

HOUSE FINANCE COMMITTEE
March 13, 2013
9:01 a.m.

9:01:40 AM

RECONVENED: CONTINUATION OF RECESSED MEETING ON 3/13/13.

CALL TO ORDER

Co-Chair Austerman called the House Finance Committee meeting to order at 9:01 a.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

Pete Ecklund, Staff, Representative Alan Austerman

SUMMARY

HB 65 APPROP: OPERATING BUDGET/LOANS/FUNDS

CSHB 65(FIN) was REPORTED out of committee with a "do pass" recommendation.

HB 66 APPROP: MENTAL HEALTH BUDGET

CSHB 66(FIN) was REPORTED out of committee with a "do pass" recommendation.

#hb65

#hb66

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."

9:01:40 AM

Co-Chair Austerman directed the committee's attention to the new CS for HB 65.

Co-Chair Stoltze MOVED to ADOPT the proposed committee substitute for HB 65, Work Draft (28-GH1799\P) as a working document. There being NO OBJECTION, the CS was ADOPTED.

PETE ECKLUND, STAFF, REPRESENTATIVE ALAN AUSTERMAN, addressed the changes in the new CS. He believed that all the amendments that had been adopted the prior day had been properly incorporated into the CS; in addition, there were several small and conforming technical amendments made by the drafters. He pointed to an operating budget agency summary from the Legislative Finance Division (copy on file) and directed the committee's attention to the first page of the summary, which was labeled "A." He discussed the "2013 management plan to House comparison" column and related that the agency operations costs in the new CS for HB 65 were \$40,250,100 below the 2013 management plan; \$36 million of that amount was hollow receipt authority, making the real dollar figures of the CS \$4,250,100 under the management plan in General Funds for agency operations. He pointed to the column labeled "House" and explained that the bill's statewide total on the bottom represented \$6,495,336,800 in General Funds. He directed the committee's attention to report "B" on page 3 of the agency summary, specifically to the House column, which depicted

the number and language in all funds. He related that HB 65 totaled \$8,222,398,900 in numbers and language for all funds for agency operations; the addition of statewide items increased the total to \$9,809,291,500.

9:05:29 AM

Co-Chair Stoltze MOVED to REPORT CSHB 65(FIN) out of committee with individual recommendations.

Representative Gara OBJECTED for the purpose of discussion.

Representative Gara expressed concern about the budget and offered that it was designed to some form of the governor's oil-tax proposal. He thought that the budget would cause more harm to the state than the committee realized and referred to the testimony against the statewide education cuts. He warned that if the cuts to education continued, people might not want to raise their children in Alaska; however, this could be avoided if the state was able to reverse its current course of school and school staff cuts. He pointed to minority efforts to work to reverse some of the budget cuts. He acknowledged that there was pressure from the governor on those who supported his agenda to cut the budget substantially. He noted that he and Representative Kawasaki had offered some cost savings and hoped to find some additional cost savings in superfluous areas while examining the Department of Health and Social Services (DHSS) budget over the coming summer. He offered that the state had vastly inadequate services for individuals with emotional disturbances and disabilities, mental health problems, autism, and those at risk of suicide. He acknowledged the pressure that committee chairs were under to find cuts to the budget, but disagreed with the \$8.3 million cut to substance abuse, mental health, and emotional disturbance funding that would result from a vote the prior day.

Representative Gara pointed out that the \$8.3 million in funding would not be in the base funding in a year's time. He offered that there would be an attempt to use funds from the budget to supplement the substance abuse, mental health, and emotional disturbance funding for one more year, but stated that this did not represent the "hand" that he wanted to lend to those in the greatest need. He expressed his displeasure at the budget cuts to Pre-K education funding. He stated that Alaska's Pre-K pilot

program was now in its fourth year, had been proven to work, and served 2 percent of state's Pre-K education-eligible population; exclusive of the federally funded Head Start program, other states served 28 percent of the same population. He expressed concern that Alaska could end up becoming an "education backwater." He conceded that a lot of money in the budget had gone into education, but offered that the funding would go into areas other than the classroom, such as state-employee retirement and school transportation. He referenced the cuts to "virtually" every school district in the state. He discussed a cut of \$400,000 to the Alaska Infant Learning Program and shared that the program was an important effort to screen people with autism, hearing problems, and vision problems and was not an area where funding should be cut. He stated that he was always happy to cut waste and that Alaska needed to find waste to cut; however, the current budget was not one that he could vote for.

Representative Gara appreciated that people had been willing to listen and had been polite during the budget formulation process. He pointed out that the prior 4 years, the legislature had been able to formulate a budget that many in both parties could agree with, but offered that the differences were too vast in the current year. He expressed disappointment that he and Representative Kawasaki had voted for most of the majority amendments; however, despite their strong logic, they had been unable to gain funding support for Pre-K, education, behavioral health, or infant learning. He asserted that bi-partisanship had to go both ways and offered that the "raw" vote against every minority amendment made him realize the extent of the divide between the philosophies in the committee. He reiterated that he could not vote for the budget. He reported that he believed that the state should be doing everything it could to create opportunity for the next generation, but that the budget did not reflect those beliefs.

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Representative Gara surmised that Vice-Chair Neuman had been shouldered with making the hardest cuts of any of the subcommittee chairs in the DHSS budget. He pointed out that DHSS had the largest budget and related that Vice-Chair Neuman had preserved the integrity of most of the efforts to help people who faced severe problems in Alaska; however, he did not agree with the behavioral health cuts

or using some of the supplemental funds to reverse some of the shortages by covering a one-time payment. He offered that the some areas in the DHSS budget did not need to be cut so drastically. He appreciated that other members were collegial during the process and stated that sometimes there were simply differences in philosophy. He stated that the voters elected the people who they agreed with and that not every district was the same.

Co-Chair Austerman responded to comments made by Representative Gara and related that some members of House had spent the past 5 years attempting to get the legislature to sit down and have the conversation about what would happen when the state was getting close to falling off of a fiscal cliff; there had been very little traction among the legislative body to take a hard look at where the state would be financially in the future, which was where it now found itself. He agreed with Representative Gara that both parties had been able work on the budget together the prior 4 years, but observed that there had also been a surplus of money in during that time and that the state had been able to save; without the proper planning of where the state would be in the future, the legislatures had spent because the money was there. He pointed out that the Department of Revenue had stated that Alaska was in deficit spending and that he believed the department. He discussed the need to grab and maintain control over state spending and offered that the budget before the committee accomplished that

Co-Chair Stoltze thanked Co-Chair Austerman, as well as the subcommittee chairs and members for their work on the budget. He pointed out that Vice-Chair Neuman had chaired 11 hearings and that Representative Costello had chaired 8 committee meetings for the Department of Commerce, Community and Economic Development and the Department of Natural Resources budgets; these committees had held the most meetings and a significant number of the issues that had arisen fell under their purview. He offered that the debate was about \$4 million less than the previous year and stated that a 4 percent reduction was not a slowdown or a shutdown. He pointed to the nearly \$10 billion operating budget and asserted that it was not sustainable. He stated that the budget process would only becoming more scrutinizing as the state was facing a steady revenue decline.

Co-Chair Stoltze pointed out that some people were confused with the discussions that occurred in government and why the budget could not be trimmed. He referenced questions that the press had asked him regarding if he was surprised that there were 75 to 100 people present to testify on the budget during public testimony, but offered that a lot of those people were active participants in the process every year; furthermore, there were 10,000 to 20,000 people in his district that that could not be present to testify because they were driving 100 miles round trip to work and were wondering why the state was not getting control of the budget. He reiterated that a \$4 million reduction did not represent a "draconian" cut and pointed out that the budget process would only get tougher. He surmised that Alaska was facing some tough decisions and that it would be difficult for the state to simply maintain a zero growth budget to hold the line where it was. He pointed out that the committee had disagreed with the governor and had denied some of the administration-supported increases that the committee felt did not fit its plan of sustainability. He observed that the budget the committee had approved was not even sustainable, but was meant to "turn the corner." He warned that the state was in for tougher times regarding its budget.

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Vice-Chair Neuman stressed that the state's income revenue had become less than its bills and that it was facing a difficult situation for the first time in many years. He related that working with the DHSS budget had given him some different insights. He pointed out that there were indicators of the broader economy within the DHSS budget and reported that the number of people on food stamps went from 20,000 to 40,000 from 2008 to 2012. He emphasized that the increase had occurred when the state had \$3 billion capital budgets. He shared that the state did not have enough money for capital budgets and that although it had money in savings, it did not have enough to pay its bills. He related that the DHSS budget would be the first budget to start to feel the effects of the economy and that when people did not have jobs, there was growth in spousal abuse, the sexual abuse of minors, alcohol abuse, and drug abuse; he offered that the next departments to feel the effects would be the Department of Public Safety and the Department of Corrections. He pointed out that if the state did not arrest the growth in the operating budget and cover

its costs without taking money out of savings, there would be a progressivity factor in the budget that would grow higher every year.

Vice-Chair Neuman believed the state needed to be able to do large capital projects such as bridges, dams, interties, and pipelines in order to reduce the risk assessment for private industry that was interested in investment in Alaska and create jobs. He shared that the state needed to use every tool in order to attract private industry to invest in Alaska and help create jobs. He pointed out that taking money out of savings would affect the state's bond rating and referenced that the state had obtained its last general obligation bonds at a very good rate with its AAA bond rating. He explained that bonding agencies realized that 90 percent of the state's income was tied to oil that had been declining at a rate of 6 percent to 7 percent for more than 25 years and pointed out that the decline had been masked by the increases in the price of oil. He stated that taking out of savings would affect the state's bond rating and its ability to partner with private industry to produce the large capital projects that would create jobs. He offered that people would rather have a job than to be using food stamps and opined that the growth in the operating budget was a cumulative ball that would hurt the state in the future.

Vice-Chair Neuman continued to speak to the operating budget. He shared that trying to cut programs for mentally disabled children, handicapped individuals, or senior citizens had been extremely difficult. He related that the cuts were needed to avoid even more drastic cuts further into the future. He discussed the \$8.3 million in cuts referenced by Representative Gara and indicated that the funding was money that was not being used in programs at the current time. He pointed out that things would get worse and spoke to the rising cost of medical services. He referenced information indicating that the average Alaskan's entire paycheck would go towards covering medical costs by the year 2037. He stated that there was a lot of work ahead of the state and that some statutory changes might have to be made. He noted that he would work in the coming summer to come up with some different concepts on some possible changes to statutes. He pointed out that the items he had worked on were all proposed cuts in the governor's budget and stated that while the commissioners of DHSS and the Department of Transportation and Public

Facilities were not happy about the cuts, they had all worked together on the budget. He stated that the reduction would help make the future even less painful regarding the budget and asserted that doing more in the current year would help in the future. He related that 28.3 percent of the people in Mat-Su received some form of assistance and that in Western Alaska that percentage was 78 percent to 80 percent. He spoke to the need to create jobs through private industry. He supported the budget and offered that while he would have liked to support some of the ideas from the previous day, had been unable to because of the deficit mode that the state was in. He expressed the need to protect the future of the Alaska's children.

Co-Chair Austerman agreed that jobs would be a critical component of making sure that Alaska remained healthy, but clarified that leaving money over for capital projects was not part of the structural component of building the operating budget; the process was formed around the operational budget itself, as well as the ability to carry forward and manage that budget. He further explained that the operating budget was not tied to figuring out how to save money for capital projects.

Vice-Chair Neuman affirmed the comments of Co-Chair Austerman. He clarified that he meant that it would be a good thing to give people jobs and try to attract private industry that could create jobs from our resources.

Representative Wilson clarified that she did not make any cuts based on a bill. She stated that the committee tried to measure a program's success based on information garnered from the different departments and decide on whether to continue programs or start new ones. She expressed frustration that programs were started and that school districts and other entities were given the understanding that the state would be able to offer every program for free, which was not a possibility. She offered that there had to be a commitment on both sides that showed a desire for programs to work. She spoke about the need for accountability and queried if the state should continue to compete with the private sector in Pre-K education. She opined that it was misleading to use figures that showed the percentage of Pre-K eligible students in the Alaska that were in programs and offered that the state had many great programs that were not in the public sector; furthermore, there were head start programs that were

federally funded that were not accounted for in some of the figures.

Representative Wilson offered that Alaska was taking care of its students not only through programs, but also through parents who worked on a one-on-one basis that was not measured in programs. She stated that Alaska took education, from Pre-K to beyond post-secondary, very seriously. She offered that although it should have been doing so all along, the state was a point where it had to make an accountability measurement for grant funding that determined what the state was getting for its money, as well as whether it was something the private sector should be doing; she mused that if the state asked that question more often, it might find that the private sector could not only offer some of the services more affordably, but could also offer a better quality of service. She pointed out that she worked on the education budget year-round, which involved looking at the programs, as well as talking to the districts and parents regarding what was important and how to accomplish it. She pointed out that the next year's budget process would be more difficult and that the formula programs would be examined because that was where most of the money resided. She spoke about how difficult it was to make the current cuts, but offered that it would result in things being easier the following year. She wanted the public to be aware that Alaska was going into its savings with the current budget and that the state was spending more money than it was earning in revenue. She concluded that the state needed to stop spending more than it was making.

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Representative Gara wanted a clarification on the record. He understood disagreement on the issues, but asserted that there was nothing said prior to the last speaker's statement that was misleading. He explained that the last speaker may have disagreed with certain things that were said, but that there was nothing misleading about the statements. He requested that the issues be argued based on merit.

Representative Munoz pointed out that each committee had examined the 10-year annual growth of the budget and that the average growth had been between 4 percent and 7 percent for each department per year. She related that a 4 percent

to 7 percent growth rate per year was not sustainable, particularly given the declining oil production each year. She emphasized that the budget "held the line" and did not represent a lot of cuts from the prior year's budget. She felt that the budget was responsible and the cuts were absolutely necessary, despite the difficult discussions in subcommittee. She discussed the cuts to the behavioral-health grant funding and offered that it was the area that public was the most vocal on. She was comfortable with the budget because the \$9 million in increases that DHSS had received the previous year could be applied towards the \$8.3 million behavioral grant line item in the FY14 budget; she was comfortable voting yes on the budget, knowing that those programs would be protected. She explained that the legislature would have to opportunity the next year to reexamine that \$8.3 million allocation and have a discussion about moving forward with the obligations. She stated that the budget's \$2 million in funding for the Pre-K pilot project was a continuation and was the same amount that had been funding the previous 3 years. She clarified for the record that the Pre-K funding did not represent a cut.

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Co-Chair Austerman agreed with the majority of the comments provided. He noted that there were a lot of emotional issues involved in the discussion and that the state had to take a hard look at slowing and controlling its budget after 10 years of growth. He related that due to the timing that it took to make changes within an operating budget, the process would become harder each year. He applauded the governor for producing a budget that controlled growth. He thought that the governor's budget represented 0.8 percent in growth from the previous year and compared that to the prior 10-year average of 6.5 percent growth per year. He explained that the governor had started the process of gaining control of the budget and that the committee was taking a bit harder look than the governor had done. He relayed that the current budget's total was still larger than the previous year and opined that it would probably need to be reduced even further in subsequent years. He believed the upcoming years would be more difficult and thanked committee members for all of their work on the issues. He stated that the process that Vice-Chair Neuman had started with DHSS would be continued and that the full House Finance Committee would meet during the interim to

discuss the direction that DHSS would take. He stated that the current budget did not contain everything and that there were union contracts and other items that were anticipated to make the budget grow more. He observed that the Senate would also examine the budget and may opt to put items back in.

Representative Gara WITHDREW his OBJECTION.

There being NO further OBJECTION, CSHB 65(FIN) was REPORTED out of committee with a "do pass" recommendation.

Co-Chair Stoltze MOVED to REPORT CSHB 66(FIN) out of committee with individual recommendations.

Representative Costello OBJECTED for discussion.

Representative Gara assumed that there had not been any changes made to HB 66 since it had been introduced by the governor's office.

Co-Chair Stoltze explained that the 1 change was a conferancable action that was on page 8 of bill. He expounded that the action had been randomly selected and that it was a custom to have a conferancable item.

Representative Costello WITHDREW her OBJECTION.

There being NO OBJECTION, CSHB 66(FIN) was REPORTED out of committee with a "do pass" recommendation.

ADJOURNMENT

9:40:46 AM

The meeting was adjourned at 9:40 a.m.