

HOUSE FINANCE COMMITTEE
February 23, 2015
1:41 p.m.

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CALL TO ORDER

Co-Chair Neuman called the House Finance Committee meeting to order at 1:41 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair
Representative Steve Thompson, Co-Chair
Representative Dan Saddler, Vice-Chair
Representative Bryce Edgmon
Representative Les Gara
Representative Lynn Gattis
Representative David Guttenberg
Representative Scott Kawasaki
Representative Cathy Munoz
Representative Lance Pruitt
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Pat Pitney, Director, Office of Management and Budget, Office of the Governor; Representative Michael Chenault, Speaker of the House.

SUMMARY

HB 71 BUDGET: CAPITAL
HB 72 APPROP: OPERATING BUDGET/LOANS/FUNDS
HB 73 APPROP: MENTAL HEALTH BUDGET

OVERVIEW OF THE GOVERNOR'S FEBRUARY 17TH BUDGET AMENDMENTS INCLUDING SUPPLEMENTAL/CAPITAL/OTHER APPROPRIATIONS

#hb71
#hb72
#hb73

HOUSE BILL NO. 71

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

HOUSE BILL NO. 72

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs, capitalizing funds, making reappropriations, and making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

HOUSE BILL NO. 73

"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."

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^OVERVIEW OF THE GOVERNOR'S FEBRUARY 17TH BUDGET AMENDMENTS INCLUDING SUPPLEMENTAL/CAPITAL/OTHER APPROPRIATIONS

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PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, began her presentation with the FY15 Supplemental Amendments handout: "FY2015 Supplemental Requests 2-17-15". She referred to the request on line 4 for Department of Natural Resources (DNR) in the amount \$896 thousand for the emergency repair of the state forest road systems in the Tanana Valley State Forest. The repair was necessary due to the rain the previous summer. The road was impassable. The Department of Natural Resources earned about \$250 thousand from the products in the forest and there were many wood uses and community aspects of being able to use the wood in the Tanana Valley Forest. The

request came in on multiple occasions and was pushed back. However, the funding was currently necessary. The repair request was not new, but the administration had hoped there was another option rather than the repairs suggested; however, there was not but found that there was not.

Co-Chair Thompson acknowledged Representative Guttenberg at the committee table.

Ms. Pitney continued to the request on line 8 for The Department of Law (LAW) in the amount of \$121.5 thousand for judgements and settlements. The next line 9 was a reappropriation from two projects for DNR [DOT] to address its injection wells. Previously, in DNR's [DOT] maintenance facilities, oil would be dropped through the floor which was a perfectly acceptable practice at the time. However, it was no longer practiced. Therefore, injection wells had to be installed. Funding from two projects, the Core of Engineers Harbor Program, and the Glenn Highway Repair. The Harbor Program was not going to use the money appropriated because funding came in the form of geo bond monies for the same project. The Glenn Highway repair was completed with additional federal funds.

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Vice-Chair Saddler asked where on Glenn Highway the ruts were that needed repair. Ms. Pitney responded she would have to get back to him with the information. She furthered it was within the Statewide Transportation Improvement Program (STIP).

Vice-Chair Saddler added that it was a long highway but it went right through his home town.

Representative Gattis answered Vice-Chair Saddler's question. She stated that the ruts were essentially from Wasilla to Anchorage. There had been a significant amount of rain and some snow. She had constituents calling in about hydroplaning in to work each day.

Ms. Pitney moved to the item on line 10 for DOT. She explained that it was an exchange of a reappropriation of project monies for the Ted Stevens Anchorage International Airport. She continued with line 11, also within DOT, for a reappropriation for the replacement of the Kalsin Bay maintenance station. The request was to replace a

maintenance station on Kodiak Island that burned down. Although risk management funds were available they were not enough to cover the full project.

Ms. Pitney reported that line 12 referenced a repeal. The Alaska Gasline Inducement Act (AGIA) project was closed out leaving \$2.8 million in the account. The money was available for repeal.

Ms. Pitney reported that lines 13 and 14 were included to bring attention to two appropriations made in FY 15 exceeding the revenue and replacing the accounts with general funds to meet the level of appropriation approved by the legislature in the previous year. If the legislature did not want to approve the GF transfers into the account it would take time to review the projects to determine which projects would not be funded from the prior year and then repeal those projects. They were included to make the funds whole.

Co-Chair Thompson asked about line 14. Ms. Pitney replied that 13 was from the capital income fund. Line 14, a nuance, denoted the cruise ship tax. There were two accounts within the cruise passenger tax; the head tax and the gambling tax. Instead of putting the gambling tax into the GF the gambling tax would be placed in the fund that was over-appropriated. If the gambling tax was not enough the GF would be used to make the account whole. There was reasonable comfort that the gambling tax would be sufficient to cover the appropriations.

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Vice-Chair Saddler asked about the thinking behind not placing the funds in GF first and then making a separate transfer. He wanted to understand the thought of cutting a corner.

Ms. Pitney explained that in the previous year the legislature appropriated several projects to use the particular funds. They appropriated more projects than available funds. She continued that the cruise ship tax and the gambling tax fell under a similar account. Actually the cruise ship tax did not go to GF but the gambling tax did. The administration was suggesting that instead of running the gambling tax to the GF, backfill the particular shortfall. It was only to correct an error from the prior

session. If the situation was not corrected, it would result in some project repeals.

Representative Gattis asked to refer back to the fire at the maintenance station near Kodiak. She wanted to know about risk management and how the state intended to make sure another incident did not occur.

Ms. Pitney provided an example in order to attempt to answer her question. The state had 2500 facilities listed on the state books. Each facility was assigned a replacement value. If the value was based on the facility as it existed rather than a facility that would be desired if starting from scratch. The replacement value would be undervalued in comparison to a desired replacement facility.

Representative Gattis made the point that sometimes in tough times the state would not be able to build what it wanted. She struggled with the particular line of thinking Ms. Pitney was suggesting. She reiterated that the state was experiencing tough times and would not get to build what it wanted, but what it could afford.

Co-Chair Thompson acknowledged Representative Wilson's presence.

Representative Gara wanted clarity about whether she was talking about accounts within the GF. The designated fund prohibition in the constitution did not allow funds to be taken out of the GF. They were all GF that she was referring to. In otherwise, the state could reach into any of the GF accounts and place any of the money into anything the state wanted. He asked if she was only talking about the GF. Ms. Pitney responded affirmatively.

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Ms. Pitney tuned to the handout titled: "FY2016 Capital Amendments Spreadsheet 2-17-15". She reviewed line 1 which amended Alaska Housing Finance Corporation (AHFC) energy programs. It was pointed out to her by Vice-Chair Saddler that there was \$50 million proposed in the out-years for energy programs. She replied that it was an oversight and not the position of the administration. The administration reduced the out-year program amount for the energy programs.

Ms. Pitney reviewed lines 2 and 3 indicating that they also addressed the same out-year amounts. She explained that line 4 addressed an oversight where there was \$22 million in federal funds that were available. Therefore, the federal funds were not included in the capital budget.

Ms. Pitney moved on to line 5, restoration of the homeless assistance program. It was an \$8 million grant program the previous year and was reduced slightly to \$7.7 million. The appropriation was missed in the striped down capital budget and needed restoring.

Representative Gara asked about the AHFC out-year money. He stated that the legislature was not appropriating any out-year money. He asked Ms. Pitney to explain it more thoroughly. He was under the impression that the prior year's AHFC Homeless Assistance Program money was \$9.2 million rather than \$8 million.

Ms. Pitney responded that there were two programs; the homeless assistant program and the special needs housing program which together totaled \$9.2 in funding. It was \$500 thousand the prior year totaling \$9.7 million. Going back to the topic regarding the out-year. She explained that it was only a correction of intent. The administration did not say on record that there was \$50 million for weatherization and energy programs when the expectation was that the amount would be much smaller, closer to \$11 million. It corrected the out-years. The administration could have let it go but thought to change it to be clear about its intent.

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Representative Wilson asked if it was \$7.7 million and \$1.5 million totaling approximately \$9.2 was the amount in the previous year. Ms. Pitney responded that the two homeless assistance programs added up to \$9.2 million versus the \$9.7 million in the prior year.

Representative Wilson asked why the appropriation was in the capital budget rather than the operating budget. She thought it belonged in the operating budget based on testimony received in Fairbanks.

Ms. Pitney answered that it was, to some degree, an operating expense. It was operating at a community grant level, though, more like a grant program similar to how the Department of Commerce, Community and Economic Development (DCCED) had its community grant programs set up. Grants were going out to community providers. It could be in the operating budget. The nice part about having it in the capital budget was that the timing was not tied to the fiscal year. Programs could span multiple fiscal years. Some programs were 3-year grants.

Representative Wilson was wondering if the grants were competitive grants. She wondered if there were checks and balances in place to determine how many people were being helped and whether the program remained viable. She wondered who checked on the program to make necessary changes for the communities because of less funding for capital projects.

Ms. Pitney responded that AHFC had a robust program that analyzed the priority of housing opportunities and the distribution of funds to different agencies. Once a particular housing project proved itself, there would be ongoing support. Each of the grantee's performance numbers were reviewed. She suggested that AHFC could provide any additional information.

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Co-Chair Thompson remarked that there seemed to be quite a few agencies that received AFHC grants. He was also aware of different funding sources including mental health. He asked if AHFC was the administrator. Ms. Pitney responded affirmatively.

Ms. Pitney referred to lines 7 through 12 and explained that they were fund source changes from international airport construction funds to international airport revenue funds. She explained that it was a fund source change within the same airport fund. It was airport fees allowing use of funds versus construction funds.

Co-Chair Thompson commented that there were no general funds involved.

Ms. Pitney continued with lines 13, 14, and 15. She elaborated that when the Juneau Access Improvements Road

and the Knik Arm Crossing Project were paused the funding associated with these projects were placed into an unallocated line item. The amendment placed the unallocated line item into the Non-National Highway System Pavement and Bridge Reconstruction and Refurbishment line.

Representative Pruitt asked whether it was decided that the money that was allocated for the two projects would be spent but not on the two projects.

Ms. Pitney replied that in the budget that was forwarded by the Parnell administration there were two projects named, the Juneau Access Improvements Project and the Knik Arm Crossing Project. She continued that when the Walker administration placed a pause on the projects and submitted the stripped-down capital budget to include all of the federal transportation match funding, the money for the two projects was placed in an unallocated account. The money the state received for transportation was based on a 90/10 match. The administration was changing where the money could be spent in FY 16.

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Representative Pruitt understood that the legislature did not specify the use of the money but the Parnell Administration had targeted the two projects. He asked whether moving the funding would hinder the two projects from moving forward.

Ms. Pitney confirmed that it did slow the progress of the projects in FY 16. However, funding could be allocated to the projects in FY 17.

Vice-Chair Saddler asked if the administration evaluated the effects of pulling money back from the two projects and the long term consequences of their success.

Ms. Pitney responded that the department was still in active analysis of the projects. She furthered that the intent for the Juneau Access Improvements Project was to reach a record of decision. The funding currently available for the project would get the state to that point. Regarding the Knik Arm Crossing Project there was funding for the project but the project remained on hold and continued being evaluated.

Vice-Chair Saddler asked if money was being spent on the active evaluation process. Ms. Pitney stated that money was being spent to pay for staff time for the commissioner of DOT, Ms. Pitney, and the chief of staff.

Vice-Chair Saddler clarified that monies were not specifically set aside for the projects but to absorb other duties. Ms. Pitney responded, "Correct".

Vice-Chair Saddler wondered about the most recent activity concerning the evaluation of the Knik Arm Crossing Project. Ms. Pitney reported that the commissioner of DOT had been spending a significant amount of time on the project, reviewing the existing documents and reporting back to the legislative finance subcommittee. She would be happy to provide additional information.

Vice-Chair Saddler confirmed that he would like to know about the most recent work performed.

Representative Gattis suggested that, since the state was uncertain about whether to move forward with the project and the commissioner was still reviewing documents, maybe the state should hold off on any fund changes until it was more informed about the project. She also asked if the funds were allocated specific to the two projects of discussion and asked if the state would have to pay them back.

Ms. Pitney responded that where the federal funds were spent was determined by state priorities. The funds could be adjusted to the priorities decided upon collectively. The amendment would allow for programing of the related funds in FY 16. The evaluation took into account whether payback would be required for the two projects. It was determined that payback would not be necessary currently. The state had up to an estimated 20 years to continue with the project before the state would be liable for the funds.

Co-Chair Thompson acknowledged that Co-Chair Neuman had joined the meeting.

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Representative Gattis mentioned the record of decision and the environmental impact study that she did not believe could last 20 years. There were things the state was

looking for such as a record of decision for the Juneau Access Improvements Project and which the Knik Arm Crossing Project had already received. She believed more information was needed.

Representative Munoz asked if monies allocated to the National Highway System (NHS) to projects within the NHA be redirected to non-highway system projects as indicated in the amendment. She was under the impression that monies allocate or intended for NHS could not simply be reallocate. Ms. Pitney responded that she would get back to her regarding on her question. She reiterated that it was her impression that it was based on the state's priorities.

Representative Munoz stated that her understanding was that the \$70 million was allocated to the two projects, and that in order to be reallocated they had to be reassigned to project-ready NHS projects. She relayed that what was shown on the amendment indicated that was not completely the case. She asked Ms. Pitney to get clarity on the point.

Ms. Pitney responded that the funding was never allocated to the two projects because it was the current bill that set the priorities. She relayed that when the first capital budget was submitted as unallocated. The amendment pushed the funding into a project line item on the priority list. However, the priority list was longer than there was money available to allow for changes and to utilize the full funding.

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Representative Guttenberg asked about the NHS money and its allocation. He understood that in anticipation of the money being received for a specific project the Statewide Transportation Improvement Program (STIP) list was amended. He thought it was reflected in amendment 11 or 12. In expectation of the Juneau Access Improvements Project, other projects had been moved down the list and out several years or off of the list entirely. He wanted to better understand what had changed due to all of the federal money being allocated for specific projects rather than being a statewide allocation. He asked if the sideboards changed when the fund source changed from the International Airport Revenue Fund to the International Airports Construction Fund. In other words, he wondered if the requirements and

specifications of the use of monies changed because the funding source had been shifted from one source to another.

Ms. Pitney asked for Representative Guttenberg to repeat his question.

Representative Guttenberg referred to line 12 under the fund source column. He pointed out that the International Airports Revenue Fund was changed to the International Airports Construction Fund. He wondered with the change if the sideboards changed as well. Ms. Pitney replied that she would get back to him.

Representative Gara asked whether the move of \$70 million was a reallocation of funding that was allocated in prior years. He wanted to confirm that she was establishing FY 16's budget and changing what the previous governor had put in his placeholder budget outlining where the money was going to be used. He wanted to confirm that she was not re-appropriating money from previous years.

Ms. Pitney indicated that Representative Gara was correct. The funding had never been attached to the two projects being discussed because the only capital budget that was submitted was a significantly stripped down budget that did not include specifics.

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Co-Chair Neuman asked about the potential consideration taken with infrastructure projects around the state. He indicated his understanding was that the state had approximately \$4 billion which would last about 3 years for major projects in the state. Some of the projects were scheduled to initiate in years, 4, 5, and 6 so that there were jobs in communities. He relayed that he had had Mr. Gunnar Knapp of the Institute of Social and Economic Research (ISER) do some work on reductions to the budget. In terms of capital budget reductions, about 950 jobs would be reduced for every \$100 million in decrements. He believed there would be substantial reductions in the state's operating budget in the current year, accounting for several jobs. He stressed that in years 4, 5, and 6 if there were not jobs in the areas doing infrastructure projects, it would have a detrimental effect on communities. He opined that DPS, DOC, and DHSS budgets would skyrocket. He furthered that when people lost their

jobs they often turned to drugs and alcohol. There were bad things that happened to people on drugs and alcohol. He was concerned whether the department had looked at the cause and effect of on the size of the capital budget and years 4, 5, and 6 to ensure the state had a stable economy when looking at projects.

Ms. Pitney responded that one of the key criteria for the budget submitted in the current year was moderating the spending reduction to ensure the state had a stable economy. It was a step down and maximized federal capital funding. The first capital budget submission was strictly leveraged with federal funds seeking maximum external funding. It was also a section in the overall state budget where reductions could be applied most expediently. She maintained that the capital budget was very thin and was anticipated to be thin in the following years. She furthered that the addition of the homeless grant program through Alaska Housing Finance Corporation (AHFC) totaled under \$200 million, of which \$35 million was through reappropriations. She added that there was just over \$150 million net funding for the capital budget. The future state capital budgets would also be fairly limited. The state would likely have to turn to public/private partnerships or external resources for project investments. She explained that if a project did not have revenue potential it would be very difficult to make investments from the administration's view. Project priorities of the legislature would be well considered within the administration.

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Co-Chair Neuman believed that the monies for AHFC related projects were 100 percent federal pass-through funds, as reported by Mr. Butcher. He noted that pass-through funding would not affect the state's capital budget. He added that the Federal Highway Department [Administration] considered Alaska a net positive state. In other words, Alaska received more in funding for STIP than what it paid in taxes associated with buying fuel. Instead of a 10-to-1 ratio for Alaska's dollars it was likely Alaska would see 12, 13, or 15 to 1 on the match projects. He thought it was exceptional that the state had the opportunities to take advantage of accessing the funds for building infrastructure. He asked whether she had analyzed the budget.

Ms. Pitney indicated she was unclear of the potential for a 1 to 12 or 13 match. She agreed that the ratio would be exceptional. She understood the match to be a 90 to 10 match. She continued that there were two pieces to the housing program. The first was \$22 million federal pass-through dollars. The second was \$9.2 million for homeless assistance funded by the state.

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Co-Chair Thompson recognized that Speaker Chenault was in the audience.

Vice-Chair Saddler asked about Governor Walker's intentions for the Knik Arm Crossing Project and the Juneau Access Improvements Project. If the answer was to continue studying them, he wanted to know about how long the studies would take.

Ms. Pitney responded that in regards to the Juneau Access Improvements Project the administration's intent was to proceed to the record of decision. The funding of the project took the state to that point without delaying the project.

Vice-Chair Saddler asked how long it would take to get to a record of decision. Ms. Pitney responded that the record of decision would be about a year from the current day. She would double check the timeline but noted it was a ways off. In regards to the Knik Arm Crossing Project, she reported the goal was to get as much value for the work that had been completed to-date in getting to an environmental impact study (EIS). She added that the EIS was the next major piece of the project, a time consuming part of the project.

Vice-Chair Saddler asked if Ms. Pitney estimated it happening more than a year from the current date. Ms. Pitney thought so. She added that there were many components to the EIS.

Vice-Chair Saddler asked Ms. Pitney for a best-guess estimate on how long it would take for the state to complete the EIS. Ms. Pitney responded that she would have to get back to him.

Vice-Chair Saddler wondered about the intentions of the administration following the completion of the EIS. Ms. Pitney stated that the EIS was critical to the administration's intention.

Vice-Chair Saddler asked if the administration intended to proceed. Ms. Pitney suggested that if the state received the EIS there would be an opportunity to proceed depending on the timeframe.

Vice-Chair Saddler asked whether Ms. Pitney could answer the question as to whether the state would proceed. Ms. Pitney answered, "No".

Co-Chair Neuman commented that regarding the Knik Arm Crossing Project the current funding mechanism set in HB 23 [Legislation passed in 2014 - Title: Knik Arm Crossing] allowed for a total of \$5 million additional costs to move on the project. The rest of the funding would come from the states revenue for the STIP match grants. Currently, the state's capital costs totaled \$5 million to complete the project.

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Ms. Pitney discussed line 16. The amendment was another federal pass-through of funding this time for the maintenance and operations of the Adak Airport. The funding was overlooked in the first version of the budget and needed to be corrected. She moved on to the amendment on line 17 which was a project list update containing additional information than what the previous capital budget included. It was a priority list of projects.

Ms. Pitney turned to the 4-page handout containing the Operating budget amendments. She began with line 1 which restored funding through reallocation for the named recipient grant for Alaska Native arts marketing. It was in the same Commerce, Community and Economic Development component as tourism and seafood marketing. It was the only program within the component that was entirely eliminated. The request was for one additional year in order to move into a more privatized approach.

Vice-Chair Saddler asked if the \$300 thousand in funds would mark the final year of the marketing program. Ms. Pitney responded that DCCED had hoped they were ready to

privatize in the current year but one more year was needed to make the transition.

Vice-Chair Saddler asked if it would be the final year of state support. Ms. Pitney answered that it might come in at a slightly lower or largely lower amount. The intent was to see it privatized.

Vice-Chair Saddler asked if it was possible that a request would be submitted in FY 17 for additional funds. Ms. Pitney answered that it was possible.

Vice-Chair Saddler asked if her answer was, "Yes". Ms. Pitney stated, "Yes, it is possible."

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Representative Wilson asked why it was not a one-time increment. Ms. Pitney was just learning about the caveats.

Representative Wilson asked how long the project had been operating. Ms. Pitney believed it had been ongoing for over 8 years.

Co-Chair Neuman asked Ms. Pitney if the project was part of the Silver Hand Program.

Representative Munoz thought it was a grant that helped to promote cottage industries including the fur industry and native crafts. Sea Alaska Heritage Institute was involved with the grant.

Co-Chair Thompson asked Representative Munoz if she knew how long it had been going on.

Representative Munoz believed it had been around for 4 or 5 years.

Ms. Pitney moved to line 4 which partially restored the Regional and Community Jails Program. In 2011 the program was funded at \$6.5 million and in 2015 it was funded at \$10.5 million. The request would restore the program but reduced the amount which allowed The Department of Corrections (DOC) to renegotiate the community jails contracts based on the usage needed for each community and to address any transportation impact for public safety.

Ms. Pitney continued to line 6 to an amendment addressing an accounting need. Interagency receipts and post-secondary receipts would be assigned. It was post-secondary reporting that would make separation and transparency of their accounts. There were no funding changes. Rather, it was a double counting through interagency receipts.

Representative Guttenberg asked about how much of actual student loan money or interest was being used or transferred within the department. He was aware of things that might come up as part of the administration of any program. However, he had a significant issue with the high cost of student loans.

Ms. Pitney answered that it had nothing to do with the cost of doing business or the number of loans or interest on student loans. The amendment set up a separate account in order that the post-secondary receipts showed up in one account. There was an inner agency receipt for the post-secondary receipts to be posted. It was merely an accounting exercise in order to capture all of the post-secondary receipts and all of the spending within post-secondary education. It was a net zero impact in terms of the cost. She could follow-up with Representative Guttenberg's question regarding how much was going into the administration of student loans including the loan totals and volume over time.

Representative Guttenberg understood it was net zero. However, he wondered what part of the funds were being used. He suggested that it could still be a net zero even when some of the funds were being used.

Ms. Pitney responded that there was no difference in the use of funds because of the accounting exercise.

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Representative Munoz wanted to return to the reduction in the tourism and marketing activities. She asked if the amount that was restored for the Alaska Native arts marketing was taken from tourism and seafood marketing. Ms. Pitney responded in the affirmative.

Representative Munoz asked for the balance for tourism marketing and for the Alaska Seafood Marketing Institute

(ASMI). Ms. Pitney responded that \$18.7 million was left for tourism marketing and \$24 million was left for AMSI.

Representative Munoz was under the impression that in the prior year tourism marketing was approved at \$16 million. It appeared that the amount was increasing.

Ms. Pitney replied that it was total funds. She added that of the \$18 million \$16 million would be unrestricted general funds. She was providing unrestricted general funds as well as other funds.

Representative Munoz asked for the state's portion. Ms. Pitney would provide the information later.

Representative Munoz requested the numbers on tourism and seafood marketing. Ms. Pitney continued with line 7 which was an additional decrement for reform for the Medicaid program. Through discussions with DHSS concerning additional reforms that could be implemented beyond the cost shift from expansion, there was a \$20 million decrease for components expected from Medicaid reform.

Representative Wilson commented that reform and expansion were blended together. She asked whether the \$20 million on line 7 came from just reform within the division rather than taking any expansion for the savings.

Ms. Pitney stated that there were components in the reform that required a waiver from the Federal Center for Medicaid Services. The waivers had a higher success possibility with expansion. The amount was based on the existing population. The amendment reflected the potential cost savings to the state. Some components were waiver dependent and had to be approved by the Federal Government. Assuming the waiver was approved the state would realize the savings. Approval of the waivers could require the state to expand.

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Representative Wilson asked for the details from the division for the \$20 million. She wanted to better understand which services would take expansion and what regulations would have to be evaluated to make the waivers. She was divided. She was also concerned with the law suits associated with the current waiver system and wanted to avoid additional lawsuits.

Co-Chair Thompson commented that he and Co-Chair Neuman were looking for additional information and would provide it to the committee.

Vice-Chair Saddler asked about components that required waivers. He wondered what she meant when she said the waivers had higher success. He asked if she meant a high reimbursement rate, a higher Federal Medical Assistance Percentage (FMAP), or a higher likelihood of being approved. Ms. Pitney answered that she meant that it would be a higher likelihood of being approved.

Ms. Pitney discussed lines 8 and 9. She explained that with the zeroing out of monies from the GF for aerospace operations the Department of Military and Veterans Affairs (DMVA) had requested that aerospace receipts be increased to have the opportunity to earn additional funding through privatization or efforts working with industry.

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Ms. Pitney looked at lines 10 through 14. She reported that combined was an internal reallocation in DOT to restore ferry service. It represented a one-time reduction in each region of the highways to restore the ferry service due to the reduction. She suggested that it would allow the people with ferry tickets to utilize them with uninterrupted schedules. She emphasized that it was a one-time reallocation.

Co-Chair Thompson asked about the \$6.29 million. He understood that it reduced highways and airports but was an unallocated amount. He was concerned with the funds being unallocated. He also understood that the number of reservations that would be impacted only generated about \$70 thousand in revenues but would cost the state \$3.5 [million] and \$2.7 million of that was the fuel trigger which did not take effect unless the price of oil was \$70 per barrel.

Ms. Pitney explained that the fuel trigger funding was eliminated. The fuel prices had not come down commensurate to the loss in funding from the fuel trigger mechanism. In other words, the cost savings were below the savings that the price of fuel allowed. She continued that the revenue

reduction from the loss of the fuel trigger was more than the cost savings AMHS realized from the lower price of fuel. The revenue reduction from the loss of the fuel trigger was more than the cost saving AMHS would have based on the price of fuel. The price of fuel had not come down as quickly as the price of a barrel of oil. Another factor was that the ferry schedule was posted in the previous October. The schedule that would be posted in the following October would be less robust reflective of the reduction.

Co-Chair Thompson did not think the legislature was eliminating services completely. He opined that it would be more frugal to contact the people with reservations to reschedule. He did not believe the state would lose revenue and expressed his concerns about shifting money away from highways and airports.

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Representative Wilson wanted to know why one service was more important than another. She explained that the haul road consumed funding for the Northern region taking away from the rest of the region. She asked for the justification that any of the areas could go without the funds for 1 year.

Ms. Pitney explained that it was intended to be a one-time allocation. She thought there would be slightly less maintenance especially if Alaska had a similar snow year as the previous year. It was understood that it could not be a long-term appropriation because of the importance of maintaining roads, but the state could handle the reallocation for 1 year.

Representative Wilson commented on complaints she received about the condition of the haul road and it needing additional maintenance. She mentioned the savings to the state in using brine on the roads in Fairbanks and potentially in Anchorage. However, she felt it was not a savings on vehicles. She furthered that priorities were being established by taking funds from one area and moving them into another. She was not in favor of delaying maintenance to the haul road, the state's lifeline to the oil fields. Additionally, she was concern about what message was being sent. She reiterated that she was uncertain about the savings the state incurred by using brine versus the cost to vehicle owners.

Representative Munoz agreed that it was difficult to take from one area to give to another. However, she asked committee members to keep in mind that AMHS was the highway system in coastal Alaska. It was how people were connected to the urban centers. She opined that anything the legislature could do to maintain or support the ferry system was vital to a portion of the state. She asked Ms. Pitney if the agencies had looked at efficiencies for shore side operations. She was aware that the shore side part of AMHS had grown a great deal in the previous 10 to 15 years. She wondered if Ms. Pitney had looked for shore side operation efficiencies so that the legislature did not have to cut the actual service of the ferry system so drastically.

Ms. Pitney said she would talk with the Department of Transportation and Public Facilities (DOT) about its operation savings.

Representative Gara understood from the prior document that there would be \$12.5 million for tourism and marketing. However the current document showed \$18 million. He asked if the difference of about \$6 million was a federal match. He wanted to better understand how the federal match worked and asked if the state would lose the federal match as it moved the state portion up or down. Ms. Pitney would follow up with Representative Gara.

[2:46:44 PM](#)

Vice-Chair Saddler referred to the ferry reallocations. Of the reservations made that the administration was hoping to avoid disrupting, he wanted to know how many were for Alaskans and how many were for visitors. Ms. Pitney responded that she would provide the information.

Vice-Chair Saddler asked if there were any financial penalties associated with not honoring the reservations. Ms. Pitney answered that she did not know of any financial penalties.

Representative Pruitt asked about what kind of cost savings would be seen. He wondered if certain roads would not be repaired or snow removal services would be curtailed. He was concerned with the potential impact to the central region.

Ms. Pitney responded that there would be less road clearing, less pothole maintenance, and generally less capacity.

Representative Pruitt concluded that in order to place more money into AMHS it would mean less services. Ms. Pitney responded affirmatively.

Representative Gattis relayed that while working for the airlines the airline schedule changed frequently and passengers would adjust accordingly. She did not believe maintaining the ferry schedule was a strong enough argument and asked the chairman to make sure the committee looked at the issue more tightly.

Co-Chair Thompson mentioned as a point of clarification that he was looking at it. He explained that \$6.2 million reduced 39 weeks of ferry service. In 2007 and 2008 there were 74 weeks of ferry service added. He reported he was looking at the amount of service being offered, in what areas, and how the state was benefiting.

[2:50:00 PM](#)

Ms. Pitney reported that line 17 incorporated flexibility language, a request from the administration. It allowed for a 5 percent unrestricted general fund (UGF) transfer within a department and a 2 percent transfer across departments. She stated that the depth of reductions was going to be very difficult and there would be unintended consequences. The administration was requesting the flexibility of being able to move within and across departments to address certain items. She added that, with the potential cuts anticipated, it would be helpful in addressing any unintended consequences that might arise.

Co-Chair Neuman acknowledged being provided with a percentage amount but wondered about a dollar figure. Ms. Pitney replied that if there was a \$100 million budget 2 percent would equal \$2 million. She reported that the highway portion of DOT was approximately \$114 million, 5 percent of which would equal just over \$5 million. It depended on the amount of funding within the appropriation being discussed.

Co-Chair Neuman noted \$10 million that the governor was requesting to be placed in his budget to cover unanticipated costs resulting from budget reductions. He asked if he was accurate. Ms. Pitney responded that given the reception that the \$10 million of unallocated funding had it was a back-up flexibility approach.

Co-Chair Neuman asked, "So that was a yes?" Ms. Pitney responded, "That is a yes."

Representative Guttenberg remarked that with the current budget exercises the governor was clearly going to need the ability to manage the state's accounts. He recalled that in the previous year the commissioner of Department of Health and Social Services (DHSS) talked about the department only working because of the governor's flexibility to balance numbers and shift things around temporarily. He believed a certain amount of flexibility to move money around was necessary. He wondered if the legislature was adding to the flexibility.

Ms. Pitney replied that the administration preferred to have \$10 million available in addition to individual appropriations. She emphasized that the ability to transfer was not additional money, rather, it was having the ability to move money within and across departments.

[2:54:43 PM](#)

Representative Guttenberg asked if the provision was expanding the authority to transfer money within and across departments. Ms. Pitney stated that it expanded authority and raised it to the appropriation level.

Representative Pruitt wanted the committee to readdress line 15 and 16. He wanted an assurance that the administration would not move money from something that was important to the legislature. He stressed that the purpose of the appropriation process was for the legislature to direct and the governor to agree or disagree. He commented that it seemed like the legislature would be providing a blank check.

Ms. Pitney responded that there were tight sideboards of a 2 percent limit and a 5 percent limit that applied. She asserted that the assumption had to be that the administration was operating for Alaskans and had the best

interest of Alaskans in mind. It had to be clear that the provision was available to be able to address the things that through the budget process were acknowledged as important. If there was a situation in which there were unintended consequences providing for the ability to address them. There would not be any guarantees about what decisions would be made but the assumption would be that whatever decisions were made would be on behalf of the best interest of Alaskans.

Representative Pruitt agreed with Ms. Pitney about looking out for the best interest of Alaskans and that the state would have to live under the new budget circumstances. He believed that one of the challenges in the previous administration was that there were items that the legislature did not want to continue funding but somehow money was applied to those items. He suggested that the administration was asking for the same type of authority. He did not suppose the legislature liked the idea currently, as it did not like it previously. He was not implying that such a scenario would occur but unfortunately there was history of it happening.

Ms. Pitney thought that the state's budget situation was very different with the significant downturn versus an ever-increasing budget over the previous 15 years. The choices, decisions, and personnel actions that would have to be made because of the reductions that would be passed by the legislature were going to be felt. She thought it allowed for a timely resolution when going beyond the intent of both the legislature and the administration.

[2:59:15 PM](#)

Vice-Chair Saddler understood that the administration already had broad authority to transfer money across allocations. He suggested the supplemental budget was a vehicle for addressing unanticipated consequences as well as RPL's [Revised Program Legislative Notices]. He wondered why the current authority was insufficient and also asked how Ms. Pitney arrived at 2 and 5 percent. He asked why she did not ask for 10 percent or 4 percent. If flexibility was good, more was better.

Ms. Pitney answered that in operating in large organizations 1 and 2 percent changes corrected several missteps. She thought that across departments the 2 percent

was very low and that within departments it was at a 5 percent level. The idea was to keep the percentage as minimal as possible but still create flexibility. She furthered that in looking at what other states and found that not every state had flexibility but several did. She devised the percentage levels based on the range of the capacity of other states.

Vice-Chair Saddler was reminded of the word usurpation. He thought it was fair to say that she was correct in assuming committee members would not be receptive to the percentage idea.

Representative Gara indicated he was open to something more creative. He also understood Ms. Pitney's reluctance in waiting for a supplemental in the following year because supplementals typically did not pass until the end of the session. He reminded members that they were making large budget cuts and she was trying to find a way to address mistakes without waiting a year. He suggested doing it through the supplemental.

Co-Chair Thompson asked Ms. Pitney to return to line items 15 and 16. Ms. Pitney explained that between the endorsed budget and the current set of amendments the university settled on its UAFT [University of Alaska Federation of Teachers] bargaining. The monetary terms of that contract equaled \$1.5 million of which \$754 thousand were GF dollars. Line 16 was supposed to read, "To meet the administration's target for the university this is an additional reduction in GF." Essentially it would offset and have zero general funds. It was not intended to reduce the GF portion of the contract but to reduce the university's allocation by that amount. The net effect was to include the appropriation of \$1.5 million for the negotiated contract but reduce the overall allocation to meet the governor's target amount.

[3:03:10 PM](#)

Representative Wilson relayed that private businesses were not receiving 2 percent every year. She was hoping Ms. Pitney was sending a message that the state would not accept the \$754 thousand and that other agencies would have to find money from within their own. It was the only agency to come back asking for money. She wondered why Ms. Pitney would not ask the university to find the money from within.

She thought negotiations should be based on current income rather than potential income.

Ms. Pitney informed the committee that all state and university negotiated contracts went through the legislature and each negotiated contract was addressed in the language section of the operating bill. The language stated that a certain appropriation covered the cost of the negotiated contract for a particular collective bargaining unit. If language was in the operating budget all negotiated contracts had to be paid and honored. If the legislature took the specific language section and detailed that the appropriation did not include funding for the collective bargaining units, the university and the state would not be authorized to pay for those provisions for the contracts. The only way the state and university could pay the provisions would be if it was specifically addressed in the operating language.

Representative Wilson responded, "That is not true." She stated that the university could determine to carry less staff at 2 percent. The university might not want to take such a step but to say that they had to, was not the clear intent of the legislature. Her concern was not just the 2 percent currently being discussed but 2 percent every year. She was not sure how the \$900 lump sum payment went into effect and for whom, and how much the total cost would be to the state. She was uncomfortable negotiating an increase at a time when the state was in a fiscal crisis and thought it sent the wrong message.

Representative Wilson disagreed that the legislature had to accept the terms. She suggested the department could have negotiated differently potentially resulting in reduced employees based on budget constraints.

Ms. Pitney agreed with Representative Wilson. She noted two components; language and appropriations. The legislature had full prerogative to appropriate whatever amount it chose. If the language in the operating bill specified that a certain appropriation covered the provisions for certain collective bargaining units, the provisions had to be paid. The language was separate from the appropriation. The funding amount included the amount for the collective bargaining units and the state honored its agreements. She furthered that if the language stated that the appropriation covered the provisions of the bargaining units, then the state and the university had to pay based

on the collective bargaining units. She suggested that the legislature could appropriate an amount of funding and specify that it did not include the bargaining unit provisions. The legislative body appropriated money and the language defined whether it covered the provisions of the collective bargaining unit.

Representative Wilson clarified that the legislature appropriated monies and provided language regarding the collective bargaining unit, but the university determined how many employees it could afford based on budget numbers. Ms. Pitney stated that she was correct.

[3:08:57 PM](#)

Representative Wilson asked if \$754 thousand was an unallocated reduction and if the university would be determining specific reductions.

Ms. Pitney responded in the positive. She explained it was in order to match the university's UGF to the governor's original target.

Vice-Chair Saddler asked if the change proposed a 2 percent raise in FY 16, .5 percent increase to the base before applying another 2 percent increase in FY 17, another 2 percent increase in FY 18, and a 900 lump sum per person per year. He wanted to know when the contracts had been negotiated and if it had been prior to the decline in oil prices.

Ms. Pitney answered that the contract negotiations had started about the same time in the previous year. She added that the contract was completed between the time the endorsed budget was submitted and the submission of the current amendment.

Vice-Chair Saddler asked if it was around December. Ms. Pitney stated, "Yes."

Vice-Chair Saddler asked if the endorsed budget was finalized after oil prices had dropped. Ms. Pitney nodded in the affirmative.

Representative Gattis stated that based on the state's current fiscal crisis she was stunned that raises were being given to people in certain areas while people working

in other areas were losing their jobs. She stressed that it sent an extremely poor message. In the budgets she was responsible for there was not enough money to give out raises. She opined that the last thing she was going to be a part of was giving out raises when some folks would be faced with losing their jobs.

Ms. Pitney noted that there would also be an amendment for AHMS regarding the master mates' contract recently signed containing increases. She would supply the specifics to the committee.

Representative Pruitt asked Ms. Pitney if the raise for the master mates had to be approved by the legislature and whether the raises were set in stone. Ms. Pitney replied that it would come before the legislature and included in the operating budget as a provision of one of the negotiating units.

Representative Pruitt asked if the administration had had discussions with people that the state had a \$3.5 billion deficit. The state needed to be talking with people because the state did not have money. He believed that everyone had to play a part in a solution. He wondered how he would tell his constituents that the state had to provide raises to other people and take money out of their pockets. He hoped the administration was having discussions about the state's financial situation.

[3:13:17 PM](#)

Co-Chair Neuman asked about line 18 regarding a response fund. It assumed that the department would receive a large settlement for a response site in Aniak for about \$5 million. He asked if he was reading the item correctly. Ms. Pitney responded, "Correct."

Co-Chair Neuman asked if it was for Spill Prevention and Response (SPAR). Ms. Pitney explained that the funds needed to be received and in the bank in advance of June 30, 2015, in order to be transferred to the Prevention account as part of the department's FY 16 appropriation. If a settlement agreement was not signed by all parties by the end of February 2015, it was highly unlikely that the funds would be received by the state in time to be available to transfer to the prevention account for FY 16 expenditures. At present, the department felt that it would be prudent to

assume this settlement would not be received in time for use in FY 16, increasing the prevention account shortfall to an estimated \$6.9 million.

Co-Chair Neuman returned to the subject of spill response. He commented that he would have preferred the administration to have offered new legislation. He was aware that the Department of Environmental Conservation (DEC) knew the SPAR fund was going to run out in the prior year. There was not enough money and not enough flow of oil through the Trans-Alaska Pipeline to cover costs. He asked Ms. Pitney if she believed it was the duty of the departments to assure that funds were available through legislation and asked about a plan.

Ms. Pitney indicated that it was the administration's plan to introduce an agreed upon piece of legislation that would fix the problem. The amendment was a back-up.

[3:16:00 PM](#)

Ms. Pitney reviewed lines 19 and 20. She informed the committee that there were updated projections available. The two amendments updated the amount of money projected that would be transferred from the Permanent Fund Earnings Reserve account. The numbers reflected a correction of the amount projected in the market. The number was slightly lower than what the administration had originally projected, the \$3 million and \$11 million figures.

Co-Chair Thompson commented that they were the only 2 nice numbers in the amendments. Ms. Pitney responded that the market was not producing very well.

Co-Chair Neuman asked if there had been any requests from the governor for agencies such as Alaska Industrial Development and Export Authority (AIDEA) or the Permanent Fund Corporation to reduce their budgets moving forward. He remarked that every other state department was being asked to make reductions. He asked her to comment on his question and explain the reasoning behind why the agencies have or have not been asked to decrease their budgets.

Ms. Pitney reported that all of the agencies were asked to look for cost efficiencies, not necessarily revenue reductions. The administration was looking for operating efficiencies, and ways in which units could offset

operating costs of other units. She cited an offset example within the Permanent Fund Corporation. There could be a reduction of positions but the state would have to contract out more. The division's position had a much higher return on investment than contracting out with management firms due to the expense. There was a trade-off. The state could reduce positions but would ultimately spend more on contracting the work out. She added that each agency was asked to do a review.

Co-Chair Neuman asked her to provide the information she had on the matter. He mentioned the Budget Control Act. He also asked about railroad facility, a train depot built several years previously that went through the Ted Stevens Anchorage International Airport. He asked if fees were paid for the property like everyone else that leased property. He commented that it had a huge building not being used. He wondered if there were plans to do anything with the building or whether there were any discussions that had occurred with the administration. He thought the state was losing money by keeping the building insured and warm. He was aware that the space had been rented on occasion for weddings and other events but he felt it was a big issue. Ms. Pitney was unaware of any discussions and would look into the matter further.

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Co-Chair Neuman asked if she was aware of any plans to change the facility's operations and if the state would continue to absorb its costs. He supposed the money came out of the airport's budget. Ms. Pitney replied that she did not know the status.

Representative Wilson referenced a list of law suits provided in the back of the presentation. She wondered what was being done to ensure the state would not be sued in the future. She asked if there were any additional law suits on the specific issues that had been settled. Ms. Pitney responded that she would follow up on the question.

Vice-Chair Saddler referred to page 2, line 7 of the "FY2016 Operating Amendments" spreadsheet related to Medicaid cost containment initiatives. He wondered how the administration had arrived at the GF savings of \$1 million for durable medical equipment (DME). He asked for the total Medicaid expenditure associated with DME. He asked for

additional information and wondered how quickly the cost containment measures would be implemented. He referenced language about the necessity to meet narrow timelines.

Ms. Pitney responded that she would provide the information. She relayed that the intent was to collect the savings in FY 16 since the budget would be reduced.

[3:22:30 PM](#)

Co-Chair Neuman stated that there were areas in the operating budget where the governor had only forward funded the education fund at 90 percent. He believed some people may assume that the action saved the state approximately \$126 million. He reasoned that the decrease was not actually a budget reduction because the state would have to pay the funds in the following year. He expounded that someone could introduce legislation to change the funding formula for the Base Student Allocation (BSA), but that would require starting over "ground zero," which would include the \$126 million. He asked if the administration intended to clarify the issue for the public.

Ms. Pitney responded that given the current budget environment, the administration did not want to forward fund the entire amount. She noted that a law had passed the previous session that would look at the formula funds. She detailed that requests for proposals had been solicited to make studies on the topic available the following summer [2015]. The administration wanted to have the education funding discussion for FY 17 during the 2016 legislative session. She reiterated that the administration did not feel that the state was in the position to fund the full amount at present. She noted that the decision did not mean that the full formulas amount would not be funded in the governor's FY 17 budget.

Co-Chair Neuman remarked that there was significant angst within the education community due to the removal of the one-time funds that had been added outside of the foundation formula. He believed that the legislation in 2014 had been created to provide school districts with increased budget certainty, given that the state and school district budget cycles were not in alignment. He did not believe the funding increment would have been approved by the legislature if a steep decline in oil prices had been predicted. He believed there would be significant pressure

on the legislature to increase the funds. He referred to the amount as "ghost money" that the legislature would have to pay in the current or following year unless legislation was introduced.

Co-Chair Neuman referenced other appropriations within the operating budget such as a \$4.1 million decrement to DOC. He detailed that the expansion of Medicaid was expected to reduce DOC costs. Additionally, there were impacts to DHSS as well. He opined that the situation made it difficult to create a true budget. He remarked that the FY 16 DOC budget had received substantial reductions; however, he believed that the overall budget reductions would increase the workload for DOC and the Department of Public Safety (DPS). He believed the figures had come from the Evergreen report on Medicaid expansion. He continued that he was trying to ascertain the best way to compile a budget on anticipated funds based on the report. He stressed that if department budgets were not fully funded based on the expectation that funds would be received through Medicaid expansion, the departments may be confronted with significant decrements they may not have the ability to withstand if anticipated funds from Medicaid expansion did not come to fruition. He wondered how the committee was supposed to create a budget on money that had not been received. He believed it would be more prudent to have increased clarity in the budget.

[3:28:16 PM](#)

Ms. Pitney replied that the budget proposal submitted by the administration included Medicaid expansion. She detailed that if the budget was approved there would be savings exceeding \$4 million in the DOC budget. She continued that if the legislature opted out of Medicaid expansion, it would be the administration's hope that the decrements would be restored. The administration was proposing Medicaid expansion, which would allow for savings in DOC and DHSS, and the offsets were included in the proposed budget. She stated that it was up to the legislature to make a choice on Medicaid expansion. Likewise, it would be up to the legislature to decide whether to restore the decrements. She implored the committee to provide the flexibility proposed in the budget amendments if the decrements were not restored.

Co-Chair Neuman communicated that the legislature had asked the administration to propose a separate piece of

legislation [on Medicaid expansion] because the operating budget had to be approved within several weeks' time. He stated that the legislature had been given limited information on Medicaid expansion and reform. He highlighted the need for information on healthcare costs and different waiver programs. He was concerned that the legislature was expected to approve \$145 million in the operating budget without knowing where the money was going and without knowing about the program. He stressed that Medicaid expansion was a huge policy issue. He asked for further information.

Ms. Pitney replied that DHSS had provided several presentations in hearings and would be happy to discuss the entire plan with the committee. She agreed that the issue was a policy call that the administration had included in the operating budget. She relayed that the administration was prepared to present in as many committees as the legislature wanted on how the budget worked and what was included in relation to Medicaid. She noted that there had been several hearings to-date and offered to provide the committee with a list of the hearings.

Co-Chair Neuman rebutted that as an appropriating body, the legislature could accept, not accept, or amend the funds. Additionally, the legislature could establish sideboards that would enable the state to back out if the federal funding dropped below 90 percent. He stressed that no guarantees on the issue had been provided.

Co-Chair Thompson thanked Ms. Pitney for her presentation. He asked her to provide any requested information to Co-Chair Neuman for distribution to committee members. He reviewed the schedule for the following day.

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ADJOURNMENT

[3:33:50 PM](#)

The meeting was adjourned at 3:33 p.m.