

HOUSE FINANCE COMMITTEE
February 14, 2013
1:33 p.m.

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CALL TO ORDER

Co-Chair Austerman called the House Finance Committee meeting to order at 1:33 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

Karen Rehfeld, Director, Office of Management and Budget, Office of the Governor; Laura Achee, Director, Communications and Administration, Alaska Permanent Fund Corporation.

SUMMARY

HB 65 APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 65 was HEARD and HELD in committee for further consideration.

HB 66 APPROP: MENTAL HEALTH BUDGET

HB 66 was HEARD and HELD in committee for further consideration.

HB 91 SUPPLEMENTAL/CAPITAL/OTHER APPROPRIATIONS

HB 91 was HEARD and HELD in committee for further consideration.

DISCUSSION OF THE GOVERNOR'S FY 2014 BUDGET AMENDMENTS

#hb65
#hb66
#hb91

HOUSE BILL NO. 65

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs, capitalizing funds, amending appropriations, and making reappropriations; and providing for an effective date."

HOUSE BILL NO. 66

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

HOUSE BILL NO. 91

"An Act making supplemental appropriations, capital appropriations, and other appropriations; amending appropriations; repealing appropriations; making appropriations to capitalize funds; and providing for an effective date."

^DISCUSSION OF THE GOVERNOR'S FY 2014 BUDGET AMENDMENTS

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KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced herself for the record and related that the Office of Management and Budget (OMB) produced a fiscal summary of the budget 3 times per year. She explained that a summary was produced when the budget was released in December, which was updated after the

amendments on the 30th day and stated that a final summary would be released after the budget had been enacted and signed by the governor. She addressed the document titled "Governor's Amended Fiscal Summary" (copy on file) and relayed that there had been some changes on the left-hand side of the summary related to the FY13 budget; the changes included the supplementals that the administration had requested and several adjustments.

Ms. Rehfeld spoke to line 3 of the fiscal summary and to the revenue adjustment of \$48.9 million, which was the prior year's recovery for the Carlson case [State of Alaska, Commercial Fisheries Entry Commission v. Carlson]. She explained that the state had been able to recover a significant amount of the settlement from the case, which would show on the spring revenue forecast when the Department of Revenue (DOR) conducted its projection updates. She pointed out that the revenue adjustment from the settlement recovery was important to note when looking at the bottom line regarding the current fiscal year. She stated that line 10 under agency operations showed the original budget request from December of 2014 and related that line 11 depicted the items that were included in a January supplemental bill; line 12 highlighted the amendments that had been added that day. She stated that you could see the changes that were made in each section of the fiscal summary. She pointed to line 37 of the summary and related that it showed an adjustment to the \$40 million place holder for the supplemental requests in FY13 and FY14 that had been in OMB's December fiscal summary; because the supplemental had been so low, the place holder for FY13 had been removed and had been adjusted down to \$20 million in FY14. She related that OMB had put forward a very small package of amendments and was keeping the pressure on the operating budget. She added that OMB wanted to keep this budget as tight as it could.

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Ms. Rehfeld discussed line 68 of the fiscal summary and related that it depicted what the projected draw from the Statutory Budget Reserves would be if the current spending plan was completed; it showed a \$322.9 million draw from the reserve, which was down from OMB's December projection of \$410.8 million. She observed that some big reasons for the drop in the projected draw were the low supplemental request and the prior year's recovery from the Carlson

case. She observed that because the comparison point had changed, the overall budget still depicted a 1.2 percent increase in operating costs; however, OMB's budget request had been reduced by about \$19.1 million as a result of the amendments. She offered that the operating budget was very lean and that OMB had conducted a rigorous review before the budget had been presented to the committee.

Representative Gara thought he heard Ms. Rehfeld state that there was a \$1.2 billion reduction in the operating budget, but surmised that she had meant a \$1.2 billion reduction in the total operating and capital costs. Ms. Rehfeld responded that what she had meant to say was that OMB's submitted amendments had reduced its overall General Fund budget in FY14 by \$19.1 million in comparison to the December budget; however, if you compared the governor's amended request to the FY13 revised numbers on line 7 of fiscal summary, it showed a 1.2 percent increase.

Ms. Rehfeld discussed the 1 page summary titled "FY2013 Supplemental Summary" (copy on file) and related that it showed what the original supplemental request was on January 28; the total supplemental at that time was \$24.456 million. She shared that the amendments OMB was currently requesting totaled \$1.3651 million with a \$1 million federal capital request and represented an increase of \$2.3651 million.

Representative Munoz requested that someone point out which document Ms. Rehfeld was addressing.

Ms. Rehfeld noted that the documents should be in member's packets.

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Ms. Rehfeld continued to speak to the supplemental summary spread sheet. She related that if the supplemental bill passed, it would total \$26.8211 million, of which \$972,500 would be General Funds.

Ms. Rehfeld walked through the items on the supplemental spreadsheet titled "FY2013 Supplemental Amendments Submitted February 12, 2013."

Ms. Rehfeld requested a brief AT EASE.

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AT EASE

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RECONVENED

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Ms. Rehfeld thanked the committee for its patience and addressed page 1 of supplemental spreadsheet titled "FY2013 Supplemental Amendments Submitted February 12, 2013." She spoke to the first item on line 1, which was the FY13 Alaska correctional officers salary and benefits increase. She explained that a bargaining agreement had been reached with the Alaska correctional officers and that line 1 reflected the costs in the current fiscal year. She explained that the increase would go towards a 2 percent cost of living adjustment (COLA), health insurance, and geographic differential. She pointed out that line 1's item totaled \$1.2589 million; \$1.244 million of this amount were General Fund dollars. She added that there would also be an amendment in the FY14 budget for 920 correctional officers. She addressed the second item on line 2, which was a formula component under the Department of Health and Social Services (DHSS); the item was the for Title IV-E participation rate under the federal child-welfare policy. She explained that there were mandated changes to how the Title IV-E foster-care participation rate was calculated and that the federal funds for the program were going down by \$2.5 million; OMB was requesting \$2.5 million of general fund dollars to replace the missing federal funds. She added that OMB was also requesting the \$2.5 million in the amended budget for FY14.

Ms. Rehfeld continued to discuss the supplemental spreadsheet and spoke to the item on line 3, which was for the Office of the Governor; it regarded a redistricting decision that came out after OMB had presented its December budget. She explained that OMB was requesting a carry forward under the redistricting board for \$250,000 in the current year into FY14; there would also be a request in the FY14 budget for the redistricting board work that was needed to comply with a court order. She spoke to an item for the Division of Elections on line 4; OMB was requesting carry forward of \$500,000 for work that the division would need to conduct under the redistricting. She directed the committee's attention to line 5, which reflected an

additional settlement under the Department of Law for \$106,200; this settlement was associated with a school-cleanup sight in the Kuspuk School District for Aniak vocational schools. She explained that the settlement had come in after OMB had presented the supplemental to the legislature several weeks prior.

Ms. Rehfeld discussed page 2 of the supplemental spreadsheet and pointed to the new capital item associated with \$1 million in federal receipt authority. She explained that the Government of Japan had provided \$5 million to the United States for the cleanup of the tsunami debris and that the Department of Environmental Conservation (DEC) was the lead state agency on the cleanup effort; DEC would be entering into a memorandum of understanding with the National Oceanic and Atmospheric Administration for the work regarding the effort. She related that OMB did not know how much funding for the cleanup efforts would be allocated to Alaska, but was estimating that it would be \$1 million; OMB was requesting the authorization in a supplemental because the funds would be available in the coming spring.

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Ms. Rehfeld spoke to the 3 re-appropriations on the supplemental spreadsheet that OMB was requesting under the Department of Transportation and Public Facilities. She stated that lines 8 and 9 were both for Federal Aviation Administration authorizations. The request on line 8 was for \$15 million for work on the Ambler airport and the request on line 9 was for \$5 million for the Kotzebue airport runway-safety improvements; the reappropriation was federal receipt authority from prior National Highway System pavement and bridge appropriations that were available to be reallocated to these projects. She discussed the final item on page 3, which was a reappropriation of \$40 million for the Dowling Road extension in Anchorage; the source of funds for this project was also from previously authorized federal receipts for the National Highway System pavement and bridge refurbishment program.

Representative Gara expressed confusion regarding differences between the Governor's Amended Fiscal Summary and supplemental spreadsheet. He explained that the fiscal summary showed a total supplemental request of \$972,000 in

General Funds, while page 3 of the spreadsheet showed a supplemental of \$3.8 million in General Funds. Ms. Rehfeld directed the committee's attention to the supplemental summary. She stated that the General Fund was reduced by \$2.8777 million on the original supplemental request from January 28; however, the amendments that OMB had put forward for consideration resulted in a General Fund increase of \$3.8502 million. She expounded that the overall supplemental General Fund would be \$972,500; the summary showed the original bill amounts and what the total bill would be with the amendments.

Representative Gara inquired if OMB had added the supplemental, which had subtracted money, to the amendments, which added funds. Ms. Rehfeld responded in the affirmative.

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Ms. Rehfeld addressed the document titled "FY2014 Governor Amended Summary." She related that the agency operations non-formula requests were negative \$3.001 million, but were a positive General Fund of \$3.7838 million. She pointed to the 3 formula items, which were comprised of \$5.720 million in General Funds and had a total of \$4.450 million. She stated that the correctional officers agreement that had been previously discussed would be for FY14; it would be \$5.6056 million in General Funds and would have total funds of \$5.671 million. She noted a reduction in debt service of \$17.3 million, as well as a debt service associated with fund transfers. She stated that although the capital amendments would not be reviewed in the current meeting, they were reflected on the summary sheet.

Ms. Rehfeld directed the committee's attention to the 8 page summary titled "FY2014 Operating Amendments Submitted February 12, 2013." She spoke to line 1, which was under the Department of Administration (DOA) and was for the Mandated Patient-Centered Outcome Research Institute Trust Fund that was a requirement under the Patient Protection and Affordable Care Act; it would be a fee based on the number of covered individuals. She pointed out that line 1 was a new request and that OMB had not realized that the ruling from the Internal Revenue Service would be issued until after the submission of the December budget; the request was for \$65,000 for the new requirement.

Co-Chair Stoltze inquired if the Patient Protection and Affordable Care Act item represented the "first of many" such items. Ms. Rehfeld replied that she was unable to answer the question.

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Ms. Rehfeld continued to speak to the operating amendment summary and discussed the item on line 2, which was under DOA; the item was associated with an increased workload within the Division of Retirement and Benefits. She stated that the number of retirees in Alaska was continuing to increase, but that division's staffing and efforts had not increased; on line 2, OMB was requesting \$171,600 for the division to manage the increased workload. She furthered that the administration had been making every effort to utilize more online and technology based support to manage the workload and that it believed that the requested funds would help the division manage the workload. She discussed line 3 of the summary and indicated that OMB was requesting \$187,500 in program receipts under the DOA's Division of Motor Vehicles (DMV); this item was associated with centrally issued drivers licenses and identification cards. She explained that the DMV had been working hard to increase security to reduce fraud and limit identity theft and relayed there had been challenges regarding the state's drivers licenses and identification cards; the centrally issued process would greatly enhance the administration's ability to make those documents secure.

Ms. Rehfeld continued to speak to the operating amendment summary and indicated that the item on line 4 corrected a mistake. She explained that \$155,000 in General Funds had mistakenly been reduced in the December budget, even though the decrement had already taken place; OMB did not want to apply the same reduction twice to the Alaska Energy Authority. She stated that line 5 was for the correctional officers and related that every component that had personal services contained an adjustment for the cost of the correctional officers in the Department of Corrections' budget. She spoke to line 6 and related that it was a request for the Department of Education and Early Development's (DEED) Mt. Edgecombe boarding school; the item was associated with dormitory-management contract costs. She shared that there had been a significant increase in the dorm-management contract from FY13 into the FY14 budget. She explained that OMB had been working with

DEED to attempt another option to address the increased costs, but that the department had been unable to absorb the money for dorm management; OMB was requesting \$305,000 for the item on line 6.

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Ms. Rehfeld continued to discuss the operating amendment summary. She stated that lines 7 and 8 for the Department of Health and Social Services (DHSS) were associated with the pioneer homes' increases in food service, laundry, and janitorial contracts; the requests were also in the FY13 supplemental. She addressed the item on line 9 for the Alaska Psychiatric Institute that was associated with \$350,000 in statutory-designated program receipts; the item was based on the hospital daily rates for Medicare. She explained that the item would help the institute offset an increase in the cost of providing service to Medicare patients. She discussed the item on line 10 for DHSS for security improvements at the anchorage regional office building and noted that there was also a supplemental request before the committee; the item represented funding for the continuation work of security improvements to address safety issues. She spoke to the item on line 11 for DHSS and relayed that it was associated with the federal unrestricted authorization that made the department eligible to receive payments under the Children's Health Insurance Program; the item would allow the department to continue to receive the funds.

Ms. Rehfeld continued to speak to the operating amendment summary and related that the item on line 12 was a formula item for foster-care rate adjustments; this was associated with a recently completed foster-care rate study, through which it was determined that OMB needed to increase the rates. She pointed out that there had also been a court case regarding the foster-care rates and that OMB was requesting \$2.6 million for line 12, of which \$2.11 million were unrestricted General Funds. She pointed to the item on line 13 and shared that it was the mandated Title IV participation rate change, which resulted in a decrease of \$2.5 million in General Funds and an increase of \$2.5 million in the governor's budget. She discussed the item on line 14 and explained that the previously mentioned foster-care rate adjustment also applied to subsidized adoptions and guardianships; the same rate study also applied to this component. She stated that line 14 showed an increase of

\$1.85 million, of which \$1.11 million was unrestricted General Fund.

Ms. Rehfeld continued to speak to the operating amendment summary and pointed to the item on line 15, which represented a proposed structural change; OMB was requesting the authority to have the work services funding remain in DHSS and have that department manage the program. She explained that in the past, there had been a reimbursable service agreement with the Department of Labor and Workforce Development (DLWD), but that the administration believed that it would be more efficient and result in less overhead cost if DHSS retained the funding and did the work. She pointed out that there was a request to transfer the positions from DLWD to DHSS and that the inner-agency receipt authorization in the DLWD's budget would be deleted; items 15 through 20 were all related to the transfer of the positions.

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Ms. Rehfeld continued to address the operating amendment summary and spoke to the item on line 21, which was for the Department of Public Safety (DPS). Line 21's request was for rural-trooper housing and was associated with General Fund program receipts for rental income for rural housing; the rates received a COLA every year. She pointed out that there had also been increases in rural-housing locations and that OMB was requesting \$500,000 for the rental receipts on line 21; the receipts would be used for the maintenance of the facilities. She directed the committee's attention to the item on line 22 that was for DPS; the request was for \$163,800 in General Funds to implement a radio dispatcher class study that had recently been completed. She stated that line 22 would affect 43 positions, which would be shifted from radio dispatch to emergency services dispatchers. She spoke to lines 23 and 24 and related that both items were associated with the Alaska Permanent Fund Corporation (APFC). She explained that line 23 was requesting \$130,000 in APFC receipts for the corporation's professional services and contractual cost increases and that line 24 was requesting \$198,000 in APFC receipts for the compensation plan that the Permanent Fund used for its employees.

Ms. Rehfeld continued to discuss the operating amendment summary and discussed the item on line 25. She relayed that

on the fiscal summary, OMB had highlighted the amount of permanent funds that were needed for inflation proofing, as well as for the Permanent Fund Dividend (PFD) calculation; OMB updated this number based on the monthly statement that it received from APFC. She stated that line 25 showed a \$4 million adjustment to the OMB's December projections and that there would be another adjustment in the new fiscal summary on the enacted budget; the amendment also made a technical correction in the language section of the budget. She spoke to the item on line 26 and related that it was a request for \$1.75 million associated with redistricting; this item plus the carry forward that was discussed when reviewing the supplemental would provide about \$2 million for the redistricting board's activities from the current year until 2015. She concluded that OMB was requesting a multi-year operating item on line 26.

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Ms. Rehfeld continued to address the operating amendment summary and stated that the item on line 27 was a reduction of \$17.3 million for debt service; the reduction was a change based on DOR's current estimates of the general obligation bond debt service and reflected a revised projection that would save the state \$17.3 million in debt-service costs. She stated that the item on line 28 was a correction that she had mentioned during a previous overview hearing. She explained that the governor had been clear that his intention was to provide an additional \$125,000 to capitalize the Sustainable Energy Transmission and Supply Development Fund (SETS). She relayed that although it was reflected on OMB's December fiscal summary, the actual transaction had not been in the bill; the item on line 28 represented the language that would actually make the appropriation from the Alaska Housing Capital Corporation Fund into the newly established SETS. She discussed the final item on line 29 and related that it was associated with an adjustment to the amount of receipts under the 1 cent surcharge for the Oil and Hazardous Substance Release Prevention and Response Fund; the estimate had been \$1.9 million, but was now \$1.1 million. She concluded that line 29 showed an \$800,000 reduction in that fund transfer.

Representative Wilson inquired how many dormitories Mt. Edgecombe currently had. Ms. Rehfeld replied that she

believed there were 3, but offered to confirm the number with the DEED.

Representative Wilson pointed out that the contract totaled \$141,000 per month and inquired if there had been any discussion regarding the costs being high. Ms. Rehfeld replied that the department would be better suited to answer, but that the contract had been competitively bid. She added that DEED had worked hard on the contract, which included coverage of the dorms 24 hours a day 7 days per week. She offered to have the department get back to the committee with a response.

Representative Wilson inquired how many contracts had returned from the competitive bidding. Ms. Rehfeld agreed to supply the requested information.

Co-Chair Stoltze spoke to the item on line 3 of the operating amendment summary, which dealt with driver's licenses. He inquired if the administration had considered fixing all the driver's license issues in one step by removing the item from the supplemental and attaching it as a fiscal note to Representative Lynn's bill. Ms. Rehfeld responded that she was unable to answer, but offered that the department would be happy to discuss the issue.

Co-Chair Stoltze thought that the item on line 3 should be removed until the committee received a more definitive answer. Co-Chair Austerman responded that Co-Chair Stoltze's thoughts were duly noted.

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Representative Thompson spoke to line 24 of the amendment summary. He acknowledged that the Permanent Fund should have the best managers, but noted that the APFC's employees were paid more than normal state employees. He conceded that paying the APFC employees more might be prudent given the importance of the Permanent Fund, but expressed concern that the disparity in pay was causing vacancies in other departments because APFC was offering a higher pay for the same type of work. Ms. Rehfeld acknowledged that APFC employees were exempt and that its board established the corporation's compensation schedule and package. She noted that there were also concerns regarding whether the pay for the state treasury managers was comparable to that of the managers of Permanent Fund and observed that OMB had

a discussion about the issue every time APFC sought additional funding for its compensation plan; however, the request seemed appropriate for the current situation.

Co-Chair Austerman inquired if the request on line 24 was for staff and not for contracts. Ms. Rehfeld replied in the affirmative.

Representative Gara observed that APFC did not have the same incentive built into it to hold down costs as the legislature and the governor did, which were dealing with revenues. He mused that he was unsure if the APFC employees were being treated fairly or if the other exempt state employees were being treated unfairly, but suspected that there was a large gap between the raises inside of APFC and the raises for exempt employees in state government.

Co-Chair Stoltze inquired if Representative Gara was referencing classified or exempt state employees. Representative Gara responded that he was referencing the employees who the administration raised salaries on.

Representative Gara inquired who was on the Permanent Fund Board from the administration. Ms. Rehfeld believed that there were two members from the administration on the Permanent Fund Board, but deferred the question to Ms. Achee. She added that the State of Alaska had a dynamic classification and pay structure that included classified, totally exempt, partially exempt status, as well as the independent corporations; furthermore, there were number of complexities involved with each type. She concluded that a lot of the same concerns had been discussed during the formulation of the December budget, but that through more discussion with APFC, OMB thought it was appropriate to bring the amendment forward.

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LAURA ACHEE, DIRECTOR, COMMUNICATIONS AND ADMINISTRATION, ALASKA PERMANENT FUND CORPORATION, replied that she was unaware of an influx of staff from other departments into the APFC; moreover, she could site several staff members who had left APFC to go to other state departments. She pointed out that when APFC did the market salary surveys that helped set the pay for its investment officers, it looked at other public sector investment officers in similar institutional investment funds across the U.S. and

did not look at private sector investment officers; in this regard, APFC was attempting to get a very comparable scale regarding its pay. She related that APFC's HR officer took into great account what other State of Alaska agencies were paying regarding such positions as accountants, administration, and IT staff. She believed that there was a perception that APFC staff were more highly compensated than employees of other state agencies, but asserted that this perception was incorrect. She conceded that some APFC staff had come from other state agencies, but that the reverse was also true.

Ms. Achee requested a rephrasing of the Representative Gara's question. Representative Gara responded that what he really wanted to know was whether the extent of the raises was in the 3 percent, 10 percent, or 15 percent range. Ms. Achee replied that there was a salary management plan that showed anything from a 0 percent to 7 percent increase that was based on merit. She related that the 7 percent raises were incredibly rare and that the raises tended to be more in the 3 percent to 5 percent range. She offered that a 3 percent to 5 percent raise was comparable to a step increase in other state agencies.

Ms. Achee related that APFC had to come forward for staff funding because it was a smaller agency with only 38 staff. She shared that whereas other state agencies were able to manage the payment of their step increases within vacancy rates, APFC was too small to do so; therefore, APFC had to come forward for funding in its personal services line to make the payments. She recalled that in past APFC did not always receive the increment for pay increases and remembered that the most recent APFC member who went to another agency did so on a year that increases were not paid; the employee had felt there had been a promise made when they were hired regarding yearly increases based on merit and they had left for another state agency. She pointed out that the item was important for APFC to recruit and retain the best employees it could and that in order to do so, it needed to pay complete wages and keep its promises to employees that their efforts would be recognized.

Representative Thompson inquired the APFC employees who received merit raises would also receive a step increase. Ms. Achee replied that APFC was completely separate from the State of Alaska and that the merit increases that it

paid were what would correspond to a step increase that a regular state employee would receive.

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Ms. Achee responded to an earlier comment by Representative Gara regarding APFC not having the same pressure to control costs as other state entities, but believed that was not true. She pointed out that during her tenure at APFC, there had been a number of increments that had come before OMB and the legislature that had been denied. She relayed that APFC worked hard to control costs within its budget with the recognition that money that was spent was not going towards the PFD. She recalled that a year or two prior, Mike Burns had had answered a question in committee regarding how APFC approached the costs of managing the Permanent Fund. She remembered that Mr. Burns had stated that APFC would not approach the management of the fund from a position of trying to achieve the lowest possible costs because doing so would result in the lowest returns and performance. She shared that APFC was seeking to find a balance between what it was spending and what it was getting in return; APFC was always mindful that it was managing the people's money.

Co-Chair Stoltze had a difficult time believing that APFC had a daily obsession with amount of the PFD.

Co-Chair Austerman inquired if the \$198,000 request on line 24 would be used to hire staff or whether it was only for merit increases. Ms. Achee replied that it was tied to the estimated cost of providing merit increases for the 38 staff within the APFC. She added that merit increases and new staff were managed on the same line and that there had been years where APFC had empty positions because it did not have enough in the line to pay for new staff.

ADJOURNMENT

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The meeting was adjourned at 2:26 p.m.