

HOUSE FINANCE COMMITTEE  
FIRST SPECIAL SESSION  
May 6, 2015  
1:04 p.m.

[NOTE: Meeting was held in Anchorage, Alaska at the  
Legislative Information Office]

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CALL TO ORDER

Co-Chair Neuman called the House Finance Committee meeting  
to order at 1:04 p.m.

MEMBERS PRESENT

Representative Marc Neuman, Co-Chair  
Representative Dan Saddler, Vice-Chair  
Representative Les Gara  
Representative Lynn Gattis  
Representative Scott Kawasaki  
Representative Lance Pruitt  
Representative Tammie Wilson

MEMBERS ABSENT

Representative Cathy Munoz [Not acknowledged that she was  
not present in Juneau]

ALSO PRESENT

Pat Pitney, Director, Office of Management and Budget,  
Office of the Governor; Marc Luiken, Commissioner,  
Department of Transportation and Public Facilities;  
Representative Mike Chenault; Representative Matt Claman;  
Representative Andy Josephson; Representative Cathy Tilton;  
Representative Liz Vasquez; Senator Cathy Giessel; Senator  
Donnie Olson.

PRESENT VIA TELECONFERENCE

Representative Bryce Edgmon; Representative David  
Guttenberg; Representative Steve Thompson.

SUMMARY

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

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

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AT EASE

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RECONVEYED

Co-Chair Neuman explained the agenda for the day. He indicated that Pat Pitney would be reviewing the governor's most recent budget proposal in House Bill 1001. He provided some history about the budget process. He recounted that the House and the Senate had passed the Conference Committee report for HB 72 [Legislation introduced in January 2015 - Short title: APPROP: OPERATING BUDGET/LOANS/FUNDS], the operating budget that had been transmitted to the governor's office awaiting action. The governor introduced HB 1001 with additional requests in the budget. He identified four different areas within the budget that had changes. He referred to these sections as the "meat and potatoes" pieces of the budget. The first area of changes included increases within different departments. The second area had to do with education funding. The third area had to do with union contracts. The last section of changes dealt with Medicaid.

Co-Chair Neuman explained that the Medicaid changes would be address in the following week and detailed the agenda for the remainder of the current week.

#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 commented that it was nice to be in Anchorage with a different audience. He conveyed that he had been in his community talking with his constituents. He suggested there were some basic differences that he could address or Ms. Pitney could address. He asked that the presentation begin with the Department of Education and Early Development (DEED).

Representative Gattis commented that the committee had heard Ms. Pitney's presentation a time or two. She had spent time back in her district and had several questions. She talked about Ms. Pitney's interpretation of HB 1001 being a conversation starter in progressing towards a CBR vote in favor of a fully funded budget. She wanted to know if she had the authority from the Minority to engage in a conversation about a CBR vote. She did not understand how HB 1001 advanced the budget unless Ms. Pitney was either in or on the same page as the Minority.

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PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, stated that the governor's office did not have the authority or permission to negotiation on behalf of the Minority. She pointed out that it would be the House Majority and House Minority that had negotiation powers. She reported that the Minority did not agree with the starter budget. She relayed that both sides were not happy with the "Take-Two" budget. However, the spending plan from the legislature was \$5 billion with revenues of only \$2.2 billion. She suggested the state was either facing a date on which government stopped operating or deciding what things the state wanted to fund in lieu of other things. She provided a hypothetical scenario in which the state chose to place all of its funding into education in place of providing health services or conversely, the state chose to put most of its funding into health services and a small amount into education. She recounted that with a \$5 billion spending plan and a \$2 billion revenue stream and without permission to spend any other funds from savings, the state had to take action. She spoke of starting a dialog because an action was required within the House in agreement with the Senate.

Co-Chair Neuman stated that the authority to appropriate was the responsibility of the legislature. He voiced that there would be negotiations between the House Majority, the

House Minority, the Senate, and the governor's office. He furthered that the legislation would be presented to the committee just as any other piece of legislation was presented.

Co-Chair Neuman recognized Senator Giessel, Representative Josephson, Representative Claman, Representative Chenault, and Representative Tilton in the audience.

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Vice-Chair Saddler asked about the governor's intention regarding HB 72. The bill had been transmitted to the governor's office. He wanted to know if the governor intended to hold it, sign it, or line item veto it. He wanted to better understand the current framework.

Ms. Pitney stated that currently HB 72 was invalid. She reiterated that it reflected \$5 billion in spending with only \$2 billion in revenue. She conveyed that the Executive Budget Act [AS.37.07] required the legislature to provide a budget that had matching spending and revenue. The budget reflected in HB 72 did not meet the required criteria. Without a three-quarter approval vote to use money from the Constitutional Budget Reserve (CBR), or a change in budget funding levels, HB 72 was an invalid budget. She thought there was still time to correct the discrepancy.

Co-Chair Neuman disagreed with Ms. Pitney that the budget was invalid. He claimed that the Majority in the house and senate passed a conference committee budget. There had been opportunities for the Minority to approve a draw from the CBR. The Minority did not approve the budget and requested additional funds. The Majority did not want to add to the budget which resulted in the current legislation before the committee.

Vice-Chair Saddler wanted clarification whether the governor would be signing HB 72 and under what conditions. Ms. Pitney responded that the administration was looking for a funded budget.

Vice-Chair Saddler asked about the conditions under which the governor would sign the budget. Ms. Pitney responded that she could not speak for the governor on specifics except to say the administration was looking for a funded budget. Her response would be very different with a fully

funded budget. She restated that the proposed budget currently reflected a revenue stream of \$2 billion and expenditures totaling \$5 billion.

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Representative Pruitt disagreed with Ms. Pitney. He explained that in the bill there was funding in the budget for the remainder of the current fiscal year and for a portion of the following year. He believed it would be helpful to clearly define what was truly being discussed. He wondered whether the legislature was looking at the full budget, certain portions of it, or potential funding sources. He stressed that as long as HB 72 was in play the topic of discussion remained unclear. He wondered when the legislature could expect either a veto or a signature on HB 72 from the governor to better understand what the legislature was supposed to be discussing. He opined that discussing an increase in the budget was different from deliberating about state's spending allocation. He stressed the need for definitive answers from the governor and asked if they would be provided soon, as he wanted to ensure the following meetings would be as productive as possible.

Ms. Pitney responded that the governor had the opportunity to sign or veto the bill on or before May 19, 2015. She believed legislation reflecting a fully funded budget prior to the 19th would be approved. She voiced that the governor could not set a precedent of accepting a two-fifth's funded budget and alluded to there being enough time to make changes to the committee substitute for a vote. It was up to the legislature to present a balanced budget. She reiterated that the budget would not be signed into law in a partially funded form.

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Representative Pruitt observed that Ms. Pitney had mentioned several times that the issue concerned funding. He asked why \$90 million was added to the budget. He implied that the issue was more about the governor not liking the budget rather than it being fully funded. If funding was the governor's only issue the legislation would be limited to that topic. He asserted that the governor was not only concerned about a funding mechanism but that he also did not like what the legislature put forward in the budget. He wondered why more items were added and continued

to question where the legislature should focus its attention. He was unsure if the governor had sat down with both sides. He relayed an experience with the previous governor in which there was a discussion on education funding. The governor sat down and attempted to get people to agree from both sides which he thought was a good approach.

Ms. Pitney relayed that, according to the governor, certain reductions made in conference committee were too deep. She conveyed that he was asking for reconsideration of specific items. She pointed out that, although the amount was \$93 million, the amount was a 1.4 percent difference and that it reflected an 8 percent total agency operations reduction from the prior year. She maintained that the cuts were substantial. She continued that the governor had accepted over 90 percent of the decrements over and above his original reductions, \$250 million or 6 percent of agency operation budgets. The governor and the administration understood the state's fiscal situation and the necessity of reducing its size. The rate at which reductions were made and the impact of reductions were also considerations. The negotiation was not between the governor and the legislature. Rather, it was between legislators to get to a funding plan. The governor would basically have to accept a funded budget, his veto power being limited to the reduction of funds.

Co-Chair Neuman commented that it was a matter of how to get to the numbers.

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Representative Gara wanted to correct a few items. He suggested that there was a difference of about \$90 million between the legislation before the committee and what the conference committee passed. He quoted a difference of about \$54 million additional dollars. He also noted \$39 million of one set of state funds to another. He wondered if he was correct. Ms. Pitney responded in the affirmative.

Representative Gara heard a statement about just adding money to the budget. He spoke on behalf of his caucus indicating that substantial cuts to the budget had been offered and rejected. He mentioned trying to get funding for education. He felt that it was unfair to say that one caucus had tried to add to the budget. He understood that

the governor was attempting to bring both sides of the legislature together to pass a budget ultimately avoiding a shutdown. He wanted to know if he was correct.

Ms. Pitney stated that with \$10 billion in the CBR and only four days left to have discussions it was important to have reasonable yet much reduced state operations. She told of the governor's plan to have open and transparent dialogues with Alaskans around the state in the following summer about revenue options going forward.

Representative Gara remarked that if the state were to cut every state employee that was funded by unrestricted general fund (UGF) money it would only account for half of the budget deficit. Under current oil prices the state would be out of savings within two to three years no matter what version of the budget the legislature had seen. He asked if he was correct. Ms. Pitney responded that if no other action was taken and oil prices remained as they were the CBR would be exhausted in three years.

Representative Gara asserted that it was time for legislators to work together across party lines to pass a budget.

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Representative Wilson understood that there were two options. The first option was for the governor to be able to start a conversation by asking for additional funding. She wondered why the conversation starter was not about dipping into other funds to close the gap on funding. She did not understand why the governor started by adding to the budget rather than narrowing the disparity.

Ms. Pitney responded that the discussion regarding revenue was one that the administration would be bringing to Alaskans in an open and transparent forum launching in June 2015. She anticipated several discussions across the state and across all groups, about the state's options. She relayed that the administration was taking the lead, using what was in SB 72. All other language was the same with the exception of a few additions. The administration was attempting to closely mirror the particular legislation put forward with enough differences to start a conversation.

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Representative Wilson clarified that she was talking about the approximate \$1.6 million [billion] in all other designated funds such as the Power Cost Equalization fund, the higher education fund, and the Alaska Housing Finance Corporation fund. She reported that there was \$1.6 billion in separate funds that could have been utilized if specified in the bill. She wondered why the administration did not suggest alternative funding options or trade-offs for the items added back into the budget. In talking with her constituents while back in her district she found wide support for additional cuts. She guessed that there was a miscommunication between what was thought of in Juneau and what was thought of in other districts. She stressed her focus would be on how to fund the budget rather than adding to it.

Ms. Pitney reiterated that the intent of the administration was to mirror the bill that was currently sitting on the governor's desk with the exception of the additions. She remarked that if it was the will of the legislature to use the \$1.6 [billion] and provide authority for the administration to use the money it would be a start to filling the state funding gap.

Representative Wilson She suggested that the governor come before the committee to answer the questions. She was looking for straight answers.

Vice-Chair Saddler asked Ms. Pitney if she was representing the governor on matters of the budget. Ms. Pitney responded affirmatively.

Vice-Chair Saddler relayed her earlier comment that the governor would sign HB 72 if it represented a fully funded budget. He asked Ms. Pitney to provide the definition of a fully funded budget for the record. He asked specifically and comprehensibly what conditions had to be met in order for the governor to sign HB 72. Ms. Pitney stated that the conditions included a budget reflecting a full year in which revenues and expenditures matched.

Vice-Chair Saddler asked if a specific level of funding for individual programs was a factor in the budget. Ms. Pitney responded that the appropriation, responsibility, and authority rested with the legislature. She explained that the additions in the budget were included because the

governor and the administration felt that the legislature's cuts were too deep and would damage certain state programs. In a line item veto the governor was limited to making reductions rather than additions.

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Vice-Chair Saddler stated that the legislature had accepted the governor's proposed budget, advanced it through the committee process, worked it through the conference committee passing a level of spending. The governor took exception to what was passed, called a special session, and gave the legislature an alternative budget with increased levels of spending for programs. He noted Ms. Pitney's acknowledgement that the legislature had appropriations authority, yet the governor was requesting additional appropriations. From what Ms. Pitney had testified he concluded that the governor understood the deficit and the need to reduce spending. He wanted to know when the governor intended to make further decrements. Every dollar passed in addition to what legislators had before them would have to be cut later along with other decreases. He asked again when the governor intended to cut the budget.

Ms. Pitney answered that the governor's original 2016 proposal reflected a cut of nearly 6 percent from all agency operating budgets, \$250 million, plus over \$400 million cut from the capital budget. She reported that nearly \$800 million was reduced in the governor's original budget proposal. She believed that there would be further spending constraints going forward. She offered that there would be additional cuts but the rate at which the cuts were implemented was an important consideration. The administration felt that in the original budget proposal the decrement step-downs were exceedingly steep. She reiterated that the governor had made cuts and agreed with nearly all off the reductions in the conference committee budget. She also stated that the administration would be working towards additional cutbacks in the FY 17 budget and a timeline.

Vice-Chair Saddler understood that the governor had proposed cuts in the budget. He wanted to know when the governor intended to cut back the increases being proposed currently and when he intend to implement additional decreases. He wondered if it would happen in FY 17.

Ms. Pitney answered that the administration was committed to additional reductions in FY 17. She noted that there would be adjustments and times in which the reductions would take place. She furthered executing all reductions at one time was difficult from an organizational stand point. The administration wanted the opportunity to make the reductions in a considerate and thoughtful manner. She claimed that the reductions were significant, more significant than any other time in Alaska's history. She reiterated that the needed changes were massive. She explained that the administration planned to instigate additional changes and reductions in FY 17, it was just a matter of time.

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Representative Gara noted that Representative Wilson had suggested liquidating other funds such as the PCE fund and the higher education fund. He personally did not believe it would be good policy to use the funds. He added that if the two funds were liquidated the state would be without funding for college and vocation education scholarships and without assistance for high electrical costs in rural Alaska. He wanted to know if he was correct in his statement.

Ms. Pitney confirmed that Representative Gara was correct. She contended that the administration would not advocate using either the PCE or higher education funds and would strongly advise against taking from them. She pointed out, however, it was legislature's role to make appropriation decisions. She advised that such a decision, though, would not be in the best interest of the state from the governor's perspective.

Co-Chair Neuman interjected that such a decision would be significant and was the purview of the legislature.

Representative Gara remarked that the current special session focused on three subjects. He asked how the state's bond rating would be affected if the state could not cut its way to a balanced budget and it ran out of savings in three years. His view of creating revenue had to do with a fair share for the state for its oil.

Co-Chair Neuman wanted to redirect Representative Gara's line of questioning. He specified that oil taxes would be

discussed at another time. There would be presentations by the Legislative Finance Division (LFD) on the economics of the state, at which time oil tax questions would be addressed.

Representative Gara just wanted to know if the state's bond rating would be affected.

Ms. Pitney explained that the bond rating was based on multiple considerations including the state's current assets, the state's resources that could be turned into assets, and the state's political stability. She told of the administration's visit to New York in January 2015 to discuss the state's bond rating. The state's annual revenue was low, but its assets were high. She credited the legislature for putting aside the funding that it had to weather through financial storms. She stressed that the state had tremendous resources in the ground and had political stability at the time of the meetings in New York. However, at present annual revenue was at risk due to the price of oil and because of the lack of a fully funded budget. The legislature's political impasse on a budget posed the threat of a government shutdown. She opined that the state's political stability was compromised and its bond rating had the potential of being lowered within three years. The state needed to act preemptively. The governor was committed to addressing the state's revenue stream and was in favor of informing the public about the situation the state was in. He would let Alaskans know that even if the dollar per barrel returned to \$90 it would not change the state's revenue and expense picture dramatically. Currently, the state was facing \$66 per barrel of oil.

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Co-Chair Neuman relayed that he had received information from LFD that the questions were asked about bond ratings. The bonding agencies basic and primary concern was for the legislative body to turn around the state's spending. He noted that lending agencies had experience with discrepancies between state branches of government. He claimed that Alaska's biggest issue in the eyes of lenders was getting control of government spending.

Representative Wilson clarified that the PCE fund had a balance close to \$1 billion. She speculated that people would continue to receive help with their electric bills as

defined in statute. She mentioned \$44 million being paid out from the fund. She emphasized that having a discussion about the fund did not imply that the state would halt funding PCE. She also highlighted the fact that the state had more than just employees, the state had several programs in place including formula programs. She stated that the budget consisted of more than just personnel. She asked about whether restricting travel or handling vacancies differently had been considered by the administration. She wanted to know if restrictions had been implemented since the governor took office due to the state's budget deficit and alluded that past governors had imposed a 10 percent cut in wages during times of financial hardship.

Ms. Pitney responded that each commissioner had been asked to look at ways to conserve as much as possible based on the operations of their agencies. Every commissioner understood the budget reductions that would have to be made and were encouraged to execute every savings measure possible in the current year's budget. She continued that different commissioners had different vacancy and travel holds in place depending on the activities of the individual agency. Although it might be difficult to impose a travel hold on prisoner transportation, it was possible to impose one on a particular item within the Department of Commerce, Community and Economic Development. The holds were applied on a program-specific basis. A \$389 million reduction between the previous year's management plan and the current year's conference committee budget resulted from postponing filling certain vacancies. She concluded that it equaled over \$1 million per day in reduced spending.

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Representative Wilson requested that Ms. Pitney provide a list of the reductions for committee members.

Co-Chair Neuman spoke about the Department of Education and Early Development's budget. He relayed that the Alaska Learning Network (AKLN) was funded at approximately \$599.7 million. He explained that AKLN was in partnership with the University Of Alaska Southeast (UAS) allowing high school students to take university classes remotely. The program cost in FY 15 was \$850 thousand which the legislature appropriated as a one-time request. The department was

asked to prepare a sustainability plan for AKLN for future years. The governor requested \$600 million for the program in FY 16 submitting a plan on February 23, 2015. The legislature decided not to fund the program in the conference committee version of the budget. He noted the \$250 thousand reduction in FY 15 off-set by increased course fees, reduced expenditures, and the expansion of partnerships with private entities. He asked Ms. Pitney to explain why the administration considered the AKLN program a priority. He mentioned that the finance committee was in agreement about protecting the core missions of each department when evaluating budgets in the finance subcommittees. He had given subcommittee chairs direction to target reductions in programs that were outside the core missions of the departments. He suggested it would be difficult, once the state economy turned around, to reinstate any core programs that were reduced. Therefore he wanted to see decrements in areas outside of the core missions of each department. He acknowledged the discovery process in the legislature regarding legislation and the importance of due diligence on the part of legislators. He encouraged Ms. Pitney to begin with DEED's budget. He restated his question concerning AKLN as a priority for the administration.

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Ms. Pitney reasoned that AKLN provided an opportunity for students to meet core requirements through distance education in order to be eligible for the Alaska Performance Scholarship (APS). In many of Alaska's rural high schools these courses were not available. Students from 47 districts had taken AKLN courses to qualify for the APS. She pointed out the importance of having access to higher education leading to employment for Alaskans.

Representative Gattis relayed that she had always believed technology was the way to change the shape of education in Alaska. She was of the opinion that the AKLN program had cost the state a significant amount of money. The program had transferred from its original intent to the university, floundering there. Alaska Learning Network had adopted Apex Learning's program. The Mat-Su participated in Apex's program directly for significantly less money. She wondered why the state supported the duplicity of a program which cost more money to essentially pay a middle man. She expounded that the state was encouraging school districts

to work together sharing information. She advised the committee that the state did not need a middle man. Ms. Pitney acknowledged Representative Gattis' comments.

Co-Chair Neuman informed the committee that in the previous year the legislature converted AKLN money to a one-time appropriation and requested that DEED prepare a plan for the sustainability of AKLN. He had not seen a plan and added that the department was aware of the legislature's request. He asked Ms. Pitney if she knew why a plan had not been submitted. Ms. Pitney was unaware of a plan not being in place. She reasoned that it was possible that a plan was in place but had not been presented.

Co-Chair Neuman understood things could get overlooked with changes in the administration. He wondered if AKLN courses were available for students statewide. Ms. Pitney replied in the affirmative. She added that students from 47 districts had taken AKLN courses.

Co-Chair Neuman asked how much students had to pay for each course. Ms. Pitney reported that the school district agreement outlined a cost of \$150 for a half of a credit, a semester-long course. An agreement between the program and the school district allowed access to the service. It was not a student-paid fee. It replaced the lack of APS qualifying courses in a school district.

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Co-Chair Neuman asked about the cost to Rural Education Areas (REA) because they were already funded by the state. Ms. Pitney specified that school districts paid a portion of the costs in addition to a base cost for the program of \$599 [million] paid by the state. In order to offer the entire program the school districts subsidized the program with their funds.

Co-Chair Neuman suggested that Ms. Pitney return the following day with her staff to answer the questions brought up in the current meeting. He wondered if the fee structure was based on need. Ms. Pitney responded in the negative. She explained that the fee structure was based on a school district agreement.

Co-Chair Neuman asked if the governor supported using the higher education fund as a funding source for AKLN. Ms.

Pitney confirmed that he would be amenable to either funding source.

Co-Chair Neuman restated his request for information regarding the funding mechanisms for REAs and organized area boroughs.

Representative Wilson informed the committee that she had been the chair of DEED's finance subcommittee since the project [AKLN] was born. Each year the subcommittee had discussed the program becoming self-sufficient. She believed that the state was paying twice for a high school student to take a course; a student was taking a course online for \$150 and the state was paying a different amount for the same child to attend a [brick and mortar] school. One of the ideas that was suggested was to contribute the same amount for each child and make the program self-sustainable. She furthered that there were more options currently than in the past. She reiterated her concern with paying twice, especially since the finance committee funded other programs in the previous year. Certain programs had nothing to do with the scholarship program. She claimed the number one ranking program in the previous year was Education 101 in which each participating student received a free iPad. She was unsure if the success of the program was because Education 101 was in demand or because every child in the class received a free iPad. She reiterated her concerns with funding duplication and wanted clarification.

Ms. Pitney explained that the base money funded the creation and structure of the course. Whereas the money coming from the school district funded the delivery of the course. It took a tremendous amount to make the online courses available. She added the importance of having the structure and system to make the courses available in rural areas. She commented that it was the choice of the legislature to use Apex rather than AKLN. House Bill 1001 was a restatement of the governor's priorities and a starting point for a discussion to get to a fully funded budget.

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Representative Wilson relayed that the Ketchikan School District already had courses [Apex courses] that were much cheaper than those provided by AKLN. Mat-Su School District had the programs, and Fairbanks had courses that were being

shared between high schools. She mentioned that the university also provided online courses. She did not believe the legislation was a conversation starter. She wanted people to better understand what the program was. She relayed that at the start of the program [AKLN] in Chatham the program the only one of its kind in existence. The program floundered from place to place ending up in Ketchikan. She claimed the courses were already developed and did not understand Ms. Pitney's comments about course development. She wanted to know if Ms. Pitney was aware that the courses were already developed and being utilized online in other school districts that were willing to share.

Ms. Pitney responded that she would get an expert of AKLN to review the program. She responded that AKLN was an administration priority and one for consideration in the current legislation.

Representative Wilson voiced her belief that it would be a conversation starter if it did not already exist. She opined that it would be better to encourage school districts in the state to share rather than starting something new.

Representative Gara wanted to be reminded of the financial numbers for AKLN. He recapped that in the previous year AKLN was funded at \$850 thousand, the governor funded it at \$600, the House cut it entirely, and in Conference committee it was funded at \$600 thousand. He wanted to know if his numbers were accurate.

Ms. Pitney stated that in FY 15 AKLN was funded at \$850 thousand. In FY 16 in the governor's budget proposal AKLN was funded at \$599.7 thousand with the understanding that the state could expect more revenue from users. Funding was dropped to zero through the legislative process. Currently, the program would be cut completely. The governor was seeking reconsideration to allow for more time to determine a means of sustainable revenues.

Co-Chair Neuman commented that the program was not funded through the conference committee.

Representative Gara wanted to better understand the duplicity of AKLN. He continued that Governor Parnell passed a merit scholarship and a needs-based scholarship a

few years prior. In order for a student to qualify for a merit scholarship students had to take certain higher level classes that were not available in many school districts. It was only fair to have the scholarship available to all students in the state no matter where they lived. In order to ensure the availability to outlying communities, AKLN was used as a delivery system. He wondered if Ms. Pitney was aware of any duplication, as he was not.

Ms. Pitney concurred with Representative Gara's understanding and scholarship accessibility was the reason AKLN was included in the administration's list of priorities.

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Representative Gattis suggested that Ms. Pitney might not have the letter that was sent out by the Mat-Su School District sent to all of the superintendents and would make sure she received a copy. The opportunities were available to every school district. She was disappointed that the state had been spending money to put something together very Alaskan. She explained that the school districts had been using Apex Learning. The Mat-Su School District had been using Apex for online courses and some recovery courses. The program worked really well and was extended to the other 53 school districts in the state. She emphasized that the use of Apex Learning was available at a significantly lower cost than \$150 per class. She emphasized that Apex was the program AKLN used. The only difference between Apex Learning and AKLN was the cost to the state. She emphasized the importance of the state using its money efficiently. She did not feel AKLN was a conversation starter, rather it was a non-starter. She would provide Ms. Pitney with information regarding Apex and AKLN.

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Co-Chair Neuman referred to a request to restore \$2 million for Pre-K programs. He reported that Pre-K grants were funded at \$2 million in FY 15. The governor proposed reducing the amount by \$100 thousand. The legislature zeroed out the funding for the program. He continued that the governor's special session budget reinserted the full \$2 million that was distributed in FY 15. In FY 15 the grants went to six school districts serving a total of 308

students. He relayed that the grants were awarded to school districts in a competitive process to allow students at or below poverty level to attend Pre-K programs. The program began as a pilot program in 2009 but was not expanded after the initial trial period. He asked Ms. Pitney why the governor felt that the program needed to be funded.

Ms. Pitney responded that the grants served the most at-risk students.

Co-Chair Neuman asked her define an "at-risk" student. Ms. Pitney answered that low-income students and students in need were considered "at-risk" students. The participating students had increased their grade average as a result of the grant program giving them a better start in their schooling. She argued that although the funding served a small number of students, providing a good start was an important approach. It also allowed for school districts to learn from the programs and carry them forward.

Co-Chair Neuman clarified that \$2 million served 308 Pre-K students. He wondered if parents applied for the grants. If so, he wanted to know how applications were evaluated. He wanted to better understand how the program worked. He wondered how parents found out about the program and noted that \$2 million was a significant amount of money for such a small group of students. He wanted additional information on the program and asked to see some documented results. He supposed some documentation would be available since the program started in 2009. He suggested that the format should indicate the investment in each student and the return on the investment by the time students reached, for example, 5th grade. He emphasized wanting written documentation.

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Representative Wilson reported that the programs were extended Head Start programs rather than new Pre-K programs. She asserted that there was data revealing that at the beginning students typically performed better. However, students that had not participated in the program caught up to those that had by the third grade. There was a lack of consistency in tracking students because the programs had not stayed in the same schools since inception. The programs rotated to other schools after a two-year period. She wondered about the self-sustainability

of a program once the grant funding was terminated. She remarked that although the reporting showed a value of \$6,500 per student, the funds were in addition to monies already provided to the Head Start program. She suggested the funding equaled about \$16 thousand per child. She asked about what had been done to ensure the sustainability of the program, as it currently lasted about two years.

Ms. Pitney relayed that she would follow up with an answer to Representative Wilson's question.

Representative Gara was glad the Pre-K grants had been put back in the governor's proposed budget. He spoke to the success of early education and the fact that it was evidenced-based. He referred to former Governor Sarah Palin indicating that when she started the program in 2008 the program was proven to work the state would expand it statewide. He emphasized that 40 other states had statewide Pre-K but Alaska did not. Studies came out proving the success of the program; academic achievement and acuity had increased. The promise was to make the program accessible to more children in the state. He wondered if it would be wise to move backwards by eliminating the programs. He wondered where the state was headed if Pre-K and Best Beginnings were eliminated.

Co-Chair Neuman commented that many of Representative Gara's questions were philosophical in nature.

Ms. Pitney replied that there was approximately \$7 million for Pre-K programs that was reduced in the education budget for the current year. The education non-formula portion of the budget was reduced by 30 percent in conference committee. The proposed number changed the reduction to a 26 percent decrement. A small piece was maintained. The governor had accepted many of the reductions made by the conference committee. Some Pre-K options were being restored. She opined that Pre-K programs made a difference to citizens, to schools, and in the job market. She furthered it was a smart investment.

[2:14:36 PM](#)

Co-Chair Neuman remarked about the low price of oil and dipping into savings. He continued that \$2 million counted and started to add up. He noted that there was only so much

money to go around and that the legislature was faced with prioritizing.

Vice-Chair Saddler noted that Ms. Pitney discussed the importance of Pre-K for schools, family, and the workforce. He wanted to see evidence of the success of Pre-K programs if she had them documented. He asked if Pre-K programs were more important than post-kindergarten programs. He wondered where else in the education budget could reductions be made to accommodate the \$2 million with the financial constraints the state faced.

Ms. Pitney explained that there was funding cuts of about \$7 million for Pre-K funding and \$15 million in reductions overall in the education budget. She specified that she was talking about the non-formula components of education including grant programs, other programs. It was not that there was not any room for reductions. However, the administration felt that there were too many reductions. She asked whether it would be all of the Pre-K programs that would be cut or just some of them.

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Vice-Chair Saddler was unclear. He wanted to know what other programs were less important than Pre-K. He wanted to know where else the legislature could cut to accommodate the \$2 million.

Ms. Pitney relayed that there were over \$380 million in reductions. She was concerned with the speed of the reductions and posed the question as to whether to pit one program against another. She believed it was a balance that was needed and emphasized that Pre-K issues were very important in the State of Alaska. She re-highlighted the reductions of \$15 million in the education budget.

Co-Chair Thompson commented that in FY 15 only six school districts received portions of the funding for Pre-K serving only 308 Pre-K students. He asked Ms. Pitney to confirm his numbers. Ms. Pitney confirmed she had the same understanding.

Co-Chair Thompson wanted to know if the governor would be interested in keeping the program if he was asked to cut the program in half. He wondered, being that the program only served 300 student, if it was still a priority. Ms.

Pitney responded that the commissioner of education advised that if the program was reduced by 50 percent then it was not viable or efficient to maintain. The plan was to make the program available to more than just six schools.

Co-Chair Thompson stated that the program was probably a good program. However, with the significant drop in oil prices, he could not justify supporting a pilot program that was not proven and only reached 308 students.

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Representative Gara asked that Commissioner Hanley speak about the success of the program. He suggested that the program had been proven to work and was supposed to be expanded but was not. He stated that the legislature had been asked to halt from funding programs that were not working and to start programs that did work. He opined that the program was proven to work.

Co-Chair Neuman commented that it was due to limited funding.

Representative Wilson asked about Head Start. She wanted to clarify whether any of the Head Start funding was reduced. She was fairly certain it was not. She relayed that Head Start funding was in a different part of the state budget. Although some Head Start students would potentially be affected with the loss of the Pre-K pilot program, she did not believe Head Start itself had lost any state funding in the budget. She wanted verification.

Co-Chair Neuman asked if she was talking about Pre-K programs that were being funded currently.

Representative Wilson relayed that federal dollars made up much of Head Start's funding. The state matched some of the funding as well. The Pre-K pilot program was a more specific program. She explained that in the early years of the program the participants were not tested which made it difficult to measure its success. She wanted to clarify on record whether the state had decreased Head Start's budget.

Ms. Pitney agreed to follow up regarding Head Start funding. She stressed that almost all other Pre-K funding was eliminated from the budget. The non-formula component of the education budget was reduced in the conference

committee from \$57 million the previous year to \$39 million, an \$18 million reduction in grants for Pre-K and other education programs. The administration was asking for the restoration of \$2.6 million for two Pre-K programs.

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Representative Gara asked Ms. Pitney to provide a detail of the \$18 million reduction. He added that the Head Start state contribution had only increased twice in the previous 15 years, otherwise it had been flat.

Co-Chair Neuman commented that Representative Gattis was the budget finance subcommittee Chair for education and used to be on the school board of the Mat-Su School District. She was familiar with the Pre-K programs. He encouraged her to provide her opinions on the issues being discussed currently in the meeting.

Representative Gattis discussed how she approached reducing the budget. She looked at unsustainable programs including some of the pilot programs. She disagreed with some of the comments that had been made in the meeting about not having Pre-K programs. She disagreed and argued that there were various Pre-K programs in many of Alaska's communities, several being private Pre-K's. She mentioned that the state did have parents as teachers. She explained that she was not referring to the program but to the actual parents. There was nothing stopping parents from being teachers to their children whether there was an official program by the same name. One of the things she looked at when reviewing the Pre-K budget was how much the government was supplementing what parents used to do to educate their children. She relayed that in her own experience she did not attend Pre-school or kindergarten as a life-long Alaskan living in rural Alaska. She looked at the constitutional mandates the state was required to fulfill. The Pre-K programs being addressed served very few students. There were other programs she would rather see funded. She added that she would like to see other entities such as tribal organizations participate in funding education.

Co-Chair Neuman thanked Representative Gattis for her comments and for her commitment to reaching out to different communities and also Representative Wilson's commitment. Both representatives had served on the budget

subcommittee for education. He noted there being many components to education in Alaska.

Representative Gattis commented that AKLAN started with other funding [Secretary's note: Representative Gattis' reference to a specific source of funding was inaudible in the voice recording] at its inception. Without the availability of the same funds she concluded the state would have to do things differently.

[2:29:06 PM](#)

Ms. Pitney requested the committee look next at the Department of Transportation and Public Facilities. Commissioner Luiken would not be available the following day.

Co-Chair Neuman moved on to announce an Alaska Marine Highway System (AMHS) request in HB 1001. He relayed that the UGF conference committee budget for the AMHS was \$12.5 million below FY 15. However, he described an increase of \$2.6 million appropriated from the AMHS fund capitalization account resulting in a net reduction of \$9.9 million. In addition, an argument was made that AMHS was further reduced by a portion of the fuel trigger appropriation received in FY 15, \$4.8 million, an amount not likely to be seen in the FY 16 budget because of oil prices. The exact impact was unknown. Assuming that fuel prices remained low because of lower oil prices the state would be able to alleviate some of the 4.8 million in losses. He furthered that there was approximately \$5.5 million of the fuel trigger appropriation that had not been distributed to agencies. He suggested that the money could be distributed to AMHS and carried forward into FY 16. The distribution of the \$5.5 million in fuel trigger appropriations from FY 15 into the FY16 budget appeared integral to the \$7 million request of the governor. The accounts combined would provide an additional \$12.5 million in AMHS funding in FY 16. According to Department of Transportation and Public Facilities full summer service was currently scheduled and could be provided if the \$12.5 million was available. He furthered that winter service from October 2015 to June 2016 would be reduced impacting the M/V Malespina's Bellingham to Southeast Alaska run. He added that without the \$7 million addition the October 2015 to June 2016 routes would be more significantly impacted. He asked the

commissioner to confirm the appropriation for AMHS at \$140 million total.

MARC LUIKEN, COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, introduced himself.

Ms. Pitney relayed that the conference committee passed an all funds appropriation of \$153.9 million for the AMHS. The governor's request was \$167.4 million. The analysis Co-Chair Neuman had provided was accurate with the exception that there was an assumed fare increase that would not generate the funds that were expected. She outlined that a fare increase would potentially generate \$1.8 in additional revenues. However, it was unlikely to realize the additional income because of timing. She highlighted that the \$153.9 million did not include the fuel trigger mechanism discussed earlier, nor did it include the \$7 million request that was part of the additive budget.

Co-Chair Neuman alluded that the \$7 million reduction out of a \$150 million or \$160 million appropriation for the AMHS equaled less than .5 percent of the AMHS' total budget. Compared to other necessary reductions he did not feel like it would have a significant impact.

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Mr. Luiken announced that the decrement was a 4.5 percent reduction rather than .5 percent. He wanted to discuss the department's budget request. He explained that the schedule for the AMHS was published in October, the annual time of year in which the schedule was published. The fares were based on what was assumed in July 2014 to be the available funding for the following year. The budget approved by the conference committee reflected a significantly reduced AMHS budget greatly impacting the AMHS published schedule. He furthered that currently, without having cancelled any reservations, the department was continuing to wait until a budget number was confirmed. He suggested that the department would have to begin contacting customers if the budget that passed out of conference committee remained in place. Approximately 29 hundred reservations, equating to about 10 thousand people, were at risk. He specified that the reason the department was requesting the governor's budget amount was so that it could honor the commitments it had already made for the sailing schedule.

Co-Chair Neuman had a little trouble with the department's justification. He indicated he had met with the director of the AMHS along with Representative Stutes and Senator Stevens to discuss the impacts of the proposed budget reductions for the ferry system and the reasons for adding monies to the budget. One of the ideas that resulted from the meeting was for the AMHS to evaluate the impacts on ferry ports on the road system and to investigate potential realignment in order to realize additional savings. One example talked about was for customers to drive further to board the ferry. He opined that making changes to ferry scheduling that affected ports on the road system was easier than making changes to ports off the road system such as Kodiak or Cordova. He claimed the department had not responded since the idea was suggested. He did not hold with the department's reasoning about having already made a commitment to a schedule. He also confirmed that the budget decrement was 5 percent. He considered the reduction to be reasonable considering the price of fuel continued to decline. He asked Mr. Luiken to discuss why the department had not come back to him with a compromise concerning the ports on the road system.

Mr. Luiken suggested there were things the state could do such as canceling the run to Skagway and just running to Haines. The people that went to Skagway would be required to drive 352 miles from Haines to Skagway. He furthered that the type of cancelations the AHMS would have to make would be based on the schedule already printed. He added that when the state published a schedule in the following year it would be much more conservative than the current one.

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Co-Chair Thompson asked Commissioner Luiken to provide some information. He believed the state had two more vessels than it did in 1988 as well as two or three more ports of call. However, in 1988 the state was bringing in well over 60 percent of the revenue to fund the operation. Today, the state was bringing in 30 percent of the expenses. He asked the commissioner to provide the committee with information concerning cost drivers. He was certain there were several more people riding on the ferry system at present than in 1988.

Mr. Luiken responded that he would be happy to provide the information. He also remarked that the schedule that the department would publish for FY 17 would be radically different from the one published for the current year primarily because the department did not want to go through the same drill again.

Co-Chair Thompson asked Mr. Luiken to compare a new schedule to a schedule published in the late 80's.

Co-Chair Neuman suggested that the fuel trigger monies would provide an additional \$5.5 million from the fuel trigger. He wondered how the money fit into the department's budget along with the lower fuel prices through the remainder of the current year.

Mr. Luiken restated that the schedule was based on having the fuel trigger monies in place. He furthered that without the fuel trigger monies the schedule would be impacted immediately. Additionally, he relayed that the fuel trigger was based on a cost of \$2.65 per gallon for diesel. He did not believe the state's fuel costs had reached \$2.65 for fuel.

Co-Chair Neuman commented that the legislature had asked the administration to return any unused funds from the previous year for fuel trigger expenditures. Ms. Pitney responded that the fuel trigger money essentially replaced the following year's fuel trigger amount. She explained that in the current year \$9 million was designated for fuel trigger costs. In the following year the \$9 million was actually zero. The zero amount was not reflected in the \$153 million because the fuel trigger was zero in FY 16. The \$5.5 million bridged the illumination of the fuel trigger mechanism.

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Representative Gattis asked what routes would be placed back into service with \$7 million in additional funding. Mr. Luiken indicated the Lynn Canal run for the summer.

Representative Gattis clarified that Mr. Luiken meant that the Lynn Canal would not have service at all in the summer without the additional funding. Mr. Luiken stated that the Lynn Canal route would not be serviced by the M/V Malaspina which covered the Majority of the route's traffic.

Representative Gattis relayed that what she was hearing was that the Lynn Canal Route would not have service unless it was provided on the M/V Malaspina. She was trying to determine if there was another service that the route would have if the M/V Malaspina was not running. Mr. Luiken answered that there would be some service in the Lynn Canal. However, the bulk of the service would not be covered by the M/V Malaspina.

Representative Gattis stated her question in another way. She clarified that the Lynn Canal would have service but there would be more service with \$7 million in additional funding. Mr. Luiken replied that there would be service to cover the schedule that was already printed.

Representative Gattis restated that there would be service but providing an additional \$7 million would allow for more service and would allow for following the printed schedule. Mr. Luiken responded affirmatively.

Representative Gattis made sure that the state was not taking away service but adding more to allow the schedule. She understood that there would still be service to Lynn Canal but with fewer stops and the M/V Malaspina would not be running. She relayed her experience working in the airline industry. She suggested that it was not uncommon for schedules to change from what was printed or to be canceled all together. She suggested that contacting individual customers was much easier with certain technological advances. She asked if there were other runs that would not have service without the \$7 million.

Mr. Luiken interjected that if the funding was not reinstated Department of Transportation and Public Facilities was planning to take the steps Representative Gattis had suggested. AHMS would attempt to rebook as many customers as possible. However, there would be people who would not be able to be rescheduled. Without the additional funding there would be holes in in the schedule including a lack of service in Prince William Sound from mid-September to mid-October. There would be no boats or funding available to run service for the month in Prince William Sound.

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Representative Gattis asked what communities in Prince William Sound would be without service. Mr. Luiken answered between Cordova, Valdez, and Whittier.

Representative Gattis asked for confirmation that the \$7 million was not just for service between Cordova, Valdez, and Whittier but included other runs as well. Mr. Luiken responded, "That is correct."

Representative Gattis suggested that since there was no road to Cordova she wanted to know what the cost would be to service Cordova. She was aware that it would not be the entire \$7 million. Mr. Luiken would provide her the cost.

Co-Chair Neuman suggested that it would have been nice to have the figure available for the meeting in progress.

Representative Wilson wondered about the financial impact of potentially losing 29 hundred reservations. She wanted a dollar value. Mr. Luiken agreed to provide Representative Wilson with the revenue figure.

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Co-Chair Neuman acknowledged Senator Olson in the audience.

Representative Wilson commented that she found it interesting that Mr. Luiken could provide the number of reservations at stake but could not provide a dollar amount for the potential loss in revenue. She wondered how the department determined which ferry runs to reduce. Mr. Luiken relayed that the decisions were based on the ships that were available and the times they were available. He explained that each vessel had lay-up periods. The decisions were based on the least impact to the overall system and summer schedule.

Representative Wilson asked if the printed schedule noted "Upon availability." She relayed the inconsistencies of flights in Alaska's rural areas. Mr. Luiken would look into the answer to Representative Wilson's question and get back to her.

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Representative Gattis suggested that certainly tariffs and schedules were filed. She relayed the circumstance in which

the M/V Tustimina no longer traveled to Old Harbor. She did not believe the issue was complicated. If the state did not have the funding for certain ferry routes, the customers would be contacted and given alternative options. Mr. Luiken was happy to start the process of contacting customers. However, could not start making phone calls to customers without a budget in place.

Co-Chair Neuman suggested to Mr. Luiken that the department immediately begin the process of contacting customers about availability. He emphasized that the budget reduction was not a surprise and furthered he was rather insulted by Mr. Luiken's response.

Representative Wilson asked if the fuel trigger only came into play when fuel reached a certain price. She wondered what happened to the savings for the state as fuel prices decreased. She asked if there had been a significant amount of savings due to the reduction in oil prices. Ms. Pitney responded that the reason there was \$5.5 million available to provide to the AMHS was because the need relative to the fuel trigger mechanism was less. However, the state still used \$10 million in fuel trigger. It equaled the difference between the cost of fuel and its fuel budget. The fuel trigger was supposed to cover the difference. The amount was \$5.5 million less than what was budgeted. The \$5.5 million was being shifted to the FY 16 budget. The \$8 million used in FY 15 was replaced by \$5.5 million. She furthered that it took \$8.8 million to cover all of the department's fuel needs.

Representative Wilson remarked that she was very confused. She asked if the fuel trigger only kicked in at certain oil prices.

Co-Chair Neuman asked that committee members to ask only one question being that the committee was under a time constraint.

[2:56:15 PM](#)

Vice-Chair Saddler asked Mr. Luiken to define "At Risk" in reference to reservations. Mr. Luiken responded that "At risk" meant that if the conference committee budget was approved intact, 29 hundred reservations would be impacted. The department would have to then reach out to either re-book or cancel the reservations.

Vice-Chair Saddler clarified that if HB 72, as passed by the conference committee, went into effect the department would have to contact 29 hundred reservations representing 10 thousand people to report that the scheduled sailing had changed and provide alternatives. It would be up to the customers whether the options were acceptable. He wanted to know if he understood correctly. Mr. Luiken responded that Vice-Chair Saddler was correct.

Vice-Chair Saddler asked if individuals would incur any costs associated with changing their reservations. Mr. Luiken did not believe so.

Representative Pruitt asked when the schedule was published each year. Mr. Luiken answered that the schedule was published in October.

Representative Pruitt asked for Mr. Luiken's thoughts on how to move forward with a schedule. Mr. Luiken appreciated the question. He explained that in July the department usually put together the following year's schedule. The department would then discuss the proposed schedule with the Office of Management and Budget (OMB) to determine whether it would have the budget and the support of the legislature. The schedule was a calculated guess based on past experience. Department of Transportation and Public Facilities would be working with OMB to create a schedule considerably more conservative. It would accomplish two things; reduce costs and increase revenue.

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Representative Pruitt asked if the AHMS could change the fee schedule without legislative approval. Mr. Luiken responded that the commissioner had the constitutional or regulatory right to change the tariffs.

Representative Gara suggested that the department had considered a 4.5 percent fare increase but the associated analysis had revealed that the increase would not necessarily generate additional revenue due to a potential drop in demand. He wondered if he was accurate. Mr. Luiken believed the analysis was based on a reduction in the number of sailings and the number of people that rode the system. The conclusion of the analysis was that the state would not generate the necessary revenue even with

increasing the fares by 4.5 percent due to a drop in the volume of people riding because of a difference in the schedule.

Representative Gara asked for a budget savings analysis of a reasonable curtailment of road resurfacing frequency in order to save money. Mr. Luiken noted that the department was looking at multiple initiatives to reduce costs across systems and to create additional revenue opportunities.

Co-Chair Neuman discussed the agenda for the following day.

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

#  
ADJOURNMENT

3:03:08 PM

The meeting was adjourned at 3:03 p.m.