

HOUSE FINANCE COMMITTEE  
FIRST SPECIAL SESSION  
April 29, 2015  
10:38 a.m.

[10:38:19 AM](#)

CALL TO ORDER

Co-Chair Neuman called the House Finance Committee meeting to order at 10:38 a.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 Lance Pruitt  
Representative Tammie Wilson

MEMBERS ABSENT

Representative Cathy Munoz

ALSO PRESENT

Pete Ecklund, Staff, Representative Mark Neuman; David Teal, Director, Legislative Finance Division; Representative Cathy Tilton.

SUMMARY

HB 1001    APPROP: OPER. BUDGET/LOANS/FUNDS/AM APPRO

HB 1001 was HEARD and HELD in committee for further consideration.

[10:38:36 AM](#)

Co-Chair Neuman discussed the agenda for the meeting.

#hb1001

HOUSE BILL NO. 1001

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs, capitalizing funds, making reappropriations, making capital appropriations, 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."

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Co-Chair Neuman relayed that he did not plan to report the bill from committee that day.

Co-Chair Thompson MOVED to ADOPT the proposed committee substitute for HB 1001, Work Draft 29-GH1318\W (Wallace, 4/28/15). There being NO OBJECTION, it was so ordered.

10:39:33 AM

PETE ECKLUND, STAFF, REPRESENTATIVE MARK NEUMAN, explained the changes in the Committee Substitute (CS). He communicated that the Work Draft was a simplified version of the governor's bill. He explained that the CS reflected the differences and additions between the conference committee operating budget bill passed by the legislature and the bill introduced by the governor the previous day. He pointed to two one-page reports from the Legislative Finance Division (LFD) titled "2015 Legislature - Operating Budget Agency Summary - FY16 Conference Structure" (copy on file). The first report pertained to unrestricted general funds (UGF); the first column titled "GovSpecial T" showed that the governor's bill was \$54,954,500 UGF different from the conference committee bill. He furthered that the totals in column 4 matched the totals in column 1, meaning that the CS before the committee included all of the governor's changes from the conference committee bill. Section 1 of the CS contained the majority of the differences from the governor's bill.

Co-Chair Neuman noted that Representative Pruitt had joined the meeting.

Mr. Ecklund continued to speak to the changes in the CS. He explained that Section 1 included various additions from recently passed conference committee substitute. There were various additions in different departments, which were listed in the first four pages of the bill. He pointed to pages 3 and 4 and noted that the governor's intention was to fund the 2.5 percent increase to the cost of living allowance (COLA) for unionized employees on July 1, but not for non-unionized employees. He looked at pages 5 through 11 that included "fund roll-ups" (all of the various funding sources for Section 1 of the bill).

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Mr. Ecklund pointed to page 12, Section 4, which included all transactions the governor wanted to see for Medicaid expansion. Pages 13 and 14 included fund roll-ups for Section 4. The language section of the bill began on page 15 of the bill. He detailed that the governor wanted to fully fund the Base Student Allocation (BSA), which would be a \$16.5 million increase from the conference committee bill. Additionally, the governor wanted to use \$118 million from the Instate Natural Gas Pipeline Fund to help fund public education; however, the conference committee substitute used \$157 million from the fund. Page 15, Section 8 addressed salary and benefit adjustments, including employee contracts and COLA for unionized employees. Page 16, Section 9 included a new Constitutional Budget Reserve (CBR) provisions that would include CBR access votes for FY 15 and FY 16.

[10:45:07 AM](#)

Co-Chair Neuman noted that Vice-Chair Saddler had joined the meeting.

Representative Gara commented that the governor was trying to move the legislature forward to achieve a budget. He believed some of the items included in the governor's bill represented placeholders that the governor understood the legislature may move around. He believed it was a good effort on the governor's part.

Co-Chair Neuman remarked that the CS looked better than the original version of the bill due to its shortened length (18 pages down from 77). He wanted to ensure that the document was clear for the public.

Representative Gattis noted that she had been receiving many emails related to fully funding education. She asked for clarity on what full funding would look like.

Mr. Ecklund answered that the statutory BSA for FY 16 was \$5,880. He detailed that when projections for student counts were multiplied by the formula, the conference committee report had been \$16.5 million less than the projected amount. The CS would fund the BSA at 100 percent of the projected amount.

Representative Gattis remarked that people had different views on what fully funding education meant. She thanked Mr. Ecklund for the clarification.

Representative Wilson asked about Section 7. She remarked on the fund transfer change from \$157 million to \$118 million from the Instate Natural Gas Pipeline Fund. She wondered if the remainder would come from general funds.

Mr. Ecklund replied in the affirmative. He pointed to an estimated \$1,006,027,900 that would come from the general fund (page 15, line 8). He noted that the general fund figure in the conference committee bill had been approximately \$95 million.

Representative Wilson referred to Section 8 related to salary and benefit adjustments. She asked for verification that the COLA costs would come from general funds. Mr. Ecklund replied in the affirmative; the dollar amount was included on page 4 of the CS.

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Mr. Ecklund clarified that the total dollar amount it would take to fund the unionized and nonunionized COLA was \$56,386,100 (page 4, line 6). The cost to cover nonunionized employees was \$21,018,500 (page 4, line 8). The cost to cover unionized employees could be calculated by subtracting the nonunionized figure from the total, which was roughly \$35 million in total funds. He pointed page 5, line 28 that included the UGF portion needed to fund the union contracts [\$16,122,600].

Representative Wilson remarked that she had been receiving emails asking the legislature to fund the operating budget.

She noted that Section 9 addressed the CBR and other funds that were not dedicated, but may have been created for specific purposes (e.g. Higher Education Investment Fund). She wondered how much funding was available in these other funds for the legislature to use towards the budget (not counting Alaska Permanent Fund reserves) if it could not access the CBR.

Mr. Ecklund asked for clarification on the fiscal year Representative Wilson was speaking to.

Representative Wilson clarified she was interested in FY 16. She believed that forward funds for education had taken care of FY 15 and that a CBR vote only pertained to FY 16. She reiterated her previous question.

Mr. Ecklund replied that the FY 16 spring forecast was somewhere around \$2.2 billion. He deferred the question to Mr. Teal.

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, replied that there was approximately \$2.2 billion in revenue for FY 16 with a \$3.2 billion deficit. He detailed funds that could be used including the Power Cost Equalization Fund (approximately \$1 billion) and the Higher Education Investment Fund (approximately \$450 million to \$460 million). He continued that the other remaining funds each included less than \$50 million (compiled together the funds may be \$200 million). He postulated that there may be approximately \$1.6 billion in various funds and accounts that could be used, which would leave a \$1.6 billion shortfall.

Representative Wilson noted that there were different options for funding. She stated taking \$1.6 billion in addition to what had already been taken was an extreme amount. However, she wanted people to understand that it was an option.

[10:53:13 AM](#)

Representative Gara stated that the governor had filed a placeholder budget for the legislature to work on. He believed the governor's direction was for the legislature to work together to come up with a budget that people could accept. He noted that it would include things that some people may not like on one side or the other. He stated

that from the Minority's standpoint there was no interest in shutting down government. He emphasized that the goal was to work together to move forward on a budget that worked for education and for the public. He stressed that he was not interested in using Alaska Permanent Fund earnings.

Representative Edgmon hoped the meeting would be the last one for a while on the current subject. He wanted clarity on how much money was available for the budget and how long state government could be funded in the event the CBR vote was not achieved.

Mr. Teal stated that there was \$2.2 billion in revenue with a \$3.2 billion deficit; there was nowhere near enough money to get through the year. He detailed that the \$2.2 billion was not available all at once at the beginning of the year; it came in throughout the year. The cash flow problem could be somewhat resolved to some extent by issuing revenue anticipation notes or borrowing. He communicated that it would be difficult to issue notes exceeding the expected \$2.2 billion in revenue. He relayed that any borrowed money would have to be repaid fairly quickly; therefore, the real issue was cash flow. According to his discussions with the Department of Revenue (DOR) there should be sufficient cash to get the state through September (possibly through October and November with extraordinary measures). He believed September was as far as the funding would go.

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Representative Edgmon referred to the \$1.6 billion available in the various funds including the PCE Fund and the Higher Education Investment Fund. He stressed that draining the PCE account would not happen if it were up to him. He asked for verification that use of the funds would require appropriation authority.

Mr. Teal answered in the affirmative. He elaborated that if the legislature passed an appropriations bill that took money from the Public Education Fund and the Higher Education Fund, it would increase cash flow by approximately \$1.5 billion, which would get the state through January [2016] or so. He believed DOR and the Department of Administration (DOA) were working on contingency plans to see how government would be operated if a CBR vote was not obtained.

Representative Wilson clarified that she had not been speaking about using Alaska Permanent Fund earnings. She asked for verification that the legislature would have to pass legislation to access other funds such as the PCE fund. She thought all funds could be tapped with the exception of the CBR and Alaska Permanent Fund reserves.

Mr. Teal replied that the funds (the Alaska Permanent Fund Reserve Account, the Higher Education Investment Fund, and the PCE Fund) could be tapped with an appropriation. He elaborated that the money could be accessed with a simple majority vote, whereas access to the CBR required a super-majority vote [three-quarters]. The funds would provide an additional \$1.5 billion or so. He relayed that the Alaska Permanent Fund account would also require a simple majority vote and would completely fill the deficit.

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Representative Wilson asked for clarification. She asked for verification that the other non-dedicated funds would be available for funding the operating budget if the legislature passed an operating budget. She understood that the funds would not be sufficient and would leave the budget approximately \$1.6 billion short. She made it clear that the funds could be tapped if the legislature did not come to an agreement.

Mr. Teal replied that the funds could be tapped with an appropriation; the accounts were not dedicated, but were considered restricted. He detailed that the accounts were not swept into the CBR at the end of the year because they were classified as the PCE Endowment Fund and the Higher Education Endowment Fund. Although the accounts were sub-funds of the general fund they were classified as restricted. A general fund appropriation would not necessarily allow spending from the funds without a specific appropriation putting the money back into the general fund.

Co-Chair Neuman rephrased that none of the funds could be appropriated unless the legislature passed an appropriation bill that spent the funds.

Mr. Teal believed the statement was correct. However, DOR and DOA were working to figure out which funds could be

borrowed from and spent without an appropriation. He clarified that budgeting and accounting were different. He noted that LFD looked at funds from a budgeting perspective, whereas DOR and DOA came from an accounting perspective.

Representative Wilson pointed to pages 16 and 17 of the CS. She wondered why the CBR was in Section 9 and the Higher Education Investment Fund was in Section 10. She wondered if the bill intended that the Higher Education Investment Fund would be utilized in addition to the CBR with the three-quarter vote (and that no other funds would be considered). She was trying to understand why the Higher Education Investment Fund was named in the legislation, but no other accounts were included.

Mr. Teal replied that the language pertaining to the Higher Education Investment Fund had been included in the conference committee budget and only referred to FY 15. He explained that the FY 15 budget was approximately \$3.8 billion; the Statutory Budget Reserve (SBR) of about \$2.8 billion filled all but roughly \$1 billion of the deficit. By reducing the FY 15 deposit to the public education fund, the remaining \$1 billion deficit would be filled and theoretically eliminated the need for a supermajority vote to access CBR funds. However, under the scenario, the state would still be within \$50 million of a deficit. He spoke to the volatility of oil prices and that accounting books were not actually closed until months after a year was complete. He did not believe \$50 million was a large enough cushion to promise no deficit in FY 15. Section 10 stated "if, and only if" there were insufficient general funds, the remaining deficit would be taken from the Higher Education Investment Fund; the option would go into effect only if the CBR vote failed to ensure that the state did not run out of money in FY 15.

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Representative Gara stated that he did not want people to be scaring the public with the current conversation. He reasoned that everything would be fine if the legislature decided to work across party lines on developing a budget by the end of special session. He thought it would be a shame if legislators were not able to work together and began to ask about getting to September.



Representative Pruitt interjected his distaste for the "political statements." He stated that the committee was trying to handle a budget.

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Representative Gara asked for verification that to maintain a budget through September and possibly November, there would be no need to touch the PCE Fund or the Alaska Permanent Fund earnings reserve. Mr. Teal replied in the affirmative.

Representative Pruitt asked if there was any mechanism the state could employ to borrow from itself in order to help fund government. For instance, borrowing from the PCE Fund, the Higher Education Investment Fund, or CBR. He wondered if borrowing the funds would have to be authorized by the legislature.

Mr. Teal replied that the state could borrow from itself. He believed DOR and DOA were researching borrowing from the other funds. The state could also borrow from markets by issuing revenue anticipation notes, which was short-term borrowing based on anticipated revenue coming in later in the year. He pointed to Section 9(c) at the top of page 17 that talked about using earnings from the general fund to pay the CBR; the language was typical and allowed the legislature to borrow money from the CBR without a three-quarter vote; it would be required to be repaid by the end of the year or it became a draw. Alternatively, the legislature could choose to borrow from the CBR and not run out of money, but at some point in the fiscal year the money had to be paid back. The people allowing the borrowing would be required to certify that funds would be available to pay the money back. He communicated that with a deficit there was no guaranteed way of paying back the loans to the CBR. He stated that even though Section 9(c) was a simple-majority provision, it would not do any good unless the super-majority vote was obtained.

Representative Pruitt asked if the legislature could borrow from the subaccounts of the general fund (i.e. PCE Fund, Higher Education Investment Fund, and others).

Mr. Teal replied that even if the money was appropriated there would still be a \$1.5 billion to \$1.6 billion deficit. At that point there would be no remaining funds to borrow from.

Representative Pruitt understood the situation as it related to the next fiscal year. He specified that he was referring to the discussion related to the current fiscal year where the state could be \$50 million short. He asked if there would be a potential to cover the state expenses without going into the CBR by accessing the subaccounts.

Mr. Teal replied that the scenario outlined by Representative Pruitt was exactly what Section 10 did. The section would take the money from the Higher Education Investment Fund if the state was short on funds. It would have also been feasible to include the PCE Fund or others in the language; however, the remaining deficit was expected to be less than \$100 million; therefore, there was no need to dip into other funds.

[11:10:24 AM](#)

Co-Chair Neuman noted that the legislature would not want to make the funds available if it did not have to.

Representative Pruitt discussed that if the legislature took funds from the Higher Education Investment Fund, it would impact the fund, which would also be the case if the PCE Fund or other were used. He detailed that the language in the CS was a policy call, which specified the money would be appropriated versus borrowed.

Mr. Teal replied that the scenario was the same either way. He elaborated that the CS included an appropriation from the fund and if the money had to be taken from the Higher Education Investment Fund, the legislature could opt to replenish the money. He stated that it was also possible to say that the interest generated by the fund was more than sufficient to pay the scholarships and grants it awarded; a balance of \$50 million to \$60 million less would still allow payment of the grants and scholarships. If the legislature chose to borrow the funds, it may choose to repay or not repay the funds at some future date.

[11:12:14 AM](#)

Vice-Chair Saddler referred to the discussion about revenue anticipation notes. He was interested in further detail including potential source, interest rate, cost, and authorization procedure.

Mr. Teal replied that the scenario would entail going to the financial markets and issuing short-term notes based on anticipated revenue. The interest rate should be fairly low. For example, an issuance of \$2 billion in notes at a 2 percent rate for one year would be a \$40 million borrowing cost. He stated that it would be much easier to issue taxable revenue anticipation notes and state would run into problems with the federal government if it tried to make the notes tax-free. He explained that the notes did not need to be tax-free; the difference between the tax-free and taxable interest rate was quite small. He stressed that the cost of issuing the notes was not insignificant. However, issuing notes was not an uncommon and it would not mean credit raters would determine Alaska was in a "world of hurt." He believed the Municipality of Anchorage issued revenue anticipation notes. Additionally, the state issued the short-term drinking and clean water bonds annually. There was nothing inherently wrong about the use of revenue anticipation notes. He believed that credit raters would probably look at a political impasse as an indication of a greater credit risk than borrowing with revenue anticipation notes. He explained that the credit raters saw Alaska's credit strength partially in its ability to access reserves. The raters took many things into account when determining a state's credit rating.

[11:15:20 AM](#)

Vice-Chair Saddler asked for verification that the inability for the legislature to obtain the three-quarter vote would impair the state's credit rating. Mr. Teal affirmed that he believed the situation would impact the credit raters' opinions.

Vice-Chair Saddler asked if the revenue anticipated notes were limited to one-year lifespans. Mr. Teal replied that the notes were issued in anticipation of revenue coming in later and must be repaid within 18 months; the notes did not have to be paid off exactly at the end of the year.

Representative Guttenberg spoke to the economic and credit rating risk related to the failure to achieve a super-majority vote [to access CBR funds]. He wondered if there were other things at risk if the state's funds were inaccessible. He surmised that the state would not be able to issue revenue anticipation bonds given that it did not expect to see sufficient funds coming in the following year.

Mr. Teal replied that the revenue anticipation could always be issued as long as incoming revenue was anticipated. He did not know of any other items at risk. He qualified that there could be other risks he was not aware of.

Representative Guttenberg speculated that issuing revenue anticipation bonds would increase the size of the deficit the following year. Mr. Teal replied that the anticipated revenue would be current-year revenue. He affirmed that the interest would increase the state's fiscal problem because borrowing money was not free; it may cost \$20 million to \$40 million.

Co-Chair Neuman surmised that the state did not want to get into borrowing money.

[11:18:24 AM](#)

Vice-Chair Saddler believed Mr. Teal had stated that failing to come to an agreement on using CBR funds could potentially hurt the state's credit rating. Mr. Teal affirmed that he believed so. He stated there would be another opportunity to provide funding for the state outside of the operating budget bill. He stated that the issue was more about whether the legislature was able to work things out, which was probably all that mattered in the end.

Representative Edgmon asked for the total drawdown from the state's savings accounts given the \$3.2 billion deficit in FY 16. Additionally, the legislature had used \$2.8 billion from the SBR, plus \$1 billion from the education fund. He wondered how much of the savings accounts had been used. He stated that sometimes he saw savings accounts as the CBR and SBR fund.

Mr. Teal replied that the deficit for FY 15 was roughly \$3.8 billion and the deficit for FY 16 was roughly \$3.2

billion (\$7 billion total for the two years). He detailed that funding included \$2.8 billion from the SBR, \$1 billion from the public education fund, and theoretically the remainder from the CBR.

Representative Edgmon asked what the spending would leave in savings. Mr. Teal believed it was roughly \$6 billion in the CBR. The public education fund would be empty at the end of FY 16 and the SBR would be empty. The only reserve account would be the supermajority access to the CBR.

Representative Edgmon surmised that available savings would be the amount from the CBR plus the subaccounts, which would be somewhere close to \$8 billion. He noted that he would not chose to use earnings from the Alaska Permanent Fund and did not include it in his estimation of available funds.

Mr. Teal replied that LFD had looked at the reserves as those in the SBR and CBR. The LFD model showed that after FY 16 the CBR may get the state through about two more years and would be empty after FY 18.

Representative Edgmon asked for verification that there were approximately \$7.6 billion in liquid savings accounts going forward. Mr. Teal replied in the affirmative, including the PCE Fund.

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Representative Gara stated that there had been roughly \$100 or so million for the Alaska Marine Highway System (AMHS) in the conference committee budget. He asked how the figure compared to the allocation in the CS. Mr. Teal replied that an additional \$7 million had been added back to the AMHS budget in the budget before the committee.

Co-Chair Neuman remarked on the total AMHS appropriation. Mr. Teal stated that the appropriation was around \$130 million.

Co-Chair Neuman stated that \$130 million to \$140 million had been the total appropriation to AMHS. The CS added another \$7 million.

Representative Gara stated that the conference committee budget had included AMHS fuel trigger money that other

agencies could not use. He asked if the fuel trigger money was also included in the CS. He asked for verification that the difference between the budgets was \$7 million.

Mr. Ecklund replied that there was roughly \$130 million to \$140 million between the marine highway fund (approximately one-third) and UGF (approximately two-thirds). In FY 15 there was roughly \$5 million in fuel trigger money that could go to the marine highway fund and could be used in FY 16.

Mr. Teal clarified that the fuel trigger revenue was FY 15 money that would be carried forward into FY 16. Separately, the CS contained an additional \$7 million.

HB 1001 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

[11:25:54 AM](#)

The meeting was adjourned at 11:25 a.m.