

HOUSE FINANCE COMMITTEE  
January 23, 2014  
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 David Guttenberg  
Representative Lindsey Holmes  
Representative Cathy Munoz  
Representative Steve Thompson  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Karen Rehfeld, Director, Office of Management and Budget, Office of the Governor; John Boucher, Senior Economist, Office of Management and Budget, Office of the Governor.

SUMMARY

^FY 15 Governor's Budget Proposal: Office of Management and Budget

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Co-Chair Austerman discussed the schedule for the day.

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KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced staff. She welcomed committee members back and thanked them for time they would spend reviewing the budget. She also thanked the Legislative Finance Division staff for their time spent on the budget. She provided a PowerPoint presentation titled "FY2015 Budget Overview" (copy on file). She highlighted her intention to discuss the capital, operating, and mental health budgets (HB 265, HB 266, and HB 267 respectively). She turned to slide 2 titled "Budget Vision." She spoke to the governor's optimism about Alaska's future; the economy was growing and the state's finances were solid. She moved to slide 3 that outlined four budget principles including:

- Live within our means
- Focus on constitutional priorities
- Fix what we have
- Finish what we started

Ms. Rehfeld elaborated on the four principles on slide 3. She compared living within the state's means to an individual managing their personal cash and savings in times when income is down. A focus on constitutional priorities included education, resource development, public safety, and transportation infrastructure. She highlighted the importance of maintaining the state's existing infrastructure and of finishing existing projects. The governor's office had spent many months working with state agencies on budget preparation. She relayed that commissioners and departments had taken the budget very seriously given the "different" environment. She detailed that department's had brought forward a minimal number of requests that included challenging budget areas.

Ms. Rehfeld moved to slide 4 that showed a snapshot of current and proposed revenue and spending levels. She explained that revenue forecasts were published twice a year and that the December budget represented a point in time; adjustments would be made during the legislative session with the supplemental budget, amendments, and legislative decisions. The slide showed the change in revenue forecast from spring to fall of 2013 and the overall spending level, which resulted in a draw from savings. She pointed to discussions about managing the use of state reserves in the long-term fiscal plan; the prior year, the governor and legislature had agreed to an overall spending target that had reduced General Fund (GF) spending

by more than \$1 billion from the prior year. The governor's proposed FY 15 budget included another reduction of over \$1 billion. She communicated that draws from the Statutory Budget Reserve (SBR) and spending discipline would be required.

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Ms. Rehfeld moved to slide 5 that included a bar chart showing the state's reserve accounts over time [FY 02 to FY 15]. The state had taken advantage of higher oil prices in order to build up reserves and was committed to maintaining funds; managing the use of reserves in times of financial difficulty was important to the state's long-term plan and to continue providing essential public services including public safety, education, and transportation. The administration believed it could use the reserves to flatten out future operating budgets. She mentioned a discussion that would take place regarding a proposal to move funds from the Constitutional Budget Reserve (CBR) into the retirement system trust funds; the administration believed the option was important to consider and that it would help the state manage its budgets in the future. She pointed to the FY 14 and FY 15 columns that incorporated projected draws given proposed spending levels. She touched on the potential of moving \$3 billion from the CBR into retirement funds and noted that greater earnings may be accrued in the trust funds.

Ms. Rehfeld communicated that the total proposed FY 15 budget was \$12.4 billion (slide 6); Unrestricted General Funds (UGF) accounted for just over 50 percent of the total (\$5.64 billion). Of the total budget, federal funds accounted for 23 percent, the Permanent Fund (including inflation proofing and dividends) represented 15 percent, Designated General Funds (GF program receipts or university receipts) made up 7 percent, and other funds (including international airports and statutory designated program receipts) represented 4 percent. She pointed out that the "Other State Funds" column in the fiscal summary would show the proposed CBR draw of \$3 billion and the proposed direct deposit into the retirement trust funds (the transfer netted out to zero).

Ms. Rehfeld addressed a pie chart representing the FY 15 budget by category on slide 7. Nondiscretionary funds were shown in three shades of pink on the left side of the chart

(including formula programs, debt service, and statewide appropriations). The blue slices of the chart on the left showed discretionary funds (including agency and capital budgets). She noted that when a reduction in state spending was necessary the focus tended to be on discretionary funds. She shared that the \$1.25 billion for K-12 education referred to the school funding formula and pupil transportation. The state had 54 school districts with a projection of 128,400 students for the FY 15 budget.

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Ms. Rehfeld continued to discuss slide 7. She detailed that \$25 million had been included outside of the education formula to address energy, utility, and fuel costs. The proposed budget included the current statutory Base Student Allocation (BSA) of \$5,680. She added that K-12 education was forward-funded for FY 16. The "other formula" category included Medicaid, public assistance, Power Cost Equalization, and shared taxes; Medicaid represented the largest portion of the category at \$1.67 billion GF. She referred to the Department of Health and Social Services' (DHSS) projection that Medicaid would serve approximately \$151,000 Alaskans in FY 15. Large cost drivers of Medicaid included the number of eligible individuals, the number of individuals enrolled, and the cost of service. The "statewide appropriations" category included the proposed \$3 billion direct payment into the retirement system unfunded liability. Statewide appropriations that also included funding for the eligible oil tax credits were included at \$450 million, total debt service payments of \$317 million, and revenue sharing. The Permanent Fund accounted for \$2.15 billion.

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Ms. Rehfeld looked at the blue slices of the pie chart on slide 7. The top two slices referred to agency operations totaling approximately \$4.3 billion; of the \$4.3 billion total, \$2.26 billion was UGF. The allocation provided funding for 14 agencies, the University of Alaska, the legislative branch, and the Alaska Court System. The capital budget slice totaled \$1.67 billion. She moved to slide 8 titled "FY2015 UGF Spend: \$5.6 billion." The slide included a chart showing the downward pressure on the UGF portion of the budget from \$8 billion in FY 13 to \$6.9 billion in FY 14 to \$5.6 billion in FY 15.

Ms. Rehfeld directed attention to a pie chart on slide 9 showing GF budget by category. She addressed how UGF only fit into the equation of a nondiscretionary and discretionary view. She noted that approximately 50 percent of the UGF request accounted for formula programs including education, Medicaid, and others as well as statewide appropriations for debt service, tax credits, and revenue sharing. The right hand side of the chart showed that \$1.45 million accounted for agency personnel services; budgeted positions totaled 24,800. The capital budget represented \$426.3 million of the chart. She reiterated her earlier testimony that discretionary funds tended to be the most scrutinized when the goal was a reduction in state GF. She communicated that department budgets were lean and "real" reductions had been made.

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Ms. Rehfeld directed attention to slide 10 titled "State Assistance Payments." The slide illustrated what payments looked like under the state's current level percent of pay method (represented in black) and the governor's proposal (represented in blue). The chart showed that if the state continued on the same path payments would escalate and the cost would total approximately \$15.2 billion. She relayed that the governor's proposal was to put a direct payment into the retirement trust funds in the current year and to cap the payments going forward. The proposal also extended the amortization schedule time period by three years and the total was approximately \$2 billion less than the state would have paid otherwise.

Ms. Rehfeld recognized that the challenge of the unfunded liability was a collective issue; over \$3 billion had been spent in direct payment assistance to the municipal governments and school districts over the past 7 years. She remarked that the escalation would continue to put an increasing amount of pressure on the state's annual operating budget and the ability to provide essential services particularly in the current revenue environment. She believed the state's goals had remained the same including meeting its obligation to retirees, to manage costs over time, to preserve the health of the funds, and to avoid pushing costs off to future generations. The governor's proposal was to take care of the problem at present in order to manage the cost over time and to

prevent the state from ever having to decide between funding the retirement liability payment or education. The administration understood that many different ideas and options existed. She pointed to a handout titled "FY 2015 Budget Addresses Biggest Operating Cost Driver" (copy on file). The handout compared the current level percent of pay, the governor's proposal, and the Alaska Retirement Management Board (ARMB) proposal to move to a level dollar method. She pointed out that a transfer of the funds would improve the health of the funds by 10 percent immediately.

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Ms. Rehfeld discussed spending controls on slide 11. She communicated that in addition to reductions taken from the operating budget, business processes were improving and being streamlined. The governor had issued Administrative Order 266, a regulation review process to look at repealing and removing barriers to efficiency. She touched on the importance of enhancing technology. The Department of Administration had negotiated centralized contracts to reduce purchasing costs. New space standards had been implemented to reduce the state's footprint and the cost of office space. Additionally, the governor had deleted 150 long-term vacant positions and had reduced funding associated with the positions. Specific reductions had been taken in agency budgets including a \$6 million reduction to the fuel trigger and reductions to working reserve rates. Additionally, one-time budget items had not all been restored and pressure was put on agency budgets to absorb staff merit increases.

Ms. Rehfeld stressed that departments had worked hard to reach their current place; they recognized that FY 15 was the first step and that the budget the following year would include additional reductions. She relayed that the long-term plan needed to include a balance of spending controls, reductions, and management of the use of reserves over time.

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Ms. Rehfeld pointed to a one page handout titled "Focusing on Alaska's Future" (copy on file). She highlighted various items pertaining to education that were included in the governor's proposed budget including K-12 education, the Alaska Performance Scholarship, Alaska Advantage Needs-

Based Grants, Alaska Digital Teaching Initiative (a three-year project included in the capital budget), early learning (including Head Start, Parents as Teachers, and Best Beginnings), school construction (including funding to complete the school in Kwethluk), University of Alaska engineering buildings, and the Statewide Library, Archives, and Museums project; additional funding was needed for the last two projects. She pointed to funding for resources and energy including Roads to Resources (continuing efforts to reach the Ambler mining district, improvements to the Dalton Highway, and the road to Tanana), Chinook Salmon research (the second year request), the Susitna-Watana Hydro Project, weatherization and home energy rebates, and renewable energy.

Ms. Rehfeld continued to discuss items included in the governor's proposed budget. She addressed funding for public safety items such as the prevention of domestic violence and sexual assault (including survivor support) and Village Public Safety Officer programs. She highlighted transportation and infrastructure items including state highway and aviation programs (a significant portion was federally funded), the Alaska Marine Highway (operating and capital budgets), municipal water and sewer projects (paid with a 50/50 percent match with municipalities), village safe water, and year five of the deferred maintenance program. She discussed funding for military items such as homeland security, veterans services and outreach, and armory facilities statewide.

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Ms. Rehfeld turned to slide 13 titled "FY2015 Budget - Another Perspective." She addressed the importance of the budget process and believed budget work was one of the most important items undertaken by the legislature on an annual basis. She pointed to the yellow area of the pie chart and detailed that a large portion [56 percent] of the budget went towards funding grants, direct payments, and capital projects statewide (including Permanent Fund Dividends, revenue sharing, Medicaid, school funding, capital projects, named recipient grants, and other). Purchased services accounted for 24 percent of the total budget and included travel, hotels, professional services, equipment, and other. State salaries accounted for 19 percent of the total budget.

Ms. Rehfeld communicated the governor's optimism about Alaska. She relayed that state's economy was growing due to important decisions that had been made, opportunities were increasing, and the state was working together on fiscal discipline. She expressed appreciation in advance on budget work the legislature would undertake.

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Co-Chair Austerman pointed to slide 8 and noted that the \$6.9 billion in UGF spending in FY 14 included all capital projects added in the budget by the legislature, which he believed the number was \$796 million. He observed that the governor had included \$426 million in the current budget, which was reflected in the \$5.6 billion. He surmised that the budget would be closer to \$6 billion if the legislature added approximately the same amount it had added the prior year.

Ms. Rehfeld replied in the affirmative.

Co-Chair Austerman asked for verification that the budget would be approximately \$6 billion if the legislature added in its own projects outside of the governor's proposed projects. Ms. Rehfeld agreed that the budget would be approximately \$6 billion if the legislature added \$4 million [in capital projects].

Co-Chair Austerman felt that the legislature had been painted into a box related to the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) payment because the budget of \$5.6 billion did not reflect the \$3 billion payment proposed by the governor. He stated that under normal circumstances the legislature would spend another \$708 million in the current year; however, the figure was not reflected in the \$5.6 billion (shown on slide 8).

Ms. Rehfeld replied in the affirmative. She explained that the proposal was to transfer the payment of \$3 billion from the CBR into the retirement trust funds. The transfer would not affect the UGF in the current year; the following year the \$500 million capped payment would come from recurring revenues.

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Co-Chair Austerman explained that the \$500 million payment that would be required the following year was not reflected in the current budget. He observed that in order to maintain the downward budget trend the state would need to look at another \$500 million reduction that was not reflected in the proposed \$5.6 billion. He elaborated that if the legislature did not agree to fund the \$3 billion payment and added \$708 million the budget would be around \$6.7 billion. He wondered what wiggle room existed if the legislature did not agree with the governor's CBR draw.

Ms. Rehfeld replied that work needed to be done between the governor and the legislature to come to a spending target agreement. She believed part of the current discussion was to evaluate the proposal and options. She stressed that the governor had not set a budget cap. She stated that hopefully there would be a good conversation to determine whether the best option was on the table and if there were other options the legislature wanted to put forward. She emphasized that no one was trying to paint anyone into a box. She added that sometimes there were significant changes that could be made to the budget in the nondiscretionary statewide appropriations; however, the focus in reductions appeared to be on the agency side, which could be more difficult depending on what the legislature was willing to discontinue.

Co-Chair Austerman asked for verification that no budget cap existed. Ms. Rehfeld replied in the affirmative, but surmised that the governor and legislature wanted to work towards a spending target.

Vice-Chair Neuman referred to an executive summary from the Office of Management and Budget FY 15 10-Year Plan that related to the diversification of revenue over the upcoming 10 years. He noted that the summary addressed oil and gas as the primary revenue generator for the state. He mentioned concern from individuals such as T. Boone Pickens and Bloomberg that oil could drop down to \$80 per barrel. He noted the importance of not building a budget around high oil prices. He detailed that a gas pipeline was not expected to be a large income generator. He read a statement from the summary:

One particularly challenging example of this issue in the operations portion of the budget is the state's projected Medicaid spending. In FY 2015, the state's

portion of the federal Medicaid program was \$693.3 million. Over the next 10 years that figure is projected to increase at an annual rate of over 7.2 percent and by FY 2024 is projected to require a \$1.3 billion contribution from the state's general fund.

He wondered how the state could continue GF spending at \$5.6 billion over 10 years and account for a \$600 million projected increase in Medicaid alone.

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Ms. Rehfeld agreed that at \$5.6 billion it would be difficult to manage a Medicaid program with the growth rate mentioned. The issue highlighted the difficulty in estimating long-term projections. She referred to current discussions with departments on how to do a better job with long-term projections. She noted that DHSS Commissioner [William] Streur was concerned about some of the long-term projections; however, it was different when looking back at what actual costs had been versus the long-term projections. She explained that the 10-year plan took components that were known factors and used a combination of fiscal restraint and what reserves and resource development would look like. The plan included three scenarios to adjust for a mid-case scenario looking at production in the forecast (rather than having no new production), what would happen at a lower dollar amount, and how far reserves would go. The summary was designed to help make decisions going forward; however, there were some things that were very difficult to project in the future.

Vice-Chair Neuman observed that "projections are projections" and that a significant number of things related to Medicaid were beyond the state's control. He mentioned 5-year and 10-year plans. He referred to state data showing that Alaska should be in good shape if oil production levels could hold at 500,000 barrels. He understood that the cost of government would increase due to items such as inflation, cost of living, contracts, and other. He observed that slide 8 showed a decrease [in spending]; however, slide 5 showed a decrease in savings that was more than proportionate to savings in the 10-year summary. He wondered where OMB saw dramatic decreases in the operating budget and where things would level out. He stated that taking money out of savings would have a negative impact on the state's bond rating and would mean

less money for infrastructure projects and fewer jobs for Alaskans. He stressed that the issue was coming to a head.

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Ms. Rehfeld replied that everyone was concerned about the issues discussed by Vice-Chair Neuman. She relayed that it would be very difficult cut the state's way out of a draw from the CBR in the short-term if reductions were focused on the agency portion of the budget. She communicated that there were reductions included in the proposed budget and she suspected the legislature would include reductions as well. She stressed that significant cuts to the state's operating budget [would be challenging] unless there were specific items the legislature did not want departments to do any longer. She believed it was necessary to remain optimistic about revenue, oil production, potential gas production, mining, and other emerging industries. The 10-year plan was focused on keeping Alaskans employed and the economy moving. She emphasized that ratings agencies had rated the state high because of its strong financial reserves and its fiscal discipline. She believed the components were all important when looking at a 5-year or 10-year plan. She added that the farther out into the future the more difficult it was to make predictions. She noted that different points in time provided different information, but making some decisions currently based on a long-term plan was helpful.

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Representative Gara expressed appreciation for Ms. Rehfeld's work. He discussed that two years earlier he and Representative Guttenberg along with other democrats had proposed paying down the pension liability in order to save interest rates over the long-term. He was glad the discussion would take place. He was unsure whether the money should come out of the CBR or SBR, but noted that the payment would save money over the long-term. He also agreed with Co-Chair Austerman that it was important to talk about drawing down savings. He recalled that when he had met with the governor prior to the release of the FY 15 budget the governor had promised that he would not characterize the budget as a \$1.3 billion cut. He opined that the budget did not represent a \$1.3 billion cut; however, all subsequent presentations reflected a \$1.3 billion cut. He believed it was necessary for everyone to start with the same numbers.

He pointed to slide 8 that showed the budget was down from \$6.9 billion in FY 14 to \$5.6 billion in FY 15; however, normally \$700 million would be applied to paying down PERS/TRS deficit from the GF. He elaborated that instead of using GF money the governor had proposed to take the annual \$700 payment out of the CBR plus an additional \$2.3 billion to pay down the debt. He surmised that when taking the items into account the budget was really at \$6.3 billion plus the \$2.3 billion the governor would like to apply to the unfunded liability. He asked if the characterization was fair.

Ms. Rehfeld answered that the math was correct, but she would not propose to spend an extra \$2.9 billion or \$2.3 billion out of UGF. She explained that the proposal was specific to a \$3 billion transfer from the CBR into the retirement funds. She elaborated that the governor had been clear that the GF reduction in the current budget was not meant to be a sleight of hand; he had been clear that the \$500 million would be part of the number the following year.

Representative Gara remarked that money coming out of the CBR was still state money. He relayed that the governor had also communicated that room had been left for the legislature to add money into the capital budget; he noted that historically the figure had been about \$400 million. He stated that items not represented in the \$5.6 billion figure included \$700 million [historical GF payment to PERS/TRS], \$400 million for the capital budget, and operating budget adjustments. He stressed that if nothing was done about increasing funds for education the state would be up to 1,000 laid off teachers, guidance counselors, and other support staff. He observed that any additional education funding was not included in the \$5.6 billion figure. He extrapolated that the proposed budget was closer to \$7.1 billion. He contended that legislators voting in favor of the capital budget would be characterized as adding \$1.3 billion that was essentially already in the budget. He did not believe it was fair for the governor to call the budget a \$1.3 billion reduction.

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Ms. Rehfeld believed everyone was talking about the same numbers. She surmised that the governor's proposed budget would look very different at the end of session. She

believed there would be many productive conversations about what was needed to meet an agreed upon fiscally responsible budget. She did not disagree, but the intention was not to provide a false number.

Representative Gara discussed that the legislature had passed and renewed legislation related to energy projects for the Railbelt and statewide. He pointed to the Renewable Energy Fund and noted that statute included an appropriations provision that was unenforceable, but that acted as a statement of legislative intent that \$50 million would be put into the fund annually for the next couple of years to provide funding for statewide projects. He stated that the governor had continued to cut the amount and that the proposed budget only included \$25 million. He wondered whether there had been an analysis done related to the issue.

Ms. Rehfeld answered that the proposed figure for FY 15 was \$20 million. She recalled the intent language about appropriating \$50 million per year. The administration had approached the issue with the idea that if increasing funding for the Renewable Energy Fund was a higher priority than another item, additional funds would be appropriated. She believed it was part of the discussion about fixing what the state had currently. She communicated that over \$200 million had been appropriated in the fund and some very good projects had been completed as a result. She acknowledged there was more to do.

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Representative Costello asked if withdrawals from the CBR had to be replenished. Ms. Rehfeld replied in the affirmative. She elaborated that when money was used from the CBR typically provisions in the budget would provide for a sweep of funds into the reserve account to replenish its balance. She relayed that in the past it had taken a number of years to repay the CBR from spending in the mid-1980s.

Representative Costello asked about the total current funds that had been appropriated for capital projects but had not yet been spent. Ms. Rehfeld replied that OMB provided an annual report on the status of capital appropriations, which would be available in early to mid-February. The prior spring (since about 2007) there was approximately \$6

billion allocated to specific projects that had not yet been spent (including all fund sources such as federal and state general funds). She detailed that a significant portion of the total was associated with the past couple of fiscal years. She added that it took several years for federal project planning, design, and construction phases. Additionally, there was approximately \$5 billion encumbered for specific projects that had not yet been spent.

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Representative Costello pointed to the governor's priority to fix what the state currently had. She referred to agency budgets that included funding for phase 1 of many capital projects. She asked for an explanation of the apparent disconnect. Ms. Rehfeld answered that of the total \$426 million in proposed GF spending, \$100 million was allocated to deferred maintenance for state agencies, roughly \$100 million was allocated to match and leverage funds (i.e. matching funds for federal highway and aviation money, village safe water, municipal matching grants), and funding was included for energy projects. She communicated that there were very few other state agency projects including a project on Kenai River.

Representative Costello believed the project was a dock on the Kenai River. She discussed the role of the creation of jobs in the state. She wondered why the state did not report the number of jobs created in its departments.

Ms. Rehfeld asked for clarification on the question.

Representative Costello clarified that she was interested in department operating funds spent on job creation efforts. Ms. Rehfeld would follow up with a response.

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Co-Chair Austerman recalled that at the start of the prior year the state had approximately \$15.8 billion in savings that was accessible to balance the budget. He asked for verification that the state had used \$908 million the prior year for FY 13.

Ms. Rehfeld referred to slide 5 that showed year-end balances.

JOHN BOUCHER, SENIOR ECONOMIST, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, responded that the figure was closer to \$700 million.

Ms. Rehfeld added that figures on slide 5 reflected year-end balances and projections for the current and following years.

Co-Chair Austerman asked if the \$11.3 million [balance in the CBR and SBR] for FY 15 reflected the \$3 billion draw from the CBR [for the unfunded retirement liability]. Ms. Rehfeld replied in the affirmative. Co-Chair Austerman asked if the data reflected the projected \$1.9 billion in spending from the SBR in FY 14. Ms. Rehfeld answered in the affirmative.

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Representative Munoz asked about the impact of one-time tax credits that would occur in the current year and the 35 percent credit for new oil activity [both items included in oil tax legislation (SB 21) that had become law after the prior legislative session].

Ms. Rehfeld responded that she was not the best person to answer questions related to tax credits. She referred to an SB 21 fiscal note that included information about changes for the current-year and the following-year budgets. She detailed that the revised fall forecast had shown a difference in the numbers. She believed that some of the change was due to non-North Slope activity; activity in Cook Inlet had led to forecast changes. She noted that the OMB fiscal summary reflected the changes; the number had increased from \$550 million to \$600 million in the current year and the projected FY 15 number had increased from \$330 million to \$450 million.

Representative Munoz referred to a payoff of Alaska's old Clear and Equitable Share (ACES) tax credits. She asked about the total amount reflected in the FY 15 budget. She had heard the figure was around \$400 million. Ms. Rehfeld would obtain the information from the Department of Revenue (DOR) and follow up.

Representative Munoz asked how the removal of poor 2008 returns would impact the trust fund five-year average

earnings calculation. She wondered if the change would be reflected in projections.

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Mr. Boucher responded that early projections showed that drop off of poor years would take effect two budget cycles from the present. Some increase in the funded level of the system would occur, but it would not be dramatic; models projected that the increase would be around 1 percent.

Representative Munoz asked if the payment would be approximately \$500 million or less. Mr. Boucher responded that the governor's plan would cap the payment at \$500 million. He elaborated that as returns changed and the liability floated the payment would not necessarily change, but the payment term may change; the idea was to increase the payment predictability and sustainability over time in comparison with the current view up to 2029. He added that significant savings could be seen over time if the current path was altered.

Co-Chair Austerman noted that slide 4 showed that the SBR draw from FY 14 and FY 15 was over \$3 billion. He looked at a projection showing that the governor's proposal would only draw \$5 billion from reserves. He referred to testimony that the proposal factored in the \$3 billion to pay the retirement liability. He asked for clarity on how the numbers penciled out.

Mr. Boucher replied that the projected \$1.9 billion draw in FY 14 and projected \$1.1 billion draw in FY 15 would be taken from the SBR, which did not retain any earnings. He noted that some earnings were assumed to occur in the CBR subaccount in FY 14 and FY 15, which would offset some of the \$3 billion draw. He would follow up with more information.

Representative Wilson pointed to slide 4 and asked if \$1.9 billion had been drawn from the SBR on 12/12/2013. Mr. Boucher replied in the negative and clarified that the figure was the projection for the end of current fiscal year [FY 14].

Representative Wilson wondered if the final number would be available on December 12, 2014 or June 30, 2014. Mr. Boucher replied that final audited numbers would come out

in the Comprehensive Annual Financial Report (CAFR) in December, but OMB would have a good idea about the numbers at the appropriations closeout period in mid-August.

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Ms. Rehfeld elaborated that the figure for the SBR draw would be known once appropriations bills had passed in the current session that would potentially effect the current fiscal year and once the final revenue forecast was known; the items would dictate the total draw at the end of FY 14 on June 30, 2014. She added that there was an audit period; therefore the final number would not be available until the CAFR came out in December.

Representative Wilson discussed the comparison between her personal finances and the budget process. She contended that she would not use savings until she knew she would have enough revenue to cover the next couple of years. She appreciated the optimism, but noted that substantial gains would be needed. She asked if the \$4.532 billion shown on slide 4 under FY 15 would be needed to prevent the state from dipping into savings.

Ms. Rehfeld replied that relying only on the income in the current year would mean that the proposed budget would need to be reduced down to that revenue figure.

Representative Wilson asked when in the past GF spending had been at the \$4.5 billion level. Ms. Rehfeld would follow up on the question.

Representative Wilson hypothesized that the numbers were correct; the numbers showed \$3 billion from savings plus the additional \$3 billion if the legislature agreed to fund the amount to PERS/TRS. She pointed to the \$11.3 billion [projected FY 15 CBR and SBR balance] and surmised that if the other figures were correct the figure should really be \$8.3 billion.

Ms. Rehfeld responded that the \$15 billion in projected savings for FY 14 (slide 5) included the reduction of \$1.9 billion; likewise, the \$1.1 billion reduction was included in the FY 15 projection of \$11.3 billion. She explained that the reductions would occur in two different fiscal years. The proposed \$3 billion transfer from the CBR was reflected in the FY 15 column as well.

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Representative Wilson asked for detail on the difference between the \$16.3 billion in FY 13 and the \$15 billion in FY 14 (slide 5). Mr. Boucher replied that the \$1.9 billion was reflected in the SBR change from FY 13 to FY 14 [shown in gray]. The change in the SBR balance from FY 13 to FY 14 was \$4.7 billion down to \$2.7 billion and reflected the reduction of \$1.9 billion. The change from FY 14 to FY 15 was \$2.7 billion down to \$1.6 billion and reflected the reduction of \$1.1 billion. He expounded that the remaining funds would earn interest at a rate of around 6 percent blended. The proposed \$3 billion transfer was reflected in the CBR change from \$12.2 billion down to \$9.9 billion between FY 14 and FY 15; the difference did not add exactly to \$3 billion because the projection assumed that the remaining money would continue to earn interest.

Representative Guttenberg discussed the passage of SB 21 the prior session. He requested projections showing when production would increase under the new tax system.

Co-Chair Austerman answered that the question would be appropriate for DOR at an upcoming meeting.

Representative Guttenberg pointed to slide 11 related to spending controls. He wondered about measurements of the departments' business plans, delivery of services, and efficiencies of facilities. He asked if missions and measures were still used. Ms. Rehfeld responded that results-based budgeting (missions and measures) had been used for some time. She detailed that over the past decade there had been some good changes and improvements in the process. She believed that some departments were better at using the process than others. She communicated that the departmental measures were a good way to determine on a larger level how well a department was meeting the statutorily required services in its agencies. She believed it would be more difficult to look at individual components depending on the program. Representative Guttenberg noted it had been frustrating being told that someone would get back to him related to the issues.

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Representative Edgmon pointed to slide 3. He believed the budget principles should include a statement about investing in the future. He opined that the governor's budget looked like a fair starting point. He highlighted basic necessities the operating budget was designed to serve including K-12 education, the Low Income Home Energy Assistance Program (LIHEAP), Power Cost Equalization, Village Public Safety Officer positions, community revenue sharing at \$60 million, Best Beginnings, the digital learning initiative, the Renewable Energy Grant Fund at \$20 million (he wanted to see the program funded at \$50 million), and other. He stated that the items all provided investment for the future. He believed the budget was reasonable. He referred to differing opinions about how much should be cut or not cut from the proposed budget. He believed that one of the budget priorities (slide 12) should relate to investing in the Arctic. He believed Arctic investment would be Alaska's future including offshore development, safety and monitoring, the building of infrastructure assets, the building of capacity at the University of Alaska Fairbanks, and other items seen by the Arctic Policy Commission.

[2:51:31 PM](#)

Representative Gara discussed budget initiatives touched on by the governor the prior evening [during his State of the State speech]. He was a long-term supporter of the Digital Learning Initiative and was glad to see it included in the proposed budget; he believed its value needed to be explained further during the current session. He referred to a statement made by the governor and asked if the intention was to trade a Base Student Allocation (BSA) increase for a vote on private school vouchers. He noted the BSA increase would be around \$300 in Fairbanks, Juneau, and Anchorage. He remarked that he did not trade votes.

Ms. Rehfeld answered that the governor planned to introduce legislation that would include a number of education reforms including dual credit charter schools and a BSA increase. She did not believe an amendment to the Alaska Constitution was part of the same discussion. She believed the governor's goal was to work to bring parties with different education concerns together.

Representative Gara asked whether the governor was sympathetic to a BSA increase that would prevent cuts

facing school districts in the current year. Ms. Rehfeld deferred the conversation until the governor's legislation was introduced.

Co-Chair Austerman surmised that costs associated with the governor's education bill were not included in the proposed budget. Ms. Rehfeld replied in the affirmative.

Vice-Chair Neuman wondered how OMB worked with departments to integrate their budgets in a more cooperative effort. He pointed to slide 11 related to the improvement and streamlining of business processes. He discussed a recent meeting with DHSS related to administrative employees; he had learned that 225 staff conducted the administrative work for the department's 4,000 employees. He discussed OMB's job of looking at the departments collectively to determine how they were integrated. He stated that departments tended to work in silos and all individually competed for GF dollars. He pointed to a \$4 million increase in information technology in the past four years. He had overseen the Department of Administration's budget in the past and believed there had been \$100 million invested in new technology and in the coordination of the Integrated Resource Information System (IRIS). He referred back to the streamlining of business processes and pointed to a \$4 million increase in the DHSS administrative operating budget over recent years. He believed a large portion of the amount went to paying RSAs [Reimbursable Services Agreement] to DOA. He communicated that legislators were struggling to determine how to reduce individual budgets.

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Ms. Rehfeld answered that managing complex agencies was a huge job. One of the ways the administration had attempted to break down silos was to involve various groups that worked closely on issues of how best to manage the different cost centers. Department administrative services directors met every other week. Additionally, groups of finance officers met to work on issues related to the implementation of the new accounting system; the original accounting system had been built in the 1980s. She believed the new accounting system would help in a number of ways. Her office also talked with central service providers that had chargeback and costs in their budgets to determine cost drivers before determining what agencies needed in order to

pay the costs. She communicated that one size did not always fit all; each department had a unique set of circumstances. The office tried to identify opportunities to work across several departments to address a particular issue. She relayed that the job was not easy. She discussed looking at core services rates and issues that put increased pressure on budgets and what was needed to get the job done.

Vice-Chair Neuman addressed what was needed to "get the job done." He pointed to a reduction in 58 personnel positions in DHSS the prior year and an additional 28 in the current year; administrative services made up 5 or 6 of the positions. He noted that there were unfilled accountant positions. He wondered if a lack of accountants hindered departments' ability to monitor funds. He believed the reductions in staff looked good on paper, but he wondered whether the state was going backwards.

[3:00:55 PM](#)

Ms. Rehfeld replied that a key piece in looking for departmental operating budget reductions was to have the ability to say that the state would be able to manage the people and resources to get the job done. She relayed that the department leadership had the ability to focus on priorities and to get the work done. She remarked that DHSS was a very complex organization. She opined that Commissioner Streur was a tremendous leader in the department. She did worry about the state's ability to deliver and its capacity; it was not possible to cut a budget without looking at doing things differently. The governor was working hard to bring the legislature a lower budget. She was not completely happy with the way the budget looked but the goal was to do the best with the people and resources that were available.

Co-Chair Austerman discussed the schedule for the following day.

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ADJOURNMENT

[3:02:52 PM](#)

The meeting was adjourned at 3:02 p.m.