

SENATE FINANCE COMMITTEE  
January 23, 2013  
9:01 a.m.

[9:01:42 AM](#)

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Pete Kelly, Co-Chair  
Senator Kevin Meyer, Co-Chair  
Senator Anna Fairclough, Vice-Chair  
Senator Click Bishop  
Senator Mike Dunleavy  
Senator Lyman Hoffman  
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

David Teal, Director, Legislative Finance Division; Trinity Tomsic, Deputy Executive Director at Federal Funds Information for States

SUMMARY

FY14 BUDGET OVERVIEW: LEGISLATIVE FINANCE DIVISION

FEDERAL BUDGET OVERVIEW: FEDERAL FUNDS INFORMATION FOR STATES

^FY14 BUDGET OVERVIEW: LEGISLATIVE FINANCE DIVISION

[9:02:59 AM](#)

AT EASE

[9:03:18 AM](#)

RECONVENED

[9:04:03 AM](#)

AT EASE

9:04:49 AM

RECONVENED

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, explained how the Legislative Finance Division (LFD) functioned, and referred to a previous presentation by the Office of Management and Budget (OMB). He remarked that, currently, LFD agreed with the technical analysis of the budget as presented by OMB. Although, he stressed that LFD did not support or oppose the governor's budget. He announced that the LFD fiscal summary was especially important for the current year, because there was currently no fiscal surplus. He remarked that in the prior eight years, revenue had exceeded forecasts, therefore there was a surplus. The legislature had expected a surplus at the end of the previous session, but oil production fell drastically after April 2012. He stressed that high oil prices also contributed to the deficit. He felt that there would need to be a withdrawal from savings in order to resolve the deficit.

9:09:20 AM

Mr. Teal discussed a PowerPoint presentation, "FY14 Fiscal Overview, Senate Finance Committee, January 23, 2013" (copy on file). He looked at slides 1 and 2, "State of Alaska Fiscal Summary-FY13 and FY14 (Part 1)." The slide displayed the \$410 million number on line 51 for FY13. He urged the committee not to "trust" that number, because it included a \$250 million to the Statutory Budget Reserve (SBR). He explained that the money was deposited in the SBR, because there was an expected surplus; also, it was the legislature's desire to actively save money, rather than to save "leftover" money. Money was deposited in the SBR early in the 2012 legislative session.

Mr. Teal pointed out the \$10 million deficit in FY13. The reason for the deficit was the change in projections, which was inevitable because both oil production and oil price were volatile. Small changes in production and price have a large impact on the revenue stream, so it was difficult to make accurate projections. He pointed out the \$900 million swing downward from a surplus of \$500 million in April 2012.

Senator Hoffman queried the FY13 end balance of the SBR and Constitutional Budget Reserve (CBR). Mr. Teal replied that there was a little over \$5 billion in the SBR and slightly over \$11 billion in the CBR, with a total of \$16 or \$17 billion depending on the daily change of the stock market.

Mr. Teal explained that the \$410 million deficit included the \$250 SBR savings, so with that adjustment, one could consider that deficit at \$160 million-plus or minus \$100 to \$200 million.

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Senator Bishop remarked that the deficit could disappear, if the oil production was back up to over 602,000 barrels per day. Mr. Teal agreed, and furthered that the deficit was \$160 million, plus or minus a couple hundred million dollars.

Mr. Teal looked at slide 1, "State of Alaska Fiscal Summary - FY 13 and FY 14 (Part 1)." The Department of Revenue (DOR) projected that FY 14 oil production would decline by approximately 2.7 percent, and the oil price would be higher by about one dollar. He looked at line 1, and noted that the revenue was down from the year prior by \$510 million. There would be a deficit, if spending in FY 14 were to match spending in FY 15 of \$510 million plus whatever deficit resulted from the FY 13 budget. He pointed out that the total spending on line 37 was \$1.17 billion lower than in FY 13. He shared that the average capital budget for the ten years prior was \$875 million. The governor's current capital budget request of \$870 million lined up with that average, but was approximately \$100 million less than the FY 13 governor's request; so the current capital budget was the second highest governor's request of the last ten years.

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Mr. Teal shared slide 3, "FY 05 to FY 14 Capital Budget." The table reflected the capital budget from FY 05 to FY 14. He pointed out that the final budget was always much higher than the governor's request, because the legislature typically added a significant amount of money to the governor's request. The governor's request was approximately 50 percent of the final budget. The current capital budget would double to \$1.8 billion, with the

governor's request at 49 percent of the total, resulting in a \$650 million deficit. He stressed that the legislature was only able to add \$263 million in spending, before utilizing the savings accounts. He stressed that his presentation was based on projections, with a sizeable margin of error; so it was difficult to accurately project the budget and spending for FY 14, because it was 18 months away.

Mr. Teal looked at slide 2, and pointed out the \$263 million that the governor left over for the legislature additions, spending, or saving. The \$508 million request included a \$120 million savings withdrawal from the Alaska Housing Capital Corporation. If there was a \$508 million surplus, recognizing the \$120 million from savings, the true surplus would be \$388 million. The governor's budget had unintentionally omitted \$125 million to the Alaska Industrial Development and Export Authority (AIDEA) Energy Fund. So, if you subtract the \$125 million from the \$388 million, there was actually \$263 million available for capital spending. He stated that if there were a \$1.120 billion, the fiscal summary would reflect a \$1.508 billion. He stressed that the savings withdrawals should not be combined with the amount of money left over.

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Mr. Teal stated that if there was no money in the governor's request, there would be a \$263 million surplus; adding \$263 million to the capital budget would bring the available funds back to zero; and spending more than \$263 million would result in a deficit. He reiterated that the projection should be considered plus or minus a couple hundred million dollars; and the surplus and deficit calculation also included the operating budget. The governor's operating and supplemental budget numbers should remain at requested, if the legislature intended to spend the \$263 million on capital items. He shared that the governor's request was the smallest increase proposed since the "bump" in revenue began in FY 05, at less than 1 percent. The average increase for the eight years prior was 6.5 percent.

Mr. Teal looked at slide 4, "Figure 1. Unrestricted General Fund Revenue Budget History." If that 1 percent or less growth, there was a chance that a deficit could be avoided for the following three or four years; but after four

years, with a decline in revenue, the 1 percent growth would result in a deficit. He remarked that the graph displayed the assumed 1 percent growth in State agency operations; flat state-wide operations, retirement costs, etc.; the capital budget was flat at \$875 million, which was roughly the governor's request and the average for the 10 years prior.

Mr. Teal looked at slide 4, "Figure 1. Unrestricted General Fund Revenue/ Budget History (\$ millions, except for oil prices)." He noted that the deficits would begin immediately, and exceed \$4 billion by 2022. Based on the revenue projections and state spending, the reserves would disappear by 2025. He pointed out that the capital budget forecast, which was highlighted in yellow, remained fairly flat. The capital budget declined from approximately \$7 billion a year to approximately \$6 billion, because the decline in production was offset by forecasted higher prices. He shared that LFD focused on the expenditure side, because the expenditures were within the legislature's direct and immediate control. He guessed that the legislature would not be able to spend the entire surplus of \$263 million on capital projects, unless savings were utilized. It would be difficult to hold the operating budget to the 1 percent, or \$52 million increase.

[9:28:39 AM](#)

Vice-Chair Fairclough noticed that her back up did not match the slide on the screen. Mr. Teal replied that he had manually changed the growth rate from the governor's growth rate. He furthered that changes in the governor's budget were not included in the members' packets, but he was merely displaying the rate for information.

Mr. Teal stressed that his message was not intended to be "doom and gloom." He remarked that the Alaska was very wealthy compared to other states. The state's average capital budget was large, compared to past spending. He displayed a slide that was not included in the file, which showed that budgets were flat for twenty years when the State had no money. The 6.5 percent growth rate occurred at the moment that revenue climbed. He stressed that it was the job of the legislature to determine how to respond to the revenue decline. He stressed that the growth over the past 6 years was unsustainable.

Mr. Teal stated that much of his information was included in the LFD Fiscal Summary.

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Senator Hoffman looked at page 4, and wondered why there was no acknowledgement of the rising price of barrel of oil. He stressed that those numbers were projected to continue to rise, so he wondered where the figures in the chart were derived. Mr. Teal replied that the chart was based on the numbers provided by DOR.

Senator Hoffman clarified that it was anticipated that by 2022, the price of barrel of oil would sell at \$124. Mr. Teal agreed.

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AT EASE

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RECONVENED

^FEDERAL BUDGET OVERVIEW: FEDERAL FUNDS INFORMATION FOR STATES

[9:38:25 AM](#)

TRINITY TOMSIC, DEPUTY EXECUTIVE DIRECTOR AT FEDERAL FUNDS INFORMATION FOR STATES (FFIS), introduced herself. She explained that FFIS was a small national organization that worked with the legislative and executive branches in all of the states, to monitor the fiscal impact of federal policy on states and state budgets.

Ms. Tomsic displayed the PowerPoint Presentation, "Federal Budget and Alaska; Alaska Legislature: Senate Finance Committee Briefing" (copy on file). She explained that FFIS focused on the federal grants to state and local governments, and examined the specific events in 2013. The most important issue facing states was the federal budget Sequester. The Sequester was the "across the board" cuts that were scheduled to go into effect one month later. She looked at slide 2, "Where the money goes: pieces of the federal budget pie." The pie graph displayed the composition of federal outlays in FY 11:

Defense: \$700 billion; 20 percent

Domestic Discretionary: \$648 billion; 18 percent  
Social Security: \$725 billion; 20 percent  
Medicare: \$480 billion; 13 percent  
Medicaid: \$275 billion; 8 percent  
Other Mandatory: \$546 billion; 15 percent  
Net Interest: \$230 billion; 6 percent

Ms. Tomsic explained that total federal outlays were \$3.6 trillion; and half of the \$3.6 trillion went to mandatory programs like social security, Medicare, Medicaid, net interest, nutrition programs, welfare programs, federal retirement benefits, etc. Mandatory programs were governed outside of the annual appropriation process; so the cost of the mandatory programs was based on caseloads and programs costs. The only way that congress changes the growth rates and programs was through the authorization process. Discretionary was less than half of the budget, and was subject to the appropriation process. Of the total \$3.6 trillion outlays, the federal budget deficit in 2011 was \$1.5 trillion. She pointed out that there would still be a deficit; if defense and domestic discretionary spending were eliminated.

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Ms. Tomsic displayed slide 3, "Payments for individuals have come to dominate federal grants." She stated that approximately \$600 billion of the \$3.6 trillion was distributed to state and local governments in the form of federal grants. Those federal grants were not the only way that the states benefited from federal spending: defense, social security, and Medicare were forms of federal spending outside of federal grants. The \$600 billion in federal grant money to states represented approximately 18 percent of the federal budget. The growth of the grants was mostly based on payments that were going to individuals, specifically through the Medicaid program. The other types of grants that were distributed to state and local governments included capital expenditure like transportation programs. The remainder was the other discretionary programs like education, non-Medicaid related health programs, etc. She noted that states were receiving more Medicaid money, but the other program funding was decreasing.

Ms. Tomsic discussed slide 4, "What programs areas are supported by state/local grants?" The graph showed the federal outlays to state and local governments, FY11.

Health: \$293 billion; 48 percent  
Income Security: \$114; 19 percent  
Justice: \$5 billion; 1 percent  
Energy, Natural Resources, Environment: \$13 billion; 2 percent  
Agriculture: \$1 billion; zero percent  
Community and Regional Development: \$20 billion; 3 percent  
Transportation: \$61 billion; 10 percent  
Education, Training, Employment, and Social Services: \$89 billion; 15 percent  
Other: \$11 billion; 2 percent

Ms. Tomsic discussed slide 5, "Federal grants going to Alaska: share of funding by function." She explained that FFIS had a sophisticated grant database, which looked at all of the money that was distributed to Alaska, and how it was spent. She stressed that transportation programs in Alaska far exceeded the national average.

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Ms. Tomsic looked at slide 6, "Federal grants going to Alaska: per capita, 2011." She stated that Medicaid was ranked 10 with \$1,041 per capita; other mandatory was ranked 5 with \$659 per capita; discretionary was ranked 1 with \$1,812 per capita; with a total ranked at 3 with \$3,512 per capita.

Ms. Tomsic displayed slide 7, "What influences grant allocations?"

Medicaid redistributes income from:

- richer to poorer states
- smaller to larger programs
- cheaper to more expensive programs
- Alaska receives \$1,041 per capita in federal Medicaid funding and ranks number 10; FMAP = 50.00 percent

Many programs allocate funds based on need

-Alaska is a relatively wealthy state (high per capita income and low poverty rate)

Alaska benefits from grant programs with small-state minimums

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Ms. Tomsic displayed slide 8, "What influences grant allocations?"

Demographics

- 26 percent of Alaska's population is under 18 (above average) and 8 percent is 65 or older (below average)
- Alaska has experienced a slight increase in its share of total population since 2000

Federal facilities/land

- Large federal presence in Alaska
- Alaska benefits from programs with formulas based on receipts from federal land
  - BLM's Payments in Lieu of Taxes, Mineral Leasing Payments, Impact Aid

Ms. Tomsic looked at slide 9, "What's the outlook in FY 2013 and beyond?"

Budget Control Act (BCA) sequester

FY 2013 appropriations

- Continuing Resolution (CR) expires 3/27/13
- State/local programs disproportionately targeted for spending cuts since 2010

Comprehensive deficit reduction

- Medicaid reform; cost-shift to states?
- Further cuts in discretionary spending
- Trade-off: more certainty, less funding

Ms. Tomsic explained the federal government had not yet passed a budget for FY 13. The federal government was currently acting in a continuing resolution, which required the federal government to continue to fund the programs at previous year levels through March 27, 2013. At some point, congress needed to develop a budget for the year. Since 2010, there may have been cuts to the overall discretionary budget. The programs benefiting state and local governments

were disproportionately targeted, and received much larger cuts than the budget as a whole. The funding levels would be based on the appropriation bill, in addition to the cuts that would occur through the sequester process. Until January 1, 2013, there were congress conversations related to comprehensive deficit reduction. Currently, those conversations were not occurring, and the budget deficit had not changed. From the state's perspective, Medicaid was a mandatory entitlement program. There would be cuts to Medicaid when congress addresses the deficit. There were many proposals to cut the Medicaid program; but most of those proposals did not include ideas to make the program more effective, reduce the cost of federal governments and states. The Medicaid cutting proposals were directed towards reducing the federal share and increasing the state share. There would be further cuts in discretionary spending, when comprehensive deficit reductions occur.

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Ms. Tomsic discussed slide 10, "Discretionary spending has been on the decline." The chart showed how, over time, states have been slowly receiving cuts. The red bar represented discretionary programs; which had fallen from \$116 billion in FY 10 to \$104 billion in FY 04.

Ms. Tomsic displayed slide 11, "The BCA and Looming Sequester."

Sequester scheduled to occur on March 1, 2013

\$984 billion in cuts required over FYs 2013-2021 (roughly \$109 billion per year, half from defense and half from nondefense)

- "Fix" reduced FY 2013 cuts from \$109 billion to \$85 billion a year

Many mandatory and a few discretionary programs are exempt (special rule for special/trust funds)

ATB in FY 2013, different process for FY 2014 and beyond

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Ms. Tomsic shared slide 12, "FAQs on the BCA Sequester."

1) What is the ATB percentage cut?

-FFIS estimates -5.9 percent for nondefense discretionary (was -8.2 percent) and -5.7 percent for nondefense mandatory (was -7.6 percent)

-Exact percentage won't be known until March 2013

2) How will individual programs be affected?

-ATB cut applied to FY 2013 funding in place on 3/1/13 (CR?)

-Cuts must be applied to each program, project, and activity

-OMB has authority to apply special rules, exemptions

3) What is the timing of the cuts?

-Agencies have some discretion

-Reflected in grant awards issued after March 1, 2013

Ms. Tomsic related that the U.S. president had the ability to exempt military personnel. Civilian personnel and procurement would absorb those across the board defense cuts.

Ms. Tomsic discussed slide 13, "While most state grant programs are subject to sequester." She stated that 24 percent of the state programs were exempt, and 76 were covered.

Ms. Tomsic looked at slide 14, "Most Alaska grant funding is exempt." She related that in 2013, Alaska would receive about \$2.7 billion. Of that \$2.7 billion, only \$656 million would be subject to Sequester. Medicaid was the reason that most of the grant funding was exempt. Alaska received approximately \$900 million in Medicaid grant funding for Medicaid.

Senator Bishop asked for Ms. Tomsic to repeat her previous statement. Ms. Tomsic estimated that Alaska would receive

\$2.7 billion in 2013; of that \$2.7 billion, \$656 million was subject to sequester.

Ms. Tomsic displayed slide 15, "Some program areas in Alaska are more affected than others."

Agriculture: 100 percent  
Employment and Training: 100 percent  
Community Development: 100 percent  
Justice: 100 percent  
Energy, Env., Natural Resources: 100 percent  
General Gov't: 100 percent  
Education: 87 percent  
Income Security and Social Services: 26 percent  
Health: 6 percent  
Transportation: 3 percent

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Ms. Tomsic discussed slide 16, "Among the ten largest grants in Alaska, seven are totally exempt." The seven grants that were exempt in Alaska were Medicaid - Vendor, \$837 million; Airport Improvement Program, \$220 million; Food Stamp Benefits, \$172 million; FHWA - Surface Transportation, Medicaid Admin., \$71 million; Temporary Assistance to Needy Families, \$45 million; and Pell Grants, \$43 million. The three grants that are at least partially covered were the National Highway Performance, \$272 million; Impact Aid - Basic Support Payments, \$143 million; Consolidated Health Centers, \$40 million.

Ms. Tomsic shared side 17, "The largest nonexempt grants in Alaska mostly benefit local governments." She stressed that the local governments may not feel the effects of the federal cuts, because the State may decide to make up the difference. The largest nonexempt grants in Alaska that mostly benefit local governments were Impact Aid - Basic Support Payments, \$143 million; Consolidated Health Centers, \$40 million; Title 1 - Local Education Agencies (LEAs), \$37 million; Special Education Basic State Grant, \$37 million; Unemployment Insurance - State Admin., \$27 million; BLM Payments in Lieu of Taxes, \$27 million; WIC Supplemental Feeding Program, \$25 million; Mineral Leasing, \$23 million; Fish and Wildlife - Fish Restoration, \$28 million; Fish and Wildlife - Wildlife Restoration, \$15 million.

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Ms. Tomsic displayed slide 18, "Potential impact of amended sequester in Alaska." Alaska's covered programs received \$637 million in FY 12; if there were no sequester in 2013, Alaska would receive \$656 million; but with the sequester the number had fallen to \$619 million. Therefore there was an \$18 million. Congress recently reauthorized transportation structure by creating new structures. She reiterated that Medicaid would be the program that congress would focus on after the sequester.

Ms. Tomsic discussed slide 19, "We're captive on the carousel."

One "crisis" averted, more in store:

-March 1 sequester

-Debt ceiling has been reached and will need to be raised

-FY 2013 appropriations

-CR expires March 27

Total nondefense discretionary spending is \$610 billion, the federal deficit is \$1.1 trillion

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Ms. Tomsic looked at slide 20, "So what's the bottom line?"

-The yawning gap between federal revenues and spending persists.

-Tax expenditures and Medicare/Medicaid are squeezing out other spending.

-The state-federal partnership is now defined by Medicaid.

-Non-Medicaid grants have been on the descent for years, and that's unlikely to change.

Ms. Tomsic discussed the table, "Major Discretionary and Mandatory Program Funding." She remarked that the table

displayed national amounts for 2011, 2012, and what would be funded in 2013 under the sequester. The Education Department and Health & Human Services Department had been roughly level funded over the recent years. Education would move from \$37 billion to \$35 billion under sequester. Health & Human Services would move from \$25 billion to \$24 billion.

Co-Chair Kelly stated that one million seconds ago would be the "Tuesday before last"; one billion seconds ago would be around 1981 or 1982; and one trillion seconds ago was 31,000 BC.

[10:20:26 AM](#)

Co-Chair Meyer noted that Alaska's Medicare population was the second largest growing population in the United States. He wondered what the future looked like for Medicare, and wondered how "Obamacare" would impact the budget. Ms. Tomsic replied that Medicare was not an area that she was familiar with. She relayed overall observations, but was limited on details. She stated that Medicare was subject to sequester, but was only 2 percent. She looked at provider payments, and explained that every year, provider payments were going to be cut.

Co-Chair Meyer wondered how the Affordable Care Act would impact Medicare and Medicaid. Ms. Tomsic replied that the only impact would occur when states decide to take advantage of the program.

Senator Dunleavy surmised that Alaska received a total of \$2.7 billion in federal funding. Ms. Tomsic agreed and furthered that FFIS only tracked 95 percent of the state and local government funding, so the actual number was slightly higher.

Senator Dunleavy wondered if the mandates were tied to Alaska receiving the money. Ms. Tomsic replied that the mandates were tied to the funding.

Senator Dunleavy surmised that if Alaska chose not to receive the funding, it would not be required to follow through with the mandates. Ms. Tomsic agreed. She added that those mandates were considered "conditions" upon receiving federal funding.

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Senator Bishop would like to have a discussion regarding tribal funding. Ms. Tomsic replied that she was not familiar with tribal funding, because FFIS did not track it closely. Ms. Tomsic agreed to provide further information.

Senator Hoffman noted that the defense budget represented 27 percent of the total federal budget, at \$750 billion. He felt that the presentation did not reflect how defense spending and cuts affected Alaska. Ms. Tomsic agreed to provide further information.

Senator Hoffman wondered what the defense budget would look like in 2021, after the mandatory cuts. Ms. Tomsic replied that the budget was outlined with total spending limits that were divided between different defense accounts. She furthered that funding was expected to grow by approximately 2 percent per year.

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Senator Hoffman wondered if the defense cuts were predetermined, or if Congress would determine where the cuts were allocated by state. Ms. Tomsic replied that in 2013 the cuts were across the board. Going forward, the reductions would be in the overall caps. Congress would then determine what programs would be impacted, but it was still split between defense and non-defense programs.

Senator Hoffman stressed that he would like to focus on the defense budget, because it was such a significant part of Alaska. Co-Chair Kelly agreed.

Co-Chair Kelly discussed housekeeping.

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ADJOURNMENT

10:33:15 AM

The meeting was adjourned at 10:33 a.m.