

HOUSE FINANCE COMMITTEE  
March 9, 2016  
9:09 a.m.

9:09:00 AM

CALL TO ORDER

Co-Chair Neuman called the House Finance Committee meeting to order at 9:09 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Pete Ecklund, Staff, Representative Mark Neuman; David Teal, Director, Legislative Finance Division; Representative Kurt Olson; Representative Lora Reinbold.

SUMMARY

HB 256      APPROP: OPERATING BUDGET/LOANS/FUNDS

CSHB 256(FIN) was REPORTED out of committee with a "do pass" recommendation.

HB 257      APPROP: MENTAL HEALTH BUDGET

CSHB 257(FIN) was REPORTED out of committee with a "do pass" recommendation.

[9:09:27 AM](#)

#hb256

#hb257

HOUSE BILL NO. 256

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

HOUSE BILL NO. 257

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

[9:09:40 AM](#)

Co-Chair Neuman explained that the committee would be taking up the committee substitutes incorporating the amendments adopted from the previous day into HB 256 and HB 257.

Co-Chair Thompson MOVED to report CSHB 256(FIN) out of Committee with individual recommendations.

Co-Chair Neuman OBJECTED for the purpose of discussion.

PETE ECKLUND, STAFF, REPRESENTATIVE MARK NEUMAN, explained that the committee substitutes for both bills before the committee, HB 256 and HB 257, incorporated the amendments made in the previous day. He directed members' attention to the handout of the summaries. He referred to the first page on LFD Spreadsheet A and explained that after the amendments were incorporated in the committee substitute for HB 256 the total reflected a decrease of \$8.6 down from the total in the previous version. In other words, after all of the amendments were calculated, the Committee Substitute reflected \$8.6 million less in unrestricted general funds (UGF) than in the previous version of the

committee substitute. He pointed to column 5 titled: "2016 House". The agency operations formula and non-formula totaled \$3.813 billion. Next, he turned to the third page on LFD Spreadsheet B and highlighted that UGF non-formula funds, often referred to as day-to-day state government, equaled \$1.835 billion incorporating a \$447 million reduction or a 19.6 percent reduction from 2015.

9:11:38 AM

AT EASE

9:12:00 AM

RECONVENED

Mr. Ecklund returned to LFD Spreadsheet A on the first page of the summary reports. He pointed to the -\$8.6 million in the very last column where it stated "between CS's." Following the adoption of the amendments in the current version of the bill the agency budget total was \$8.6 million lower in UGF than in the previous version of the committee substitute.

Representative Gara clarified that it was \$8 million less. However, the FY 16 appropriations that really went into FY 17 and FY 18 were not included. He wondered if he was correct.

Mr. Ecklund pointed to the middle column 6 that showed a \$30 million appropriation in FY 16 for filling gaps in substance abuse services, \$1.8 million for elections in order to flatten out elections expenses between years, and \$932 million for a single year audit which started in FY 15 or FY 16 for the Department of Health and Social Services. The LFD Spreadsheet compared the FY 16 Management Plan to the current committee substitute. It was \$8.6 million less in FY 17.

Representative Gara did not think the \$8.6 million difference included the \$32 million addition. He asked if he was correct.

Mr. Ecklund replied that Representative Gara was correct because it was comparing FY 17 to FY 17 in the committee substitutes. It was \$8.6 million less in FY 17 between the committee substitutes. The supplemental column was not a part of the comparison.

Representative Gara referred to the previous evening's meeting and the last amendment addressed at the end of the meeting having to do with education. He understood that most of the related money came out of the general fund. He stated that about \$150 million came from the public education fund. He wondered if that money was reflected as a general funds spend for FY 17. Mr. Ecklund responded that the \$145 million coming from the public education fund in FY 17 was shown as a negative fund cap on LFD Spreadsheet C which showed the formula fund programs.

Representative Gara pointed to the circled column 5. He asked about the \$3.8 million of UGF spending and wondered if it included \$150 million from public education funding and the \$30 million alcoholism and drug abuse treatment program.

Mr. Ecklund answered that the \$145 million from the public education fund was not reflected in the \$3.8 million. The supplemental FY 16 appropriations were in a different fiscal year and were not in that number either.

[9:16:26 AM](#)

Representative Wilson asked where she would find the fund source changes done in the previous day on the forms. She noted \$1.4 million in the Department of Transportation and Public Facilities (DOT) monies from the general fund to \$1.4 million in vehicle rental tax.

Mr. Ecklund responded in LFD Spreadsheet D reflecting "All Funds."

Representative Wilson asked what page Mr. Ecklund was referring to.

Mr. Ecklund responded LFD Spreadsheet D.

Representative Wilson asked if the column was circled.

Mr. Ecklund explained that it was in LFD Spreadsheet D and was "All Funds". He directed her to the DOT line and mentioned that the vehicle rental tax would not be seen explicitly but could be found in the changes in "All Funds."

Representative Wilson asked about the \$7 million in federal funding that was removed on LFD Spreadsheet D. She wondered if it would be reflected as part of the savings of the UGF seen on LFD Spreadsheet A.

Mr. Ecklund asked if she was referring to the aviation fuel amendment.

Representative Wilson clarified that in the previous evening the finance committee added \$7 million in federal funds and deleted \$7 million in general funds before putting in \$275,900 into general funds. She understood the general funds would show up on LFD Spreadsheet A because it was an addition. The decrease of \$7 million would also show up on LFD Spreadsheet A. She wondered if the \$7 million in federal funds would show up on LFD Spreadsheet D all funds. Mr. Ecklund responded, "That is correct."

Representative Wilson wondered about undesignated general funds from the state's savings accounts. She was not asking about federal transfers, tax receipts, or a higher education fund. She thought those funds would still be paid keeping government the same size. She thought it would look as though there were less government services because the state was spending less of its savings.

Mr. Ecklund disagreed with her characterization. He explained that the reason the legislature concentrated on UGF was because the difference between UGF revenue and expenditures equaled the state's fiscal gap. If a person wanted the total size or total spend of government they would have to look at all funds not just UGF.

Representative Wilson understood. She wanted to find out each piece of the transfer. She knew how to find the federal fund transfers. She wondered where she could find money from the higher education fund or the rental tax and whether she could find them under designated general funds (DGF).

Mr. Ecklund stated that the specific funds she mentioned were DGF. There were many different funds including DGF, federal, and other. She was correct about the two that she specified.

Representative Wilson spoke of doing a LFD Spreadsheet to match her numbers.

Mr. Ecklund responded affirmatively.

9:21:03 AM

Co-Chair Neuman explained that there was an effort to use funds left over from FY 16 to decrease the amount of draw on the Constitutional Budget Reserve (CBR). He thought it was a very important fact and added that he did not believe it would be a good idea to take money left over from the previous year from some other unused funds that came from CBR draws and some left over from the Statutory Budget Reserve (SBR). The effort was to try to use those funds to pay the following year's bills. He thought the state had a long ways to go but acknowledged the committee's work in cutting about \$300 million more from the budget. He remarked that some of FY 16 funds were used to pay the following year's bills so they would not get used for anything other than paying bills.

Representative Gattis agreed that the legislature should not place money back into the CBR because of the three-quarter vote requirement to access it. She struggled to understand why the FY 16 budget was being discussed rather than the FY 17 budget. More importantly, she asked about the total spend amount. She received calls from her constituents who were concerned with trusting the legislature to impose taxes or to spend their Permanent Fund Dividend (PFD). They felt legislators were playing shell games. She thought it was important to note the government's total spend for those watching on television.

Co-Chair Neuman interjected, "Representative Gattis, this is not a shell game! This is using last year's funds and Mr. Ecklund can answer your questions."

Representative Gattis rebutted that constituents could not follow the numbers and legislators were having a difficult time following as well. She thought it was imperative to discuss the total spend, how it was broken out, and how it compared.

Co-Chair Neuman responded that that was fine.

Representative Gattis thought her constituents were asking a fair question. The legislature spent a significant time talking about UGF and DGF. However, she wanted to know the

total spend of government, what the legislature was spending, and how did the legislature make government smaller. She thought they were fair questions to ask.

Co-Chair Neuman stated that it was fine, but he was not ready for accusations. The committee would work on the budget. He asked Mr. Ecklund for the total spend of government.

Mr. Ecklund responded that the total funds for agency operations, formula, non-formula, and state-wide equaled \$8.659 billion.

Co-Chair Neuman asked how much of the total was statewide formula and non-formula.

Mr. Ecklund referred to the House [column 5] in the middle of LFD Spreadsheet D. The total spend in FY 17 for agency operations (formula and non-formula) equaled \$8.169 billion. Statewide operating items totaled \$490,478.5 million. The two figures together totaled \$8.659 billion. He also pointed to the 2016 House Supplemental column [column 6].

Co-Chair Neuman indicated that in the previous year the state had just under a \$5.2 billion budget. The legislature reduced the budget by about \$274 million in the budget finance subcommittees which left the budget at \$4.85 billion. He asked where the number could be found.

Mr. Ecklund pointed to LFD Spreadsheet A which showed UGF. He derived the total of \$4.084895 billion by adding the agency total and the statewide total.

Co-Chair Neuman stated that some FY 16 funds were used to help cover the costs for FY 17.

Mr. Ecklund responded that Co-Chair Neuman was correct. He reported \$145 million was used from the public education fund and \$77 million was used from the higher education fund.

Co-Chair Neuman asked for the total without using FY 16 funds.

Mr. Ecklund needed a moment to do some calculations.

Co-Chair Neuman instructed Mr. Ecklund to run the calculations later.

9:26:48 AM

Vice-Chair Saddler responded to the Wasilla legislator regarding her comment about "Shell games." He did not believe it was a shell game that was being played and that referring to it as such was a disservice to the committee and to the complexity of the process. He used the analogies of a household budget and a stock portfolio to illustrate the complexity of the budgeting process. He stressed the importance of explaining the process to constituents that did not understand the system. He felt it was the obligation of legislators to understand and convey the process. He wanted people at home to know that it was not simple, but complicated. It was not dishonest nor a shell game, but rather, a complex state budget.

Co-Chair Neuman did not believe anyone was saying it was a shell game. He reiterated that the legislature used FY 16 funds to cover FY 17 costs. He spoke of how to explain it to his constituents. He gave an example of putting on a new deck and a new roof on his house. He explained that the legislature took money left over from FY 16 to pay for expenses in FY 17. Co-Chair Neuman expounded that the left over funds could have been used for other items such as capital projects. However, he felt it was a priority to use the extra funds to reduce the state's operating costs and the amount of money that had to be drawn from the CBR. He spoke of other items that would need to be dealt with before the end of the session. He relayed that only 40 percent of the budget represented the state's day-to-day operations. He mentioned formula programs in Medicaid equal to \$600 million or more. He also mentioned the Medicaid reform bill and gave kudos to Co-Chair Thompson's office and his staff for his efforts towards that legislation. He mentioned having meetings with the governor and the commissioner on Medicaid as well. He noted education and the related formula programs and reported that the budgets for Department of Health and Social Services and the Department of Education and Early Development were the two largest in the state. Both budgets would likely be further reduced. He specified that legislation in the works regarding education and oil and gas tax credits. He commented that money was not allocated in the budget for tax credit payments. He relayed that from the Senate's

report he gleaned there would be considerable reductions in the amount of oil tax credits owed in future years. However, there were still outstanding credits. He offered that the state had yet to deal with the obligations of the Teacher Retirement System (TRS) and the Public Employees' Retirement System (PERS) as part of the budget process. His goal was to reduce the overall state spend down to about \$4.5 million within 2 years. He referred to experts such as Institute of Social and Economic Research (ISER) who suggested that it would take 3 years to make such a reduction. In order to arrive at a reduction in a short time period he surmised it was important to use the money left over from FY 16 to lower the costs to the state. He posed the question about what it cost in the current year to pay the following year's bills. He speculated that \$2.1 billion would have to be taken out of the CBR to meet the budget demands, considerably less than he expected. His goal had been to reduce the amount of draw from the CBR. It did not lower the amount of state spending. He thought he had tried to make things very clear. He felt that the legislature had a long way to go.

[9:34:38 AM](#)

Representative Gattis asked if the state had added to the total spend for government by using the left over FY 16 funds. She asked for the prior year's total spend as well as the current year spend. She asked if the legislature added to the total spend by using the FY 16 funds that were being discussed. She was talking about total spend versus UGF.

Co-Chair Neuman asked if she was asking about total spend including federal funds or funds that came in from receipts.

Representative Gattis reiterated that she was speaking of funds from UGF or DGF - funds collected by the state and spent by the state. Constituents were watching legislator's every move and how Alaskans' personal pockets would be affected. She opined that it was incumbent upon legislators to be clear so that constituents could trust them.

Co-Chair Neuman agreed.

Representative Gattis asked if the state had increased the previous year's budget that the legislature voted on by using FY 16 funds.

Co-Chair Neuman responded, "No."

Mr. Ecklund referred to LFD Spreadsheet D, all funds. He wondered if she was interested in all state funds.

Representative Gara responded in the affirmative.

Mr. Ecklund pointed to the second page of LFD Spreadsheet D noting the different categories under funding summary: UGF, DGF, other state funds, and federal receipts.

Co-Chair Neuman stated that in the previous year the state budget was under \$5.2 billion. He asked Mr. Ecklund if he was correct.

Mr. Ecklund clarified that the figure was UGF and did not include DGF and other state funds. It depended on what categories of funds he wanted to compare.

Representative Gattis would no longer burden the committee with her questions but hoped to get together to review the numbers.

Co-Chair Neuman interrupted the representative indicating that the legislature could not use FY 16 funds. The only thing the legislature could use the FY 16 funds for was to continue the amount of draw that would have to be taken from the CBR. However, the cost to the state remained the same.

[9:38:38 AM](#)

Co-Chair Thompson commented on the state's total spend. He thought the figure would vary significantly. The state was receiving additional money in highway dollars in the current year shown as \$2.184 billion. Every time the state received additional funds it would increase the state's total spend for the year which he thought was important to consider.

Representative Gara agreed that the total budget reduction was approximately \$300 million. He wanted to move away from how everything was accounted for and focus on what was in

the budget. His major complaints had to do with what happened to folks with disabilities, seniors, and children. He wanted to have accurate numbers and he wanted to understand what the legislature was doing in the future. He remarked that the legislature had typically measured year-to-year spending by UGF. In the current year things had changed. He suggested that if the legislature wanted to have an UGF amount equal to the previous year's figure, it would require the legislature to cut an additional \$220 million. To reach the same UGF amount several other funds would have to be spent such as the \$80 million from the higher education fund and \$145 million from the public education fund. These funds were not reflected in general funds. He mentioned that next year he did not want to compare UGF to UGF because otherwise the legislature would have to come up with \$220 million cuts to reach the same UGF number. He thought the legislature would have to start considering DGF and UGF in order to have a true picture of statewide spending. He did not want to have to cut \$2 million to say that the state was at the same level as it was in the previous year.

[9:41:28 AM](#)

Co-Chair Neuman agreed that the budget needed to continue to be reduced. He noted funds were used to supplement the UGF. The intent was to demonstrate to the public that the legislature planned to have a lower budget in the following year.

Representative Gara suggested that last year's cuts in the amount of about \$700 million and the proposed cuts for FY 17 in the amount of about \$300 million equaled about \$1 billion in reductions over the past two years. He thought the cuts that were being proposed were terrible. He suggested that the state was spending much less than 30 years ago (if adjusted for inflation) on a per capita basis. The problem the public had was that there was always someone in the legislature that spent unwisely. He explained to Mr. Ecklund that he was having a difficult time reconciling the numbers. He cited several numbers and asked Mr. Ecklund for clarity. He wondered if there had been roughly \$270 million in cuts.

Mr. Ecklund explained that he was correct that looking at agency operations in the current committee substitute compared to the FY 16 Management Plan the legislature would

be cutting \$282 million in agency operations. The additions for the public education fund and retirement occurred in the statewide section. He pointed to the bottom of the page showing a total of \$4.084 billion. By adding \$145 million and \$80 million the number totaled \$4.31 billion.

Representative Gara stated that there was a \$280 million cut in UGF. He wondered how he could explain that it was a \$280 million cut when \$220 million was added to the statewide number.

Mr. Ecklund responded that it would be better to compare agency operations to agency operations, statewide numbers to statewide numbers, and then come up with a total. The legislature had cut \$282 million from agency operations.

[9:48:15 AM](#)

Representative Pruitt wondered how things would look in the following year regarding the budget. Currently, the committee was hearing about how much was spent in previous years. He understood that the current total spend amount for FY 16 was about \$5.2 billion. He wondered in the following year if that number would be closer to \$5.7 billion or whether the \$5.2 figure include the \$475 million being used to pay for other things.

Mr. Ecklund replied that the FY 16 management plan would stay constant.

Co-Chair Neuman clarified that the amounts needed were for agency operations: formula, non-formula, and statewide monies.

Representative Pruitt wanted to know about the total UGF spend in the following year. He was not necessarily talking about the management plan. He was referring to PowerPoint slides provided by the Office of Management and Budget as to how much was actually spent in FY 16 of total UGF spend.

Mr. Ecklund answered that the management plan represented a fixed point in time and would not change. He surmised that Representative Pruitt was interested in the supplemental budget for FY 16 and how it would be reflected.

Representative Pruitt replied in the affirmative. He asked if the supplemental numbers were included in the \$5.2

million. In other words, he wanted to know if the actual numbers would be shown on the PowerPoint and whether they would be closer to \$5.2 billion or \$5.7 billion.

Mr. Ecklund deferred to Mr. Teal from the Legislative Finance Division (LFD).

Co-Chair Neuman reported that the legislature had started out at \$5.2 million to run government in the following year. There were monies that were taken out of the budget under UGF. He asked what the number dropped to.

[9:52:23 AM](#)

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, asked Representative Pruitt to repeat his question.

Representative Pruitt discussed that OMB provided charts showing the total amount of UGF spending and how the state had decreased total spending. For the previous year it showed \$5.2 billion as the total spend. However, he was aware that FY 16 was not done. He wondered if the total spend would remain around the \$5.2 billion level or if it would increase with a supplemental budget to \$5.7 billion.

Mr. Teal confirmed that because it was currently the middle of the fiscal year the management plan numbers were used and they did not include supplemental figures. When showing the fiscal summary it also included capital spending equal to an additional \$200 million. In looking at the number on LFD Spreadsheet A in column 5 it showed spending of \$4.084 billion. In answer to Representative Pruitt's question about what FY 16 would show, he offered that FY 16 would show FY 16 final which would include supplemental spending.

[9:55:01 AM](#)

Mr. Teal continued that by the time the information was available the legislature would already be looking at FY17 and FY 18 in the following session. He understood how it might appear that there were shell games. The extra money totaling \$288 million resulted from revenue coming in higher than expected and expenditures coming in lower. The legislature did not empty the SBR as anticipated. In most states, it would simply be an unspent balance that carried forward into the following fiscal year and was available for spending in the same fiscal year. Essentially, it would

reduce the states revenue in the next fiscal year. The state did not operate in such a way because money got swept into the CBR. The state spent the money in FY 16. He did not understand why people referred to spending FY 16 revenue in FY 16 as a shell game. Spending the money in FY 16 in some ways reduced FY 17 expenditures. If the money was carried forward into FY 17 the legislature would end up in the same position; the legislature would have more money available in FY 17 reducing the state's deficit. He urged members to focus less on comparing what the state spent in a particular year. He relayed he would be in front of the committee over the next few days discussing models. In that discussion he would emphasis that trying to separate one fiscal year from another would be more confusing than helpful. He stressed the importance of focusing on what was happening to the reserve balance. It would be a major gage as to how the state was doing without a whole lot of confusion. The state would have deficits across the fiscal years which meant the reserve balances would fall. Ultimately, people could see how they were doing by simply looking at what was happening to the reserves in the long run. He pointed to LFD Spreadsheet A at the reduction in column 5-2. At the bottom of the column there was a reduction from the FY 16 Management Plan to the House number of \$993 million. It would indicate that the legislature reduced FY 16 to the current budget by about \$1 billion. He reminded members that the budget in its current form did not fund oil and gas tax credits. He suggested subtracting \$500 million leaving a reduction of roughly \$493 million. He also mentioned the \$145 million from the public education fund added to the \$80 million totaling \$225 million. He continued that by subtracting \$225 million from \$493 million the true savings ended up being about \$270 million - the number he thought Representative Pruitt was looking for. Currently the legislature did not have the tax credits funded. He posed the question about whether the legislature would fund them. There was money that carried forward. He wondered if the legislature would bump the budget up in the following year by \$225 million because FY 16 money was used in FY 17. He reminded members that \$145 million of the \$225 was a three year carry forward. He thought that the budget might increase by \$80 million from the higher education fund. He thought that, as Representative Neuman was trying to convey, the budget was an ongoing process without ever having a really firm number for a starting place. The state would not be spending \$5.7 billion. If oil and gas tax credits of \$500 million were

added as well as a capital budget of \$200million to \$4.084 billion the total would be \$4.7 billion. He relayed that even with accounting for adjustments the figure would still be under \$5 billion.

10:01:31 AM

Representative Pruitt thought that Mr. Teal had given out a significant amount of information. It was important to him to be able to convey the happenings regarding the budget to his constituents in a manner they could understand. He talked about \$500 million being withdrawn from savings. He believed that for the first time the governor had asked the legislature to look to the people of Alaska to help to fund government. He spoke of the difference between spending the state's money versus constituents' money. He wanted to be very clear about what they should expect as far as them helping to fund state expenditures including keeping education funded at a steady level. He wanted to fully understand the actual spend in FY 16. He also wanted to have a clear understanding of what legislators would be looking for in the future. He wanted to be able to return to his constituents and be prepared to answer questions about the budgetary process.

10:06:03 AM

Mr. Teal offered to update the graphs the LFD provided at the beginning of the year which showed final spending through FY 15. The numbers for FY 16 would reflect appropriated numbers, and the governor's request for FY 17. He could also update the chart with the FY 16 supplemental numbers added to the anticipated FY 16 expenditures and the budget as it was passed out of the committee.

Representative Pruitt thanked Mr. Teal.

Co-Chair Neuman asked about the budgets for FY 17 and FY 18 and forward funding for education. He wondered if the budgets would be lower or higher.

Mr. Teal responded that it made the budget lower. The state set aside \$145 million per year to pay for education for FY 17, FY 18, and FY 19 which reduced the amount of money put into education in those same years by \$145 million per year. There will be a jump in the budget for FY 20 of \$145

million to bring education to the level it was at currently.

Co-Chair Neuman commented that he hoped the legislature would have things figured out by that time.

Representative Guttenberg asked how legislators accounted for multi-year funding. He wondered if the column would ever change or if it would show up in the supplemental budget. He further asked if the column would ever change if there were unrealized earnings or unrealized losses.

Mr. Teal explained that it would change. He suggested using the chairman's amendment of \$30 million for health care as an example. It would show as \$30 million of FY 16 expenditures or appropriations. A calculation would have to be done at the time books were closed for FY 16 to know how much of the \$30 million was actually spent in FY 16. He suggested that it was \$5 million for FY 16. The unspent money, \$25 million, would carry forward into FY 17. When the books were closed at the end of FY 17, and for example \$10 million was spent, only \$10 million would show as an expenditure. The next year, FY 18, another \$10 million was spent, and only \$10 million would show for FY 18. The numbers constantly adjusted. Currently, he could not tell how much would be spent in FY 16, FY 17, or FY 18. It could only be determined at the end of each year. In answer to Representative Guttenberg's questions the numbers could and would change.

[10:10:20 AM](#)

Representative Gara wanted to talk about the budget and its contents. He completely disagreed with the Chamber of Commerce telling the legislature what the budget should be. He had oil industry folks tell him their opinion about the budget. They wanted to make sure that there was no pressure on them to have to pay a fair share towards revenue in the state. He furthered that the lower the budget, the less pressure on the oil industry. He listened to his constituents and disliked the idea that the oil industry knew what the state's budget should be. The budget reflected the state's values. He did not feel anyone did anything dishonest. He thought that from the present into the future legislators needed to look at state spending. He did not want to look at an artificial category of UGF because he believed much of state spending was DGF. He

stressed that the budget was about what the state stood for in society. He was not happy with the results of the previous day's meeting and the results of the budget. He reviewed a number of effects of the previous day's reductions. He did not feel the budget reflected any compassion or his version of compassion and did not believe the state was that poor. He agreed with the governor that the budget needed to be cut, but he thought the line had been crossed away from compassion. The governor had proposed \$100 million in cuts in the current budget on top of \$700 million in cuts from the previous year's budget. He spoke of cutting things seniors relied on. He mentioned that \$350 thousand was cut for emergency housing for senior citizens. He provided additional examples of reductions to senior services from the previous day including cuts to the Pioneer Home. He was aware that people would not pay a fee to remain on a waiting list. He cited additional examples of cuts that would affect the senior population in Alaska.

10:16:28 AM

Representative Gara spoke about the need for money for Pre-Kindergarten (Pre-k). He noted that the state provided among the worst level of Pre-K in the nation. All of the state funded Pre-K had been eliminated from the budget. He specified that low income children that had the opportunity to attend Pre-K graduated in higher numbers. Ultimately, it saved the state money and built a better economy. However, Pre-K funding was cut. He was disappointed in the \$50 million reduction to the University budget. He talked about the potential loss of students and teachers from the university. He thought the best chance at diversifying the economy and providing people opportunity. He opined that the university was the best shot for kids to be able to receive a proper education. He mentioned that there was \$20 million less in K through 12 funding than there was 2 years prior. Grant money had disappeared from the budget. He spoke of losing 67 teachers in the following year. He questioned what the legislature was doing for the next generation.

Representative Gara opined that the budget was a moral compass of sorts. He felt that the state was cutting things that made people's lives better or gave them dignity rather than cutting waste. He was tired of being the person talking about abused children in the foster care system. There were 450 additional children in the foster care

system in the current year than in the previous year. The case-workers the state had were helping children and families and had nothing to do with the rise in foster care numbers. Caseworkers were overloaded and unable to work with children and families to get kids out of the system into an adoptive family or back with their family. Although the state was good at taking children out of abusive or neglectful homes, it was poor at supporting the same children once they were displaced. They were the next generation of 17 percent of kids who ended up in jail. He furthered that 40 percent of foster kids ended up homeless including those that couch surfed - 20 percent were couch surfing and 20 percent were actually homeless. Caseworkers took on twice the caseloads then they could really handle. As a result foster parents were lost because of a lack of proper follow-through. He suggested that it would save money to do the right thing, transitioning children out of foster care quickly into a loving home. An amendment was offered to try to assist with the issue and it did not pass. He had been told by the person who hired the state child advocates that Alaska had among the highest caseloads in the country. Caseloads had gone up 58 percent. The amount of child abuse currently would be greater unless the legislature did something to help. He reiterated being very unhappy about the budget.

[10:22:46 AM](#)

Representative Gara continued that the state faced the risk of losing federal funding such as Temporary Assistance for Needy Families (TANF) money because of the way the budget was written. He relayed that in order to maintain the pool of federal TANF money the state had to contribute \$36 million. The state would be below that amount with the current budget. He spoke about having worked across party lines in prior years to come up with a budget that people were satisfied with enough to support. He thought that the current year was very different because every amendment to address the things he had talked about got voted down. He advised members to vote the way they believed. He spoke of hearing comments in the hallway which he did not like. He cited that for every \$100 million of cuts between 1200 and 1600 jobs would be lost. With a proposed cut of \$300 million the state stood to lose roughly 4500 jobs. He felt the budget was a pathway to a recession. He did not want the legacy of the legislature to be a recession or to have turned its back on people with disabilities. He suggested

that the best shot of educating a child was to invest in their early childhood education. He was not happy at present, nor was he happy about all of the amendments that failed. He tried but would have lost all amendments even if he had been Mother Theresa. He did not want it spun that the legislature tried to increase the budget, when the legislature agreed to budget cuts of over \$100 million. He emphasized he would not be an easy vote to give \$500 million to the oil industry and for oil tax credits if that came up during the session. He remarked that Alaska, for the third year in a row, was giving oil companies more money in oil tax credits than it received in production taxes. He conveyed that the statute stated there was a limit on what the state had to pay in oil tax credits when it did not have revenue, about \$70 million. He did not like the budget at all. He relayed that a member had said that they wanted to hear his arguments so that they could oppose him. He felt it was a "sick" response of which he was very disappointed.

[10:29:12 AM](#)

Representative Wilson asked Mr. Teal about something he had said about paying attention to reserve balances. She was concerned that the legislature had only been paying attention to the CBR and prior to that the SBR, and now potentially the Earnings Reserve Account (ERA). In the current budget process other pockets of money had been used such as the higher education fund. She wondered if he had a presentation showing all of the available pots of money. She assumed that Mr. Teal had been referring to all pots of money, not just the CBR.

Mr. Teal referred to page 2 of the fiscal summary in the governor's overview which listed all of the various savings or reserve accounts. Some of them were considered designated reserves such as some of the higher education funds. The Earnings Reserve Account was included in the list. Normally, when doing the model, the LFD was counting only the SBR and CBR funds as reserves along with the ERA. The balances of the other smaller funds were known. The balance of the Power Cost Equalization (PCE) fund was about \$1 billion and the higher education fund balance was about \$400 million. There were some smaller funds, but the PCE fund and the higher education fund were the two largest. None of the remaining smaller funds contained more than about \$2 million.

Representative Wilson asked about the last page titled: "Multi Year Agency Summary" [Page 2 of LFD Spreadsheet D]. She drew attention under funding summary at "Other State Funds". She noted that in FY 15 [column 1] it listed over \$4 million and in column 5 it listed \$1.4 million. She wondered about the difference between the two numbers.

Mr. Teal replied that she was looking at the change from FY 15, the year in which the state made a \$3 billion deposit from the CBR account into the retirement account. The Constitutional Budget Reserve was classified as other funds. The large change was due to the \$3 billion use of the CBR.

Representative Wilson mentioned that in using the higher education fund and the PCE fund to fill the budget gap it also served as a warning to agencies that there would be further reductions to the budget and that they needed to prepare for those in the following year.

Co-Chair Neuman responded affirmatively.

[10:33:23 AM](#)

Representative Wilson had no problem using other funds as a stair step down to decreased budgets. She wanted to ensure that the message regarding the decrease of available funding into the future was clear. She was very frustrated being accused of not having good values because of her votes from the previous evening. She thought there was a difference between reducing the size of government and how much was spent out of state savings to keep certain departments functioning. She was uncomfortable with the possibility of a large supplemental budget in the following year. She thought the state was counting on many federal funds which it might or might not receive. She did not believe the budget process was as difficult as it appeared to be. However, she thought it was important to convey that funds were limited. She expressed concerns about hiring positions at a time of a budget crisis. She understood a significant amount of scrutiny had been applied to the budget. She relayed that the legislature had decreased the budget by about \$320,184 all funds, a 4 percent reduction. It included the state's DGF, UGF, and federal funds. She thought everyone in the state would feel the effects of the reductions to the budget. She reasoned that reductions to

the budget needed to happen prior to her constituents having to pay additional costs. She wanted to make sure government was the right size prior to asking constituents to pay taxes or part with their PFD. She wanted to keep prices down for constituents. She reiterated the difficulty of the budget processes. She felt every subcommittee had done a good job of making reductions. She was supportive of the budget in its current form.

[10:38:18 AM](#)

Vice-Chair Saddler rejected the insinuation made by his colleague from Anchorage that members of the committee were being told by the Chamber of Commerce or the oil industry what the budget should be. It was untrue, unfair, and indecent. It would not be any more fair, accurate, or decent to say that the public employee unions were telling members of the committee what the state budget should be. That kind of rhetoric did nothing more than inflame passions and did not build bridges of understanding or cooperation as they met to try to solve the state's problems.

Vice-Chair Saddler commented that there had been a litany of objections as to how the budget was put together and about the morality of the document. He had difficulty understanding how paying \$12.5 million for a program was compassionate but providing \$12 million for the same program was heartless and cruel. He heard that it was illegitimate to include money in the budget that could not be guaranteed and locked down. He also heard criticism that the state was seeking to access federal TANF money by matching the maintenance of effort for the homeless programs and that it was illegitimate to count the money unless it was solidified. During the discussions of Medicaid expansion and reform the state heard promises that there would be tremendous savings in expanding Medicaid that were not guaranteed, but hoped for. He believed the rhetoric and snark that had been used was not helpful.

Representative Gara objected.

Vice-Chair Saddler withdrew the word, "snark." He did not appreciate the inflammatory language that had been used. He did not think it was helpful and did not believe it helped in building bridges. He continued that the legislature had asked the administration to be creative, energetic, and

innovative in finding efficiencies and in finding new sources of revenue in order to accomplish their mission and serve the people of Alaska in the state's current financial situation. He cited that the administration had responded. He expressed his frustration that a very complicated subject like the state's budget and finances was reduced in the public media to 144 character tweets. He quoted Thomas Jefferson who stated that democracy depended on a fully informed public. He hoped the public took every opportunity to become fully informed. He believed that it was the job of the legislature to balance its unlimited needs and wants to serve people with the state's limited financial resources. He wanted to take care of peoples' needs but could not wish for more money to do it all. The situation was unpleasant for legislators and all Alaskans. He reminded committee members that Alaskans pride themselves for being able to overcome adversity. He felt that the state's problems could be solved in part by working together and building bridges, avoiding making enemies along the way.

[10:42:46 AM](#)

Representative Edgmon felt that if all eleven House Finance members walked away without some dispute over items in the budget then the committee would not have accomplished its objective. He agreed that it was just the beginning with revenues coming down the pike. He suggested that if members thought the budget process was difficult, he thought implementing revenue measures and the accompanying pressures from legislators' constituencies would be more exasperating. As a rural legislator he could complain mightily about certain reductions that took place and some injustices delivered in the budget. He would not complain, because his constituents were beginning to understand. He had talked with all of the major mayors in his communities and had talked with scores of people who realized they, too, would have to tighten their belts and pay more to make things work. He wanted to make sure that there were not deeper cuts or cuts not crafted properly. He spoke of Mr. Teal's warning that the day would come where spending needed to end. Certain areas in the state, even at the high water mark, remained chronically underserved and economically challenged. He believed there were cuts in the budget that had landed with a louder thud in Rural Alaska than in other parts of the state. He was not going to complain, but rather to look out for the next fifty years

of the future of the state. He felt that more accurately reflected the gravity of the budget challenges facing Alaska.

Representative Edgmon started his day by reading an article regarding the mess the State of Louisiana was experiencing with having to shut down core services. He appreciated working with the diverse members of the committee who represented the same diversity throughout the great State of Alaska. There were members representing the largest communities that were the core of the state in terms of population. There were others who represented the energy challenged regions of the state including the areas of Fairbanks, Southeast, and Rural Alaska. The amalgamation of the discussion would produce a budget that no one would fully embrace or like. He surmised that it was the beginning of a process that would not only challenge legislators as policy makers and as leaders of Alaska's future. He spoke of the difficulty in staff reductions in state government. He mentioned that through the subcommittee process in one department 39 positions were eliminated. The budget was being reduced and tough decisions were being made. He felt his task was to produce a budget that was workable and where the cumulative impacts were not too regressive in terms of their impacts on the smaller communities. The smaller communities depended on programs and services. He furthered that Alaska had very symbolic relationships in which the smaller communities fed off of the larger communities and the larger communities provided important services and economic networks. He spoke of returning to his constituents to discuss reducing the dividend, cutting the budget further, and introducing new taxes. A combination was necessary to solve Alaska's fiscal situation. He emphasized that when he sat down with his constituents, by-and-large, they understood and embraced the tough decisions. He urged his colleagues to communicate with their constituents as well. He believed it was incumbent upon legislators to be ambassadors. He thanked members and added that he thought everyone around the table wanted to do the right thing.

[10:51:36 AM](#)

Representative Munoz thanked the chairman for his leadership and guidance through the budget process, the subcommittee chairs for their efforts, and all of the members who had worked very hard. She spoke about a balance

of input and the work done by each of the committee members towards the budget process. She was pleased that the state was funding education at statutory levels. She was supportive of leadership around behavioral health and of addressing the crisis of heroin addiction and drug addiction in Alaska's communities. She believed the current budget recognized the crisis and made significant steps toward improving treatment options. She relayed that half of Alaska's budget, over \$2 billion, went towards K-12 education and serving the less fortunate through health and social services. She agreed that legislators needed to be ambassadors working with communities and constituents to educate folks about the state's difficult times. The current budget reflected a reduction of about 6.9 percent down from the previous year. The state's revenue had declined by more than 75 percent in the same time period. Alaska was in a challenging time period. However, she thought legislators could be optimistic. She thought the state had a bright future. She knew that tough decisions would continue to be made through the revenue discussions as well as in the reform of Alaska's oil and gas credit program. In closing, she thanked members for their dedication and hard work. She thought that sometimes it was easier to vote no on a piece of legislation. There had been plenty of times as a legislator where she would have preferred to vote "no". She was confident that the legislature was on the right track and would be voting in favor of the budget.

[10:54:37 AM](#)

Representative Kawasaki stated that he would not be able to support the current budget. He hoped he would be able to in the future. He thanked Co-Chair Neuman for his work on the process. He felt that committee members had worked together on the budget but disagreed on some of its elements. He shared the frustration of the member from the Anchorage area. He stated that behind many of the numbers was a person. He agreed that a budget was a moral document. It spoke to Alaska's common goals and challenges and how the state protected its most vulnerable, seniors, children, and others. Because he felt that the budget was a moral document it was difficult for him to see it pass in its present form without addressing some important areas. He cited a number of vulnerable people that would be affected by the reductions in the budget. He relayed that University students would be hit with huge targeted cuts across the

state. There was a \$4 billion budget deficit. The state had some major structural problems that it would have to deal with. He referred to a current newspaper article. He stated that the legislature could fix the problem and protect seniors in the current session. He thought the worst part was that the budget did not include a vision for the state. He thought the budget was a roadmap towards recession. He did not support cutting \$100 million from the University over a two-year period. He believed the legislature was setting the state up for a recession. He would not be supporting the budget as it stood.

11:00:52 AM

Representative Pruitt shared that he had been part of the private sector in the past and had a work colleague who frequently said, "Teamwork is messy." He agreed with the sentiment. He thought that it had been messy working together on the House Finance Committee. In the end, though, they were a team. He appreciated the passion from members about their constituents and communities. He reminded the committee that it had only cut \$283 million from the budget. He stressed that it would not create a recession. He relayed that thousands of people in the oil and gas industry had lost their jobs because of oil prices. He furthered that Alaska was either already experiencing a recession or would be soon due to the industry not providing the amount of money it had provided for Alaskans in the past. He believed that the legislature had the ability to accelerate a recession or make one worse by asking for money from the pockets of constituents. He wanted to make sure that the information provided to the public was clear and understandable and included what the legislature was doing and what to expect in the future. The general fund had been decreased by about \$1 billion. Ultimately, the state would have to use savings from last year or the current year to cover costs. The general fund spend in the current year was lower due to utilizing savings.

Representative Pruitt reported that the state was utilizing savings to cover the budget. He made clear that the legislature had not cut more than \$283 million. He suggested that no household would consider using savings to pay bills as cutting spending. The cuts in the budget resulted from a significant amount of hard work from the co-chairs, the subcommittee chairs, and from every person

that sat on the subcommittees. He believed that in order to continue to manage the budget statues would have to change, delivery of services would have to be reevaluated, and additional cuts would have to be made. Otherwise, programs might be cut altogether. The monies from the higher education fund of \$145 million would be spent in the following 3 years. After that period it would cost \$436 per working individual in Alaska to cover that funding. The money being used from savings of \$75 million to pay for TRS equated to \$225.90 per every working Alaskan. He opined that legislators would have to have the tough conversations necessary to address the budget deficit; Alaska 3.0 - a time when the Permanent Fund (PF) was being considered to pay for government. While he supported the budget moving out of committee he wanted to make it clear that the legislature was only borrowing time by using savings to pay for operations. He surmised that at some point savings would not be available for use.

[11:09:21 AM](#)

Representative Gattis thought it was important to be square with Alaskans about the government spend. She believed all Alaskans were willing to pitch in. She did not feel the process was done. She thanked the co-chairs for their efforts. She thought she brought a different perspective than those members with longevity.

[11:10:56 AM](#)

Representative Guttenberg returned to the values instilled by his parents. He relayed that what drove him to the legislature were the issues around Alaskan hire. He had come from the construction trade and viewed many issues through that filter. He thought the state was well beyond the point of waste, inefficiencies, and ineffective programs. He believed the state was well beyond the meat and tendons into the bones in terms of reductions. He expressed his concerns about there being consequences to the actions of the legislature. He thought many of the amendments that were passed would have dire consequences for Alaskans. He asserted that the programs that were being cut from the budget had either been adopted or created because they worked. The amendments proposed by Minority members on the budget were both cost effective and compassionate. He was very disappointed in the votes because of the negative consequences that might result. He

opined that the budget was a reflection of the state's moral compass. He did not see any bridges being built. Rather, the same game was being played as in the previous year. He wondered why the committee was not doing things differently. He was concerned with the resulting disastrous consequences. He claimed that what was done in the current day would be significant for the future. At the end of the day, all would be a compromise. He thought legislators would need to better educate constituents about the fiscal condition of the state. The current budget fell short in his estimation. The burden that was being placed on some people was disproportionate in his opinion. He advised that legislators all needed to do the right thing. He asserted that Alaska was a great state with significant opportunity. He mentioned the Arctic and its potential. He felt the budget fell short.

11:19:18 AM

Co-Chair Thompson thanked Co-Chair Neuman for the amount of time and energy he put into the budget process. He also recognized Co-Chair Neuman's staff, Mr. Ecklund and Ms. Brown, for their efforts. He recalled a difficult time in the 80's having his own business and having to ask his employees to share their medical insurance costs, give up bonuses, and go without salary increases. He understood hard times. He suggested that the budget was one that no one was completely satisfied with because it affected people. Although he shared his heartache with other members of the committee about having to reduce the budget, he wanted to focus on those things that remained in the budget and the services still intact. He commended everyone for all of their hard work. He agreed with a member from Fairbanks that the budget fell short in revenues. The next item of business would be how to fill the shortfall. He believed there was far more work to be done moving forward. There was a mix of constituents; some who felt that the committee went too far and some that did not believe there were enough cuts to the budget. He thought the state would have to look at other sources of revenue including taxes and the use of the earnings from the PF. He thanked Co-Chair Neuman again for all of his hard work.

Co-Chair Neuman acknowledged the team effort that had been made in compiling the budget. He knew the budgeting process would be difficult.

11:23:15 AM

Co-Chair Neuman recognized that currently Alaska was experiencing the hardest times that it had seen in several years. He mentioned the high emotions of committee members and members of the public which he believed were natural. He conveyed having to deny financial requests from Alaskans. Everyone that came to his office was told that the state did not have money. He did not try to candy-coat the state's fiscal woes. He highlighted trying to uncover every small pocket of money that was available. It was interesting to think of the budget in terms of having to borrow money. He did not want to dip into the CBR. However, he would rather dip into those funds than borrow additional money. He spoke of a former president that talked about the economy and how what government did effected the economy. He spoke of legislation in the works to address other pieces of the state financial situation. He thought focusing on a change in regulations would be necessary. He surmised that there was an overabundance of regulations and that, with the cuts to agencies, it would be difficult to maintain the current level of regulations. He had met with the governor about requiring all of the departments to take a serious look at reducing regulations. Many had been identified that potentially could be removed from the books. He avowed that the legislature needed to do all it could to make Alaska attractive to industry and to reduce their risks in investing in the state. Alaska did not have capital dollars. Instead, the state would have to do all it could to attract industry investment dollars in order to create jobs developing its resources. He furthered that Alaska needed to have a workforce capable of developing state resources. However, a large number of Alaskans had serious addictions to drugs and alcohol.

11:29:26 AM

Co-Chair Neuman conveyed the importance of dealing with the state's alcohol and drug abuse situation. He spoke of the budget containing a proposal of \$30 million to be spread over 3 years to assist in directly dealing with the scourge attacking Alaska. He made it clear to the commissioner that the money was to be used in proven and affective programs. A system had already been set up containing the methodologies in place to track programs to see what worked and what did not work. The work was done through the recidivism reduction group. The House Finance Committee had

approved of the work being done 3 years prior. He spoke of seeing results with Alaska State Troopers having to deal with a lesser number of offenders. He noted that troopers were heroes. He mentioned Representative Gara discussing children in need. Many of the children's parents were hooked on drugs or alcohol and needed help. He mentioned talking with several different parties about what needed to be done to solve the addiction problem in Alaska. The state was looking to have treatment available after being arrested rather than after being sentenced. He stated that 40 percent of the 6,000 inmates in the corrections system were still awaiting a sentence. The majority of them could not receive any treatment until after their sentencing. The state paid approximately \$55 thousand in jail so they could maybe get treatment.

Co-Chair Neuman indicated that the state legislature had reduced the budget over 40 percent over the last three or four years. Prior to that the state budget had grown for 57 years. Every tool was needed to address the issues. He opined that Alaska was doing okay, even though the state had its issues. He invited other legislators to challenge him and to hold his feet to the fire. There was a machine working behind the scenes to get things done. He acknowledged his staff, Mr. Ecklund and Ms. Brown, and Representative Thompson and his staff, the LFD, and the Legislative Legal Division.

[11:34:47 AM](#)

Co-Chair Neuman WITHDREW his OBJECTION.

Representative Guttenberg OBJECTED.

A roll call vote was taken on the motion.

IN FAVOR: Kawasaki, Munoz, Pruitt, Saddler, Wilson, Edgmon, Gattis, Thompson, Neuman.

OPPOSED: Guttenberg, Gara.

The MOTION PASSED (9/2).

There being NO further OBJECTION, CSHB 256(FIN) was REPORTED out of committee with a "do pass" recommendation.

Co-Chair Thompson MOVED to report CSHB 257(FIN) out of Committee with individual recommendations. There being NO OBJECTION, it was so ordered.

CSHB 257(FIN) was REPORTED out of committee with a "do pass" recommendation.

#  
ADJOURNMENT

[11:36:44 AM](#)

The meeting was adjourned at 11:36 a.m.