

HOUSE FINANCE COMMITTEE  
January 17, 2013  
1:31 p.m.

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CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:31 p.m.

MEMBERS PRESENT

Representative Alan Austerman, Co-Chair  
Representative Bill Stoltze, Co-Chair  
Representative Mark Neuman, Vice-Chair  
Representative Mia Costello  
Representative Bryce Edgmon  
Representative Les Gara  
Representative Lindsey Holmes  
Representative Scott Kawasaki, Alternate  
Representative Cathy Munoz  
Representative Steve Thompson  
Representative Tammie Wilson

MEMBERS ABSENT

Representative David Guttenberg

ALSO PRESENT

Helen Phillips, Committee Assistant, House Finance Committee, Legislative Finance Division; 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.

SUMMARY

COMMITTEE INTRODUCTIONS

OVERVIEW OF THE GOVERNOR'S FY 2014 BUDGET:  
Office of Management and Budget

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Co-Chair Stoltze turned the gavel over to Co-Chair Austerman.

Co-Chair Austerman asked House Finance Committee Assistant Helen Phillips to provide staff introductions and discuss information pertaining to the committee room.

HELEN PHILLIPS, COMMITTEE ASSISTANT, HOUSE FINANCE COMMITTEE, LEGISLATIVE FINANCE DIVISION (LFD), provided introductions and functions of LFD committee support staff. She had referenced a memo she had provided to committee members pertaining to supplies, meeting recording, room resources, bill files, weekly schedules, room use, and other (copy on file).

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Co-Chair Austerman discussed that alternates had been assigned to the committee. Representative Guttenberg had been excused for one to two weeks. He asked Representative Kawasaki to join the committee at the table as an alternate in Representative Guttenberg's absence.

Co-Chair Austerman introduced his staff.

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Co-Chair Stoltze introduced his staff and provided a description of their responsibilities.

Vice-Chair Neuman discussed that his staff was working hard to prepare for the Department of Health and Social Services budget subcommittee meetings.

Representative Thompson introduced his staff

Representative Edgmon introduced his staff.

Representative Wilson introduced her staff.

Representative Costello introduced herself and her staff.

Representative Gara introduced his staff.

Representative Kawasaki introduced himself and his staff.

Representative Holmes introduced herself and her staff.

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Representative Munoz introduced her staff.

Co-Chair Austerman provided information about committee rules (memo on file). He shared that the committee would meet at 1:30 going forward and asked committee members to be on time. He communicated that members would need to be present to vote and could not vote via teleconference. He relayed that committee reports for reported out legislation needed to be signed in the committee room. He discussed that the committee would be meeting on a daily basis in order to address the governor's proposed FY 14 budget. He mentioned that March 1, 2013 would be the subcommittee closeout deadline.

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^OVERVIEW OF THE GOVERNOR'S FY 14 BUDGET: OFFICE OF MANAGEMENT and BUDGET

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KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced her senior economist John Boucher. She introduced additional staff and provided descriptions of the areas they worked in. She appreciated the opportunity to present to the committee.

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Ms. Rehfeld provided a Power Point presentation titled "FY 2014 Budget Overview." She emphasized that approving a budget on an annual basis was one of the most important items addressed by the legislature. She discussed her intent to provide a high level overview of the capital, operating, and mental health budgets (HB 64, HB 65, and HB 66 respectively). She shared that the governor had talked about weighing priorities and constraints when he had released the budget in December 2012; he had also talked about the state's solid position and results. She shared that the state's AAA bond rating was largely due its budget reserves, the permanent fund, the legislature's budget discipline, and the opportunity to develop the state's resources. She applauded the committee's efforts to work with state agencies on their missions, their core services,

and the delivery of services. She stated that government needed to be accountable for its expenditures. She shared that the administration had worked for months with state agencies to review their requests and challenges in order to bring forward the most pressing needs while practicing fiscal constraint.

Ms. Rehfeld communicated that the performance framework needed to be a meaningful tool for state agencies and program managers. She shared that Governor Parnell had maintained a vision of economic growth and strengthening families. She stated that Alaska's future depended on responsibly developing its resources and on job creation. She believed the budget supported the governor's vision in several key areas (slide 3):

#### Budget Priorities

- Resources and Energy
- Education
- Public Safety
- Transportation/Infrastructure
- Military Support

Ms. Rehfeld elaborated on each of the bullet points listed on slide 3. In relation to resources and energy the administration was focusing on creating an investment climate designed to grow Alaska's economy and create private sector jobs. The education focus was to prepare students for success in job training or college. The primary focus in public safety was to provide safe homes and strong families. Attention was given to building Alaska's infrastructure and transportation corridors and to supporting military missions and families.

Ms. Rehfeld turned to slide 4 titled "Fall 2012 Revenue Forecast." She stated that there were significant decreases in the revenue forecast from the spring of 2012 to the fall of 2012. She relayed that declining oil production and price had a profound impact on the funding available for the current and next fiscal years. The chart showed that in the spring of 2012 the administration was anticipating \$8.44 billion in revenue; the numbers had been revised in the fall 2012 forecast to \$7.5 billion largely due to a drop in oil price and production, representing a decrease of approximately \$928 million. The FY 14 forecast had been

revised from \$7.68 billion to just over \$7 billion, representing a decline of \$678 million. The total decline was \$1.6 billion. She remarked that the changes provided the context that was used in developing the FY 14 budget.

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Ms. Rehfeld moved to slide 5 "FY 2013/FY 2014 Budgets: Big Picture." She communicated that the state was looking at a deficit of \$410 million instead of the expected surplus of \$514 million. She referenced an appropriation of \$250 million that had been approved the prior spring for transfer into the Statutory Budget Reserve (SBR); the net deficit would be approximately \$160 million. She stated that less revenue meant spending less; therefore, the administration had asked departments to evaluate their current employees and resources used to carry out core services without increases in the FY 14 budget. The administration was working to decrease overhead costs, to increase efficiency, and to focus on priorities.

Co-Chair Austerman pointed out that the figures used in the presentation came from the Department of Revenue and Department of Natural Resources projections. He noted that the departments would present to the committee the following week.

Representative Gara referenced the \$410 million deficit projection for the end of the current fiscal year. He asked what the projected price was and what the actual price had been for the current fiscal year to date. Ms. Rehfeld responded that the price included in the spring forecast for FY 13 was \$110.44; the 2012 fall forecast was \$108.67. Production in the spring had been 563,000 barrels per day and \$553,000 barrels per day in the fall.

Representative Gara asked what the actual price per barrel had been in the current fiscal year.

JOHN BOUCHER, SENIOR ECONOMIST, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, responded that the figure was running slightly below the forecast. He believed the actual price was within \$1 to \$2 from the projected price. He communicated that he would follow up with the exact figure.

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Ms. Rehfeld pointed to slide 6 titled "Alaska's Reserve Accounts." The chart provided a visual of the growth in the state's savings accounts from 2002 to 2012. She relayed that there was nearly \$16 billion in savings at the end of FY 12. She elaborated that the state had used "windfalls" from high oil prices to repay past Constitutional Budget Reserve (CBR) draws and to maintain money put into reserve accounts; the element was important to consider because it was the reason for the state's AAA bond rating and was a key factor in the long-range fiscal plan. She detailed that managing the use of reserves in times of declining production was key and would help provide for essential services (e.g. public safety, education, transportation, and other).

Co-Chair Austerman acknowledged the presence of Representatives Andrew Josephson and Shelley Hughes in the committee room.

Ms. Rehfeld discussed spending controls on slide 7. She stated that over the past three years the administration had asked state agencies to absorb increases in their budgets including merit increases for staff, and increases in central support services rates, contractual costs and lease costs. She furthered that the Department of Administration (DOA) had been closely examining what it was charging agencies for core services and how the costs could be reduced. Agencies had been directed to manage their budgets, not plan on supplemental funding, and to provide services to Alaskans without disrupting services.

Ms. Rehfeld referenced the governor's FY 13 budget that had deleted over 280 positions; departments had been asked to make adjustments in their budgets to minimize impact on service delivery. The administration had employed a number of strategies to help manage costs with existing resources including (slide 7):

- Improve/Streamline business processes
- Enhance technology
- Lower cost of purchasing
- Reduce footprint/cost of office space

- Share services

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Ms. Rehfeld continued to discuss slide 7. She noted that DOA had recently issued new space guidelines that were consistent with private and public sector changes nationwide; the shift would help the state reduce the footprint and the cost of office space.

Ms. Rehfeld communicated that the FY 14 state budget totaled \$12.8 billion. She moved to slide 8, which showed the makeup of the FY 14 budget by fund source:

Unrestricted General Funds	\$6.49 billion - 51%
Federal Funds	\$2.94 billion - 23%
Permanent Funds DGF	\$1.92 billion - 15%
Designated General Fund	\$866.6 million - 7%
Other Funds	\$559.3 million - 4%

Ms. Rehfeld elaborated that Designated General Funds (DGF) included items such as University of Alaska receipts (\$377 million) and general fund program receipts (\$133.3 million). Other funds included items such as Alaska Permanent Fund Corporation (APFC) receipts (including management fees and fund operation at approximately \$133.3 million), International Airport Funds (\$146 million), and Statutory Designated Receipts (\$70.5 million).

Co-Chair Austerman asked for the top three items that made up the \$1.92 billion for APFC. Ms. Rehfeld shared that inflation proofing (a total of \$943 million; \$22 million of the amount was for the Alaska Capital Income appropriation) and the Permanent Fund Dividend (\$958 million) made up the lion share of the cost. She noted that the administration received a monthly financial statement from APFC; OMB's December 2012 fiscal summary reflected data from the end of October. She shared that the most current information would be used in the budget amendment package in February 2013.

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Ms. Rehfeld addressed budget priorities on slide 9. The budget contained a \$14.8 million request to fund the fourth year of the governor's Choose Respect initiative aimed at preventing domestic violence and sexual assault; \$3 million of the total was an annual request designated for

prevention. She discussed different elements of the initiative including prevention and intervention in the amount of \$5.25 million for public education and awareness, community level prevention projects, and rural pilot projects; \$2.6 million in survivor support for shelters, services for children exposed to violence, trauma services, and housing; and \$6.9 million in law enforcement for 15 Village Public Safety Officers (VPSO) and 1 trooper, additional prosecutors for child abuse cases (in Juneau, Fairbanks, and Bethel), and 3 investigators for child protection and sex trafficking.

Ms. Rehfeld relayed that more than 120 communities held Choose Respect events in 2012 and additional communities were expected to participate in March 2013; the events sent a strong message of support to victims and survivors. The governor's proposed budget also included \$2.8 million for 15 additional state troopers in the Mat-Su, Kenai, and Fairbanks region; the request was to account for escalating population growth. Additionally, the budget included \$823,700 for a new trooper post (2 troopers) in Hooper Bay. She noted a similar request for Selawik had been approved two years earlier and had been very effective.

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Vice-Chair Neuman acknowledged that the programs were important to the state's communities; however, he believed the state was starting out at a \$920 million deficit not including any FY 12 supplemental budget requests. He wondered whether the administration had considered what the state could afford and the cost-benefit of programs.

Ms. Rehfeld replied that the administration had considered the issue prior to submitting the budget. The budget focused on areas that the administration believed were key priorities and services that Alaskans expected from the state. She detailed that the state had a \$410 million deficit in the current year and it would be necessary to draw from the SBR to pay for current services. The FY 14 budget would be funded by \$6.49 billion of state general funds, which was approximately \$500 million below projected revenue. The administration believed the budget was responsible and would help in the long-term with public safety and to reduce problems that could occur without a law enforcement presence.

Vice-Chair Neuman communicated that he had asked the Departments of Health and Social Services and Transportation and Public Facilities to cut 10 percent off their proposed budgets. He wondered whether there were specific areas where spending could be reduced if necessary.

Ms. Rehfeld answered that she could address the question later in the presentation.

Representative Gara acknowledged the importance of being fiscally responsible. He observed that \$250 million of the \$410 deficit in the current year had been put into savings. He surmised that excluding the money put into savings the deficit would be closer to \$160 million.

Ms. Rehfeld replied that the \$250 million was technically considered a transfer and not savings. Representative Gara asked for verification that the state had the money. Ms. Rehfeld responded in the affirmative.

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Ms. Rehfeld moved to slide 10 titled "FY 2014 Budget Priorities," which focused on the governor's comprehensive energy strategy. Strategy components included \$95 million for Susitna-Watana hydro (continued engineering feasibility studies, design, environmental work, and license application to be submitted in September 2015); \$125 million for the capitalization of the Sustainable Energy Transmission and Supply Development Fund to provide low cost financing for energy projects (a technical correction would be included in the budget amendments); \$31.5 million for weatherization to help low-income families with energy improvements; \$20 million for home energy rebates to homeowners for energy efficiency improvements; and \$67 million for the Low Income Home Energy Assistance Program (LIHEAP) and the Power Cost Equalization (PCE) program.

Co-Chair Stoltze asked how the \$67 million would be split between LIHEAP and PCE. Ms. Rehfeld answered that the LIHEAP request was for just under \$27 million and the PCE request was \$40 million.

Ms. Rehfeld discussed a \$25 million request for the Renewable Energy Grant Fund (slide 10). She shared that during the past several years over \$200 million had been

appropriated for the grants to address high-cost areas. The program had been extended to 2023 the prior year (the proposed budget included funding for "round 6" of the grant fund).

Ms. Rehfeld turned to slide 11 pertaining to education funding. She highlighted the governor's initiative to prepare Alaska students for success and to increase the high school graduation rate to 90 percent by 2020. She discussed the Alaska Performance Scholarships (APS) that were aimed at increasing the number of students taking higher academic rigor and rewarding them for success; more than 4,600 students had qualified for the performance scholarships under the program. The budget also included \$4 million for needs based grants that were also part of the APS package. She emphasized that the graduation rate was moving in the right direction, but it was currently just under 70 percent. She relayed that the governor's budget included \$800,000 for the Jobs for Alaska's Graduates (JAG) initiative; JAG was mirrored after a program operating in 33 states that had seen a 93 percent graduation rate for at-risk students. She elaborated that the initiative would be a partnership between businesses, United Way, and the Department of Education and Early Development (DEED); it targeted at-risk students and would assist them with skills and job training opportunities to keep them in school and engaged.

Ms. Rehfeld continued to discuss slide 11. She pointed to a request for \$5.9 million for the Digital Learning Initiative. She explained that the first piece of the initiative was a partnership with the Association of Alaska School Boards (AASB) (the association had been operating a similar project over the past couple of years). The initiative would last for a period of four years to provide digital devices to teachers and students. The economies of scale that would be created by joint purchasing of the devices to help deliver educational content and curriculum had been very effective.

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Ms. Rehfeld communicated that another portion of the initiative was its support of the Alaska Learning Network distance delivered courses that would help students receive higher level curriculum that may not be available in their communities. Additionally, the initiative would provide

live homework help through an online homework assistance program.

Ms. Rehfeld shared that the budget also included \$320,000 for a K-3 literacy project; it would help provide pre and post screening assessments for students in kindergarten through 3rd grade to identify any reading deficiencies and to target efforts needed to help students succeed. She noted that deficiency in reading was predictive of a student's success.

Representative Wilson asked for verification that broadband support to libraries was a significant piece of the Digital Learning Initiative. She wondered why the support would be provided to the libraries instead of schools or a combination of the two.

Ms. Rehfeld replied that the online homework assistance had been a cooperative with libraries and in many communities libraries had broadband access. She elaborated that the initiative worked with libraries in order to provide the service. She believed the cost included in the budget was approximately \$800,000 for broadband support.

Representative Wilson believed that in addition to the online homework support there was a portion of the initiative that worked with providing broadband access in an increased number of communities. She believed that while libraries were a reasonable place to expand broadband, there were schools in the areas that did not have broadband access.

Ms. Rehfeld believed that a portion of the funding was directly for library broadband. She clarified that digital learning devices provided through the partnership with AASB did not necessarily need to have internet access. She detailed that an important part of the program was district readiness assessments to determine their ability to deliver education through technology; some districts would be able to do more in the area of broadband connections, but there would still be valuable technology tools without it.

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Representative Costello wondered whether there was research showing increased student results related to digital learning opportunities. She wondered whether money would be

better spent on vocational education with hands-on opportunities that would prepare students for jobs.

Ms. Rehfeld replied that there were some very effective digital learning programs in different grade levels that currently existed; the Kuspuk, Kodiak, Denali school districts had pilot programs and could share information about results. She noted that AASB could provide the information.

Representative Holmes referenced the K-3 Literacy Initiative and wondered about the amount of funding that went to pre and post screening versus intervention.

Ms. Rehfeld answered that she did not have the breakout available. She believed the majority of the proposed funding would go to preliminary assessment work in determining where students' reading deficiencies lay. She opined that the only additional requirement may be targeted attention and not an additional resource.

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Ms. Rehfeld addressed transportation and infrastructure on slide 12. She noted that the funding requests were primarily regular requests that were included in the governor's annual capital budget. The proposed budget included \$1 billion in funding for statewide infrastructure projects including \$971 million for highways and aviation, \$56 million for the Village Safe Water program, and \$34 million for municipal water and sewer projects (with local matching funding). Additionally, the budget contained \$46.2 million for school construction including the Nightmute school renovation at \$33 million (the next Kasayulie school) and \$13.2 million for the Quinhagak renovation (in addition to funds provided in the past). She relayed that DEED prepared the list annually; school districts apply for grants; the current list totaled \$284 million for 24 projects. She noted that the next Kasayulie school would be in the FY 15 budget for the community of Kwethluk and was estimated at approximately \$56 million.

Ms. Rehfeld continued with slide 12; the budget included \$22.3 million for the first 12 major maintenance projects on DEED's list; the list totaled \$253 million and contained 111 projects.

Co-Chair Austerman asked whether a portion of the \$56.5 million for the Village Safe Water program had a federal funds match. Ms. Rehfeld replied in the affirmative. She believed the figure was approximately \$8.5 million. She furthered that the budget included a \$5 million request for new technologies to help provide communities with safe drinking water. The \$5 million would also be available to the Department of Environmental Conservation (DEC) for emergencies (e.g. the failure of older water systems).

Co-Chair Austerman recommended that DEC should present a plan on how it would obtain needed information and how it would operate in the future. He believed the DEC project list was approximately \$700 million; he did not believe \$5 million would go very far in addressing the overall plan.

Ms. Rehfeld agreed.

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Co-Chair Stoltze surmised that the project list would grow significantly if communities believed they would receive any of the money.

Ms. Rehfeld shared that the budget included \$100 million for year four of the administration's five-year deferred maintenance effort. She highlighted that the administration had learned that absence of a capital asset management system had limited the state's ability to manage the deferred maintenance backlog. She furthered that the annual increment helped communities to plan and complete the projects. She detailed that the administration had carved out a \$2 million piece of the \$100 million total to apply towards a capital asset management system for statewide use.

Ms. Rehfeld discussed slide 13: "Resources and Permitting." She referred to the governor's plan for an all-Alaska gasline project. The budget included \$50 million for gasline development: \$25 million for the Alaska Gasline Inducement Act (AGIA) reimbursement fund and \$25 million for the Alaska Gasline Development Corporation (AGDC) project. The proposed budget included a \$15 million increment for the Geologic Materials Center. She expounded that the state had a wealth of materials currently stored in container vans that hindered research by explorers; the

funding would go towards the purchase and renovation of an existing facility to house the materials.

Vice-Chair Neuman asked how much had been spent on AGIA reimbursement to date. Ms. Rehfeld responded that \$223 million had been spent on AGIA reimbursement; with the current request the total appropriation would be \$330 million.

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Ms. Rehfeld pointed to the administration's effort to streamline permitting and to a \$4 million increment for statewide digital mapping that would allow for the completion of mapping the Arctic region. She highlighted an \$18 million request for Roads to Resources including \$8.5 million for the Ambler Mining district and other. The budget also contained \$10 million in funding for the first year of the five-year Chinook Salmon Research Initiative. The initiative would enable the state to take a comprehensive look at Chinook salmon stocks and to increase their abundance and sustainability. She added that the Department of Fish and Game was preparing the research plan with a number of stakeholders.

Representative Gara asked for clarification on the total AGIA reimbursement including the current proposed increment.

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Ms. Rehfeld answered that \$305 million had been appropriated for AGIA reimbursement to date. The proposed \$25 million would bring the total to \$330 million. She added that at present approximately \$223 million had been reimbursed from the fund.

Representative Costello referenced a significant permitting backlog that had existed in the past. She queried how the \$7.3 million designated for permitting and statewide digital mapping (slide 13) would be divided.

Ms. Rehfeld replied that \$3.3 million was designated for the unified permitting project and \$4 million would go to statewide digital mapping.

Ms. Rehfeld turned to slide 14 titled "FY 2014 Operating Budget Highlights." She remarked that the administration believed the proposed budget was very lean. Full funding was included for the current K-12 education funding formula and pupil transportation (the K-12 funding formula was based on the current Base Student Allocation of \$5,680) for approximately 129,000 students statewide. Also included was a request for a direct deposit of \$633.8 million to the retirement system unfunded liability; the figure included \$4.5 million for the Judicial Retirement System (JRS). She elaborated that the prior valuation on June 30, 2011 showed the unfunded liability at slightly over \$11 billion; \$7 billion for the Public Employees' Retirement System (PERS) (estimated to be funded at approximately 61.5 percent) and \$4.1 billion for Teachers' Retirement System (TRS) (funded at approximately 53.6 percent). Actuaries were expected to provide the Alaska Retirement Management Board with an updated valuation in the near future.

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Co-Chair Stoltze asked about the breakout related to the \$633.8 million designated for the unfunded retirement liability. Ms. Rehfeld believed approximately half of the \$629.3 million (designated for PERS and TRS) would go to PERS and about \$300 million would go to TRS. She reiterated that \$4.5 million would go to JRS. She would get back to the committee with the exact figures.

Representative Munoz asked whether the change to the Defined Contribution (DC) system [from the Defined Benefit system] positively impacted the growth of the unfunded liability. Ms. Rehfeld replied that the change to the DC system had helped close the system. She elaborated that the system had helped with the determination of the annual rates. She stated that a pertinent issue was related to fund earnings and how the valuations were done. She believed the liability would continue to increase in the short-term until a greater market recovery took place.

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Ms. Rehfeld relayed that the budget included a \$60 million increment for revenue sharing (slide 14). She pointed to a pie chart showing FY 14 expenditures by category (slide 15). The left portion of the chart totaled \$6.6 billion (approximately 52 percent of the total budget request) and

included formula programs, statewide appropriations, and the permanent fund dividend. She elaborated that the items were considered nondiscretionary (items that were not typically targeted when looking for areas to reduce spending). The right portion of the chart contained the agency nonformula portion of the operating budget; the checkered piece of the pie represented the general fund portion of the agency nonformula budget in the amount of \$2.3 billion. Other funds (e.g. federal and other) were included at \$2.5 billion, and the capital budget portion was included at \$1.82 billion. She expounded that the right portion of the chart encompassed areas that could be looked at in order to reduce or restrain government growth; state salaries made up a large portion of the nonformula general fund expenditures. She stressed that it was important to take a hard look when adding positions for the governor's specific priorities because the salary area was a place where costs could be managed over time. She reiterated that the administration's effort had been to focus on the constitutionally and statutorily required priorities and what it believed Alaskans expected from government.

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Ms. Rehfeld concluded with a pie chart on slide 16 titled "FY 2014 Budget - Another Perspective." She addressed how important it was to spend so much time on the budget; 60 percent of the budget benefited Alaska's communities, organizations, and individuals with items such as Medicaid, Permanent Fund Dividends, revenue sharing, school funding, unfunded liability, capital projects, and other. Purchased services accounted for 21 percent (shown in dark blue) and included items such as travel, contractual, supplies, fuel, professional services, and other. She expounded that some of the funding was internal to state agencies, but a significant amount was for services purchased from Alaska's private sector. Salaries and benefits for state employees accounted for 19 percent or \$2.54 billion. She estimated that approximately 53 percent of the \$2.54 billion would be paid for with general funds. She noted that departments had different funding sources for their personal services.

Ms. Rehfeld communicated that the governor had consistently used guiding principles including, fiscal restraint, strategic investments, carefully managing cash reserves as oil production declines, and to focus on core services and agency missions. She shared that many people had worked on

preparing the budget; she thanked departments, their staff, and the Legislative Finance Division. She offered OMB's help going forward.

Co-Chair Austerman asked for the cost difference between the FY 13 and FY 14 budgets. He noted that at one point the growth was expected to be less than 1 percent. Ms. Rehfeld pointed to slide 5 that showed that the total authorized budget for FY 13 at \$7,977.5; a \$40 million placeholder had been included for supplemental budget items. She emphasized that the administration was taking a hard look at any supplemental requests and had asked departments to only bring forward requests for items that they did not have the ability to fix in the current year. The proposed FY 14 budget totaled \$6,493.8. She relayed that the total increase in the operating budget was approximately 0.8 percent.

Co-Chair Austerman noted that there was a difference between the total \$12.8 billion budget versus the general fund numbers. He asked about the total budget difference. Ms. Rehfeld replied that the total budget was \$12.8 billion and proposed budget general funds was \$6.49 billion.

Co-Chair Austerman asked about the FY 13 budget amount. Ms. Rehfeld replied that the total budget was \$13.2 billion and \$7,977.5 in general funds.

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Co-Chair Austerman was interested in how the FY 13 and FY 14 budgets would differ. Ms. Rehfeld expressed her understanding and stated that slide 5 showed the general fund difference.

Representative Costello referred to 33 positions that had been housed under DOA that were being "parceled out" to other departments with the expectation that the positions would be paid for by divisions through interagency receipts at a total cost of approximately \$12 million. She observed that there only appeared to be \$4 million in the governor's proposed budget. She wondered whether savings in departments would make up for the \$8 million difference or if there had been discussions on how divisions would accommodate the interagency receipts.

Ms. Rehfeld replied that there were various rates charged by DOA (e.g. mail room, information technology, Division of Finance, Division of Personnel, and other); all of the costs were charged back to departments. She explained that DOA had been going through a rigorous review of rates to determine what the rates were and its own costs in order to minimize charges to departments. There were a whole set of rates that needed to be built into the budget on an annual basis. She furthered that DOA had identified approximately \$12 million in increased costs to departments; departments had been asked to absorb the increases for many years. The administration had looked at the issue to determine where some relief could be provided because at a certain point agencies would not have the financial resources to support the increases. The administration believed \$4 million would assist departments in managing budget increases. She communicated that the human resource position transfers were a different situation; departments were going to pay for the positions whether they remained in DOA or moved to departments. She explained that DOA's Human Resource Division had found an error in its process for determining its rates (the costs would have to be picked up in the rates going forward). The department also found that dealing with a pool of individuals made handling vacancies and other items much easier than when the positions were divided amongst individual departments. She furthered that positions transferred out were in response to departments wanting their own human resource manager/workforce development/recruitment staff onsite.

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Ms. Rehfeld continued to explain that when the positions were moved to departments, the departments were able to keep the money that would have been paid to DOA through chargeback; however, some of the costs were going up. She reiterated that the administration believed the \$4 million figure would help departments to accommodate for some of the increases.

Representative Edgmon pointed to fund sources on slide 5 and observed that federal funds were at 23 percent. He asked whether the number had been getting smaller or staying steady over recent years.

Ms. Rehfeld replied that the federal funds authorization request had not changed as dramatically as one might

expect. She detailed that the largest change had occurred when American Recovery and Reinvestment Act (ARRA) funding had been discontinued. She furthered that the large ticket items in the budget for federal funds were highway, aviation, transportation, Medicaid, Department of Labor and Workforce Development, Department of Education and Early Development, the University of Alaska, and other. She stated that there had not been many changes in the amounts requested currently; the proposed budget did not try to anticipate what may occur at the federal level because there were too many unknowns. She noted that an entirely different conversation would pertain to federal funds that went directly to programs and not through the state budget. She believed the administration would know more in upcoming months about what federal funds would look like in the future.

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Co-Chair Austerman discussed the schedule for the following day. He shared that the committee would begin meeting as a Committee of the Whole for the Health and Social Services Subcommittee.

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ADJOURNMENT

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The meeting was adjourned at 2:59 p.m.