for policy and budget development
  - Does not represent a funding commitment by the Administration or the Legislature in the future.

Co-Chair Stedman referred to the ten year plan as addressed five years ago. He recalled presentations years ago showing zero growth. He asked to review the trend lines for comparison of different risk levels. He requested the banded range rather than a linear extrapolation.

[9:57:03 AM](#)

Mr. Boucher announced the important assumption is that the fall 2009 forecast is currently utilized. He indicated that different revenue scenarios exist, which are more important when viewing the ten year plan.

Co-Chair Stedman pointed out that he and Co-Chair Hoffman meet regularly and alter the revenue oil price looking at the targeted price volume and dollar outcome from revenue. He shared that they use a banded range when working on the budget. He remarked that the co-chairs of the Senate Finance Committee generate the data themselves. He encouraged presenters to stray from the linear projection and begin providing bands prior to the policy discussions.

Co-Chair Hoffman commented about Alaska's natural resources. He noted the constitutional mandate to manage fisheries for the maximum sustainable yield. He informed that the South Central region of Alaska and the Yukon Province in Canada both struggle with problems accessing fish. He furthered that the state must assess the management of fisheries resources in the state to determine whether the constitutional obligation is fulfilled. He assumed that if the obligations were fulfilled, then the problems in South Central would not occur. He requested funding to "turn the tide" and reflect Alaskan's desires.

[10:02:28 AM](#)

Ms. Rehfeld detailed the specific items proposed in the FY11 budget related to the Yukon River fishery: a sonar pilot station and salmon management enhancement activities. She

was certain that the department would be interested in discussing the subject.

Co-Chair Hoffman clarified that the efforts are with good intention, but they will only identify the problem. He stressed that his interest is in replenishing the fish stocks. He explained that funding for sonar would prove the fact that the runs are low, which a good step in verifying the problem. He encouraged the legislature to be proactive. Senator Huggins echoed Co-Chair Hoffman's remarks. He agreed that the funding provides verification of the trend line without substantial action.

10:05:48 AM

Co-Chair Stedman elaborated that the committee is discussing a \$70 million operating budget for the Department of Fish and Game.

Senator Olson agreed with the evaluation provided by Co-Chair Hoffman and Senator Huggins. He noted the surplus and the commercial fishery devastation.

10:08:00 AM

Ms. Rehfeld discussed Slide 10, "FY2011 Fund Code Project"

- Three Key Changes to Budget Process
  - Reappropriations and Carry Forward
  - Fund Transfers
  - General Fund and Designated General Funds
- FY2011 Revenues and Expenditures
  - Aligned with Legislative Finance on the numbers
  - Minor differences in fund transfers
- Implementation Timelines
  - Updated to OMB's budget system ongoing
  - Enacted budget is the target
  - Sooner if possible

Co-Chair Stedman spoke of prior discussions with the OMB office, Ms. Rehfeld and he commended Legislative Finance for their good work.

Ms. Rehfeld concluded with Slide 11: "For More Information on the Budget." She provided the link to more details about the Governor's FY2011 budget, <http://www.omb.alaska.gov>.

Co-Chair Hoffman asked to address important alternative energy issues. The legislature decided to spend \$50 million a year on the alternative energy program. Last year the governor proposed a reduction in the program due to low

revenue projections. He believed that the legislature should spend \$50 million a year now that the revenue picture has improved. Alaskans are interested in addressing the high cost of energy. He opined that the overview should address this important issue.

[10:13:42 AM](#)

Senator Huggins noted the budget guidance and the desire to position Alaska for growth and opportunity. He noted the economic challenges around the world. He expressed alarm about ignorance of the symptoms. He desired partnerships with agencies in the state because Alaska does not need a declining economic performance. He preferred that the committee be proactive. He received calls of concern from constituents regarding unemployment and other indicators of a poor economy.

Co-Chair Stedman thanked Ms. Rehfeld and her staff for the presentation. Co-Chair Hoffman commended the administration and looked forward to working with them on the operating budget.

[10:16:38 AM](#)

Co-Chair Stedman echoed Co-Chair Hoffman's comments regarding the capital budget.

#

ADJOURNMENT

The meeting was adjourned at 10:17 AM.