

HOUSE FINANCE COMMITTEE
January 25, 2016
1:31 p.m.

[Note: continuation of Friday, January 22, 1:30 p.m. meeting.]

1:31:23 PM

CALL TO ORDER

Co-Chair Neuman called the House Finance Committee meeting to order at 1:31 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Pat Pitney, Director, Office of Management and Budget, Office of the Governor.

SUMMARY

OVERVIEW OF THE GOVERNOR'S FY 17 BUDGET & 10-YEAR PLAN:
OFFICE OF MANAGEMENT AND BUDGET

Co-Chair Neuman discussed the meeting agenda.

^OVERVIEW OF THE GOVERNOR'S FY 17 BUDGET & 10-YEAR PLAN:
OFFICE OF MANAGEMENT AND BUDGET

[1:32:36 PM](#)

PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, addressed slide 12 of a PowerPoint presentation titled "New Sustainable Alaska Plan: Pulling Together to Build Our Future" dated January 22, 2016 (copy on file). She relayed that the Legislative Finance Division (LFD) and the Office of Management and Budget (OMB) may disagree on how the numbers were compared, but they agreed on the numbers themselves. She provided an example of how numbers were compared on slide 12 titled "Total Agency Operating Budgets, Statewide Items and Capital Budget Compared to Revenue (UGF Only-\$billions)." She pointed to FY 16 at \$5.4 billion and FY 17 at \$5.5 billion and explained that FY 17 included an amount for dividend checks, while FY 16 did not include the \$1.3 billion distributed for the checks. She furthered that in an apples-to-apples comparison either the \$5.5 billion in FY 17 would be \$4.8 billion or the \$5.4 billion in FY 16 would increase to \$6.7 billion. Regardless, there was a significant reduction even though the slide depicted an increase.

Co-Chair Neuman noted that there had been considerable discussion about how much the governor had or had not reduced. He relayed that the committee would look much deeper into the issue as budget discussions continued.

Ms. Pitney turned to a chart on slide 13 titled "Real Per Capita Unrestricted General Fund Revenue/Budget History (2014 dollars Per Person)." The dark blue bar represented agency operations, which most people considered the cost of government. She directed attention to FY 17 and highlighted that spending was at 2009/2010 levels and for the most part it was about the same as any year prior when accounting for inflation and population adjustments.

[1:35:16 PM](#)

Co-Chair Neuman referred to slide 12. He looked at the \$5.4 billion bar [for FY 16] on the graph. He detailed that the budget had included approximately \$2 billion in formula programs, \$2 billion in non-formula programs, and another \$1.2 billion in statewide items (i.e. Medicaid, education, debt service, payments to Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS), and

other). He asked how to break out the \$5.5 billion [FY 17] into formula, non-formula, and statewide debt.

Ms. Pitney pointed to the lower green portion of the bar on slide 12, which was roughly 50 percent formula and 50 percent non-formula (\$2 billion for agency formula funding and \$2 billion for non-formula funding).

Co-Chair Neuman surmised that it represented an increase of approximately \$100 million. He was trying to differentiate the growth in formula and non-formula.

Ms. Pitney corrected that between the two the administration had decreased \$100 million (approximately \$60 million in formula funds and \$40 million non-formula funds). She referenced a chart ["State of Alaska Fiscal Summary -- FY 16 and FY 17 (Part 1)" (copy on file)]. She revised her prior statement and relayed that non-formula funds had decreased \$60 million and formula funds had been decreased \$40 million (shown in the dark green bar on slide 12). The middle portion of the bar in muted yellow included \$700 million in dividends in FY 17. She detailed that it was quite small relative to the FY 16 bar. She furthered that FY 17 included \$260 million for retirement and roughly \$200 million for debt. She explained that the pension obligation bonds essentially turned the retirement payment into a debt payment (together debt and retirement equaled roughly \$450 million in FY 16 and FY 17). The difference in FY 17 was a reduction of \$500 million in oil and gas tax credits with the expectation of the reform package. She reiterated that the FY 17 bar included \$700 million in dividends. The top bright yellow portion of the bar represented the capital budget, which had been \$118 million in FY 16 and \$195 million in FY 17.

[1:39:03 PM](#)

Vice-Chair Saddler suggested breaking the data out into a larger chart to provide a clearer depiction of all of the detail. Ms. Pitney understood that it was difficult to see all of the information in the small bars.

Representative Gara referred to slide 12 and addressed the \$60 million in non-formula cuts and \$40 million in formula cuts. He stated that the cuts to formula funds would result in a loss of federal matching funds. He asked how much

federal matching funds the state would lose as a result of the cuts.

Ms. Pitney replied that the administration had worked to preserve programs to the greatest extent possible. She furthered that they had tried to find a way to have another funding source if possible. She reported that federal funding had increased while the state had unrestricted general fund (UGF) savings. The administration was not targeting programs that had a federal match; to the extent possible it was preserving programs that had the leverage capacity for federal funds or for services that users were comfortable with offsetting the costs.

Representative Gara asked if the state would lose out on federal matching funds due to the proposed cuts. He asked whether in circumstances where the administration had decided to lose the federal funds it was because the administration had determined the service was not needed by the state or that it was covered somewhere else.

Ms. Pitney replied that the administration had done everything possible to not lose federal matching funds. As in previous years, the administration had maximized the match through the federal transportation and sewer and water programs.

Representative Gara surmised that the proposed formula cuts would not result in the loss of any federal matching funds. Ms. Pitney replied that because the administration had been able to leverage additional federal funds it had managed to get UGF spending reductions.

Co-Chair Neuman stated that it was still a 10-year plan.

[1:42:16 PM](#)

Representative Gattis remarked that she had always heard that it was not possible to change formula programs because they were set in. She referred to the current discussion related to reducing formula funds and surmised that the proposed reduction had been backfilled with federal money and not state dollars.

Ms. Pitney replied in the affirmative.

Ms. Pitney moved on to a graph on slide 13 titled "Real Per Capita Unrestricted General Fund Revenue/Budget History." The source of the data was from LFD, which showed that inflation and population adjusted spending had dramatically declined and were at levels comparable to 2009; it was near the lowest it had been over a 40-year period (shown on the chart). The large changes were statewide costs including retirement, debt, oil tax credits, dividend checks (represented in FY 17), and a small capital budget. She turned to an LFD fiscal summary on slide 14. She stated that assuming the governor's proposed components were implemented, there would be a \$440 million deficit. However, without the plan there would be a \$3.5 billion deficit. She furthered that the \$440 million deficit would decrease to \$28 million next year and zero in FY 19 if the governor's plan was followed.

Representative Guttenberg referenced the FY 17 bar, which included the Permanent Fund Dividend on slide 13. He noted that the chart on slide 12 included the dividend but also showed the number without the dividend. He wondered why the figure was changing.

Ms. Pitney replied that she had worked to use LFD numbers as much as possible in order to eliminate disagreement about the individual numbers. She elaborated that OMB and LFD disagreed on where the dividends should be accounted for. The administration believed the dividends should be counted because it was using the earnings reserve account - as it had been traditionally used for dividends - to pay the dividends for the current year. She stated that the dividends should be categorized as designated general funds (DGF) versus UGF. However, LFD contended that the dividends should be categorized as UGF.

Representative Guttenberg understood there was a difference of opinion on whether or not to include the dividend in the number. He was unsure whether the dividend had been included in the graph for any of the years on slide 13. He opined that it seemed they were always looking at apples-to-oranges comparisons. He believed it would be easier to understand if LFD and OMB presented the numbers in a cohesive way. He thought the difference made it look like smoke in mirrors. He believed the appearance should be consistent with the way the budget had been constructed in order for the legislature to do comparisons.

1:47:20 PM

Ms. Pitney moved briefly to slide 15 related to pension payments. She noted that she had spoken with the committee about pension obligation bonds and the associated timeline the previous week. She offered to take any additional questions on the topic. She continued to slide 16 titled "Reduce UGF Spending." One of the administration's primary objectives was to maintain service delivery to the maximum extent possible while reducing UGF spending. She elaborated that the administration took advantage of any occurrences where it could use federal funding to cover a program that was otherwise funded with General Funds (GF) to work through the deficit. She stated that the administration had taken advantage of occurrences where there were fees associated with a service that people were willing to pay to maintain the service. She detailed that the administration was not "slashing to slash," but was maintaining state services to the greatest degree possible, while reducing the state's UGF spend to begin working through the deficit.

Vice-Chair Saddler understood that replacing state UGF with federal funds was part of the Medicaid expansion dynamic. He asked in what other areas the administration had achieved the same dynamic.

Ms. Pitney replied that the administration was also looking to utilize matching on transportation and federal sewer and water funds. She detailed that there had been an additional \$10 million in the village and rural sewer and water that included an increase.

Vice-Chair Saddler asked if there were any additional incoming funds (outside of Medicaid and safe water). Ms. Pitney believed there were a few and she would follow up with the detail.

Ms. Pitney continued with slide 16 related to reducing UGF spending. She detailed that the administration was looking at the goal as a multi-year approach. She explained that the prior year the state had been almost \$400 million down in operating agency costs, which included 600 fewer employees, office closures, furloughs, work on contract negotiations to minimize increases, and grant reductions or eliminations (e.g. tourism and seafood marketing). She stated that there were many different components to the

\$400 million; part of it included one-time school funding in FY 15. She elucidated there had been three years of school funding appropriated in FY 15; with concurrence the administration had reduced the FY 16 and FY 17 one-time funding. The administration was also working on efficiency initiatives, which would streamline what and how the state was doing; it would save money, but would not save hundreds of millions of dollars. Additionally, they were working on consolidating information technology and facility functions; it was also working on a shared service for procurement and travel. The list included many things that should and needed to be done, including reductions to personnel and costs.

[1:51:57 PM](#)

Representative Gattis remarked that there had been discussion about the 600-employee reduction during a recent special session. She thought Ms. Pitney had stated that the decrease was a reduction in position control numbers (PCN) and not actual employees. She asked if there had been a change.

Ms. Pitney answered that the 600 positions had always been related to how many fewer employees the state was paying currently than it had been paying in December [2015]. She elaborated that there were also over 800 position reductions from FY 15 to present; 700 of which were full-time permanent positions.

Representative Gattis asked for clarification on the reduction related to the 600 positions. She wondered if 600 people had lost their jobs and were no longer working for the state.

Ms. Pitney answered in the affirmative; the state was paying 600 fewer permanent employees in the current year than in the past year.

Representative Gattis wanted to verify that the actual number individuals who were no longer working for the state was 600. She believed many constituents did not think 600 working employees had been laid off. She thought it was fair to address the actual number of people who had lost jobs versus reductions to PCNs. She wanted to be clear that there were Alaskans who were no longer working in comparison to not allocating money to a department's budget

for a vacant PCN. She believed it was a bit of a "shell game." She noted that the governor had stated he would do lobbying in Washington DC, but she did not see the money put back. She furthered that as they went through the process she would be very critical about looking at whether there were Alaskans out of a job and if their pay was being utilized somewhere else. She hoped they could be clear about the issue in conversations going forward.

Co-Chair Neuman requested a chart of the number of filled positions that had been eliminated.

[1:56:10 PM](#)

Co-Chair Thompson referenced the Department of Labor and Workforce Development (DLWD) trends report that included jobs that no longer existed and expectations for the following year.

Ms. Pitney addressed slide 17: "Budget Guidance to Departments":

Among the issues that departments were asked to consider as they evaluated their budgets:

- Is it required by a constitutional mandate?
- Is it required by a legislative mandate?
- Does it leverage other resources?
- Does it pay for itself or make money for the state?
- How utilized is the service?
- What is the impact on the statewide economy?
- How difficult would it be to privatize or be absorbed by another agency?
- Does it directly contribute to the vision of this Administration?

Ms. Pitney used business licenses as an example of an entity paying for itself. When addressing the impact the deletion of a service would have she used the Alaska Marine Highway System (AMHS) as an example. The administration had asked the departments to look at the list of items as they worked through the budget.

[1:57:37 PM](#)

Representative Wilson referenced slide 17 and asked if the administration had the same conversations with the University of Alaska. She asked if any travel restriction included the University.

Ms. Pitney replied that the University Board of Regents had the constitutional mandate to manage the University. She furthered that OMB shared all of its principles and guidance with the University - in many cases they were involved and responded the same as any other agency, but the funding decisions were handled by the Board of Regents.

Ms. Pitney turned to slide 18: "Agency Operating Budgets Percentage Change from FY16 Mgt Plan to FY17 Gov (UGF Only)." The slide included an agency-by-agency graph of reductions by percentage. She drew attention to the increases for the Department of Revenue (DOR) and the Department of Natural Resources (DNR), which were associated with increases for the gasline. There had been a \$38 million gasline investment, which accounted for the \$30 million increase to DNR illustrated on the graph. She explained that DNR had received an \$8 million reduction on top of the prior year reduction, which had been approximately \$10 million. There had been an increase of slightly over \$1 million for DOR, which represented a continued decrease in revenue. The Department of Military and Veterans Affairs (DMVA) was the administration's other priority and had received a proposed increase for rural engagement; it represented the first step in regaining a National Guard presence in rural Alaska. The chart showed decreases for all other departments in FY 17.

Vice-Chair Saddler asked if there had been any federal match from the National Guard Bureau associated with the \$1.3 million for DMVA. Ms. Pitney answered that currently only UGF had been allocated towards the state defense force for rural engagement. The administration anticipated that in the future it would leverage federal funds, but it was a state investment to move towards increased presence in rural Alaska.

Representative Edgmon referred to the reduction of 600 state employees (precisely 587). He asked if the reductions had come disproportionately from any particular department (e.g. Department of Commerce, Community and Economic Development).

Ms. Pitney replied that the breakout had been posted on the OMB website and updated monthly since August or September [2015]. She relayed that the largest reductions were in the Department of Administration and the Department of Law - in the range of 60 employees. She did not have the data on hand, but could follow up with the information. The chart on slide 18 reflected fewer full-time employees.

[2:01:36 PM](#)

Representative Gara asked for the total Department of Health and Social Services (DHSS) budget (excluding Medicaid). Ms. Pitney answered that it was in the \$350 million range.

Representative Gara asked if the \$46 million reduction had come out of the \$350 million. Alternatively, he wondered if a substantial part of the reduction had come from Medicaid.

Ms. Pitney replied that a substantial part of the reduction was associated with the advantage the state had received from Medicaid expansion. Additionally, energy assistance and other program areas had received reductions.

Representative Gara remarked that \$90 million had been cut from DHSS the previous year. He was concerned about additional cuts.

Ms. Pitney continued to address slide 18. She drew attention to the \$9 million reduction to the Department of Education and Early Development (DEED); the decrease was made up of reductions and utilizing the School Trust Fund. She explained that the reductions were to many of the grant programs (e.g. pre-K, Best Beginnings, Alaska Native Science and Engineering Program (ANSEP), and broadband). The grant programs that had been started in the past few years had been reduced. She furthered that the K-12 formula (Base Student Allocation (BSA)) had received a \$50 increase through legislation passed in 2015. She explained that it was the last prescribed increase; the administration's plan did not include any increases going forward as the budget flattened out over the upcoming two years. She expounded that \$13 million in School Trust Fund monies had been used in prior years and \$30 million would be used from the fund in the current year. The goal was to determine how to draw on the funds sustainably in the long-term.

Co-Chair Neuman noted that the committee would get further into the DEED budget. He explained that when the legislature had used funds from the Higher Education Trust Fund the previous year it had not gone under DEED's budget, but had gone to internet services and other items connected to education.

[2:04:34 PM](#)

Representative Guttenberg stated that the Department of Commerce, Community and Economic Development (DCCED) had taken a significant budget reduction (approximately 30 percent). He was concerned about lost opportunity. He explained that Alaska was hosting the international Arctic Council for the next two years. He detailed that he was concerned about not spending a dime in the current year and losing \$1.00 the next year. He believed the state needed to have a vision for the issue. He provided developing an Arctic port in Port Clarence, Alaska as an example. He was not asking for a specific answer at present, but he was interested in perspective on what the state was doing related to the topic.

Co-Chair Thompson reminded committee members that the committee would address each of the departments in depth at a later date.

Ms. Pitney addressed a chart on slide 19 titled "Agency Operating Budgets Change from FY 16 Mgt Plan to FY 17 Gov (UGF Only)." The slide included the percentage decrease in proposed reductions to departments. She pointed out that although the decrease to DHSS was 4 percent, it had the most reductions by far in comparison to other departments. The University had the second largest reduction from FY 16 to FY 17. She turned to slide 20 titled "Reductions FY 15 Management Plan to FY 17 Governor (adjusting for investments)." The slide adjusted out the increase for the gasline and adjusting out the rural engagement. She noted that DCCED had taken a significant reduction [46 percent]; a large portion of the reduction was in tourism and seafood marketing grants. She explained that all of the traditional grants that went through DCCED that were high in the high oil years had been greatly diminished. She pointed to DEED non-formula, which was the second highest percentage reduction [35 percent].

[2:07:51 PM](#)

Representative Gattis noted that she chaired the DEED finance subcommittee. She asked for the total percentage reduction to DEED. She noted that only factoring in nonformula in the chart sent an incorrect picture of reductions from a percentage standpoint.

Ms. Pitney replied that it went back to services that could be preserved using funds other than UGF spend. She offered to get the number and follow up.

Representative Gattis clarified the question. She asked if DEED had been cut by 35 percent or a smaller percentage when accounting for formula funds.

Ms. Pitney returned to slide 19 related to a one-year look for FY 16 and FY 17. The DEED reduction was just under \$10 million, which included a \$4 million shift for a total of \$6 million.

Ms. Pitney moved to slide 21 titled "FY 08-FY 16 State Employees." She had tried hard to stay away from stay away from positions because when they had the discussions the preceding year people had stated that vacant positions did not count. She addressed the actual workforce reduction. She noted that Co-Chair Thompson had discussed DLWD's data. She explained that under federal rules, DLWD did a month-by-month comparison annually for every job in Alaska. The 600 positions she had referred to earlier pertained to executive and legislative branch employees; it was possible for OMB to get a price tag on each of the State of Alaska affiliated positions and to determine whether it was filled or not. The data on slide 21 pertained every pay check in Alaska including full-time, part-time, and seasonal workers. She often worked with full-time and part-time permanent due to the state's benefit obligation to the employees. There was more flexibility related to temporary workers. The chart on slide 21 was all encompassing and included the University, Alaska Railroad Corporation, departments, and other. She relayed that in 2008 the state had paid 24,725 people; at present there were 24,800 employees. She remarked that two years earlier there had been 26,500 employees. She stressed that the decline represented a reduction in workforce. She noted that hopefully the former employees were working somewhere else in the state and the jobs had not been lost. She stated that about three months earlier there had been about the

same number of jobs in Alaska, but a loss had been predicted.

[2:12:21 PM](#)

Vice-Chair Saddler asked for verification that the figures on slide 21 referred to actual individuals and not full-time equivalents. For example, if there were two part-time employees it would show up as two decreased positions as opposed to one position.

Ms. Pitney replied that the figures represented individual bodies and included part-time and temporary employees. She elaborated that the state's workforce was made up of full-time permanent positions (the core workforce); part-time permanent positions (a much smaller number); and temporary employees, which fluctuated (e.g. fire fighters and student workers). She took the state's permanent workforce and looked at the percentage that were funded with UGF, federal, and other state funds. She explained that breaking the workforce into the different funding types brought the GF number down significantly. For example, of DCCED's 575 employees, about 75 were UGF positions; the remainder of the employees were working for licenses or federally funded.

Representative Wilson noted that DEED had begun doing contracts a couple of years earlier, which had reduced its number of full-time employees. She asked if the chart on slide 21 accounted for work that had been contracted out.

Ms. Pitney replied that the chart (slide 21) did not include the contract employees. Representative Wilson requested the information. She asked if there was a chart that would help the committee better understand how salaries and benefits had changed over time as the number of positions had increased and decreased.

Ms. Pitney agreed. She moved to an LFD chart on slide 22 titled "FY 17 Governor's Request Agency Operating Budget, Statewide Items and Capital Budget (Formula & Non-Formula) (UGF Only--\$ millions)." She stated that she "wholeheartedly" agreed with the chart (with the exception of the magnitude of the bar that included \$700 million for dividends). The chart showed the state's options when facing a \$3.5 billion deficit. The largest portion of the budget totaled \$3.7 billion and included DEED, statewide

(with or without the inclusion of dividend checks), and DHSS. The remaining budget totaled \$1.8 billion, which included other departments, capital, and the legislature. Annual revenue was projected at \$1.7 billion to \$1.8 billion for FY 17 (less than that for FY 16). The choices were very difficult and making up the deficits on any of the pieces was virtually impossible.

[2:16:15 PM](#)

Representative Edgmon asked if the \$1.7 billion was based on oil in the \$20 to \$30 per barrel range or in the \$50 per barrel range. Ms. Pitney answered that the projection was based on the Fall Revenue Sources Book price of \$56 per barrel.

Representative Edgmon surmised that the reality was that if oil prices remained in the \$20 to \$30 per barrel range, revenue could decrease to \$1 billion. Ms. Pitney answered in the affirmative.

Representative Gara observed that the administration had cut state-funded pre-K from \$2 million to nothing (including Parents as Teachers). He wondered why there had not been a substantial cut in the salaries of some of the higher paid deputy commissioners who were paid more than commissioners in many cases. He asked why there had been no reductions to the salaries when the proposed budget would take money from services for children who had nothing.

Ms. Pitney answered that there were fewer deputy commissioners. She elaborated that the deputy commissioners were under employment contracts, which the state could honor or not honor. She explained that the administration was choosing to honor its contracts. She added that there had been furloughs and there were exempt pay freezes in the governor's office.

Representative Gara asked for verification that the number of deputy commissioners had been reduced. Ms. Pitney answered that some deputy commissioner positions had not been re-hired.

Co-Chair Neuman requested a breakout of the reductions in administrators and what positions they had held.

[2:18:49 PM](#)

Representative Gara expressed frustration about the decision to honor the contracts for individuals making over \$100,000, while other moral obligations had been cut.

Representative Munoz requested a list of exempt employees making more than the governor. Ms. Pitney replied in the affirmative.

Ms. Pitney briefly discussed the highlighted circles on slide 23 titled "State of Alaska Fiscal Summary - FY 16 and FY 17 (Part 1) (\$millions)." She pointed to the bottom line and noted that there was still a deficit of \$440 million in FY 17 (circled in red), which would be reduced to zero in FY 19 under the governor's proposed budget.

Ms. Pitney reviewed slide 24: "The New Sustainable Alaska Plan: Unrestricted General Fund Revenue/ Budget History (\$millions)." The green shading in the background represented the state's revenue. Under the status quo there would be a large deficit even as the governor's plan continued to reduce funding expenditures. She detailed that the administration anticipated a \$50 million decrease in operating agency expenditures in the coming year and an additional \$50 million decrease the following year. Oil and gas tax credits were anticipated to be at a steady \$100 million. Additionally, savings would be assumed from pension obligation bonds and from working with the legislature on a disciplined general obligation bond approach. Under the plan, costs continued to decrease, but the state's revenue filled the gap with the use of the Permanent Fund Protection Act. Going forward there would be a long-term, stable, and balanced budget. She noted that the graph had been generated by LFD and illustrated the outcome of implementing the Permanent Fund Protection Act and the governor's proposed revenue measures.

Ms. Pitney advanced to the final slide 25: "The New Sustainable Alaska Plan." She summarized that under the governor's plan Alaska still had the lowest taxes in the nation and residents received a dividend. She read from the slide:

- Lowest taxes in the nation.
- Receive a dividend.
- Grow our savings.
- Continue to provide essential services.

- Invest in future

Representative Wilson asked if a salaried employee put on furlough made the same amount of money as hourly employees. For example, she wondered whether salaried deputy commissioners paid money back to the state if they were put on furlough.

Ms. Pitney replied that the employee would take leave without pay (LWOP) days.

Representative Wilson thought salaried employees just received a set amount versus getting paid hourly. Ms. Pitney replied that LWOP days were less pay. An employee would take the furlough days without their normal salaried amount.

Vice-Chair Saddler referred to slide 24 and asked for verification that the slide represented nominal dollars. Ms. Pitney answered in the affirmative. She elaborated beginning in 2020 the plan called for constrained increases on the spending side and inflation-only increases on the revenue side (assuming there would be items reduced in FY 17 through FY 19 that would need to be restored in the future).

[2:23:33 PM](#)

Representative Gara referenced Ms. Pitney's past testimony that there would be several years of flat funding for education. He asked if the "sustainable" line included flat funding for K-12 education out into the future. Ms. Pitney answered that the plan called for flat funding in K-12 in FY 18 and FY 19 (there was a \$50 increase to the BSA in FY 17); inflation adjustments would begin after FY 19.

Representative Gara replied that under the governor's plan it would mean four consecutive years of (inflation adjusted dollars) cuts to schools.

Representative Edgmon pointed to the bottom line on slide 23, which showed a deficit of \$440 million under the governor's plan. He referred to the current oil price environment and reasoned that the figure would balloon to a much larger number of possibly \$1 billion.

Ms. Pitney answered that there were additional reductions in savings built into the governor's plan through FY 19 - primarily from \$100 million in operating reductions, achieving a steady \$100 million in [oil and gas] credit reform, shifting from cash funding on capital to general obligation bonds for items the state currently cash funded, pension obligation bonds, and keeping a very strict policy of locating reductions if an expenditure increased in one area. Beginning in FY 20 the governor's plan looked at inflation only. She explained that the deficit of \$440 million would be reduced to \$28 million [in FY 18] and then down to zero [in FY 19]. She added that it would take a bit of time for some of the proposed tax revenue to filter in - it was about \$100 million short of the anticipated figure in the future. She concluded that altogether the plan would reduce the \$440 million deficit (shown on slide 23) down to zero.

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

#

ADJOURNMENT

2:26:28 PM

The meeting was adjourned at 2:26 p.m.