

HOUSE FINANCE COMMITTEE  
March 2, 2015  
1:32 p.m.

[1:32:49 PM](#)

CALL TO ORDER

Co-Chair Neuman called the House Finance Committee meeting to order at 1:32 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

Pete Ecklund, Staff, Representative Mark Neuman; Joan Brown, Staff, Representative Mark Neuman.

SUMMARY

HB 72        APPROP: OPERATING BUDGET/LOANS/FUNDS

HB was HEARD and HELD in committee for further consideration.

HB 73        APPROP: MENTAL HEALTH BUDGET

HB 73 was HEARD and HELD in committee for further consideration.

#hb72

#hb73

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."

[1:33:04 PM](#)

Co-Chair Neuman discussed the agenda for the day. He relayed that the committee would hear public testimony Tuesday through Thursday of the current week. He communicated that the operating budget amendment deadline was on Thursday, March 2, 2015.

Co-Chair Thompson MOVED to ADOPT the proposed committee substitute for HB 72, Work Draft 29-GH1780\P (Wallace, 2/27/15).

Co-Chair Thompson MOVED to ADOPT the proposed committee substitute for HB 73, Work Draft 29-GH1782\H (Wallace, 2/27/15).

Representative Gara OBJECTED for discussion.

Co-Chair Neuman noted that the adoption of the Committee Substitutes would provide the committee with working documents for discussion.

[1:36:04 PM](#)

Representative Gara WITHDREW his OBJECTION. There being NO further OBJECTION, Work Drafts 29-GH1780\P and 29-GH1782\H were ADOPTED.

PETE ECKLUND, STAFF, REPRESENTATIVE MARK NEUMAN, read a statement:

As you've heard during various presentations before the Committee, the state's fiscal situation is troubling. When the legislature left at the end of last session, there was an expectation that there would be a deficit of approximately 1.3 Billion dollars for FY15.

When the legislature convened in January, those projections had changed. Now we anticipate the FY15 deficit to be nearly 3.5 Billion dollars. To compound the situation, revenues are not forecast to cover our expenditures for several years.

Mr. Chair, with this in mind, you directed Subcommittees to look for additional savings from the Unrestricted General Fund agency operations, non-formula budget.

Why did you direct additional reductions in agency operations, non-formula? For two reasons:

Number one, simply put, when the public thinks about state government, agency operations, non-formula is the day to day government they are most likely thinking about.

But Mr. Chair, agency operations, non-formula is only half of the story. The total UGF in agency operations is nearly split 50/50 between formula programs and non-formula funding.

This brings us to reason number two: Generally it takes a statutory change to adjust spending in formula programs.

As you know Mr. Chair, but the public may not, for statutory change to take place, legislation must pass and be signed by the Governor, which is beyond the finance subcommittee's control. That being said, we have made some reductions to formula programs where we could.

So Mr. Chair, to sum up, subcommittees concentrated on agency operations non-formula UGF for reductions

because that is the area of the budget they could affect change through the budget process.

Beyond agency operations non-formula, this committee has talked about the areas of our budget that are growing the fastest, commonly referred to as our 3 'budget drivers': that being Medicaid and education formula programs, and retirement funding.

If we are really going to get a handle on state spending and extend the life of our savings account, we've got to address more than just the dollars we invest in each department's programs, we've got to address our budget drivers.

Last year the legislature appropriated 3 Billion dollars to our retirement systems and lowered our annual payment to the unfunded liability from approximately 1 Billion dollars down to 256 Million. That action addressed one of our 3 budget drivers.

To get a handle on our other two budget drivers, we will have to find efficiencies and most likely make statutory changes to our current formula programs.

To that end, the HSS subcommittee that you all are members of, will continue to meet this session to explore Medicaid reform, other formula programs, and to just get a better understanding of departmental issues.

We also must continue working on a plan to slow correctional system growth and recidivism, to blunt the need to build a new prison in the near future.

With all of that in mind, your instructions for the operating budget subcommittees were to reduce UGF in particular, as any reduction in the expenditure of Unrestricted General Funds extends the length of time our savings account, the Constitutional Budget Reserve, will last.

Mr. Chair, you also directed the Subcommittees to continue to review the agency budgets via a five-step process that was modified to a four-step process for this unique budget year.

1:40:36 PM

Mr. Ecklund continued to read from a statement:

1. Review the agency Mission, Core Services, and Performance Measures so through results-based budgeting, the public could see how effective and efficient agency programs are and agencies could demonstrate the value the public is receiving for our investments in them.
2. Review budget changes since FY06, enabling us to track GF and Total Funds changes over time to see where budget growth has been
3. We omitted Step 3 this year which was to "Review agency 10-year plans, to evaluate future changes that department's see coming" since the agency 10-year plans were not available this year
4. Review audit findings made by the Division of Legislative Audit -providing an accountability check
5. And get a status update on budget changes approved for the current fiscal year, FY15.

Then, after looking at an agency's mission and results, looking back at agency growth, looking forward, and looking at current year progress, each Subcommittee had a context in which to review the budget changes proposed for FY16.

I'd like to thank Pat Pitney and the staff of the Office of Management and Budget, and the leadership teams of the Executive Branch agencies for their help and cooperation in the budget review process.

I'd also like to thank David Teal and the staff at the Legislative Finance Division as they provide all of us with excellent service so we can understand the dollars and programs associated with putting the budget together. The Legislature is fortunate to have such an outstanding and patient group of people assisting in development of the state's budget.

Last, but certainly not least, a big thank you must go to all of the subcommittee staff, members, and chairs for their hard work and diligence in order to put this budget together.

From the start of the legislative session, there were just 39 days prior to the February 27 Subcommittee close-out deadline. While this is a very short review timeframe under normal circumstances, this year provided some unique challenges.

The placeholder "work in progress" budget largely developed by former Governor Parnell was released on December 15 simply to meet the statutory budget submission deadline. Subcommittees were provided with the:

- Supplemental budget requests submitted on February 2,
- Governor Walker's FY16 "endorsed" budget on February 5,
- Early the next week, the week of February 9th, subcommittees received the subcommittee books and detailed transactions from legislative finance needed to evaluate Governor Walker's endorsed budget and
- Governor's budget amendments on February 17.

That has meant this year has been an extremely compressed timeframe for the Subcommittees to complete their work by last Friday, February 27.

As you have stated many times, Mr. Chair, subcommittees were to find as many reductions as possible within the short time available to evaluate the details of the Governor's endorsed budget, with an eye to protecting the core missions of each department.

With our fiscal situation looming, much more work lies ahead.

We have already begun talking to the Administration to detail a process by which the Finance Committee can work with the Departments over this interim to wisely rethink the size, shape and functions of government.

Ideally when we get back here next year discussing the budget, we will have worked out many details over the interim of what state government is going look like going forward. Alaskans are going to have to come to grips with their state government doing less while

more responsibility must be taken upon themselves and their local governments.

Mr. Co-Chair, all of the Subcommittee reports are found on the Legislative Finance website. Reports on these two committee substitute bills will also be posted on the Legislative Finance website immediately after this hearing.

[1:45:03 PM](#)

Mr. Ecklund read the numbers in the budget:

The operating budget work draft Committee Substitute totals \$9.492 Billion (all funds), a reduction of just over \$3 Billion from the current year budget.

Mr. Chairman, the operating budget has been reduced by \$239.5 Million Unrestricted General Funds below the current year, FY15 Management Plan, for agency operations, non-formula. That equates to a 10.5% reduction from the FY15 Management Plan. For a frame of reference, last year at this point in time, this committee had reduced agency operations non-formula by \$52.7 million from FY14 management plan.

Back to FY16, the budget work draft you have in front of you is \$220.2 Million UGF below FY16 Adjusted Base, agency operations non-formula.

The operating budget also contains reductions in agency operations formula programs in the amount of \$199.9 Million UGF. That is an 8.8% reduction from the FY15 Management Plan budget.

The Statewide operating budget items (those are debt service, assistance to retirement, special appropriations, and fund capitalization) increased in the FY16 budget in large part due to the State Assistance to Retirement appropriation. Last year that appropriation was part of the \$3 Billion Constitutional Budget Reserve transfer to the retirement funds, i.e., not from the general fund. This year the Unrestricted General Fund retirement assistance appropriation is \$262.5 Million, an increase of \$257.3.

Well Mr. Chairman, you might ask, 'how does this proposed operating budget affect our savings'?

The Statutory Budget Reserve Fund will be depleted by the end of this Fiscal Year 15. We will need to access the Constitutional Budget Reserve Fund to close out FY15 to the tune of \$700 Million or so. The Constitutional Budget Reserve Fund balance is estimated to be around \$9.3 Billion dollars at the start of Fiscal Year 2016.

As the operating budget sits in front of you, and IF there were no additional capital budget spending above the Governor's request of \$158.7 Million UGF, we would have a projected deficit of approximately \$3.3 Billion dollars for FY16.

But we know that this budget is truly a work in progress and only one piece of our budget puzzle. There are likely to be some changes before this work draft leaves committee and certainly will be changes in the other body which will be settled in conference committee.

How much of our savings we will use in FY16 will be determined as this session progresses.

Now, Ms. Brown will describe the changes we made to the language sections of the bill.

[1:48:07 PM](#)

JOAN BROWN, STAFF, REPRESENTATIVE MARK NEUMAN, read from a statement:

Mr. Co-Chair, before I begin with the language sections, I need to mention a few changes that were made to Section 1 of House Bill 72, the numbers section.

Two Subcommittees reduced personal services funding equal to the amount of salary adjustment transactions. That action was not under the purview of the Subcommittees. The funding has been restored so that all departments are treated equitably vis-a-vis the salary adjustments.

In addition, the Budget Action worksheet for the Department of Commerce, Community, and Economic Development inadvertently did not include a transaction to establish a separate appropriation for Tourism Marketing & Development, though the Subcommittee's narrative report did highlight that change. The bill before you includes the separate appropriation. A few line item corrections were also included.

Now, starting on page 54, I'll identify the language sections where changes were made and describe those changes.

Section 6, PERSONAL SERVICES TRANSFERS. We reinstated this section that requires executive branch agencies to report on funding transfers to and from the personal services line to the legislature in January and October.

Page 55, Section 8, ALASKA HOUSING FINANCE CORPORATION, Mr. Co-Chair, in subsection (c) we changed the location of where any excess Alaska Housing Finance Corporation Dividend funds would be deposited from the Governor-proposed Budget Reserve Fund to the Alaska Capital Income Fund. This recognizes the legislature's traditional use of corporate dividends for capital projects. However, no "excess" dividend funds are anticipated.

Pages 55-56, Section 9, ALASKA PERMANENT FUND CORPORATION. Mr. Co-Chair, in subsection (b) we reduced the estimated amount to be transferred for inflation proofing from the Governor's amendment of \$894 Million dollars down \$5 Million dollars to \$889 Million.

The Governor's amendment was based on the corporation's November 30th projection. Our change is based on the corporation's most recent projection as of December 31st.

Page 56, Section 10, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY. Mr. Co-Chair, just as we did in the Alaska Housing Finance Corporation section, we revised subsection (b) so if there should be any excess AIDEA Dividend funds, they will be deposited into the Alaska

Capital Income Fund, instead of the budget reserve fund. Again, no "excess" dividend funds are anticipated.

Pages 60 - 61, Section 16, DEPARTMENT OF NATURAL RESOURCES. Mr. Co-Chair, in subsection (e), we added wording to clarify that our expectation is that the amount necessary will be zero, but if the general funds are necessary to fund the three professional firefighting crews, the general funds may not exceed \$1,125,000.

Pages 61 - 63 Section 19, OFFICE OF THE GOVERNOR. Mr. Co-Chair, we reinstated the fuel trigger appropriation, but changed the estimated funding amount to zero and also changed the percentage allocations based on the Governor's recent supplemental amendment to the FY15 fuel trigger appropriation. Reinstating this language is just a back-stop in case the price of oil exceeds \$70 per barrel in FY16. The Department of Revenue's current FY16 projection is \$66.03 per barrel.

We did not include the Governor's requests for \$10 Million and the ability to transfer funds between appropriations within a department and between departments in order to "fix" any unexpected funding problems caused by this year's budget reductions.

[1:52:27 PM](#)

Ms. Brown continued to read from a statement:

Pages 67 - 69 Section 21, DEBT AND OTHER OBLIGATIONS. Mr. Co-Chair, on page 67, in subsection (h) paragraph (13), we reduced the estimated amount from \$20 Million to \$10 Million for the general obligation bonds, series 2015A. This reduction is based upon slower than anticipated spending.

On page 68, we reworded subsection (k) related to school debt reimbursement by changing the appropriation from an amount certain to an estimated amount, and we reduced the general fund estimate by \$5 Million. The general funds appropriated for school debt reimbursement were reduced by \$5 Million in FY13, by \$15.4 Million in FY 14, and by \$5.5 Million in the

FY15 Supplemental. School debt reimbursement is fully funded with this revision.

On page 69, we made a slight wording change in subsection (l) by adding the word "and" in front of the last phrase so it reads "and for early redemption of those bonds".

Page 69, Section 22, FEDERAL AND OTHER PROGRAM RECEIPTS. The only change we made was to delete the reference to the receipts of the Alaska Aerospace Corporation. This was redundant as Aerospace has its own language in section 7 of this Act.

Pages 70 - 71, Section 23, FUND CAPITALIZATION. Mr. Co-Chair, in subsection (c) on page 70, we reduced the \$5 Million general fund appropriation into the Disaster Relief Fund down to \$2 Million. As of February 17th, the unobligated balance of the Fund was \$9.4 Million.

On page 71, in subsection (n), we increased the program receipt estimate for the crime victim compensation fund from \$34,000 to \$125,000 to reflect anticipated revenue.

Pages 72 - 74 Section 24, FUND TRANSFERS. Mr. Co-Chair, we did not include the Governor's amendment that sought to have a \$5 Million general fund contingency deposit into the oil and hazardous substance release prevention account in the oil and hazardous substance release prevention and response fund, if an expected FY15 settlement is not received timely. We realize that this action leaves a shortfall in the Department of Environmental Conservation's budget, but expect the funding issue to be resolved before the legislative session concludes.

Page 74, Section 25, RETIREMENT SYSTEM FUNDING. Mr. Co-Chair, in subsection (a) regarding the Public Employee Retirement System we corrected the language so that the deposit is "in the defined benefit plan account" within PERS.

Pages 74 - 75 Section 26, SALARY AND BENEFIT ADJUSTMENTS. Mr. Co-Chair, in subsection (a) we deleted the word "ongoing" from the phrase "of the

following ongoing collective bargaining agreements" as it is unnecessary.

In subsection (c), we changed "appropriations made by this Act" to "appropriations made in this Act". As a note, there are still four bargaining units that have not submitted agreements for FY16.

[1:56:46 PM](#)

Ms. Brown continued to read from a prepared statement:

Page 76 Mr. Co-Chair, we deleted what had been Section 28, STATUTORY BUDGET RESERVE FUND. As Mr. Ecklund mentioned earlier, the Fund will be depleted at the end of the current fiscal year.

Mr. Co-Chair, we also deleted what had been Section 29, CONSTITUTIONAL BUDGET RESERVE FUND, as a more comprehensive version of this section will be included in another appropriation bill later during this legislative session.

Sections 29 - 33. Mr. Co-Chair, only section numbers have been updated.

Mr. Co-Chair, those were all of the changes made to the language sections in House Bill 72.

Ms. Brown described the changes made in the Mental Health bill, HB 73:

On Page 11, Section 4, CAPITAL PROJECTS.

A total of four mental health capital projects have been submitted for legislative authorization, two were in the original bill and two were submitted as amendments.

Each year the House Finance Committee removes one capital project from the Mental Health budget. This year we've added the two Department of Revenue projects submitted as amendments to the bill and deleted the Department of Transportation and Public Facilities project for MH Coordinated Transportation and Vehicles for \$1.3 Million, (\$1,000.0 GFMH and \$300.0 MHTAAR).

The other body, in its version of the Mental Health bill, will add back that project and delete the three capital projects in the House's budget bill, thus making all of the mental health capital projects subject to Conference Committee.

Mr. Co-Chair, the language sections begin on page 14.

Pages 14 - 15 Mr. Co-Chair, the only changes we made were minor wording corrections in Sections 7, 8(a), and 9(c) and (d), changing the phrase "appropriations made by this Act" to "appropriations made in this Act", just as we did in House Bill 72.

Mr. Co-Chair, those are all of the language changes in House Bill 73.

[1:59:10 PM](#)

Representative Gara asked for verification that there was no Constitutional Budget Reserve (CBR) language in either bill. Ms. Brown replied in the affirmative.

Representative Gara believed the original mental health bill [HB 73] included a contribution for Medicaid expansion. He asked whether the provision had been removed.

Ms. Brown answered that some Medicaid expenditures had been in the mental health bill, but they had been deleted. She clarified that anything referring to Medicaid expansion had been deleted from both bills.

Representative Gara referred to a spreadsheet titled "Agency Summary Numbers and Language (UGF Only)" (copy on file). He observed that page one included two changes from the finance subcommittee recommendations to the Committee Substitute: one in the Department of Administration (DOA) and one in the Department of Education and Early Development (DEED). He asked for detail.

Ms. Brown responded that the changes pertained to the salary adjustment transactions she had mentioned previously.

Representative Gara pointed to page D of the spreadsheet. He noted that the DOA number increased. He surmised that

the increase occurred because it factored in all funds. Ms. Brown answered that the item included federal, and other funds.

Co-Chair Neuman asked subcommittee chairs to present their individual budget highlights.

[2:01:56 PM](#)

Representative Gattis addressed personal services reductions taken by her two subcommittees (DOA and DEED). She recognized that the subject was not germane to the subcommittee process and that there were more appropriate places to have the conversation. She believed the issue needed to be addressed on a statewide level rather than in individual departments; it would be better evaluated through legislation or standing committees. She looked forward to joining the conversation as it began.

Representative Gattis spoke to the DEED budget subcommittee recommendations. She shared that the subcommittee had held five meetings to discuss the department's budget; it recommended an overall reduction of \$12,704,000. The reduction was 18.6 percent from the FY 15 management plan and 16.1 percent from the governor's proposed budget. She acknowledged that the reductions had been challenging to make and had been given much thought. The budget would eliminate the statewide literacy program (\$150,000 GF), K-3 literacy project funding (\$320,000 GF), broadband program funding that had been added the prior year (\$5 million), Best Beginnings (\$937,000 GF), Parents as Teachers (\$307,000 GF), and Pre-K pilot program grants (\$2 million GF).

[2:04:31 PM](#)

Representative Gattis reported on the DOA budget subcommittee recommendations. The budget totaled approximately \$80 million in unrestricted general funds (UGF); \$50 million of the total was allocated to the Public Defenders Agency and the Office of Public Advocacy. She noted that the funding for the two agencies could not be cut without statutory changes. She hoped that the legislature moved some of the statute changes forward; the offices were backlogged and would be in worse shape without the changes. She discussed that the subcommittee had denied the proposal to close the Alaska Public Offices Commission

(APOC) Juneau office and had asked the department to look at comprehensive changes. Just over \$1 million UGF had been removed; \$600,000 GF had been backfilled with program receipts to be collected in the form of increased lobbyist and independent expenditure fees. The net effect was a reduction to APOC's overall size. She relayed that the longer-term goal was to make APOC self-sufficient and to reduce its overall footprint. The UGF budget for Public Communications had been reduced by 50 percent; it did not represent a 50 percent reduction of the agency's entire budget given other revenue sources such as federal and advertising. She did not believe the office provided a core government service. She reasoned that with advances in technology, many communities had other broadcasting sources. The recommendations included intent language to ensure that service would not be cut to communities with no other broadcasting source (12 of the 24 communities had other options). The subcommittee had reduced agency core services by 10 percent; services that were more administrative in function had been reduced by 20 percent. The budget included two small fund source changes where the department had over collected in the prior year.

Co-Chair Neuman noted that questions would be addressed after committee reports.

[2:07:06 PM](#)

Representative Edgmon reported on the Department of Corrections (DOC) budget subcommittee recommendations. He detailed that the department's budget was comprised of 86 percent UGF; total proposed funds for FY 16 were \$328,400,000. He explained that the subcommittee proposed to make a 5.5 percent reduction of \$16,476,400; the reduction would decrease the governor's FY 15 management plan total of \$297,654,000 down to \$281,178,000. Accepted items from the governor's amended budget included a 2 percent cut in personnel services to the 12 in-state correctional facilities. He detailed that the governor had originally proposed to cut the entire \$10.2 million from the 15 community contract jails, but had reinstated \$7 million; the subcommittee accepted the proposed restoration. He shared that the process of transferring eligible prisoners from the Palmer Correctional Center to halfway houses or electronic monitoring was beginning and would be a byproduct of the budget reduction process. The subcommittee had denied the Medicaid expansion element,

which totaled \$4.1 million; the money was added in UGF to the overall department budget. The funding source for prisoner healthcare had been switched from UGF to criminal Permanent Fund Dividend (PFD) funds totaling \$2.8 million; the switch was a byproduct of a larger dividend and an increased number of eligible prisoners.

[2:09:53 PM](#)

Representative Edgmon addressed the Department of Public Safety budget recommendations. He relayed that the criminal justice agency was largely funded by UGF (83 percent). Total funds for FY 16 were \$196,961,600. The subcommittee proposed a total of \$165,148,800 compared to the governor's FY 15 management plan of \$171,410,000 (a UGF reduction of 3.7 percent or \$6,261,800). The subcommittee accepted the elimination of 32 permanent full-time PCNs [Position Control Numbers], 9 temporary PCNs, and the transfer of 20 of the permanent full-time troopers to vacant PCNs. He explained that a number of troopers in Fairbanks, Wasilla, and Soldotna would be transferred from the Bureau of Highway Patrol to regular trooper duties given that federal funds for highway patrol had run their course. The Village Public Safety Officer (VPSO) program would be capped at the services it provided; the reduction totaled about \$1.6 million from the prior year. Additionally, six oversight trooper positions would be filled by regular troopers who would be stationed in Fairbanks, Bethel, and other locations; the troopers would have the duty of working with the VPSO component in addition to regular trooper duties. The subcommittee had appropriated \$1.5 million of what had been the Choose Respect funds directly to the Council on Domestic Violence and Sexual Assault (CDVSA) rather than through the governor's office. He detailed that the prior year CDVSA had received \$2.3 million of the funds; under the proposed budget the funds were a one-time appropriation. Four non-permanent cold case investigator positions had been deleted, which were retired state troopers. He relayed that the specialized services would continue to be provided in a different manner throughout the department. He relayed that the Stimson patrol vessel would be transferred from Unalaska to Kodiak. He noted that the decision had been difficult (Unalaska was in his district), but he felt it was currently the appropriate action in order to reduce the budget. The subcommittee had denied \$2.37 million for pilots and four mechanics for maintenance of aircraft contract work.

[2:13:41 PM](#)

Co-Chair Neuman remarked that Representative Edgmon would continue to work on the DOC budget with the recidivism task force.

Representative Munoz thanked the personnel with the departments she had worked with. She thanked Commissioner Hartig and Director Thomas Cherian [Division of Administrative Services, Department of Environmental Conservation]. The total Department of Environmental Conservation (DEC) funds for FY 16 were \$85,864,700; including total UGF of \$20,454,600. The UGF reduction from the FY 15 management plan to the subcommittee was \$1,787,400 (8 percent). Highlights of the budget included a reduction of 25 permanent PCNs. She relayed that an increment had been approved for the Air Quality permitting program to meet growing oil and gas industry needs; the PCN would be paid for with program fees. She communicated that \$250,000 had been decremented from the Laboratory Services Fish Tissue Monitoring Program. The subcommittee had denied a fund source change of \$250,000 from the Ocean Ranger program to pay for the activity because the fish monitoring did not meet the legislative intent with the original ocean ranger legislation. The subcommittee had included intent language to encourage the Spill Prevention and Response (SPAR) division to increase cost recovery efforts. Additionally, the division had been encouraged to work to consolidate its drill activities as much as possible within any given region. Lastly, she was working on draft legislation to address a SPAR division funding shortfall.

Representative Munoz addressed the subcommittee recommendations for the Alaska Court System [Judiciary]. She thanked Doug Wooliver, Deputy Administrative Director, Alaska Court System and other department staff. Total funds for FY 16 were \$114,356,300; including total UGF of \$110,405,700. The UGF reduction from the FY 15 management plan to the subcommittee was \$1,000,400 (1.3 percent). Budget highlights included the denial of all UGF increments and reductions in personnel services through unpaid days off; the amounts were roughly six days in unpaid leave. The subcommittee reduced supplies, travel, and contractual costs; advertising funds; and eliminated the Court Watch Program.

[2:17:37 PM](#)

Co-Chair Neuman addressed the Department of Fish and Game (DFG), Office of the Governor, and the Alaska Legislature. He read from a statement beginning with the Office of the Governor:

The subcommittee accepted the Office of the Governor's budget as requested. The budget totals \$24.3 million, of which \$25.3 million is UGF. The governor's budget includes reductions affecting nearly every allocation and eliminates seven vacant full-time positions. After the removal of the one-time items such as the election year funding, redistricting, and the Domestic Violence and Sexual Assault Initiative, that brings us to the FY 16 adjusted budget. From the FY 16 adjusted budget the Office of the Governor reduced UGF by \$2.2 million or 8.3 percent. For an apples-to-apples comparison if the governor had not transferred the \$1.5 million to the Department of Public Safety for domestic violence prevention, the governor's office reduction from adjusted base would have been \$625,100 or 2.4 percent.

The subcommittee for the Alaska Legislature recommended a budget totaling \$76.4 million, of which \$75.6 million was UGF. The subcommittee denied all increment requests, removed one-time items, and made additional budget reductions of nearly \$1.8 million to the legislature's proposed budget. From the FY 16 adjusted budget the [subcommittee] budget reduces UGF by \$2.7 million or 3.5 percent.

The House Finance Subcommittee for DFG recommends an operating budget for FY 16 of \$67,872,200 in UGF and a total of \$210,521,900. This is a reduction of \$11,515,600 from the FY 15 management plan to the House subcommittee; that is a 14.5 percent decrease in UGF. The subcommittee for DFG held a total of six meetings during which we went through the governor's FY 16 budget for the department and recommend accepting the governor's FY 16 budget with the additional actions listed in this report. Our focus was on reduction in personnel programs and restructuring without negatively impacting the core services. The department was very cooperative in working through this complex budget where there were a lot of different numbers that are used to fund and

manage our fish and game resources; it's a fairly complex task deciding which projects can be reduced and where the long-range impacts are. We had many discussions on the research projects that are going around the state whether its fish and game; there are a lot of areas where there were stressed fisheries and fish and game issues. We worked very closely with the department to make sure that we funded the projects that were necessary to make sure we had fish and game for our state. There were quite a few projects that were not funded. Almost every one of the projects that is funded, if not all the way funded, came from special use funds: the Pittman Robertson fund, which is a 10 percent excise tax on sporting goods that people pay into (those funds go back into research); also the Dingle Johnson funds, which go back into access for fisheries. There was \$3 million in other funds that was originally recommended by the administration to reduce the Division of Commercial Fisheries agency operations. We took that \$3 million and put that into projects to enhance fisheries around the state that are used by the commercial fishing industry and all users.

[2:22:00 PM](#)

Co-Chair Thompson spoke to Department of Military and Veterans Affairs budget subcommittee.

The subcommittee had held 5 meetings with the department and analyzed the governor's budget transactions. The total funds for FY 16 DMVA are \$61,910,000; the UGF total is \$17,588,100. The UGF difference from the FY 15 management plan to subcommittee was the reduction of \$7,228,800 or 29.1 percent. A large portion of the reduction in the DMVA budget was the elimination of general funds to Alaska Aerospace Corporation. Alaska Aerospace did receive authority to spend Alaska Aerospace receipts to replace the general fund reductions as they move towards more privatization operations. A total of 15 positions were eliminated from DMVA in consolidation efforts in the Office of the Commissioner and both Army and Air Guard facilities maintenance. The subcommittee eliminated a physician's service contract who is replaced with an existing health practitioner who will be on premises.

The Department of Revenue (DOR) budget subcommittee held six meetings with the department and analyzed the governor's budget transactions. The total funds for FY 14 for DOR was \$402,132,200. The UGF total in the FY 16 DOR budget is \$30,225,600. The UGF difference from FY 15 management plan to subcommittee was a reduction of \$3,605,800 or 10.7 percent. A total of 13 positions were eliminated from DOR. To facilitate the consolidation of information services and technology within DOR, 2 of the 13 positions eliminated were from information service personnel and funding for 2 information service positions was changed from UGF to CIP receipts. To capitalize on investment opportunities the Alaska Permanent Fund Corporation expanded by 4 positions.

The Department of Transportation and Public Facilities (DOT) budget subcommittee held 12 meetings with the department and analyzed the governor's budget transactions. The actions forwarded from DOT are as follows: \$612,488,800 in total funds. This is comprised of \$247,905,900 of UGF; a reduction of \$30,698,700 from the FY 15 management plan or 11 percent. There were many technical changes in this year's budget. The department has gone through a major change by creating a new South Coast region that encompasses the old Southern region and parts of the Central region to better reflect the geographical similarities of parts of the state. A change for the State of Alaska to assume complete responsibility in the National Environmental Policy Act (NEPA) authorizations. This action will allow projects to go from design to completion at a more rapid rate. The committee made reductions in two areas that contain 92 percent of general funds appropriated to the department. These divisions have had an increase of general fund dollars of 66 percent and 59 percent respectively over the last 10 years. A 9.9 percent reduction in general funds for the Alaska Marine Highway System (AMHS) and a 9.6 percent reduction in general funds from the maintenance and operations of highways, aviation, and facilities; both of the reductions reflect the need to bring the State of Alaska's budget more in line with its fiscal situation. A \$30.6 million reduction from FY 15 management is a combination of governor cuts and the

finance subcommittee cuts. The governor reduced the department's general fund by \$10.8 million below the FY 15 management plan; this number includes minor reductions to almost every line item in the budget. The one fact to remember, is two appropriations really take up 92 percent of the general fund of DOT's budget: maintenance and operations of our highway and state airports and other facilities (\$168 million GF or 46 percent); and AMHS at \$169 million or 46.4 percent of the budget. All other allocations are a mix of CIP receipts, interagency receipts, and federal money. There are minor aspects of general fund involved. The next two highest general fund items are administration and support for \$23 million and design, engineering, and construction at \$4.6 million.

[2:27:37 PM](#)

Vice-Chair Saddler spoke to the Department of Health and Social Services (DHSS) budget subcommittee recommendations. The subcommittee recommended a total budget of \$2,626,288,100; including \$1,173,564,800 in UGF, which was a reduction from the FY 15 management plan of \$77,814,400 or 6.2 percent. Highlights included denying the governor's budget transactions related to Medicaid expansion, which had proposed \$145 million of federal authorization. He looked forward to the administration submitting legislation on Medicaid expansion and reform. Other highlights included making general fund reductions to grants and other programs in the department. The subcommittee had eliminated funding for the Healthcare Commission Obesity Prevention grants and the Youth Court program. The subcommittee had added funding for the Office of Children's Services frontline social workers to address the increasing workload.

Vice-Chair Saddler addressed the Department of Law budget subcommittee recommendations. The subcommittee recommended total funds of \$88,393,600; including \$54,112,200 in UGF, which was a reduction from the FY 15 management plan of \$5,163,100 or 8.7 percent. Highlights included reducing the Criminal Division by \$1.6 million and 9 permanent full-time positions and reducing the Civil Division by \$1.5 million and 10 permanent full-time positions.

[2:29:44 PM](#)

Representative Pruitt thanked the departments for their work. He addressed the budget subcommittee recommendations for the Department of Commerce, Community and Economic Development (DCCED). Total funds for FY 16 were \$157,560,500; including \$27,711,400 in UGF, which was a \$3,099,500 (10.1 percent) decrease from FY 15. Highlights from the budget included a \$2,883,000 UGF (39 percent) reduction to the Alaska Seafood Marketing Institute (ASMI) budget. A \$5,935,600 or 39.05 percent reduction had been made to tourism marketing; it had been placed in its own separate appropriation (from the Division of Economic Development). The subcommittee had also reduced the 8 named grant recipients in the governor's proposed budget down to 4. The subcommittee eliminated 19 vacant positions that had been vacant somewhere between 6 to 36 months. Lastly, there had been a department-wide travel reduction.

Representative Pruitt reported on the Department of Natural Resources (DNR) budget subcommittee recommendations. Total funds for FY 16 were \$162,118,400; including \$82,758,600 in UGF, which was a \$3,896,700 (4.5 percent) decrease from FY 15. Highlights included an increase in funding of \$13,886,700 UGF for North Slope gas commercialization; the increment would continue the state's participation in the pipeline and gas commercialization. There was a \$1.54 million UGF reduction to the RS2477 Navigability program (the pad unit). Additionally, there was a \$1 million UGF reduction to airborne geophysical survey funding; and a reduction of \$1.3 million UGF and of \$400,000 designated general funds (DGF) and timber receipts to the timber sales program.

[2:33:00 PM](#)

Representative Wilson began with the Department of Labor and Workforce Development. The subcommittee had focused on the mission of putting people back to work or into higher paying jobs. She stated that there were many good programs, but many were geared towards high school and middle school students; the subcommittee felt that programs targeting youths belonged in DEED. The subcommittee recommended UGF of \$23,042,200 and total funds of \$173,297,100. She detailed that most of the non-matching funds had been eliminated. She spoke to employment security and adult basic education and stated that with a test changing a \$25,000 decrement had been made. She elaborated that most of the students paid for the tests that were done by a

private company; therefore, costs could not be changed significantly. Career and technical education had been reduced because much of the money had been aimed at K-12 students instead of focusing on putting adults back to work. Funding had been removed from the Alaska Technical Center, Southwest Alaska Vocational and Education Center, and Northwest Alaska Career and Technical Center; all three schools received Technical Vocational Education Program funds and State Training and Employment Program funding. She elaborated that state funds had been provided to the programs in the past, but she did not find justification to continue the funding. The Alaska Construction Academy had been reduced by \$3.1 million; over half the program went to high schools, but not into programs that put adults to work. She looked to see if there was a private/public partnership financially; none had been brought forward. She stated that the budget had been reduced by \$6,127,700 or 21 percent.

She addressed the University of Alaska budget subcommittee recommendations. She explained that one increment went to the university, but she had split the figure up to demonstrate the subcommittee's intent. The university received \$334,768,500 UGF, \$327,169,000 DGF. She detailed that most states only provided 18 percent in state funds to their universities; the State of Alaska's contribution was much higher. The subcommittee did not accept the governor's \$1.4 million in one-time funding for facility maintenance and student advising. She believed student advising should be included in tuition fees. The subcommittee had divided the university budget between the Fairbanks, Anchorage, and Juneau systems; the smaller schools were attached to one of the three primary campuses. The subcommittee had removed \$500,000 from the \$1,094,000 travel budget. Additionally, 20 percent had been removed from the Office of Information System-Wide Education statewide services. The subcommittee had removed 50 percent of travel funds from main campuses (the university could choose to allocate the reduction in any way); it had removed \$2 million from a \$5.3 million allocation for University of Alaska Anchorage travel. She elaborated that \$2.1 million had been removed from an \$8.7 million travel budget for University of Alaska Fairbanks; \$438,500 had been removed from the University of Alaska Southeast travel funds (\$520,400 remained). Lastly, the subcommittee had removed 4.3 percent from each of the campuses (divided between personal and contractual services). She stated that the university could allocate

money much easier than most of the departments. She added that it had over 400 buildings to maintain.

2:38:15 PM

Co-Chair Neuman discussed that there had been a wrap up of the budget subcommittee process, but the operating budget had a long journey ahead. He shared that the committee would hear public comments and would take amendments from finance members. Based on public comments a finalized bill would eventually move to the House floor. He noted that all members would have a say in how the budget process worked. He relayed that the budget had been difficult to work with due to the time situation with the new governor. He discussed the short budget timeline. He detailed that the legislature had received Governor Walker's endorsed budget on February 5, with subcommittee work beginning on February 9, 2015. Subsequently, the legislature had received the governor's amended budgets on February 27, 2015 in preparation for subcommittee closeouts. He referred to the House CS numbers on the Agency Summary page C. He referenced the FY 15 management plan to House Committee Substitute of \$387,244,700. He reiterated that budget discussions would be ongoing. He recognized that no one was happy with the budget; some people wanted more reductions and others wanted fewer.

Co-Chair Thompson discussed the schedule for the following day. He shared that the committee would hear public testimony during the upcoming three days. He discussed protocol related to public testimony.

Co-Chair Neuman thanked members for their hard work.

Representative Gara discussed that the governor's proposed budget appeared to be \$250 million less than the FY 15 management plan; however, due to a technicality in budget reporting, it was really \$500 million less. He stated that the \$250 million extra cut should be shown in the legislature's proposed budget. He elaborated that both budgets counted the \$250 million (the state was putting towards paying down its retirement debt) as an increase in spending. He asserted that the amount did not represent an increase in spending. He elaborated that the state spent \$3 billion the prior year for the unfunded retirement liability out of the CBR; the \$250 million increment would come out of general funds in the current year. He pointed

out that on paper the amount looked like an increase; however, it was not. He observed that the governor's cuts were closer to \$500 million and the Committee Substitute cuts were closer to \$615 million. Additionally, he understood there would be continued discussions on the budget, but he believed it was a mistake to eliminate the state's Pre-K program. He reported that children who attended Pre-K graduated in higher numbers, went to jail in lower numbers, and cost less money in social services. The issue represented just one of his concerns related to the budget.

#

ADJOURNMENT

[2:44:57 PM](#)

The meeting was adjourned at 2:44 p.m.