

SENATE FINANCE COMMITTEE  
February 4, 2015  
9:06 a.m.

[9:06:37 AM](#)

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 9:06 a.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair  
Senator Pete Kelly, Co-Chair  
Senator Peter Micciche, Vice-Chair  
Senator Click Bishop  
Senator Lyman Hoffman  
Senator Donny Olson

MEMBERS ABSENT

Senator Mike Dunleavy

ALSO PRESENT

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

SUMMARY

SB 26        BUDGET: CAPITAL

SB 26 was HEARD and HELD in committee for further consideration.

SB 27        APPROP: OPERATING BUDGET/LOANS/FUNDS

SB 27 was HEARD and HELD in committee for further consideration.

SB 28        APPROP: MENTAL HEALTH BUDGET

SB 28 was HEARD and HELD in committee for further consideration.

#sb27

SENATE BILL NO. 27

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

9:09:31 AM

PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced SB 27.

Co-Chair Kelly noted that the full committee was present.

Ms. Pitney explained that the bill before the committee was a work-in-progress budget of the previous administration that was being used as a placeholder to be submitted on the statutory deadline. She said that amendments were forthcoming and would be received by the committee on February 5, 2015, and would show a reduction in the Operating Budget of over \$100 million. She referenced the previous overview and relayed that agencies, non-formula, would have a 6.5 percent decrease in their budgets, roughly a reduction of \$140 million from 2014. She listed several specific reductions to the Department of Corrections, the Department of Administration, the Department of Health and Social Services, and Information Technology. She anticipated that once the committee had the opportunity to peruse the detailed budget books, a deeper discussion could occur.

9:12:15 AM

Vice-Chair Micciche understood that the Office of Management and Budget (OMB) had not had time to create a revised budget to present to the committee.

Ms. Pitney replied in the affirmative.

Vice-Chair Micciche understood that the administration would see the revised budget before the committee received a copy.

Ms. Pitney clarified that the administration had viewed the revised budget and was in the process of compiling the details for each department in order to transmit one package to the committee.

[9:13:12 AM](#)

Senator Hoffman asked about the aforementioned 6.5 percent reduction from the previous administration's budget. He said that the governor had mentioned in his State of the Budget address a reduction of 5-9 percent. He queried the percent reduction in the revised budget. He wondered whether even 9 percent would be an adequate reduction in state spending.

Ms. Pitney responded that there was a 5 percent reduction in non-formula agencies between the work in progress budget before the committee and the governor's amended budget. She relayed that the 6.5 percent reduction was the reduction from agency non-formula operating budgets from the 2015 management plan to the amended budget. The 9 percent reduction was a combination of the Operating Budget and the Capital Budget management plan 2015, compared to the governor's amended plan.

Senator Hoffman asked what the original anticipated draw on the Constitutional Budget Reserve (CBR) for the current fiscal year and subsequent years considering the low price of oil.

Ms. Pitney replied that the estimated draw from the CBR was \$3.5 billion for 2015. She added that if the price of oil increased the draw was expected at \$3.2 billion.

[9:17:18 AM](#)

Ms. Pitney relayed that if oil remained at \$50 per barrel, the savings would be depleted by the middle of FY18; if the price of oil went with the forecast from DOR, the savings would last until 2022.

Senator Hoffman understood that in FY15 and FY16 the potential burn could be as high as \$7 billion.

Ms. Pitney replied in the affirmative.

[9:18:01 AM](#)

Vice-Chair Micciche clarified that the work in progress budget had a 1.5 percent reduction from the previous administrations FY15 budget and the budget that would be rolled out on February 2, 2015, would reflect an additional 5 percent reduction, which would result in a total of 6.5 percent reduction. He furthered that when the Capital and Operating Budget reductions were added together the total was a 9 percent reduction under FY15.

[9:18:46 AM](#)

Ms. Pitney made the point that there were three primary reductions in the Operating Budget that were due to Medicaid expansion. She stated that one was in the Chronic and Acute Medical Assistance Program (CAMA), the second was from a small reduction in some Behavioral Health Grants, and the third piece would be the amount of the Department of Corrections healthcare that would be covered by Medicaid. She shared that the savings from Medicaid expansion would total approximately \$10 million. She added that the federal funding for Medicaid was in the Operating Budget totaling an estimated \$450 million.

[9:20:13 AM](#)

Vice-Chair Micciche queried the two models that run internally by OMB and which percentage numbers had been used for all departments.

Ms. Pitney replied that OMB had looked at five percent and eight percent reductions.

Vice-Chair Micciche understood that the exercise had been internal but that the committee could visit with commissioners in order to discuss deeper cuts to budgets. He asked if OMB had identified specific areas where deeper cuts could be made.

[9:21:41 AM](#)

Co-Chair Kelly interjected that Ms. Pitney did not have to answer the question as it could put her at odds with the governor.

[9:21:54 AM](#)

Vice-Chair Micciche rephrased his question. He surmised that additional cuts would hurt Alaska's workforce, but believed that deeper cuts needed to be made. He believed that commissioners would have ideas about how additional cuts could be made that would hurt residents a little as possible by being economically effective.

Ms. Pitney responded that OMB challenged each of the commissioners to look at their budget and determine what could be reduced to operate at a 25% reduction. She agreed that the commissioners would be best at talking about the impacts to their departments. She said that the public discussion, based on the current reductions, would be loud. She shared that some reductions looked large, but needed to be put into context with what still remained in program budgets. She warned that as the budget rolled out and people saw the cuts that would impact them personally, nothing would be viewed as "low hanging fruit." She relayed that it was the body's prerogative to determine what the cuts would be.

[9:25:25 AM](#)

Vice-Chair Micciche stressed that his goal was to affect as few Alaskans as possible.

[9:25:45 AM](#)

Co-Chair Kelly asked what the state's economic future looked like if all departments took a 25 percent reduction over the next several years. He estimated that a 25 percent cut in all departments could equal approximately \$500 million. He thought that cuts would need to be deeper than day-to-day agency operations in order for them to be effective. He asked whether OMB had put together a list of larger drivers that could be cut, such as Medicaid and Education.

Ms. Pitney reminded the committee that the administration was working diligently on the issue of Medicaid expansion and reform, with cost neutrality and cost reduction as the focus. She furthered that OMB anticipated in the summer of 2015, recommendations from the education study commissioned by the legislature on the K-12 formula. She reminded the committee that the state faced a \$3.5 billion deficit if oil remained at \$50 per barrel. She said that the 25 percent cut across all departments would equal the \$500

million needed to fill the gap in the FY16 budget. She warned that \$500 million was a huge stretch; having agencies reduce costs by 25 percent, and serve the state as the state expected to be served, was a huge undertaking.

Co-Chair Kelly asked her to clarify how the \$500 million would fill the gap.

Ms. Pitney clarified that the DOR fall 2014 forecast predicted oil prices at \$66 per barrel in 2016, and then back up to \$100 per barrel oil. She explained that if that revenue projection held true, and agency operating budgets were reduced 25 percent, the state would meet that projection. She reminded the committee that the 25 percent cut could end up being lower than what was required to serve the state.

[9:29:33 AM](#)

Senator Bishop hoped that committee members could offer their experience in agency operations to the newer commissioners in the governor's administration.

[9:30:28 AM](#)

Co-Chair MacKinnon agreed that there were many new Commissioner-Designees that would be coming before the legislature for confirmation. She asked for the number of new Administrative Service Directors there were to support the new commissioners.

Ms. Pitney replied that there were possibly two new directors. She agreed to follow up and confirm that information.

Co-Chair MacKinnon asked about the anticipated \$450 million from Medicaid expansion written into the Operating Budget.

Ms. Pitney replied that the state would receive \$450 million in federal receipts for Medicaid expansion.

Co-Chair MacKinnon wondered whether the governor believed that legislative approval was necessary for Medicaid expansion.

Ms. Pitney responded that legislative approval was required on the federal receipt authority. She said that there was no other statutory language needed in order to expand.

Co-Chair MacKinnon predicted that the debate concerning Medicaid expansion, whether to simply advance expansion, or put forth a bill that would be crafted by the legislature, would revolve around the finance committee table.

Ms. Pitney contended that the administration's process would be very transparent, and would present legislation in any committee, but that the need for the expansion to travel through the budget process. She furthered that any presentations on the impact to the state and awareness of programs would be presented in as many forms as the legislature wished.

[9:33:17 AM](#)

Co-Chair Kelly interjected that Medicaid expansion was a budget move that the administration might not have the opportunity to discuss in multiple committees because there was no legislation to accompany the move to expand.

Co-Chair MacKinnon was unsure whether the people of Alaska would be privy to the full conversation on expansion. She expressed displeasure with the use executive orders to implement policy without going through a legislative process. She said that she would be requesting an opinion from the legislative legal division whether there was a statutory responsibility that the legislature approve the expansion. She understood that expansion would benefit many Alaskans, but hoped that the legislature would not be left out of the process. She feared that there could be long-term financial repercussions to the state and that future legislatures would have to provide the expanded services whether or not the state had the funds to do so.

[9:35:18 AM](#)

Co-Chair Kelly contended that the expansion would not serve 40,000 Alaskans. He said that the number was probably never accurate and that the true numbers were closer to 11,000 or 6,500. He hoped that members of the press would check the number for accuracy.

[9:36:04 AM](#)

Co-Chair MacKinnon asked whether the governor would be receptive to a budget with deeper cuts than the governor's proposed budget, or should the legislature fear a veto.

Ms. Pitney responded that the governor could reduce the amount put forward by the legislature, or veto the whole bill. She expressed the wish for collaboration between the administration and the legislature to strike a balance. She said that the governor's goal was to reduce the budget over the course of time and stabilize the economy.

[9:38:06 AM](#)

Co-Chair Kelly thought that OMB would find the committee supportive in the process.

[9:39:30 AM](#)

Senator Hoffman asked about reductions to community jails. He felt that those reductions would be small when looking at the big picture. He spoke of instances in rural areas when Village Safety Patrol Officers (VPSO) and troopers had been killed. He expressed concern for the options available for detaining violent offenders in rural villages when the entire community was at risk. He warned that cutting anywhere in the Department of Corrections (DOC) budget could affect many small communities in rural Alaska.

[9:41:01 AM](#)

Co-Chair Kelly added that budgeting to meet constitutional obligations was unrealistic, except when it came to public safety.

[9:42:05 AM](#)

Co-Chair MacKinnon spoke to the most recent legislative audit of DOC. She relayed that one of the outstanding issues of the audit was a statutory change in the ability to allow telecommunication opportunities for the court system as a way to save money. She hoped that the administration was looking for savings by possibly changing how services were delivered in the state statutorily.

SB 27 was HEARD and HELD in committee for further consideration.

#sb28

SENATE BILL NO. 28

"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."

[9:43:44 AM](#)

Ms. Pitney noted that the Mental Health Budget was relatively unchanged from December 15, 2014, save for Medicaid expansion. She said that the state would pay the \$1.3 million administrative fee to start the program.

[9:44:24 AM](#)

Vice-Chair Micciche asked for a comparison between the FY 15 and FY 16 Mental Health Budgets.

Ms. Pitney said she could provide the comparison at a later date.

[9:44:57 AM](#)

Co-Chair Kelly shared that his office would be preparing a report to better inform the committee on the Mental Health Budget. He felt that the budget deserved more attention than it had received in previous years.

SB 28 was HEARD and HELD in committee for further consideration.

[9:46:27 AM](#)

AT EASE

Co-Chair Kelly handed the gavel to Co-Chair MacKinnon.

[9:47:28 AM](#)

RECONVENED

#sb26

SENATE BILL NO. 26

"An Act making appropriations, including capital appropriations and other appropriations; making

appropriations to capitalize funds; and providing for an effective date."

[9:47:54 AM](#)

Ms. Pitney pointed out to the committee that the original Capital Budget put forth by the administration was a stripped down budget totaling \$106 million. She stated that the budget mainly included Department of Transportation and Public Facilities (DOT) federal match requirements. She shared that the amended budget project line items had been made available 10 days prior and the detail budget items would be available on February 5, 2015. She explained that the amended budget included \$150 million in general funds and \$1.4 billion total, primarily federal match on the other fund sources. She relayed that the components were transportation and federal matching funds and included: Department of Environmental Conservation (DEC) water and sewer projects, Alaska Housing Finance Corporation (AHFC) weatherization funds, a small continuation of major maintenance, and two small Department of Public Safety programs. She noted a small amount of funding for Arctic Policy; Alaska would work with the Legislative Arctic Commission to take advantage of the U.S. Chairmanship for the Arctic Council over the course of the next two years. She stressed that the state needed to take advantage of the short timeframe of the U.S. chairmanship.

[9:51:30 AM](#)

AT EASE

[9:51:37 AM](#)

RECONVENED

Senator Olson asked Ms. Pitney whether the administration anticipated support for increased broadband in rural areas of Alaska.

Ms. Pitney noted that the discussion on broadband would take place with the Department of Administration. She shared that the use of technology was in the infancy of discussion, but was a huge priority to the administration.

SB 26 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

9:53:20 AM

The meeting was adjourned at 9:53 a.m.