29TH ALASKA STATE LEGISLATURE
FIRST SESSION
CONFERENCE COMMITTEE ON HB72 and HB73
April 25, 2015
9:03 P.M.

9:03:25 PM

CALL TO ORDER

Chair Neuman called the Conference Committee meeting on HB72 and HB73 to order at 9:03 p.m.

MEMBERS PRESENT:

House:
Representative Mark Neuman, Chair
Representative Steve Thompson
Representative Les Gara

Senate:
Senator Pete Kelly, Vice-Chair
Senator Anna MacKinnon
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT:

David Teal, Director, Legislative Finance Division; fiscal analysts with the Office of Management and Budget and Legislative Finance Division; and aides to committee members and other members of the Legislature.

SUMMARY

HB 72 APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 73 APPROP: MENTAL HEALTH BUDGET

#HB72
#HB73
CS FOR HOUSE BILL NO. 72(FIN)

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs and capitalizing funds; and providing for an effective date."

SENATE CS FOR CS FOR HOUSE BILL NO. 72(FIN) am S

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs and capitalizing funds; amending appropriations; and providing for an effective date."

And

CS FOR HOUSE BILL NO. 73(FIN)

"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."

SENATE CS FOR CS FOR HOUSE BILL NO. 73(FIN)

"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."

9:03:36 PM

DEPARTMENTS

Department of Administration
Department of Fish and Game
Department of Health and Social Services
Department of Transportation and Public Facilities
University of Alaska
Department of Education and Early Development

Chair Neuman communicated that the committee would take up all remaining open items in HB 72 and HB 73, based on the motion sheets distributed to members earlier in the day (copy on file), dated April 25, 2015, for the following departments:

9:03:53 PM

DEPARTMENT OF ADMINISTRATION

Vice-Chair Kelly MOVED to ADOPT the Chair's recommendation on the following items for the Department of Administration:

Item 1	Senate
Item 6	House
Item 7	House
Item 8	Senate
Item 9	House
Item 10	House

There being NO OBJECTION, it was so ordered.

Vice-Chair Kelly MOVED to REOPEN Item 3 in the Department of Administration.

There being NO OBJECTION, Item 3 was back before the Committee.

Vice-Chair Kelly MOVED to RESCIND its action adopting the Senate on Item 3.

There being NO OBJECTION, the committee rescinded the adoption of the Senate intent for Item 3.

Vice-Chair Kelly MOVED to ADOPT the House for Item 3.

There being NO OBJECTION, it was so ordered.

The action closed all conferencable items in the budget for the Department of Administration.

9:05:05 PM

DEPARTMENT OF FISH AND GAME

Vice-Chair Kelly MOVED to REOPEN Items 10 and 25 in the Department of Fish and Game.

There being NO OBJECTION, Items 10 and 25 were back before the Committee.

Vice-Chair Kelly MOVED to RESCIND its action adopting the Senate plus $200 thousand on Item 10 and to adopt the Senate on Item 25.

Representative Gara OBJECTED for the purpose of discussion. He relayed that the Senate version was a $500 thousand decrement to the Marine Mammal program. He asked what services would be impacted by the decreases. He corrected his figure to $394 thousand.

Co-Chair Neuman ask Mr. Teal to respond.

David Teal, Director, Legislative Finance Division, asked Representative Gara to repeat his question.

Representative Gara asked what services would not be provided with the suggested cut to the program.

9:06:35 PM
AT EASE

9:06:48 PM
RECONVENED

James Armstrong, Staff, Senator Pete Kelly relayed that the commissioner of Department of Fish and Game asked for the amendment but was out of town for two weeks. The Senate discussed the change with the House and found it agreeable. It was a request made by the department.

Representative Gara WITHDREW his OBJECTION.

There being NO OBJECTION, the committee RECINDED its previous ACTIONS on Items 10 and 25.

Vice-Chair Kelly MOVED to ADOPT the Senate plus $105.9 thousand for Item 10 and the House for Item 25.

There being NO OBJECTION, it was so ordered.

The action closed all conferencable items in the budget for Department of Fish and Game.

9:07:49 PM

DEPARTMENT OF HEALTH AND SOCIAL SERVICES

Vice-Chair Kelly MOVED to ADOPT the following in the Department of Health and Social Services' budget:

Item 1	House for both fund sources
Item 2	Senate
Item 3	Senate
Item 4	House for both fund sources
Item 5	House
Item 6	Senate for both fund sources
Item 7	House
Item 8	House minus $50.0 thousand
Item 9	Senate for both fund sources
Item 10	Senate for both fund sources
Item 11	Senate for both fund sources
Item 12	Senate for both fund sources
Item 13	Senate
Item 14	House for both fund sources
Item 15	Senate
Item 16	Add new intent to read: It is the intent of the legislature that reductions to the Juneau Pioneer Home be taken from the contractual line rather than from the personal services line to ensure that staffing levels for direct care are sufficient.

Representative Gara OBJECTED. He pointed to Item 5 which related to the state's foster care system. He conveyed that the number of foster youth had grown significantly in the previous five years from about 17 hundred to almost 25 hundred. He emphasized that staffing shortages were chronic. In a recent letter he had received from the Office of Children Services (OCS), it referred to itself as an agency in crisis. He did not want sympathy for the agency but rather to ponder the children the agency was unable to serve. He discussed a study from three years previously that showed OCS was over 50 staff short. Since that time the number of foster youth had grown to the point where the staff shortage was more likely 80 to 90 staff short. He understood that the state could not afford to pay for 80 or 90 additional OCS staff. He opined that without staff at OCS kids were being left in foster care for a lengthier time and costing the state more money. He relayed that the state had 849 foster youth waiting for an adoptive home because of the lack of social workers available to address the cases. He explained that the state paid a daily rate for foster care for each child. He added that it also cost the child because it was every day that the child was without a loving home. He concluded that without the needed number of social workers in the system problems were

exacerbated. Currently, the homelessness rate for foster care youth was about 40 percent. He detailed that 20 percent of kids were actually homeless coming out of care and the remaining 20 percent of kids couch-surfed. There was also a 27 percent incarceration rate for foster youth. He emphasized that the state held guardianship for the foster care youth. He did not believe in leaving a system in place that the agency had described as one in crisis where kids were left languishing in foster care, bouncing between 5, 10, and 15 homes. He believed that by not having necessary social workers in place, the state would pay in moral fiber and in more costs related to crime and homelessness. He did not believe the Committee's approach was reasonable in addressing a system that was in crisis and producing a 40 percent homelessness rate for foster youth.

He reviewed that the Senate number was money freed up by the department and identified as a no-cost item. The state had been able to take in $3 million of additional Tana funds of which $2 million were designated to hire additional social workers. He believed it was the right thing to do hiring staff the state knew it needed. He would not be supporting the amendment and was pretty disappointed in the change.

Representative Gara MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Representative Thompson, Senator McKinnon, Representative Neuman, Senator Kelly
OPPOSED: Representative Gara, Senator Olson

The MOTION PASSED (House 2/1, Senate 2/1). The House for Item 5 was ADOPTED.

Representative Gara OBJECTED further. He expressed his objection concerning Item 13. He was concerned with the estimate the state would have to pay for people that needed Medicaid services. If the amount of people increased and more had to be paid, it would cost the state more. If the amount of people decreased, it would cost the state less. He viewed that the larger decrement in Item 13 was only an estimate of what the state would have to pay in Medicaid over the next year. He wondered if he was correct about Item 13.

Mr. Teal responded that the motion was $20 million versus $11 million. He added that Representative Gara was correct in saying that if the state cut too much there would likely be a need for a supplemental. The representative was also correct in saying it was an estimated amount. Currently, it was impossible to determine the need for a supplemental under either option.

Representative Gara asked Mr. Teal whether the amount was an estimate the state would have to pay for Medicaid services. The state was obligated to pay for the services. If the number ended up being higher, the state would have to pay for it. If the number ended up being less than anticipated, the state would see a savings. The number was just an estimate. He wanted to know if he was accurate.

Mr. Teal answered, "It is."

Representative Gara WITHDREW his OBJECTION on action Item 13.

There being NO further OBJECTION, it was so ordered.

This action closes the conferencable items in the budget for the Department of Health and Social Services.

9:14:56 PM

DEPARTMENT OF TRANSPORTATION & PUBLIC FACILITIES

Vice-Chair Kelly MOVED to ADOPT the following in the Department of Transportation and Public Facilities' budget:

Item 33 House
Item 38 House
Item 39 House
Item 48 House

There being NO OBJECTION, it was so ordered.

The action closed all conferencable items in the Department of Transportation and Public Facilities' budget.

9:15:30 PM

UNIVERSITY OF ALASKA

Vice-Chair Kelly MOVED to ADOPT the following in the University of Alaska's budget:

Item 1	Senate
Item 2	Senate
Item 3	Senate
Item 4	Senate

There being NO OBJECTION, it was so ordered.

The action closed the conferencable items for the University of Alaska's budget.

9:16:00 PM

DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT

Vice-Chair Kelly MOVED to ADOPT the following in the Department of Education and Early Development's budget:

Item 1	No selection is required. Decisions will be made in Language Items 6 and 11.
Item 8	House for both fund sources
Item 9	Senate plus $550.0 thousand
Item 10	Senate
Item 12	Senate for both fund sources
Item 13	Senate
Item 14	Senate
Item 15	Senate
Item 16	House
Item 17	House
Item 18	House
Item 19	Senate
Item 20	Senate
Item 22	Senate
Item 24	Senate

Representative Gara OBJECTED. He referred to Item 1. His understanding was that in addition to the $32 million in grant money cuts another $18 million would be cut from the budget. If he was accurate he would object. Currently he was willing to remove his objection.

Representative Gara WITHDREW his OBJECTION.

There being NO OBJECTION, Item 1 was so ordered.

There being NO further OBJECTION, it was so ordered.

The action closed the conferencable items for the Department of Education and Early Development's budget.

Representative Gara asked if the Committee would be discussing the language section.

Co-Chair Neuman responded that the language section would be discussed next.

9:17:53 PM

LANGUAGE SECTIONS

Vice-Chair Kelly MOVED to ADOPT the following in the Language Sections of the budget:

Item 1 Senate
Items 2, 3, and 4 No selection is required
Item 5 Senate
Items 7 and 8 No selection is required
Item 9 Senate
Item 12 No selection is required

Representative Gara OBJECTED. He stated that it was his understanding that the education cuts in the budget were in Items 6 and 11. He remarked that he was looking at the language for the first time and viewed it as complex. He wanted an explanation of the language and of the total cut being proposed in addition to the cut of $32 million in grant monies.

Mr. Teal responded that the item that was chosen was Item 1 which dealt with crime victim intent language. He referred to Item 5 and explained that it dealt with federal and other program receipts and would eliminate the need for going to the Legislative Budget and Audit Committee for additional federal receipt authority for Medicaid expansion. It would require going to the full legislature for approval. He explained that Item 9 was shared taxes moving the aviation fuel out of the general funds.

Co-Chair Neuman interrupted Mr. Teal to clarify whether Representative Gara' questions were regarding Items 6 and 11.

Representative Gara answered that his first questions were about Items 6 and 11.

Mr. Teal relayed that Items 6 and 11 had not been addressed presently.

Representative Gara clarified that the items were open.

Mr. Teal responded, "At this point."

Representative Gara indicated that he had a few more objections.

Senator Olson asked if it was true that cuts were being considered in the amount of $32 million.

Senator McKinnon called for a point of order.

9:20:39 PM
AT EASE

9:21:33 PM
RECONVENED

Representative Gara OBJECTED to Item 5. He noted that there had been 26 legislative hearings on Medicaid expansion and reform in the year to date. He thought that there had been more hearings on Medicaid than anything with the exception of Marijuana of which there had been about 125 hearings. He believed that DHSS had demonstrated that they would be able to save $600 million in state money over the following six years. He did not agree with dragging the issue out in the middle of a fiscal crisis. He suggested that by expanding Medicaid money would be freed up to spend in other areas such as education, children's services, and senior services. He opined that blocking Medicaid without a bill through Item 5 was not the right course to take, especially with the potential savings of $600 million.

9:22:58 PM
AT EASE

9:23:18 PM
RECONVENED

Co-Chair Neuman asked if there was further discussion on Item 5.

Representative Gara MAINTAINED his OBJECTION.

A roll call vote was taken on Item 5.

IN FAVOR: Representative Thompson, Senator MacKinnon, Senator Kelly, Representative Neuman
OPPOSED: Senator Olson, Representative Gara

The MOTION PASSED (House 2/1, Senate 2/1).

9:24:01 PM
AT EASE

9:24:38 PM
RECONVENED

Co-Chair Neuman asked if there was any objection to Item 1 and Item 9.

There being NO OBJECTION, it was so ordered.

The action closed the conferencable items 1, 5, and 9 in the Language section of the budget. [Note: Representative Gara reconsidered and objected. See immediately below.]

Representative Gara OBJECTED to Item 9. [Representative Gara reconsidered and objected for the purpose of reviewing the items].

Co-Chair Neuman allowed the objection but wanted to keep the meeting moving.

Representative Gara remarked that he was trying to keep up but noted that it was the first time he had seen the cut sheets. He relayed that Item 9 addressed the issue as to whether the local communities were going to receive cruise ship revenue that they were statutorily entitled to or if there would be a delay. He could not decipher what was being proposed in Item 9.

Co-Chair Neuman commented that Representative Gara was looking at the incorrect item number. He should be looking at Item 10. He directed Mr. Teal to review Item 9.

Mr. Teal explained Item 9 affected aviation fuel. In the House version the appropriation of $200 thousand distributed to communities came out of the general fund. It turned out that

the $200 thousand was not general fund money because aviation tax collections were dedicated to be used only at airports. The Senate language took the funds from the general fund portion and moved it into Section B and stipulated that the $200 thousand would be refunded from the surcharge. He concluded that it was the same money, the same communities receiving the money, and the proper source of the money being identified.

Representative Gara thanked Co-Chair Neuman for correcting him. He was concerned about Item 10 not Item 9.

Representative Gara WITHDREW his OBJECTION.

There being NO OBJECTION, it was so ordered.

The action closed the conferencable items 1, 5, and 9 in the Language Sections of the budget.

9:27:08 PM
AT EASE

9:28:07 PM
RECONVENED

Vice-Chair Kelly MOVED to ADOPT the following in the Language Section: Item 10 and to ADOPT Amendment 29-GH1780\F.A.7 Wallace 4/16/15, which includes the original House language and a new subsection.

> Page 80, following line 23:
>
> Insert new subsections to read:
>
> "(c) The amount necessary to pay the first seven ports of call their share of the tax collected under AS 43.52.220 in calendar year 2015 according to AS 43.52.230(b), estimated to be $15,500,000, is appropriated from the commercial vessel passenger tax account (AS 43.52.230(a)) to the Department of Revenue for payment to the ports of call for the fiscal year ending June 30, 2016.
>
> (d) If the amount available for appropriation under (c) of this section is less than $15,500,000, then the appropriation made in (c) of this section shall be reduced in proportion to the amount of the shortfall."

Co-Chair Neuman OBJECTED for the purpose of explanation. He directed Mr. Teal to describe the amendment.

Mr. Teal explained that Section C was included in the House. It paid the communities' ports of call their share of what was referred to as the "Cruise Ship Head Tax." Under Section D, a new section, the payments were prorated to the ports of call if the balance in the fund plus calendar year 2015 revenue was insufficient to pay all communities their share of collection. It was prorating language.

Co-Chair Neuman WITHDREW his OBJECTION.

Representative Gara OBJECTED. He and asked Mr. Teal about Section D. He understood prorating if cruise ship head tax revenue was less than $15.5 million. He wondered if he should be concerned about any other appropriation from the cruise ship head tax that he did not see in the amendment.

Mr. Teal responded that there was no appropriation listed. The amendment simply prorated the $15.5 million. He added that there might be other appropriations of the head tax money. In general, if the ports of call money was distributed with money left over, the funds could be appropriated to communities for capital projects. However, the specific section made no appropriation.

Senator MacKinnon commented that there was an issue inside of the account which was the reason for the Senate flagging it for further discussion. She explained that the state was advancing money prior to the cruise ship tax money being received by the state. It was overestimated in the prior year in receipts to other communities. Section D was clarifying that if $15.5 million was received, it would then be distributed to the ports of call. If the money was not received the money would be prorated. To her knowledge there were no other places the particular money was used to somehow short communities. The problem became an issue when the state was confronted with a fiscal deficit and continued to draw from its savings. In other words, the state was advancing general funds and anticipating and waiting for the taxes. She would be continuing to follow the issue to try to resolve it in the following legislative session.

Representative Gara WITHDREW his OBJECTION.

Senator Olson stated that it was his understanding that it was an internal issue that the state was trying to address making sure that there were no real objections from the communities involved.

There being NO OBJECTION, it was so ordered.

9:32:19 PM
AT EASE

9:33:16 PM
RECONVENED

Vice-Chair Kelly MOVED to ADOPT the following in the Language Section and to ADOPT Amendment 29-GH1780\F.A.17 Wallace 4/25/15, which addressed Language Items 6 and 11:

Page 77, lines 5 - 10:

Delete all material and insert:

"(c) The sum of $157,000,000 is appropriated from the in-state natural gas pipeline fund (AS 31.25.100) to the public education fund (AS 14.17.300).

(d) The amount necessary, after the appropriations made in (c) of this section and in sec. 28(c), ch. 16, SLA 2014, as amended by sec. 30 of this Act, when added to the balance of the public education fund (AS 14.17.300) on June 30, 2015, estimated to be $950,555,700, to fund the total amount for the fiscal year ending June 30, 2016, of state aid calculated under the public school funding formula under AS 14.l 7.410(b) multiplied by 0.9859, is appropriated from the general fund to the public education fund (AS 14.17.300).

(e) If the amount of the appropriation made in (c) of this section is less than $157,000,000, the appropriation made in (d) of this section shall be reduced on a dollar-for-dollar basis, equal to the amount of the reduction in (C) of this section."

Reletter the following subsections accordingly.

Page 80, line 29, following "Sec. 30.":

Insert "PUBLIC EDUCATION FUND."

Page 80, line 30:

Delete "$1,002,568,100"
Insert "$77,008,600"

Page81, line9:
Delete all material.

Renumber the following bill section accordingly.

Page 81, line 10:
Delete "secs. 33 and 34"
Insert "sec. 33"

Representative Gara OBJECTED.

Co-Chair Neuman directed Mr. Teal to describe the amendment to the committee.

Mr. Teal directed the committee members and the public to refer to the spreadsheet at the back of the amended. He suggested that the spreadsheet went in chronological order more than in the amendment itself. On the spreadsheet the $1.249 billion shown on line 1 was a projected balance of the Public School Trust Fund prior to any amendments on the FY 15 operating budget. The amount was intended to pay foundation and pupil transportation costs in FY 16. The state forward funded a year. He continued that lines 2 and 3 reflected the action in Amendment F.A.17 on lines 21 and 22. In looking at the amendment it showed that it was replacing $1.02 billion with $77 million. It reduced the deposit in FY 15 that was made to the Public School Trust Fund to $77 million eliminating the deficit for FY 15. He added that the $1.125 billion reduction gave an FY 15 year-end balance of $123 million and also reflected the beginning balance in FY 16 on line 4. He moved on to explain line 5.A that showed the full projected FY 16 foundation amount, $1.168 billion. On line 5B it showed a proration percentage of 98.59 percent. He explained that on line 5.C the formula would be short-funded by about $16.5 million if it were prorated to the 98.59 percent. Line 5.D showed that the amount distributed in FY 16 to school districts via the foundation formula would be about $1.152 billion. If line 6 was added, pupil transportation costs of $79.2 million, the total would equal $1.231 billion shown

on line 7. He furthered that with the FY 15 balance on line 4, the FY 16 balance needed to be about $1.108 billion as depicted on line 8. The money came from two sources; $157 million came from Alaska Stand Alone Pipeline (ASAP) fund code 1229 shown on line 9 which corresponded to lines 3 and 4 on Amendment F.A.17. He pointed out that line 10 was an estimate of the general funds needed to fund the foundation formula at 98.59 of full funding which was shown on lines 5 through 10 of the amendment. The effective date of the FY 16 deposit changed from December 1st to July 1st because when there was a balance carried forward the cash flow would have survived with a December 1st date but currently needed to be the first day of the fiscal year. It needed to be on hand in order to have the money for distribution. He directed committee members to turn to the amendment itself on lines 11 through 13 in Section E. The lines were contingency language that reduced funding dollar-for-dollar if the $157 million appropriated in Section C was unavailable. He concluded that the FY 15 appropriation to the public education was rescinded in order to eliminate the fiscal gap. In FY 16 education was funded at 98.59 percent of full funding leaving a zero balance in the Public School Trust Fund at the end of FY 16.

Representative Gara spoke to his objection. He wondered if the amendment eliminated all forward funding for education. He asked if the forward funding would be at zero.

Mr. Teal responded affirmatively.

Representative Gara noticed that much of the amendment affected the current budget year. He asked whether the change in FY 15 in education funding affected the amount that was appropriated to schools during FY 15 at all.

Mr. Teal responded in the negative.

Representative Gara relayed his understanding was that instead of fully funding what was passed the previous year the legislature would be funding education at 98.59 percent which equated to a $16.4 million reduction in K-12 funding in addition to the $32 million reduction made in an earlier budget. He asked Mr. Teal if he was correct.

Mr. Teal answered in the affirmative.

Representative Gara believed he understood what was happening and had two objections. First, he suggested that by forward funding the state had seed money of over $1 billion to help the state get through tough financial years. In the budget before the committee the legislature was eating up the full $1.2 billion so that it would not be available in future lean years. If the state maintained the $1.2 billion it would be able to use $50 million dollars here or there until the state came out of its current fiscal crisis. By spending the entire $1.2 billion the state had essentially removed a tool for adequately funding education.

Representative Gara relayed his second objection. He pointed out that the $16.4 million reduction in addition to the $32 million reduced previously equated to a $48 million reduction for the state's public schools. He opined that it was a devastating amount of funding cuts. Although he was well aware of the state's fiscal crisis he believed there were smarter ways to deal with it. He suggested the possibility of saving the state $6 million by expanding Medicaid. He also spoke of oil tax reform. He claimed that currently the state was paying out $650 million more in tax credits over the following two years to oil companies than what the state was receiving in production tax revenue. He attributed this to the hole in the state's budget.

Vice-Chair Kelly interjected that he had heard enough about oil tax credits. He opined that the discussion was almost always disingenuous.

9:42:32 PM
AT EASE

9:44:05 PM
RECONVENED

Co-Chair Neuman asked Representative Gara if he had another question.

Representative Gara responded that he did not have a question but commented that with a total $48 million in education reductions in the current year it equaled close to a 5 percent cut in education funding. He suggested that the reductions combined with a lack of public commitment to education was a recipe for parents to leave the state. He acknowledged that there was a philosophical disagreement

between legislators. He did not believe education was the place to cut claiming there were other areas of the budget that could be decreased.

Co-Chair Neuman asked if the $32 million referenced by Representative Gara was money outside of the funding formula. He wondered if the reduction outside the formula was part of Governor Walker's budget recommendations.

Mr. Teal responded that it was part of the governor's original budget. It was a complicated question. He supposed that the $32 million could not be seen as a reduction, rather it was a planned increase that did not occur.

Vice-Chair Kelly stated that he was going to point out that it was a planned increase. He liked the way Mr. Teal phrased it. He added that the $16.5 million was also anticipating a planned increase in the $50 base student allocation (BSA) that was passed in the previous year. It was not a one-to-one. He had been trying to figure out some general numbers. In the previous year when the price of oil was $120 per barrel the legislature voted for a $50 million BSA increase and some other additional increases. He did not think the legislature would have voted affirmatively if the price of oil had been $45 per barrel. The increases were being pulled back. He also mentioned that the forward funding of education had not been spent, it was just not going to be recharged. In most of the budgets there was an additional $1.1 million or $2 billion and education was forward-funded a year. However, the legislature would not be doing so in the current year because the state did not have the money. One of the reasons the state could not get the money was due to not having a 3/4 majority vote. He suggested it might be something to add to the Minority's list so that the legislature could forward fund education.

Senator Olson asked about line 9. It was his understanding that for some reason if there was a shortfall in the following year's education funding that $157 million would be taken from the ASAP project.

Mr. Teal explained that the intention of Section D was that the state would take the balance carried forward from FY 15 (projected to be about $123 million), add the $157 appropriated in Section C, and add general funds to get to 98.59 percent of the full formula funding.

Senator Olson wanted to clarify that $157 million would be gone from the ASAP project.

Mr. Teal indicated that Section C took $157 million from the ASAP project and appropriated it to the Public School Trust Fund.

Vice-Chair Kelly added that money would be left in the ASAP account to continue working towards a pipeline.

Co-Chair Neuman believed that instead of further reductions from the general fund there would be less general fund money added plus the $157 million plus the other funds to get to the appropriation amount needed for education funding.

Representative Gara declared that he would be voting against the amendment. He wanted to know whether there would be a chance to make comments and to direct questions to Mr. Teal at the end. He wanted to further understand the overall impact of the budget.

Co-Chair Neuman encouraged Representative Gara to ask his questions.

Representative Gara did not agree with the characterization that there were no cuts to education. In the previous year the one-time grant money equaled $43 million. In the current year it was proposed at $32 million, an $11 million reduction. He viewed it as an offset to the $50 BSA increase in the budget. He continued that by going from $43 million to $32 million in the last year's education bill, education was basically flat funded. He specified that $32 million and $18 million in reductions, $50 million total, equated to a $200 reduction per student since the prior year. He could not agree to the cuts.

Representative Gara mentioned hearing discussions about the Constitutional Budget Reserve (CBR) but the current budget remained billions of dollars short-funded based on the anticipated revenue. He asked if he was accurate.

Mr. Teal asked Representative Gara to clarify if he was talking about FY 15 or FY 16.

Representative Gara responded, "FY 16."

Mr. Teal reported that the FY 16 budget was short-funded by approximately $3.2 billion.

Representative Gara remarked that the budget before the committee had approximately $3.2 billion in excess expenses versus anticipated revenue. He asked if he was correct.

Co-Chair Neuman clarified that the budget had a deficit of over $3 billion because of the loss of revenue coming to the state due to low oil prices.

Vice-Chair Kelly remarked that the budget the committee was currently putting together in the meeting would reflect an approximate cut of $822 million cut from the previous year's budget. He speculated that if the budgets were placed side-by-side Mr. Teal would argue that it reflected a $1.2 billion reduction.

Representative Gara maintained his objection.

A roll call vote was taken on Amendment 29-GH1780\F.A.17 Wallace 4/25/15.

IN FAVOR: Senator MacKinnon, Representative Thompson, Senator Kelly, Representative Neuman
OPPOSED: Representative Gara, Senator Olson

The MOTION PASSED (House 2/1, Senate 2/1).

9:52:47 PM
AT EASE

9:54:15 PM
RECONVENED

Co-Chair Neuman called the meeting back to order.

Vice-Chair Kelly MOVED to ADOPT the following in the Language Section and to ADOPT Amendment 29-GH1780\F.A.2 Wallace 4/16/15, relating to the Constitutional Budget Reserve Fund and Higher Education Investment Fund, which addresses new Language Item 13:

Page 1, line 2, following "appropriations;":

Insert "making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund;"

Page 80, following line 31:

Insert new bill sections to read:
"* Sec. 31. CONSTITUTIONAL BUDGET RESERVE FUND.

(a) If the unrestricted state revenue available for appropriation in fiscal year 2015 is insufficient to cover the general fund appropriations that take effect in fiscal year 2015, the amount necessary to balance revenue and general fund appropriations is appropriated to the general fund from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska).

(b) If the unrestricted state revenue available for appropriation in fiscal year 2016 is insufficient to cover the general fund appropriations that take effect in fiscal year 2016, the amount necessary to balance revenue and general fund appropriations is appropriated to the general fund from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska).

(c) The unrestricted interest earned on investment of general fund balances for the fiscal years ending June 30, 2015, and June 30, 2016, is appropriated to the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska). The appropriation made in this subsection is intended to compensate the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) for any lost earnings caused by use of the fund's balance to permit expenditure of operating and capital appropriations in the fiscal years ending June 30, 2015, and June 30, 2016, in anticipation of receiving unrestricted general fund revenue.

(d) The appropriations made in (a) and (b) of this section are made under art. IX, sec. 17(c), Constitution of the State of Alaska.

*Sec. 32. HIGHER EDUCATION INVESTMENT FUND. If, and only if, the appropriation made in sec. 31 (a) of this

Act fails to pass upon an affirmative vote of three-fourths of the members of each house of the legislature and the unrestricted state revenue available for appropriation in fiscal year 2015 is insufficient to cover the general fund appropriations that take effect in fiscal year 2015, the amount necessary to balance revenue and general fund appropriations is appropriated from the Alaska higher education investment fund (AS 37.14.750) to the general fund."

Renumber the following bill sections accordingly.

Page 81, following line 7:

Insert a new bill section to read:
"* Sec. 35. CONTINGENCY. The appropriation from the Alaska higher education investment fund (AS 37.14.750) made in sec. 32 of this Act is contingent on the failure of the appropriation made in sec. 31(a) of this Act to pass upon an affirmative vote of three-fourths of the members of each house of the legislature."

Renumber the following bill sections accordingly.

Page 81, line 8:

Delete "Sections 30 and 32"
Insert "Sections 30, 3 l(a), 3 l(c), and 34"

Page 81, line 10:

Delete "secs. 33 and 34"
Insert "secs. 36 and 37"

Representative Gara OBJECTED.

Co-Chair Neuman asked Mr. Teal to explain the amendment.

Mr. Teal pointed out that Subsection A reflected the FY 15 draw or appropriation from the CBR that required a super majority vote to pass. He relayed that Section B was the FY 16 appropriation from the CBR that also required a super majority vote to be affective. Section C appropriated earnings or interest to the CBR from the general fund if money was drawn from the CBR for cash flow purposes.

Typically, a draw would occur early in a fiscal year prior to revenue flowing into the state coffers. If the state had cash flow needs it might take a draw from the CBR. However, the action was not considered a super majority draw if it was paid back within a year. In order to categorize it in such a way, the draw was considered a loan which included an appropriation of interest from the general fund. It applied to both FY 15 and FY16 and did not require a super majority vote.

Mr. Teal went on to explain Section D. He stated that it contained the provision that outlined the requirement of a super majority vote for Sections A and B. Section 32 stated that if there was a shortage of revenue to make the general fund appropriations for FY 15 the amount necessary to balance the general fund appropriations would come out of the Alaska Higher Education Investment Fund. As mentioned earlier, the language was back-stop language. Since the conference committee adopted Amendment F.A.17 the state's deficit should have been eliminated because it started with about a $3.8 billion deficit. He reported that there was $2.8 billion in the Statutory Budget Reserve (SBR) leaving a deficit of approximately $1 billion. By removing the FY 15 deposit of $1.125 billion from the ` the state currently had a surplus projected to be about $125 million in FY 15. He was uncertain if the amount would be sufficient given the volatility of oil prices and revenue currently. The provision would appropriate money from the Alaska Higher Education Investment Fund to fill a deficit if it occurred. Section 35 was the contingency language that confirms that Section 32 (the draw from the Alaska Higher Education Investment Fund) went into effect only if the super majority vote failed.

Representative Gara MAINTAINED his OBJECTION.

Senator Olson asked Mr. Teal about Section 31, Subsection C. He wondered if the provisions in these sections had been used in previous legislatures when there were shortfalls.

Mr. Teal answered that the language had occurred ever since 2004. In terms of draws a legal opinion differentiated a short term cash flow draw from a true super majority draw. It had occurred in several budgets and had been used frequently.

Senator Olson stated since 2004 he believed there had been surpluses in intervening years where it was not necessary to access the fund. He asked for verification from Mr. Teal.

Mr. Teal confirmed that in most of the years there were surpluses. In 2004 and 2005 there were not surpluses.

Senator Olson asked if that was when the provision was implemented.

Mr. Teal responded, "Yes."

Representative Gara referred to Subsection C, the interest section. He asked how much money would be transferred, roughly.

Mr. Teal commented that it was difficult to say currently. He claimed that it might be zero. The short term cash flow draws from the CBR might not be accessible because in order to take them the Department of Revenue and other certifying authors would have to indicate that there would be money available to repay the draws. Conceivably, they would not be able to certify that the money would be available. If there were no draws, there would be no interest. If draws were made, essentially borrowing, from the CBR the interest amount would be minimal in terms of percentages. He thought the interest rate would parallel the rate at which the general fund earned money, approximately 1 percent.

Representative Gara asked for a rough dollar amount if there was a draw.

Mr. Teal responded that he could not because it depended on the cash flow needs. He could not predict what they would be in the future.

Representative Gara referred to Section 32 that had language which allowed money to be taken from the Alaska Higher Education Investment Fund. He asked what for the current balance of the fund.

Mr. Teal responded that there was approximately $460 million.

Representative Gara asked if Section 32 would only be used if the state budget was short for FY 15. He wanted to clarify whether Section 32 applied for FY 16.

Mr. Teal responded in the affirmative.

Representative Gara asked Mr. Teal if he thought a CBR super majority vote was needed to balance the FY 16 budget currently before the committee.

Mr. Teal answered that the projected deficit was about $3.2 billion and there was no language getting money from anywhere else. The budget was simply short $3.2 Billion at present.

Representative Gara restated his question. He asked Mr. Teal if he believed a super majority vote would be required to access the CBR funds for FY 16.

Mr. Teal stated that a super majority vote would be required to access the needed amount from the CBR.

Representative Gara asked if there was any other fund besides the CBR identified in the budget to cover the $3.2 billion deficit.

Mr. Teal responded that Representative Gara had not missed anything.

Senator Olson referred to Section 31, Subsection C where a loan was essentially being taken and paid back within a year. He wanted to know what the consequences would be if a loan was not paid back within the year.

Mr. Teal did not know. He reiterated that the loans could not be made unless a finance officer could certify that the money would be available. At present, a finance officer could not certify that the money would be available.

Senator Olson shared his concern about being able to access the money and to be able to repay it within a year based on current projections.

Mr. Teal announced that that was his point; there might not be interest payments because of an inability to draw funds.

Senator MacKinnon relayed that in the current day the Senate Finance Committee had talked with the administration about a cash deficiency plan. In addition, she believed the administration had set aside the 10 year projection on how to fund budgets. She relayed that members were waiting to hear from the administration about what happened if a 3/4 vote failed. It was her understanding the Majority's main attempt to achieve a 3/4 vote had not been successful to date. She furthered that the Senate Finance Committee had left it to the administration to define to the legislature how to access the funds, in what manner and in what order.

Representative Gara expressed particular concern about draining or tapping into the Education Fund which was used for needs-based and merit-based college scholarships. He thought draining the fund was premature. He referred to a memo from the administration that stated that for FY 15 the state had enough funds to cover expenses through late August or early September 2015. He did not see a need to dip into the Alaska Higher Education Investment Fund at present. He opined that the state had enough money For FY 15 to get through the end of August 2015. He thought that the legislature would be able to have a budget agreement prior to the end of August. If the current amendment passed would take money from the Alaska Higher Education Investment Fund before the legislature would be able to come up with an agreement on the budget. He concluded that the ability of the state to fund scholarships would be damaged. He believed the legislature would be able to come to an agreement in short order. He saw no reason to put the Alaska Higher Education Investment Fund at risk under the amendment.

Senator MacKinnon argued that Representative Gara's statement was inaccurate. She reported that the only way that the Alaska Higher Education Investment Fund would be touched was if the FY 15 budget did not balance out between the reserves that were identified to close out FY 15.

Co-Chair Neuman asked Mr. Teal if Senator MacKinnon was correct.

Mr. Teal responded affirmatively and added that he thought there was some confusion over FY 15 and FY 16. There were only two months left in FY 15 with a projected balance of $125 million. He though the state should be safe. However, given the volatility and uncertainty of revenue projections

the provision ensured that the state had the budget covered. The Alaska Higher Education Investment Fund currently contained approximately $80 million in excess earnings generated by the balance to the needs of the scholarships and grants. If there was money taken form the Alaska Higher Education Investment Fund less than that [$80 million] should not impact either grants or scholarships in FY 16 or in the future.

Representative Gara relayed that it had been very clearly stated by the administration that the state had enough money to fund state operations through August 15. He still held his position that the section was unnecessary to the amendment.

Representative Gara maintained his objection.

Senator Olson asked to take a brief at ease.

10:09:20 PM
AT EASE

10:10:56 PM
RECONVENED

Representative Gara MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Representative Thompson, Senator MacKinnon, Senator Olson, Representative Neuman, Senator Kelly
OPPOSED: Representative Gara

The MOTION PASSED (House 2/1, Senate 3/0).

The action closed the conference-able items in the Language Sections of the budget.

10:11:42 PM
AT EASE

10:12:14 PM
RECONVENED

Vice-Chair Kelly MOVED to give Legislative Finance and Legislative Legal the ability to make technical and

conforming adjustments to the Conference Committee Substitutes for House Bill 72 and House Bill 73.

There being NO OBJECTION, it was so ordered.

Vice-Chair MOVED to report CCSHB 72 out of Committee with individual recommendations.

Representative Gara OBJECTED. He believed he had already spoken to is objection.

Representative Gara MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Senator MacKinnon, Senator Olson, Representative Thompson, Senator Kelly, Representative Neuman
OPPOSED: Representative Gara

The MOTION PASSED (House 2/1, Senate 3/0).

Vice-Chair MOVED to report CCSHB 73 out of Committee with individual recommendations.

There being NO OBJECTION, it was so ordered.

Co-Chair Neuman Thanked Vice-Chair Kelly and James Armstrong of his staff, Senator MacKinnon and Senator Olson and Representative Thompson and Representative Gara and their staff. He also thanked David Teal, Amanda Ryder and the exceptional crew at the Division of Legislative Finance. He also thanked Megan Wallace, the drafter of both bills at Legislative Legal, Pat Pitney and her staff at Office of Management and Budget, the Finance Committee assistants and secretaries, and his staff, Pete Ecklund and Joan Brown.

Co-Chair Neuman asked if there was any other business or comments from Committee members.

Representative Gara asked about the section on union contracts, Item 8. He relayed that it referenced Section 9 of HB 73. He did not recall there being anything on union contracts in HB 73, the mental health budget. He asked if he was correct.

Mr. Teal confirmed that HB 73 was the mental health budget He clarified that the language paralleled the language in HB 72 even though it was not necessarily needed.

Representative Gara expressed confusion. He recalled that in prior action the committee did not approve a number of union contracts. He did not know where to find them in HB 73. He asked that if a person were to vote in favor of HB 73 would they be voting on any of the union contracts that were addressed in prior committee actions.

Mr. Teal answered that the salary adjustments were all removed whether they occurred in HB 73. He furthered that there might be some mental health salary adjustments. However, those were not tracked separately. The language paralleled, was removed from both bills, and the salary adjustments applied across the board.

Co-Chair Neuman clarified that he was asking for closing comments before moving the bill.

Vice-Chair Kelly MOVED to adjourn the Conference Committee.

There being NO OBJECTION, it was so ordered.

CCS HB 72 was REPORTED out of committee with a "do pass" recommendation.

CCS HB 73 was REPORTED out of committee with a "do pass" recommendation.

#
ADJOURNMENT

10:17:29 PM

The meeting was adjourned at 10:17 p.m.