

HOUSE FINANCE COMMITTEE
January 19, 2011
1:33 p.m.

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CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:33 p.m.

MEMBERS PRESENT

Representative Bill Stoltze, Co-Chair
Representative Bill Thomas Jr., Co-Chair
Representative Anna Fairclough, Vice-Chair
Representative Mia Costello
Representative Mike Doogan
Representative Bryce Edgmon
Representative Les Gara
Representative David Guttenberg
Representative Reggie Joule
Representative Mark Neuman
Representative Tammie Wilson

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; Louanne Christian, Committee Assistant, Finance Committees; Helen Phillips, Committee Assistant, House Finance Committee.

PRESENT VIA TELECONFERENCE

None

SUMMARY

COMMITTEE INTRODUCTIONS

OVERVIEW OF THE GOVERNOR'S FY2012 PROPOSED BUDGET

^COMMITTEE INTRODUCTIONS

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Co-Chair Thomas introduced committee members and explained their roles on the committee. Each committee member introduced their staff.

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Co-Chair Thomas directed attention to the handout, "House Finance Committee Rules" (copy on file). He detailed expectations of meetings and discussed protocol as outlined in the handout. He informed the committee that the budgets would be completed by the end of February. He discussed the expected subcommittee process, noting that the committee as a whole would act for the University of Alaska.

LOUANNE CHRISTIAN, COMMITTEE ASSISTANT, FINANCE COMMITTEES, described the duties of the finance committee staff. She explained various functions in the room and pointed to a memorandum dated January 19, 2011 that contained more detail. She introduced the Senate Finance Committee staff and asked Helen Philips to introduce staff for the House Finance Committee.

HELEN PHILLIPS, COMMITTEE ASSISTANT, HOUSE FINANCE COMMITTEE, introduced staff to the House Finance Committee.

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Ms. Christian explained how to use the microphones and described additional resources in the committee room.

Co-Chair Thomas noted how to deliver notes to other committee members and described expectations for decorum in the room.

^OVERVIEW OF THE GOVERNOR'S FY2012 PROPOSED BUDGET

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KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced her senior economist John Boucher. She congratulated the finance committee members on their appointment to the committee and

acknowledged the significant amount of work the committee had ahead of them. She offered the assistance of the Office of Management and Budget (OMB) and conveyed their pleasure in working with the committee.

Ms. Rehfeld provided an overview, using a PowerPoint presentation, "FY 2012 Budget Overview, House Finance Committee" (copy on file). She began on Slide 2 with OMB staff introductions.

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Ms. Rehfeld pointed out that Governor Parnell released the budget on the statutory due date of December 15. The due date marked the beginning of OMB's work and discussion about state fiscal policy, resources and assets, and goals for the future. She informed the committee that the governor's overall mission and fiscal policy was to position Alaska's economy for growth and its families for opportunity (Slide 3). The FY 12 budget was developed to support the governor's overarching vision.

Ms. Rehfeld drew attention to specific guiding budget principles (Slide 4). The first principle was related to fiscal restraint. She highlighted that as a result of good work done by the legislature and administration, Alaska was in much better financial shape than many other states. Budget discipline had been maintained and money had been put into savings. She purported that by maintaining spending discipline a portion of the savings could be used to leverage long-term investments while still assuring healthy reserves to draw from in lean years. The state was recently given a AAA bond rating as a result of spending discipline and cash reserves. The upgraded bond rating reflected recognition from the financial community and lowered the cost of debt for the state.

Ms. Rehfeld described the second principle related to strategic investments. She highlighted that economic growth occurs when money is spent on fostering resource development and capitalizing infrastructure. Opportunities for the future are created through investment in more affordable energy. She delineated that the budget proposed key investments in resource and economic development.

Ms. Rehfeld discussed the third principle regarding the maintenance of cash reserves. She informed the committee

that Alaska currently had almost \$12 billion in savings, excluding the Permanent Fund and Public Education Fund. She emphasized that Alaska had a balanced budget, substantial cash reserves, and an excellent bond rating.

Ms. Rehfeld pointed to the governor's FY 12 budget priorities (Slide 5). She outlined that the budget focused on constitutional priorities including resource development, education, and public safety.

Ms. Rehfeld expounded on elements in the budget that provided support for the constitutional priorities. She brought attention to several key components under the category of resource and economic development. The budget proposed using the remaining \$65.7 million in the Railbelt Energy Fund to jumpstart planning, design, and permitting for the Susitna Hydro Project. Funding would supply much-needed energy to Southcentral and Interior Alaska, to create jobs, and to help Alaska reach its energy policy goal of 50 percent electricity generated via renewable resources by 2025. She highlighted that the budget also proposed the use of \$25 million for renewable energy grants, \$25 million for weatherization programs to create more energy efficient homes, and \$10 million for the Southeast Energy Grant Fund.

Ms. Rehfeld delineated that another key piece of the governor's budget addressed access to resources. She expounded that in the governor's inaugural address, he stated that "...We must have access to our own lands. It is time to put Alaska's resources to work for Alaskans."

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Ms. Rehfeld continued that the budget included funding to build roads which would provide access to Alaska's resources and create jobs. The budget also included a request for \$8 million to continue work on the environmental analysis and public meeting process for a 90-mile transportation link from the Dalton Highway to the gas fields at Gubik. She detailed that ultimately the road could provide access to hundreds of millions of barrels of high-quality oil reserves at Umiat. She furthered that the budget proposed \$1.25 million each for continued access work to the Ambler Mining District and Western Alaska.

Ms. Rehfeld discussed the budget designation of \$173 million for natural gas development. Approximately \$160 million of the total amount would be specific to reimbursement for the natural gas pipeline project under the Alaska Gasline Inducement Act (AGIA). She detailed that through the current fiscal year 2011 OMB appropriated \$185 million for reimbursement of allowable expenditures. The proposed appropriation would bring the reimbursement level up to \$345 million and the final installment of \$155 million would be brought before the legislature for appropriation in FY 13.

Ms. Rehfeld detailed that the operating budget included \$6.9 million for ongoing AGIA coordination efforts and legal assistance.

Ms. Rehfeld acknowledged that in the previous year the Alaska Housing Finance Corporation (AHFC) was designated as the Alaska Gasline Development Corporation (AGDC) and that their report for the in-state gas project was due July 1, 2011. The budget request included \$5.5 million to keep the in-state gas project moving forward in preparation for the next steps identified in the upcoming report.

Representative Neuman requested a copy of the budgetary figures. Ms. Rehfeld answered that she would be happy to provide a copy of the notes.

Representative Joule asked whether the hydro project for Susitna and in-state gas use for Central Alaska would be considered separately and what the cost estimate was for each.

Ms. Rehfeld responded that the budget contained \$5.5 million related to in-state gas for the continuation of work that has been started by the AHFC. The budget also included \$75 million for design and permitting work to obtain Federal Energy Regulatory Commission (FERC) certification for the Susitna hydro project to be paid with the remainder of the Railbelt Energy Fund. She believed it would take until 2014 to achieve FERC certification.

Representative Joule wondered if OMB had an estimate for the total cost of each of the projects. Ms. Rehfeld answered that there was not currently a cost estimate for the in-state project. She pointed out that a preliminary

report would be available in July 2011 and that AHFC may be able to provide preliminary figures.

Representative Joule asked for a cost estimate regarding the hydro project. Ms. Rehfeld communicated that OMB would provide the cost estimate to the committee.

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Ms. Rehfeld brought the committee's attention to the education component of her presentation (Slide 5). She relayed that the budget included \$8.2 million for the first year of the Alaska Performance Scholarship for eligible high school seniors graduating in the spring of 2011. The Alaska Performance Scholarship was established with the legislature's help to transform public education. She furthered that with hard work and through the completion of a more challenging curriculum, every Alaska high school student would have ability to earn a scholarship for postsecondary training and education. She remarked that the governor was looking forward to working with the legislature on a sustainable funding mechanism for the program.

Ms. Rehfeld detailed that the budget contained full funding for K-12 schools and pupil transportation for Alaska's nearly 130,000 students in 53 school districts across the state. Also included in the budget was the proposal to forward-fund K-12 education for FY 13.

Representative Doogan asked for clarification on the costs related to the Alaska Performance Scholarship. Ms. Rehfeld explained that the estimate in the current budget covered projected scholarships for eligible students in the spring of 2011. The Department of Education and Early Development has estimated an annual cost of \$20 million for the program. She elaborated that when the governor introduced the bill the previous year, there was discussion about placing \$400 million into savings to generate the \$20 million needed to fund the program on an annual basis.

Representative Doogan queried whether the governor was currently proposing to set aside \$400 million for funding of the program. Ms. Rehfeld clarified that the governor had proposed the structure for the fund. A funding task force provided several recommendations that would be brought to the legislature for consideration during the 2011 session.

Included in the recommendations was an option similar to the savings fund discussed during the 2010 legislative session.

Ms. Rehfeld addressed funding for public safety (Slide 5). The budget proposed funding for the second year of Governor Parnell's initiative to end domestic violence and sexual assault in Alaska. The initiative focuses on prevention, investigation, research, services to victims, and child safety. She reported that the budget included \$3.4 million for the funding of 15 new Village Public Safety Officers (VPSO) and three new trooper positions. The governor's capital budget also designated \$1 million for VPSO housing in rural Alaska. She detailed that Alaska had gone from 47 funded VPSO positions three years ago, to 86 by the end of FY 11. She denoted that with the legislature's approval of the FY 12 budget, funding would be available for 101 VPSOs by the end of FY 12. The governor's goal was to have a trooper, police officer, or VPSO in every community in Alaska that wanted a law-enforcement presence. The budget contained a request related to the continuation of the \$3 million for Domestic Violence and Sexual Assault (DVSA) prevention efforts included by the legislature last year. Additionally, the FY 12 budget included \$3.2 million to combat domestic violence and sexual assault through investigation, reporting, research and services for victims. She highlighted that the budget also included two positions for the Technical Crimes Unit to investigate internet crimes against children.

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Representative Neuman remarked that in discussions with the director of the Office of Public Defenders, he deduced that vocational education programs were needed to assist in the reduction of the recidivism rate. He wondered whether funds would be designated to re-establish prison employment programs that were cancelled last year in order to increase skill sets.

Ms. Rehfeld expounded that the Departments of Labor and Workforce Development, Corrections, and Health and Social Services had all worked on planning efforts related to advance preparation for the release and transitional of inmates. She indicated that the Department of Corrections would provide detail on the specific budgetary figure and item.

Ms. Rehfeld directed attention to a pie chart (Slide 6) depicting the total \$11 billion proposed budget spending plan. Just over half of the total budget (the gold slices on the left) was comprised of non-discretionary items such as formula programs, permanent fund, and statewide costs associated with retirement system unfunded liability and debt service. She pointed out that just under half of the budget (blue and red slices on the right) was considered discretionary in terms of agency non-formula programs and capital spending. Also on the right side of the pie chart was the agency non-formula unrestricted general funds and other funds. The blue checked slice indicated the unrestricted general fund where OMB examined the budget and proposed expenditures related to state agency operations. Excluding the budget for the court system and the legislature, the governor limited the growth of state agencies to 1.9 percent. Included were the six collective bargaining units, non-covered employees, and the university, totaling \$40 million in increased general fund. The overall cost of the bargaining unit agreements was \$76.9 million. She indicated there were six pending bargaining unit negotiations, one each with the Public Safety Employees Association, the Alaska Vocational Technical Teachers Association, and the Alaska Correctional Officers Association, and three with the Alaska Marine Highway System unions. She relayed that due to the restrained operating budget, agencies would have to absorb fixed cost increases in a number of areas such as leasing, internal chargebacks, and merit increases for state employees.

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Representative Gara wondered whether the budget included funds to address increased school district costs. Ms. Rehfeld clarified that funding for education was based on the current statutory formula. The increase indicated in the budget was related to the fourth year of the implementation of adjustments for district cost factors. She communicated that FY 13 would be the fifth and final year of the district cost factors implementation. There was no proposed change to the base student allocation in the current budget.

Ms. Rehfeld attributed the overall FY 12 budget increases to statutory formula programs (Slide 7). She depicted that

the K-12 education formula (including pupil transportation) totaled \$1.16 billion, or 10.2 percent of the total budget. Alaska's constitution directs the state to provide a system of public education for its 53 school districts. She explained that education funding was a formula-driven program based on student allocations and other provisions within the formula program. The budget request of \$1.13 billion would fully fund Alaska's K-12 education funding formula for FY 12 and was based on the current statutory formula with the base student allocation set in statute at \$5,680 per Average Daily Membership. The budget included year four of the implementation of adjustments for district cost factors that will be fully implemented in FY 13. The governor had also proposed forward funding K-12 education for FY 13 in the amount of \$1.14 billion to the Public Education Fund.

Ms Rehfeld delineated that the other formula totaled \$1.82 billion, or 16 percent of the budget. Medicaid comprised \$1.5 billion of the \$1.82 billion, of which approximately \$507 million was general fund. She expounded that the increase of people eligible for services in addition to higher demand equated to more spending. Approximately 126,000 Alaskans used the Medicaid program in FY 10. The number of individuals eligible for services increased from 128,000 in FY 09 to 135,000 in FY 10 and the costs of providing services were increasing. She summarized that the budget included an increase of nearly \$187 million in FY 12 of which \$68.2 million was general fund.

Ms. Rehfeld informed the committee that the budget would not replace the American Reinvestment and Recovery Act (AARA) funds with general funds. She explained that states were afforded a higher reimbursement rate under the federal Medicaid program. The budget proposed switching from ARRA to a regular federal-funding source as the ARRA extension was scheduled to terminate at the end of FY 11. The administration's general approach was based on the fact that many states were struggling financially, in response the federal government could consider an enhanced federal-match percentage beyond June 30, 2011. Many states were asking the federal government to either extend the higher reimbursement rate or to provide states with greater flexibility by allowing them make changes in response to rising costs. She relayed that a task force was created to examine what could be done differently in Alaska to contain

Medicaid cost increases. The cost would be approximately \$123 million without the reimbursement rate extension.

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Vice-Chair Fairclough queried whether the state had considered setting \$123 million aside in the event that a contribution was required. She reflected on the \$46 million increase included in the governor's budget and noted that it did not include the \$123 million. She requested that OMB report the Medicaid Task Force findings and recommendations when they became available.

Ms. Rehfeld turned to the statewide appropriations portion of the OMB presentation (Slide 8). She reported that statewide appropriations total \$1.30 billion, or 11.4 percent of the total budget. The retirement system unfunded liability accounted for \$479.5 million of the total amount, indicating an increase of \$123 million over fiscal year 2011. The current retirement system unfunded liability was \$9.7 billion, consisting of the Public Employees Retirement System (PERS) at \$6.3 billion and the Teachers Retirement System (TRS) at \$3.4 billion. She explained that the current unfunded liability was based on the actuarial valuation of system assets, which smooths out gains and losses. The state was hoping for continued market gains to offset the remaining unrecognized losses from 2008-2009. The Alaska Retirement Management Board (ARMB) reviewed and set the rates for each fiscal year. She relayed that SB 125 defined the contribution rate for the state as the difference between the rate adopted by ARMB and 22 percent for PERS employers and 12.56 percent for TRS employers. The current amortization term was 25 years and the amount required for the annual contribution was projected to increase from \$479.5 million in FY 12 to \$786 million in FY 16 and to almost \$1 billion FY 21. She acknowledged that additional work was required to develop recommendations to address the unfunded liability and manage the annual cost to the state. Legislative Finance, OMB, and the Departments of Revenue, Law, and Administration were working hard to develop an approach to deal with the increase in cost occurring over time.

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Co-Chair Thomas commented that the committee intended to review the cost increases that were occurring over time.

Vice-Chair Fairclough wondered how much it would cost to pay down state debt now as opposed to extending the liability out into the future. She noted that when the issue first arose the shortfall was approximately \$1 billion and that it was currently \$12 billion to \$13 billion. She believed that it could be best to pay down the liability sooner rather than later, given the substantial increase.

Co-Chair Thomas advised the committee that an overview on the subject would be provided sometime in the weeks to come.

Co-Chair Stoltze agreed with remarks made by Vice-Chair Fairclough and indicated the need for a full-day session and commentary by the administration regarding all legislative proposals that may have an impact on the unfunded liability.

Vice-Chair Fairclough communicated that a recent letter she received from the state announced that the retirement system amortization time period would be moving from 25 years out to 30 or 35 years. She wondered how the change in time period would impact employees retiring at a future date. She believed the state was shifting costs to make the current liability appear lower, without taking into account aging adults who would need to apply for benefits. She wondered whether the particular solution was part of a national trend that ARMB was considering and indicated she wanted the board's commentary on the strategy.

Ms. Rehfeld relayed that ARMB possessed of a great deal of information regarding various scenarios and would be happy to share the information with the committee members.

Co-Chair Thomas noted that OMB could be asked to discuss the unfunded liability with committee in the future. He shared that the committee looked forward to developing a comprehensive program.

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Ms. Rehfeld moved on to discuss the proposed \$400 million for oil exploration tax credits (Slide 8). The tax credits were made available to encourage more oil exploration in Alaska. The administration's original projection for FY 11

exploration tax credits was \$180 million. In October 2011, the Department of Revenue (DOR) revised the estimate and asked for an additional \$250 million. The revised estimate was based on the actual applications for credits that they had received and payments that they projected to make for the remainder of FY 11. She relayed that language in the FY 11 budget included the ability to adjust the oil exploration tax credits appropriation to the necessary amount. The state had several years of experience with the program and the biggest challenge had been estimating the timing of expenditures and payments. She pointed out that there had been a significant increase in oil exploration. The administration would continue to work with DOR on actual payments made FY 11 and would revise it as necessary. She clarified that OMB would bring changes to the legislature in the amended budget if necessary.

Ms. Rehfeld discussed debt service under the category of statewide appropriation budget items (Slide 8). The debt service referred to the state's annual cost of paying down debt. Items included in the category were: school debt reimbursement, where school districts are reimbursed for 60 percent to 70 percent of voter-approved bonds; voter approved general obligation (GO) bonds; and lease-purchase obligation. She expounded that the debt service was approximately \$37 million higher than in the FY 11 budget.

Representative Guttenberg asked how applicants apply for oil tax credits and what the process entailed. Ms. Rehfeld deferred the question to DOR to discuss specific details. She added that the department determined the eligibility of expenditures submitted by applicants.

JOHN BOUCHER, SENIOR ECONOMIST, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR explained that the oil tax credits in the budget were related to producers with no tax liability.

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Ms. Rehfeld examined the community revenue sharing component of statewide appropriations (Slide 8). The annual appropriation replenished the amount drawn from the Community Revenue Sharing Fund. The funds were distributed to 162 incorporated and 149 unincorporated communities throughout Alaska on an annual basis.

Ms. Rehfeld directed attention to the proposed FY 12 capital budget (Slide 9). The proposed capital budget was \$1.6 billion, or 14 percent of the total FY 12 budget. She highlighted key components that were previously discussed, including natural gas development. Also included were \$103 million in general funds that would act to leverage federal and other funds, including the federal highway and aviation programs, water and sewer projects, and municipal harbor grants. She shared that the administration aimed to capture the general funds that leverage other funds whether they came through the state or not. She discussed the \$60 million included for access to resources comprised of \$10.5 million for resource roads and \$50 million for the Port of Anchorage, Port MacKenzie, and improvements to the Skagway dock. She touched on the Susitna energy project, renewable energy grants, and weatherization. She examined the five-year annual designation of \$100 million to deferred-maintenance. By the end of December 2010, state agencies estimated that nearly one half of the deferred-maintenance projects would be out to bid or under construction. Indoor project work would continue throughout the winter and outdoor projects would wait until the summer construction season.

Ms. Rehfeld pointed out that a very important point was excluded from the capital budget chart related to funding for schools. The top priority on the school construction list was the designation of \$28 million for the Quinhagak K-12 renovation project. Also included was just under \$20 million for 14 major-maintenance school projects.

Co-Chair Thomas asked whether the \$100 million to deferred-maintenance included the university. Ms. Rehfeld confirmed that \$37.5 million of the \$100 million was designated for the university.

Vice-Chair Fairclough wondered about specific deferred-maintenance projects under consideration in the administration's five-year plan. Ms. Rehfeld replied that the total was approximately \$1.8 billion to \$1.9 billion when the five-year plan was introduced during the 2010 legislative session and agencies were asked to provide their deferred-maintenance priorities. The state lacked a cohesive reporting system that would allow departments to submit deferred-maintenance needs in a consistent way. She stipulated that department priorities should be treated

equally and that there was more work to be done to determine how to handle the issue.

Vice-chair Fairclough asked for confirmation that the \$1.8 million to \$1.9 million in the five-year plan did not include roads but did include the university. Ms. Rehfeld did not believe that roads were included in the deferred-maintenance budget item. She relayed that the Department of Transportation designated some of its deferred-maintenance allocation to roads.

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Representative Doogan referred to the \$1 billion on Slide 9 that did not have a proposed spending breakout listed. He wondered if the figure was related to federal funding. Ms. Rehfeld clarified that a significant portion of the \$1 billion would be federal spending.

Representative Doogan referenced the school construction funding that would be added to the presentation and inquired about the total cost. Ms. Rehfeld answered that the total designated to school construction was just under \$50 million and included \$28.5 million to Quinhagak and \$19.9 million for major maintenance.

Representative Doogan asked whether the school projects were general funds. Ms. Rehfeld explained that she would address the question later in her presentation.

Ms. Rehfeld continued to discuss the governor's FY 12 proposed capital budget (Slide 9). The governor's proposal included a funding source that utilizes the Alaska Housing Capital Corporation (AHCC) funds for a number of projects. She detailed that several years back, the legislature placed \$300 million into the fund and that there had been discussions related to its purpose. The budget proposed using \$295.4 million of the fund, including \$160 million for the AGIA reimbursement, \$5.5 million for the in-state gas effort, \$50 million for port projects, \$60 million for renewable energy, weatherization, and Southeast energy projects, and \$19.9 million for school major maintenance. She clarified that the \$28.5 million designated for the Quinhagak K-12 renovation project was general funds. She pointed out that funds extracted from the AHCC account were classified as unrestricted general funds in the budget's fiscal summary.

Representative Doogan asked for detail on the decision to fund certain items with the AHCC. Ms. Rehfeld answered that the administration prioritized projects to bring before the legislature and once the potential funding sources were determined the specific projects were selected.

Co-Chair Stoltze wondered how the AHCC fund was chosen to fund the selected projects. Ms. Rehfeld responded that finding the appropriate level of balance related to funding sources was important. She reasoned that the state could continue to grow the Statutory Budget Reserve (SBR), could pull money from unrestricted general funds or could choose to use alternative funding sources. She believed that in policy discussions it would be important to consider the right balance related to the projects and investments the state wanted for FY 12.

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Ms. Rehfeld continued to detail capital budget funding sources (Slide 9). The administration proposed the use of the balance of the Railbelt Energy Fund in the amount of \$65.7 million for the Susitna project. The budget also included funding requests using dividends from the Alaska Industrial Development and Export Authority (AIDEA) and AHFC.

Ms. Rehfeld pointed to a pie chart for a visual representation of the total state budget allocation (Slide 10). She delineated that nearly 60 percent of the total state budget benefited Alaska communities, organizations, and individuals through grants, direct payments, and capital spending. She listed specific items including Medicaid, Permanent Fund Dividends, revenue sharing, school funding, retirement system unfunded liability, capital projects, and names recipient grants. Twenty-one percent of the budget was allocated to purchased services such as travel, contractual, commodities, and equipment. She relayed that a sizeable portion of the 21 percent was internal but a significant number was for purchased services to Alaskan vendors for travel, hotels, equipment, fuel, and professional services contracts. The remaining 20 percent of the budget represented salaries and benefits for state employees tasked with delivering core services efficiently and effectively to Alaskans.

Ms. Rehfeld concluded that the proposed budget provided a starting point for work with the legislature. She identified the OMB website as a resource for detailed information (www.omb.alaska.gov), and noted that the executive summary of the ten-year plan was available online and individual agency plans would be posted as soon as possible. She furthered that OMB had been working closely with the finance committees and the Legislative Finance Division over the past couple of years on the Budget Clarification Project. The goal of the clarification project was to provide consistency on how revenues and expenditures were classified and how they were displayed. She opined that great progress had been made, including the elimination of dueling fiscal summaries. Some clean-up work would be required, as pointed out in an analysis done by David Teal, Legislative Fiscal Analyst, Legislative Finance Division. She agreed with many of the items pointed out by Mr. Teal and consented that the budget contained some errors that required correction. For example, revenue received from AIDEA and AHFC corporate dividends were previously classified as other funds and were currently included in the unrestricted general fund column. The amount of the corporate dividends was also included in the revenue section of the budget, meaning that revenue was overstated. She informed the committee that the appropriate corrections would be made and shared her appreciation of the good working relationship between OMB and Legislative Finance.

Representative Joule wondered when budget amendments would be provided to the committee. Ms. Rehfeld replied that the budget amendments would be submitted to the committee on February 16, 2011, the 30th legislative day. She offered that the supplemental bill would be provided to the committee on day 15 of the legislative session.

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Representative Gara asked how close the proposed budget would come to draining the AHCC fund. Ms. Rehfeld responded that there was currently \$366 million in the AHCC and the governor's budget proposed to spend \$294 million.

Representative Edgmon asked for the overall government spending figure factoring in the state budget in addition to other areas such as tribal government and military

spending. Ms. Rehfeld responded that OMB would follow up on the question.

Representative Edgmon clarified his interest in receiving a breakdown of contributions for tribal activities throughout the state. Mr. Boucher expounded that OMB would examine whether all tribal spending was included.

Representative Edgmon elaborated that he would like a sense of overall government spending for the entire state, including items that may not be reflected in the proposed \$11 billion budget.

Representative Doogan wondered whether there were any other large spending items that were not factored into the proposed budget in addition to the \$400 million for education and \$1 billion in proposed give-backs to the oil industry. Ms. Rehfeld explained that the governor proposed using the earnings from a designated \$400 million in savings for the Alaska Performance Scholarship. She clarified that currently there was not an appropriation request related to the proposal. A task force was examining several different options. She addressed the potential impact on revenue related to changes in the oil tax structure and pointed out the long-range fiscal plan revenue and expenditure scenarios. She identified the Medicaid reimbursement rate as a prospective additional expenditure.

Representative Doogan asked whether the Medicaid expenditure would potentially increase to \$120 million. Ms. Rehfeld responded that in the absence of the federal reimbursement rate, the expenditure would be approximately \$123 million for Medicaid reimbursement.

Representative Doogan questioned whether there would be any other large expenditures. Ms. Rehfeld responded that she was not aware of any.

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Representative Wilson asked whether OMB had researched options that other states were considering regarding Medicaid reimbursement. Ms. Rehfeld responded that the task force was examining strategies under consideration by other states.

Vice-Chair Fairclough inquired whether the Medicaid task force met in January 2011. Ms. Rehfeld replied that she did not know.

Vice-Chair Fairclough noted that the Medicaid task force had been experiencing trouble obtaining a quorum. Ms. Rehfeld agreed that the group's difficulty in reaching a quorum was very unfortunate. She observed that the department has been working hard on pulling useful data together for the task force.

Co-Chair Thomas thanked Ms. Rehfeld and staff for addressing the committee. He noted that the committee looked forward to working with OMB.

ADJOURNMENT

The meeting was adjourned at 2:55 PM.