

SENATE FINANCE COMMITTEE
January 29, 2013
9:02 a.m.

[9:02:41 AM](#)

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 9:02 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

Karen Rehfeld, Director, Office of Management and Budget,
Office of the Governor

SUMMARY

SB 18 BUDGET: CAPITAL

SB 18 was HEARD and HELD in committee for further consideration.

SB 19 APPROP: OPERATING BUDGET/LOANS/FUNDS

SB 19 was HEARD and HELD in committee for further consideration.

#sb19

SENATE BILL NO. 19

"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."

9:03:57 AM

KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, stated that she had provided a summary of the highlights of the bills at a previous meeting. She referred to "Operating Budget - UGF/DGF/Other/Fed Summary by Department; Senate Bill 19/ House Bill 65" (copy on file). She noted that the summary included the mental health portions of the operating budget, so the outline included both SB 18 and SB 20. The total budget for mental health was \$240.891 million. She looked at page 2, which was a comparison of the unrestricted general fund (UGF) changes from the FY 13 management plan to FY 14 governor proposed budget.

Co-Chair Kelly queried the total budget the mental health portion of the budget. Ms. Rehfeld responded that the mental health operating budget totaled \$240.891 million; which included UGF of \$205.921 million.

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Ms. Rehfeld shared that the total number that was proposed for the operating budget was \$9.795 billion. The UGF was just over 59 percent at \$5.7 billion; designated general funds (DGF) was 8 percent at roughly \$777.4 million; other funds were \$1.283 billion at 13 percent; and federal funds were approximately \$2 billion at 20 percent of the total budget. She explained that the budget process begins in July, and it takes months to complete the budget proposals. She remarked that the supplemental budget bill would be introduced the following day, and the budget amendments would be due to the legislature on the 30th day of the session. She stressed that the budget work continued throughout the year. The structure of SB 19 contained 36 sections, and was 67 pages long.

Ms. Rehfeld looked at Sections 1 through 3 of SB 19, which were known as the number sections of SB 19. These sections totaled \$6.741 billion. The sections were organized by department; and by appropriation and allocation within the department. She remarked that some particular components in these sections may be specific appropriation language, such

as "carry forward of program receipts." Sections 2 and 3 were the breakdowns of the funding sources. Section 2 was funding sources by department and Section 3 was the total of all funding sources for Section 1.

Ms. Rehfeld explained that Section 4 was the language section of SB 19. She stated that the language section included funding for various corporations: Alaska Aerospace Corporation; Alaska Housing Finance Corporation (AHFC); Alaska Permanent Fund Corporation; Alaska Industrial Development and Export Authority (AIDEA); the state catastrophic and working reserve funds; shared taxes under the Department of Commerce, Community and Economic Development (DCCED); and other various items.

Ms. Rehfeld stated that Section 13 was the particular appropriation of \$25 million for education, which was addressed at a previous meeting. This appropriation was specific funding that was targeted for energy costs in school districts, but was allocated and distributed to school districts on the adjusted average daily membership.

Ms. Rehfeld explained that Section 20 was known as the "fuel trigger." This section was introduced some years prior in an appropriation language, rather than building ongoing costs into the base of agencies' budgets. The preference was to include a fuel trigger at different prices. The fuel trigger estimate going into FY 14 was at \$36 million; allocated twice a year. There was currently a thorough analysis on individual departments' fuel and utility costs, in order to determine if this particular language should be changed.

Co-Chair Kelly wondered if the fuel trigger estimate was \$36 million. Ms. Rehfeld responded in the affirmative. She looked at page 53 of the bill, which showed the allocation based on \$100 per barrel or more of \$18 million that was distributed twice a year. She furthered that the current year had distributed approximately \$7 million. The departments were currently adjusting, and would provide estimates at a later date.

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Ms. Rehfeld stated that Section 23 was the debt service obligations. This included debt service and bond payments for previously approved debt. One of the largest components

of this section was the School Debt Reimbursement program on page 59, lines 17 through 21. The projection for FY 14 school debt reimbursement would be \$128.263 million. Section 24 was the federal and other program receipts language. It was Legislative Budget and Audit (LB&A) language that addressed federal receipts as it came to the State and State agencies. Section 25 contained a number of capitalizations for different funds, like disaster relief and the replenishment of the revenue sharing program. Section 26 outlined the fund transfers. The largest fund transfer was the Public Education Fund transfer of \$1.2 billion to forward fund education. Section 27 was specific to the State retirement systems unfunded liability: \$312.5 million for Public Employee Retirement System (PERS); \$316.8 million for the Teacher Retirement System (TRS); and \$4.5 million for the Judicial Retirement System. The retirement system budget was roughly a \$20 million over the current year budget. Section 28 was language related to salary and benefits for various bargaining unit agreements in the University of Alaska. Currently, the general government, supervisory, and confidential employees units were under negotiations.

Co-Chair Kelly wondered if the benefits that were not up for negotiation were ratified year by year. Ms. Rehfeld replied that the language in the bill referred to all of the bargaining agreements that were ratified by their members, so the request continued those that were already agreed upon.

Co-Chair Kelly wondered if the legislature had to approve the benefits year by year. Ms. Rehfeld replied that the legislature had to approve the benefits year by year.

Senator Hoffman looked at Section 27. He relayed that there were new requirements that local governments declare their liabilities for PERS and TRS. He wondered if Department of Administration (DOA) had addressed this issue. Ms. Rehfeld replied that it was a new requirement, and furthered that the State had agreed to fund beyond the current cap of 22 percent for PERS and 12.56 percent for TRS. There was not a final decision whether there would be a change to reflect that increase in the State's financial statements.

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Senator Hoffman wondered if there was communication between the municipalities and DOA regarding the possibility of substantial liabilities on the municipalities. Ms. Rehfeld replied that DOA had been in contact with the municipalities about the issue, and how it would appear on their financial statements. She shared that it was a continuing conversation that DOA had been engaged in.

Ms. Rehfeld explained that Section 29 was for shared taxes to local governments and other entities: the fisheries tax; fuel tax; cost recovery; and cruise ship seven ports of call. Section 32 was the budget reserve language, that would allow a draw on the statutory budget reserve (SBR) should the revenue be insufficient in FY 14 to cover the projected expenditures. Sections 33 and 36 were the lapsing provisions, retroactivity, and effective dates. She remarked that the majority of SB 19 would take effect July 1, 2013 for FY 14.

Ms. Rehfeld restated that the FY 14 Operating Budget included full-funding and forward-funding for K-12 education; Medicaid and other formula programs; Permanent Fund appropriations for dividend and inflation-proofing; energy assistance; tourism marketing; and the bargaining unit components that were a work in progress.

Co-Chair Kelly requested more information regarding the catastrophic and the working reserves. Ms. Rehfeld replied that there were two components. There was a reimbursable services agreement to pay for working reserve, which was terminal leave or leave cash-in for employees. The working reserve included a payroll deduction that was built into the rates and the budget positions; and a reimbursable services agreement. There was language in the appropriation bill that would allow funds to "sweep" into working reserve and the state catastrophic reserve.

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Co-Chair Kelly requested further information regarding the impact of the operating budget for years out to 2020, from the FY 08, FY 09, and FY 10. Ms. Rehfeld agreed to provide that information.

Senator Dunleavy wondered if there was a process to determine how much State money was needed to support the \$2.7 billion in federal receipts. He specifically queried

whether it was in addition to the budget, or if it was written into the budget. Ms. Rehfeld replied that there were specific match requirements and maintenance requirements for many capital requests. The federal funds were often matched with the State contributions. She offered to provide more detailed information at a later date.

Senator Dunleavy wondered whether the federal funds were linked to the State, or the States were linked to the federal funds. Ms. Rehfeld responded that if the state had participated in a federal program, the state agreed to commit a certain amount of resources in order to receive the federal dollars.

Senator Dunleavy remarked that many Alaskans felt that the budget was growing, but revenue was not keeping up with the budget. He wondered if there was a discussion regarding possible statutes or regulations that would reduce the cost of government. Ms. Rehfeld replied that there were conversations each year that focused on the current priorities that were already written in statute.

SB 19 was HEARD and HELD in committee for further consideration.

#sb18

SENATE BILL NO. 18

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

[9:26:41 AM](#)

Ms. Rehfeld discussed "Senate Bill 18/House Bill 64; Department UGF/DGF/Other/Fed Summary - Capital Budget" (copy on file). She shared that the summary included the mental health capital items. The mental health portion of the bill totaled \$14.50 million; of that, \$12.650 million were general funds. The total proposed Capital Budget for FY 14 was \$1.838 billion. The UGF request was \$795.237 million at roughly 44 percent; DGF was \$74.617 million at roughly 4 percent; other funds were \$56.580 million at roughly 3 percent; federal funds were \$911.948 million at 49 percent of the total requested budget. The DGF included

the Renewable Energy Grant Funds and the Regional Education Attendance Area Fund. Other funds included the International Airport and statutory designated receipts.

Co-Chair Meyer noted that the bulk of the federal funds were used for transportation. Ms. Rehfeld agreed.

Co-Chair Meyer stressed that the federal dollars were "driving" much of our transportation programs. Ms. Rehfeld replied that some of the other funds that were leveraged were the request for the municipal water and sewer and projects.

Co-Chair Meyer wondered if the federal funding for the roads had been decreasing in recent years. Ms. Rehfeld replied that there had been a continuation of a considerable amount of federal funding. She explained that Department of Transportation and Public Facilities (DOT/PF) could provide a more detailed response.

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Ms. Rehfeld stated that Sections 1 through 3 of SB 18 were the numbers sections. In the capital budget, Section 1 was organized by department; and the projects were listed in priority within each agency with the deferred maintenance request at the end. The only exception was DOT/PH, because their requests were listed in a program area with the requests listed in alphabetical order. She stated that the detail budget books contained listings of the projects in order by reference numbers. She explained that Section 2 was the funding sources for the appropriations for Section 1 by department. Section 3 was the total summary of the funding sources for Section 1.

Ms. Rehfeld stated that Section 4 was the federal and other program receipt language for the LB&A provisions. Section 5 was for fund capitalizations, including the General Obligation (GO) bond language. Section 6 was a fund transfer section, which included the \$25 million from the general fund (GF) into the Energy Grant Fund. Section 7 regarded insurance claims. If there was a settlement for an insurance claim, it could be used for the Catastrophic Reserve Risk Management account. Section 8 was the National Petroleum Reserve Alaska (NPR) Grants estimated to be \$3.945 million in FY 14. These funds came from the sale, rental, bonus, or royalties on leases issued within the

NPRA. The funds would be available for appropriation for communities that were directly impacted by the leases. The annual grant application process was prepared by DCCED.

Ms. Rehfeld stated that Section 9 was a reappropriation of \$1.750 million from the Akiak Rural Power System Upgrade. This upgrade was completed for approximately \$4.5 million, and a portion of that was federal funding from the Denali Commission. There was a balance in the project that was requested for reappropriation to a rural power system upgrade in Atmautlauk. Section 10 was a reappropriation of balances in Department of Environmental Conservation (DEC) for the engineering and management of municipal water and sew projects. Section 11 was a reappropriation of approximately \$2 million from the Kodiak Near Island facility in the Department of Fish and Game (DFG) to be redirected to DFG's hunting and fishing licensing system.

Ms. Rehfeld shared that Section 12 were the lapse provisions for the various sections, mostly related to capital lapse provisions for reappropriations and fund transfers. Section 13 declared that the reappropriations would be effective June 30, 2013. Section 14 was the effective date of July 1, 2013 for the FY 14 capital budget.

Ms. Rehfeld highlighted some specific funding sources. She stated that OMB proposed to spend \$120.2 million from the Alaska Housing Capital Corporation Fund, which was set up in 2006 with a \$300 million appropriation. Since that time, there had been other appropriations into that fund and interest had been earned. She stressed that there were needed investments in order to grow the economy. The \$95.2 million request for the Susitna Watana project and the \$25 million Alaska Gasline Development Corporation, totaling \$120.2 million.

[9:38:54 AM](#)

Ms. Rehfeld shared that \$20.745 million out of AIDEA dividends that were proposed to fund 3 Roads to Resources programs and one other: \$8.5 million for Ambler; \$7.5 million for the Dalton Highway; \$2 million for a smaller program; and \$2.745 for the strategic minerals assessment.

Senator Hoffman wondered if there was a location within the budget for the Roads to Resources projects. Ms. Rehfeld

replied that Ambler and Dalton Highway were specifically written in the budget, and the \$2 million for the smaller program would be outlined by DOT/PF.

Ms. Rehfeld stated that the Alaska Housing Finance Corporation (AHFC) dividends were currently lower than three years prior. In the current budget proposal, \$10.6 million in AHFC dividends was directed completely to their debt service.

Ms. Rehfeld pointed out that there was no request for using the Alaska Capital Income Fund that had a balance of approximately \$76 million

Ms. Rehfeld summarized the projects in the proposed budget: Susitna Watana project; weatherization and home energy rebates and renewable energy; the infrastructure, highways, aviations, and village safe water; the Nightmute School and the Kwigillingok school deferred maintenance.

Co-Chair Meyer wondered if the last two schools' requests mentioned were a result of the Kaysulie lawsuit. Ms. Rehfeld responded that Nightmute was the next school that was on the "Kaysulie List" for funding in FY 14, and was a \$33 million project. It was funded in 2012, but the funds were not available to complete the project. The next school on the "Kaysulie List" was Kwethluck, which would be addressed in the FY 15 budget.

[9:43:19 AM](#)

Co-Chair Meyer wondered if the State Library and Museums Project (SLAM) was complete. Ms. Rehfeld replied that the previous request of \$20 million for SLAM would not complete the project, because \$50 million was required to complete SLAM. She stressed that the governor supported SLAM.

Co-Chair Meyer noted that there were many projects that were in-progress. He stressed the need to focus on completing projects. He wondered why the Engineering Buildings for the University of Alaska Anchorage (UAA) and University of Alaska Fairbanks (UAF) were not included in the list of requests. Ms. Rehfeld that OMB was supportive of the Engineering Buildings project, but there was imperative work that was required for existing University of Alaska buildings.

Senator Hoffman expressed gratitude for the addition of \$50 million for the weatherization and home energy rebate programs. He wondered if there was a conversation regarding the mobilization of the workforce to implement the rebate programs. Ms. Rehfeld responded that there was discussion regarding the success of the programs. She understood that there was currently more demand than what workers were able to accomplish.

SB 18 was HEARD and HELD in committee for further consideration.

9:47:46 AM

AT EASE

9:48:36 AM

RECONVENED

Co-Chair Kelly discussed the week's agenda, and housekeeping.

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ADJOURNMENT

9:50:08 AM

The meeting was adjourned at 9:50 a.m.