

SENATE FINANCE COMMITTEE  
January 26, 2011  
9:02 a.m.

[9:02:20 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Director Karen Rehfeld, Office of Management and Budget;  
John Boucher, Senior Economist, Office of Management and Budget;  
Senator Cathy Giessel

PRESENT VIA TELECONFERENCE

None

SUMMARY

^FY12 Budget Overview & Fiscal Summary

[9:06:29 AM](#)

DIRECTOR KAREN REHFELD, OFFICE OF MANAGEMENT AND BUDGET, presented the PowerPoint "FY2012 Budget Overview." She noted the change in the staff of the Office of Management and Budget (OMB), and displayed the layout of the staff in slide 2.

Ms. Rehfeld stated that the governor released the FY12 budget on December 15, 2010. She reported that the governor's budget vision was to "position Alaska's economy for growth and position Alaska's families for opportunity," as said in slide 3. She said the FY12 budget would be a planning tool that was crafted to support the governor's vision. Within the vision were the principles highlighted in slide 4. The first principle was fiscal restraint, and she remarked that Alaska was in a better financial situation than many other states. She remarked Alaska had maintained budget discipline, and its reserves were well established. If discipline were maintained, some savings could be used to leverage investments while still insuring a healthy accessible reserve. She stated that spending discipline in cash reserves were reflected in Alaska's AAA bond rating. The financial community recognized that Alaska had sound financial footing, and the positive bond rating lowers the cost of debt. She remarked that strategic investments in Alaska's infrastructure would produce economic growth. She stated that investment in affordable energy would create opportunities for the future; and the governor's budget proposed key investments in resource and economic development. She reported that the last budget principle was to maintain cash reserves. She noted that Alaska had approximately \$12 billion in savings, which did not include the public education fund or permanent fund earnings. She emphasized that Alaska had a balanced budget, substantial cash reserves, and an excellent bond rating.

Ms. Rehfeld discussed slide 5: "FY2012 Budget Priorities." She emphasized that the budget priorities were specifically outlined in the Alaska constitution: resource and economic development, education, and public safety. She highlighted some of the components of the budget that supported the constitutional priorities. She began with the components related to resource and economic development: energy, access to resources, and natural gas development. One of the budget proposals was \$65.7 million to advance the planning, design, and permitting for the Susitna Hydroelectric Project. The Susitna Hydroelectric Project would supply energy to South-central and interior Alaska. The project would use the estimated balance of the Railbelt Energy Fund, and would create jobs to reach Alaska's energy policy goal. She stated that the budget proposed to allocate \$25 million for renewable energy grants, \$25 million towards the weatherization programs, and \$10 million for the Southeast Energy Grant Fund. She stressed

that the governor placed importance on using Alaska's natural resources to stimulate Alaska's economy. The budget included funding for roads to access the resources: \$800 million to complete environmental management of the Dalton Highway to Umiat; and \$2.5 million for western access in the Ambler mining district.

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Ms. Rehfeld continued to discuss natural gas development. She stated that the governor's budget included \$160 million for Alaska Gasline Inducement Act (AGIA) reimbursement, which would bring the imbursement to \$345 million of the \$500 million total imbursement.

Co-Chair Stedman queried the balance of accrument and pay out of AGIA. Ms. Rehfeld agreed to provide that information.

Co-Chair Hoffman wondered how the administration planned to meet the five year schedule of funding the \$250 million towards alternative energy. He remarked that the legislature had agreed to pay \$50 million each year, but the governor's budget only proposed a \$25 million payment. Ms. Rehfeld responded that it was the intent of the legislature to pay \$50 million a year toward renewable energy grants, and remarked that some additional payments were made during the first couple of years of the program. The Alaska Energy Authority (AEA) had used more time than anticipated to handle the grant proposals, and praised AEA for their efforts. The FY11 budget proposal allowed AEA time to sort the grant proposals. The governor stated that the \$25 million in the budget was intended as a starting point for budget discussions.

Co-Chair Hoffman wondered if the legislature could consider an additional \$25 million when discussing the reimbursement payments. Ms. Rehfeld replied that the governor would be open to further discussion and ideas regarding AEA.

Co-Chair Hoffman stressed that the renewable energy grant program was embarking on its fourth year. The governor's proposed rate of \$25 million would not meet the \$250 million goal over five years. Ms. Rehfeld understood the concern regarding the reimbursement of the energy grants, and reiterated that the intent of the program was to fund projects that would reduce the cost of energy.

9:16:45 AM

Ms. Rehfeld discussed natural gas development efforts. She stated that the governor's budget included approximately \$6.9 million for ongoing coordination of AGIA; and \$5.5 million for the Alaska Gasline Development Corporation.

Co-Chair Stedman queried the position vacancy of the AGIA coordinator. Ms. Rehfeld replied that there was currently recruitment for that position, and she agreed to provide further information.

Senator McGuire wondered if the \$5.5 million allocation for the Alaska Gasline Development Corporation was considered to be the total amount needed for the project completion. Ms. Rehfeld disclosed that the current fiscal note of approximately \$16 million would cover the incurring costs in the current year for contracts and activities related various departments. She remarked that the intent of the budget request was to maintain report recommendations, but it was difficult to determine exactly what the FY12 budget needed. She pointed out that the design of the request was merely a starting point.

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Ms Rehfeld highlighted the education portion of the budget priorities. She stated that the governor's budget included \$8.2 million to fund the Alaska Performance Scholarship awards for eligible high school seniors who graduate in 2011. The scholarships could be used for post-secondary training and/or college. The budget also included the Alaska Advantage needs based component through the Alaska Commission on Post-secondary Education. The budget includes full funding for the K-12 foundation and people transportation programs for Alaska's 53 school districts, serving approximately 130,000 students statewide. She added that the budget included forward funding for K-12 education in FY13.

Ms. Rehfeld reported the public safety priorities. She stated that the governor's budget proposed year two of initiative to end domestic violence and sexual assault in Alaska. The initiative focused on prevention, investigation, research, services to victims, and child safety. The budget included \$3.4 million to fund 15 new

Village Public Safety Officers (VPSOs), and three new state troopers. Through the Alaska Housing Finance Corporation (AHFC) proposed \$1 million to help fund housing for VPSOs. She stated that since the three years prior, VPSOs had grown from 47 funded positions to 86 at the end of the current fiscal year. She emphasized that the state would have 101 VPSOs by the end of FY 12 upon approval of the current budget request. She asserted that the goal was to have a trooper, a police officer, or a VPSO in every community in Alaska that desires law enforcement presence. She stated that the governor intended to continue the \$3 million budget for crime prevention efforts, and an additional \$3.2 million to combat sexual assault and domestic through investigation, reporting, research, and services to victims. She reported that two positions were requested in the agency of Public Safety for the technical crimes unit to investigate internet crimes against children.

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Ms. Rehfeld discussed slide 6: "FY2012 Expenditures by Category." She stated that the total proposed budget was a little over \$11 billion. She pointed to the left side of the pie chart, which was highlighted in shades of a gold color. She explained that just over half of the total budget represented was generally considered non-discretionary: formula programs, Permanent Fund (PF), and statewide costs. She pointed to the right hand side of the pie chart, which was represented as blue and red slices. She stated that those were considered discretionary funds: agency operations and capital spending. She divided the unrestricted general fund (UGF) and agency nonformula budget. She explained that the UGF held about \$1.86 billion. She stated that the committee should focus on the agency nonformula funds, when looking for reductions in state spending. She revealed that when the governor was examining the administration's budget, he limited the state agency growth to 1.9 percent in UGF. The budget included collective bargaining unit agreements that would be in FY12, which included six bargaining units, non-covered employees, and the University of Alaska. She stated that the increase would be just under \$77 million, which included \$40 million in UGF.

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Ms Rehfeld discussed slide 7: "FY2012 Operation Budget-Formula." She explained that formula programs represented \$2.98 billion, which was 26 percent of the \$11 billion budget. She stated that under the education program was the \$8.2 million performance scholarship, \$1.13 billion K-12 FY12, and the transfer of \$1.14 billion into the K-12 FY14 fund. The FY12 budget for K-12 was based on the current statutory formula, and the current base student allocation: \$5,680.

[9:29:18 AM](#)

Ms. Rehfeld highlighted the statewide appropriations (slide 8" and remarked that the statewide appropriation was \$1.3 billion, which accounted for 11 percent of the total budget. She stated that there was \$479 million in the budget for retirement unfunded liability, which was \$123 million more than the year prior. The unfunded liability was currently \$9.7 billion: The Public Employee Retirement System (PERS) was approximately \$6.3 billion and the Teachers Retirement System (TRS) was approximately \$3.4 billion.

Co-Chair Stedman remarked a time delay in the numbers for PERS and TRS, so the data needed to be brought up to date. Ms. Rehfeld agreed, and stated that the unfunded liability was based on the actuarial work. She reported that OMB hoped for continual market growth that would help cover losses from FY08 and FY09. She stressed that the costs could be managed reasonably over time if there were discussions about other management approaches.

[9:32:33 AM](#)

Senator Thomas queried the disposition of the \$400 million after the lawsuit of the actuaries. Ms. Rehfeld replied that the \$400 million was allocated between PERS and TRS. She remarked that the Department of Administration could give more details regarding how the funds were distributed.

Co-Chair Stedman wondered if the \$400 million went directly into the trust. Ms. Rehfeld offered to provide that information.

Ms. Rehfeld continued to discuss slide 8, and stated that the governor's budget had \$400 million in oil tax credits. She remarked that there were two pieces of the \$850 million

in oil tax credits. She stated that \$450 million was already accounted in the revenue forecast, so the specific portion mentioned in the budget was the estimated amount designated for the eligible credits for the oil companies. She remarked that the tax credits were designed to encourage more oil production and exploration in Alaska. In the FY11 budget, the tax credits estimate was \$180 million. She stated that in the last October, DOR provided a new estimate of an additional \$250 million. The total eligibility for tax credits in FY11 was \$430 million. The budget was based on companies' spending estimates, and who would be eligible in the next fiscal year. She stated that language was added to the current budget to clarify amounts, timing, and payment deadlines.

Co-Chair Stedman stated that DOR would be looking at the historic credits from the last four years, and there would be an in depth discussion about what expenditures could generate credits.

Ms. Rehfeld discussed debt service, which was currently \$290 million. She explained that debt service was for school debt reimbursement, GO bonds, lease purchases, and any authorized state debt. She discussed the replenishment of the Community Revenue Sharing (CRS), and stated that \$60 million would be allocated to 162 incorporated communities and 149 unincorporated communities throughout Alaska.

[9:37:22 AM](#)

Ms. Rehfeld discussed slide 9: "FY2012 Capital Budget." She stated that the capital budget was \$1.6 billion, or roughly 14 percent of the total budget. She noted that OMB had included \$103 million to leverage funds for transportation, highway, aviation, and water/sewer projects. She pointed out that there were three port projects in the budget: The Port of Anchorage, the Port MacKenzie, and dock improvements in Skagway.

Co-Chair Stedman remarked that there would be further discussion regarding the port development. Ms. Rehfeld furthered that there was interest in many ports around Alaska's coastline, especially along the Arctic coastline.

Co-Chair Hoffman wondered if there was interest in the need for a port for the Donlin Creek resource. Ms. Rehfeld replied that she was unsure, but agreed to provide that

information. Co-Chair Stedman restated that the committee would address that issue in the later port development discussions.

[9:40:13 AM](#)

Ms Rehfeld continued to address slide 9. She discussed the Susitna hydro planning and the Renewable Energy and Weatherization funds. She stated that the governor requested year two of the deferred maintenance programs. She explained that the Department of Education and Early Childhood Development would be allotted \$28.4 million for the Quinhagak K-12 renovation and addition project, and \$19.9 million for 14 school major maintenance projects.

Co-Chair Hoffman complimented the administration for funding a rural school, and wondered if the governor had considered Kasayulie case in the budget. Ms. Rehfeld responded that the governor was interested in resolving the Kasayulie case, and believed he would be open to further discussion.

Senator Olson wondered if Quinhagak was the only rural school that the governor planned to fund. Ms. Rehfeld responded that it was the only rural school proposal.

Senator Thomas wondered if the funding for Susitna was for three to four years. Ms. Rehfeld agreed to provide more information regarding the Susitna time-line. Co-Chair Stedman stated that further discussion would take place regarding Susitna funding.

Senator Olson queried the total cost of Susitna Project. JOHN BOUCHER, SENIOR ECONOMIST, OFFICE OF MANAGEMENT AND BUDGET, replied that there was an Alaska Energy Study published the previous November. He stated that he recalled the total cost would be between \$4.5 and \$4.8 billion.

Senator Olson wondered what efforts were being done regarding energy costs in rural Alaska. Ms. Rehfeld replied that there were various approaches specifically related to renewable energy, efficiency, and conservation efforts.

[9:46:18 AM](#)

Ms. Rehfeld discussed the FY10 supplemental budget, and pointed out that the legislature had approved the first

round of deferred maintenance projects. She stated that the agencies reported that collectively nearly half of their projects would be under construction or out to bid by the FY11 construction season.

Ms. Rehfeld stated that the governor proposed to use Alaska Housing Capital Corporation (AHCC) for some specific projects: AGIA reimbursement; the in-state gas project; the port projects; the energy, renewable, weatherization in Southeast projects; and the school major maintenance projects.

Co-Chair Stedman reminded the committee that the three years prior, money had been put away in savings to obtain federal match to act as a safety net for the state. He discussed transferring the money between accounts. Ms. Rehfeld stated that through the budget clarification project, the general fund discussions highlight the subfunds. The governor's budget proposed that the AHCC dividends were under \$17 million.

[9:51:07 AM](#)

Co-Chair Stedman wondered if the ongoing cash flow had an impact on the budget. Ms. Rehfeld replied that the governor's budget proposed to use some of the cash flow funds: approximately \$295 million. She pointed to the fiscal summaries, and remarked that if the legislature chose to continue with the same proposed level of spending, without using the savings accounts, there would be a deficit. She offered that if there were no reserve accounts, the governor probably would not propose to spend the additional money. She stated that reserves should be used to grow the economy. She remarked that the state must have spending discipline; yet, management of cash reserves were a priority, and strategic investments could be necessary. She stressed that the governor's proposal was available for the legislature to consider.

Co-Chair Stedman emphasized that February 17, 2011 was the deadline for amendments to the governor's proposed FY12 budget, and wondered if the committee should be prepared for substantial amendments. Ms. Rehfeld replied that OMB was currently working on the supplemental budget, and were looking for areas in the current year's budget where there were unforeseen circumstances in the prior year's budget. She remarked that OMB could bring amendments to the

committee, if the issues were not addressed in the current budget. She anticipated some amendments, but did not characterize the number of amendments to be substantial.

Co-Chair Stedman remarked that the state could see a possible \$25 million Medicaid adjustment. Ms. Rehfeld replied that if there was no extension of the high reimbursement rate, there would be a GF replacement of approximately \$123 million.

[9:54:36 AM](#)

Co-Chair Hoffman wondered if the supplemental budget would be funded with savings accounts. Ms. Rehfeld replied that she did not anticipate the use of the savings accounts for the supplemental budget.

Co-Chair Stedman expressed concern in the ongoing cash flow of the FY12 budget. He remarked that if there were additional expenditures, it would be deficit spending. Ms. Rehfeld replied that there was a concern regarding oil production decline, and the strategies for encouraging oil revenue through production efforts. She remarked that reserves would be relied on in the future to enhance infrastructure investments. She specifically remarked on the significant effort to contain the cost of Medicaid.

Co-Chair Stedman asserted that the intent of establishing reserves was to maintain a strong position as a state, and he felt that the state was in a weaker position with the executive branch's efforts to access the reserves. Ms. Rehfeld replied that the governor was open to discussions about determining the appropriate level of spending. She reiterated that the governor's intention was to achieve a balance, and determine what items could wait until the next funding cycle.

[10:00:40 AM](#)

Co-Chair Hoffman commented that the \$645 million general fund capital budget was a good starting point for discussions.

Ms. Rehfeld addressed slide 10: "State Budget-Another Perspective." She discussed the components of the budget displayed in the pie chart. She explained that nearly 60 percent of Alaska's budget benefited communities,

organizations, and individuals through grants, direct payments and capital project funding: Medicaid, permanent fund dividends, revenue sharing, school funding, retirement unfunded liability, capital projects, and named recipient grants. She stated that 21 percent of the budget represented the portions of the budget related to travel/contractual/commodities in the operating budget: travel, hotels, professional services, fuel, and equipment. She pointed out that many of the purchased services investments directly stimulate Alaska's private sector economy. She stated that 20 percent of the budget represented salaries for state employees. She remarked that seven of the eighteen agencies represent two-thirds of the personal services costs and positions: University, Department of Transportation and Public Facilities, Department of Health and Social Services, Department of Corrections, Department of Fish and Game, Department of Administration, and Department of Public Safety.

[10:04:07 AM](#)

Ms. Rehfeld reiterated that the proposed budget was merely a starting point, and offered information listed on OMB's website.

Ms. Rehfeld displayed scenarios from "Executive Summary FY2012 Ten-year Plan" (copy on file).

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AT EASE

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RECONVENED

Ms. Rehfeld explained that five scenarios were discussed in the Executive Summary. She reiterated that principles should be followed when making decisions about the budget: spending restraint and looking at strategic investments when managing the cash reserves.

Mr. Boucher discussed page 13: "Scenario 2: Governor's Budget with 3 percent Annual Expenditure Growth."

Co-Chair Stedman wondered where the 3 percent was applied within the scenario. Mr. Boucher replied that the 3 percent would affect the UGF.

Mr. Boucher pointed out the FY13 column. He stated that the numbers were produced with the governor's budget and the fall forecast. He stated that the total reserves would grow throughout the period.

[10:09:47 AM](#)

Mr. Boucher stated that the details on general fund expenditures assumed a certain growth rate, so there would be no itemization of the unfunded liability.

Co-Chair Stedman asked for further explanation regarding multiple components in the unfunded liability. Mr. Boucher explained that when a flat percentage is used, some components of the budget would presume other portions of the discretionary budget, so the components may be negative. He stated that the unfunded liability growth from FY12 to FY17 was approximately \$350 million, which would put the total at about \$825 million. He stated the expenditures would go from \$5.4 billion in FY12 to \$6.3 billion in FY17.

Co-Chair Hoffman queried the growth rate on a percentage basis, and wondered how capital budget expenditures were determined. Mr. Boucher responded that the spreadsheet included all GF expenditures, so it was assumed that GF expenditures would grow. He stated that there had been a steady six percent growth rate for several years.

Co-Chair Stedman requested further information, and wanted to know exactly what was included in the scenario calculations.

[10:15:46 AM](#)

Co-Chair Hoffman noticed expenditures of \$5.4 billion in the FY12 budget, and wondered if that included \$645 million in capital. Mr. Boucher replied that the \$645 million was for the UGF in FY12.

Senator McGuire asked about the 3 percent decline rate. She requested scenarios that included 3 percent, 5 percent, 7 percent, and 9 percent decline rates. Co-Chair Stedman believed that Legislative Budget and Audit would provide information regarding production and price. Mr. Boucher added that the 3 percent was solely applied to oil revenue and production in "Scenario 2." He stated that the 3

percent would be applied to GF expenditures, but remarked that the 10-year plan examined alternate prices. He stated that alternate prices were the focus, rather than alternate production. He stated that OMB was offering alternate scenarios to add perspective in budget discussions.

10:19:41 AM

Senator Thomas wondered if the \$77.96 listed in the FY11 column was the predicted price or the actual price. Mr. Boucher replied that the prices were based on the published numbers from the "Fall 2010 Revenue Forecast." Co-Chair Stedman remarked Legislative Budget and Audit would track the price change over the year.

Co-Chair Hoffman queried the rates of return in the reserve sub-accounts. Mr. Boucher replied that the earnings assumptions were 3.84 percent for the short-term, and the 6.96 percent for the long-term.

10:24:04 AM

Co-Chair Hoffman pointed out the \$29 billion reserves projection for FY21. Mr. Boucher responded that was the projected based on the displayed assumptions, and unforeseen factors could affect the assumptions.

Co-Chair Stedman requested that the capital portions be removed and the operating budget display more detail. He also expressed that he would like to see more in depth comparisons between FY10, FY11, and FY12.

#

ADJOURNMENT

The meeting was adjourned at 10:28 AM.