

SENATE FINANCE COMMITTEE
February 5, 2015
9:02 a.m.

[9:02:20 AM](#)

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

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

SUMMARY

SB 30 MARIJUANA REG;CONT. SUBST;CRIMES;DEFENSES

SB 30 was SCHEDULED but not HEARD.

OVERVIEW: GOVERNOR'S FY 15 SUPPLEMENTAL REQUEST

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[9:03:48 AM](#)

PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, stated that the overview was related to SB 40. The total UGF amount was \$50 million, but there were both increases and decreases in the budget bill. There were some significant components to the bill

including the Medicaid payment from 2014 that was not recorded in 2014 because of accounting rules and a recommendation by Legislative Audit to move it to 2015 for completion. There was a corresponding lapse in 2014 of a slightly higher amount of \$92 million. The second major component of the bill was the repeal of the one-time education funding from 2015 of approximately \$100 million in K-12 education funding over three years.

Senator Dunleavy queried the number of dollars that were already encumbered. Ms. Pitney replied that she knew of a few that were encumbered, and others she was unsure. The \$92 million was committed in 2014, because of the intention of the accounting. There were some judgments and settlements that were committed encumbered items. The items that were available to go without spending did not get included in the supplemental budget.

[9:07:18 AM](#)

Senator Dunleavy wondered what would occur if the legislature denied the supplemental requests. Ms. Pitney agreed to provide that information. She felt it would be extremely detrimental.

Senator Dunleavy requested a list of the encumbered items, and would like to see the impact on the agencies would the legislature deny the requests.

Senator Olson wondered which department would be most affected by the budget reductions. Ms. Pitney replied that the Department of Health and Social Services (DHSS) would see the greatest impact.

Ms. Pitney stated that another component of the supplemental budget was the reappropriations of unobligated amounts on community, sewer, and water projects that were already completed. She explained that there could be a project with a \$2.5 million allocation, and there may be \$100,000 remaining. There were several small community, sewer, and water projects with small amounts in their project balance, so they were consolidated for an amount of money for the Spill Prevention and Response (SPAR) fund necessary to complete operations in the current year.

Co-Chair Kelly wondered if the SPAR amount was net zero. Ms. Pitney responded in the affirmative.

Senator Dunleavy queried the result of declining the Department of Environmental Conservation (DEC) transfer for SPAR.

Co-Chair Kelly wondered what document Ms. Pitney was working from. Ms. Pitney referred to the spreadsheet.

Co-Chair Kelly queried the page of the spreadsheet.

[9:12:15 AM](#)

AT EASE

[9:14:35 AM](#)

RECONVENED

[9:14:47 AM](#)

Co-Chair Kelly directed the committee to page 6 of the spreadsheet.

Vice-Chair Micciche wondered if the municipalities were contacted to determine the finalization of their projects, and the availability of the reappropriation to the SPAR fund. Ms. Pitney responded that, traditionally, the community was allowed to reappropriate any funds that were left over after a project's completion. The current fiscal situation in Alaska propelled the administration to take back the funds to cover the SPAR budget shortfall.

Vice-Chair Micciche wondered if there were other projects in the state that may possibly have leftover funds. Ms. Pitney replied that she understood that the projects were as many as were complete in the state.

Vice-Chair Micciche surmised that it was every project in the state with unexpended dollars. Ms. Pitney agreed.

Co-Chair Kelly stated that any other project would not be included in the supplemental budget.

In response to a question from Senator Dunleavy regarding the SPAR fund source, she stated that there was a 5 cent per barrel fee for oil in Trans-Alaska Pipeline System (TAPS). The SPAR fund was adequate at a time when there were 2 million barrels in TAPS. The 5 cent fee had not been adjusted in 20 years. She pointed out that there were

currently only 500,000 barrels of oil per day in TAPS. The SPAR fund program needed to be structurally corrected, because of the lower number of barrels of oil. The supplemental budget allowed the SPAR fund to get funded through 2016 without correcting the 5 cent structural deficit. A policy discussion regarding the level of state responsibility in SPAR, and how would SPAR be funded. The supplemental budget allowed SPAR to manage through FY 15 and FY 16, but FY 17 required a structured solution. She remarked that she and Commissioner Hartig would provide a recommendation later in the current session, in order to have a conversation regarding the structural changes necessary. The supplemental budget allowed for time within the existing program, through a pending settlement and reappropriation to maintain the program through FY 16.

[9:20:01 AM](#)

Co-Chair Kelly wondered why FY 16 related to the supplemental budget. Ms. Pitney replied that the SPAR fund required a minimum of \$800,000 to complete the current fiscal year. She remarked that the reappropriation was \$3.2 million into SPAR, which would allow \$2 million for FY 16. There was also a pending settlement at approximately \$5 million, which would be deposited into SPAR. Those two components plus the 5 cents per barrel fee would allow for the management of SPAR through FY 16.

Co-Chair Kelly wondered why money for FY 16 was included in the supplemental budget. Ms. Pitney agreed to provide that information.

Ms. Pitney explained that there were two more program reveals: \$750,000 in the Alaska Digital Teaching Initiative.

[9:22:02 AM](#)

AT EASE

[9:25:37 AM](#)

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Ms. Pitney referred to the spreadsheet in the supplemental budget request folder (copy on file). She looked at page 1, line 6, and looked at the request of \$785,000 to the

Alcohol Beverage and Control (ABC) Board for implementation of the Marijuana sale and use law. She remarked that there were other smaller items on the page.

[9:26:37 AM](#)

Co-Chair MacKinnon looked at line 7 on page 1, and the \$2 million for the 1066 Public School Trust Fund. She queried the asset value in the trust. She understood that the legislature could only remove in excess amounts of the actual value of the fund, based on statute. She wondered if there was any additional revenue in the fund. Ms. Pitney agreed to provide that information.

Ms. Pitney looked at page 2, and noted the three listed items in Department of Health and Social Services (DHSS). Two components were related to the growing number of children in foster care and subsidized adoption or guardianship.

Co-Chair Kelly wondered if the \$1.7 million was only for foster parent payments. Ms. Pitney replied in the affirmative. She explained that the request was based on the number of children in care.

Co-Chair MacKinnon remarked that nearly \$7 million was in the supplemental budget to support a recently modified program. She queried the fiscal note projections from the change, as compared to the current budget request. She stressed that her inquiry was not an examination of the need, but rather a comparison of the previous fiscal note versus the current request. Ms. Pitney agreed to provide that information.

Ms. Pitney looked at page 2, line 8, the Wood Bison Transport, which was a primarily federally funded program that would transport bison through Department of Fish and Game (DFG)

Senator Bishop wondered if the state had received the federal receipt for the Wood Bison Transport.

Co-Chair MacKinnon remarked that there had been some concern regarding the federal government's approval of reintroducing bison to an area that contained hydrocarbons or other minerals that Alaskans may want to access. She wanted to ensure that the reintroduction would not create

an entitlement or trigger on the Endangered Species Act to preclude Alaska from developing its natural resources. There was a recent letter of inquiry to the federal government to ensure that the state would not be penalized for ensuring the animal is returned to its natural habitat.

[9:31:29 AM](#)

Senator Dunleavy remarked that there was a federal waiver that would allow the bison transport. Ms. Pitney agreed to provide further information.

Ms. Pitney looked at page 3, line 12, and the Medicaid payment. The \$92 million request was for payments that were made in 2014. At the request of Legislative Audit, the payments should be put into the 2015 budget.

Co-Chair Kelly wondered why the payment was moved from 2014 to 2015. Ms. Pitney agreed to provide that information.

Senator Dunleavy shared that the term for the term for the Bison Transplant was accepted as "experimental", and the bison would be moved to the Innoko River.

Co-Chair Kelly asked for clarification.

Senator Dunleavy announced that the bison would be moved to the Innoko River area.

Ms. Pitney looked at page 3, lines 13 through 15, which were related to fund management costs, and fee associated with managing the funds. She stated that line 16 was for investment management fees. The current calendar year saw a good return, so the management fees were based on the returns. She could not speak to the return levels in the upcoming year. The

Co-Chair MacKinnon wondered if the fees on line 16 were related to the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) one-time cash infusion of \$3 billion from the previous legislative session. Ms. Pitney replied that the deposits were timed over the course of three periods. She agreed to provide further information.

Co-Chair Kelly noted that there were various topics that Ms. Pitney would address at a later date.

9:37:02 AM

Vice-Chair Micciche looked at line 9, which related to HB 126. He stated that HB 126 would increase the age that children would stay in care from age 20 to age 21. He wondered if the state could afford the \$2.3 million. He felt that there needed to be an analysis of previous legislation to determine their current affordability.

Co-Chair Kelly surmised that the request was from various funds. Vice-Chair Micciche added his concern whether there were additional requests, or fund transfers. Ms. Pitney replied that the request was from a fund, but did not know if there was a fee associated with the fund. She agreed to provide further information.

Ms. Pitney looked at page 4, explained that there were some net zero technical adjustments on lines 18 through 20. The Municipal Bond Bank on line 17 was an additional cost due to the regulatory oversight. She shared that line 22 was related to a statute that provided for a grant, if there was a change in a community organization. She stated that Edna Bay had changed their community organization, so it required the \$75 million.

Ms. Pitney looked at page 5, line 25, which was an outsourcing of the single audit for the DHSS major federal programs like Medicaid. The single audit was traditionally conducted by Legislative Audit, but it was requested that a third party provider conduct future audits. The request was for a three-year contract for an external audit.

Co-Chair MacKinnon wondered if the administration worked with the department to ensure that its information technology system was working properly. She felt that current system was not functioning as anticipated. She pointed out that the information extraction must be ensured, before funding the audit. She stressed that the system must be repaired to access the information. Ms. Pitney replied that the system needed dramatic and immediate improvement, and was the highest priority for the current administration to improve the system. She felt that an improved system may provide the opportunity for auditing responsibilities to revert back to Legislative Audit.

9:43:16 AM

Co-Chair MacKinnon stressed that she was not requesting the responsibility return to Legislative Audit, though she recognized the additional funding requests for a third party audit. She noted that the DHSS was sometimes unwilling or unable to respond to auditing requests from Legislative Audit. She hoped that the independent auditor would be able to pull all the data from the system to provide the necessary information for the completion of the audit.

Ms. Pitney looked at line 26, which was a settlement for the correctional officers. She explained that line 27 was additional federal receipts that were available for Alaska Energy Authority (AEA) programs, if the authority was available to accept those receipts. The line 28 was connected to the reappropriation of the Mount Spur projection the DGF. The capital budget appropriation in the capital budget was reappropriated to cover some of the AEA programs, so the supplemental request was a repeal of the DGF portion of the project into the Renewable Energy Fund.

Senator Bishop stressed that he wanted to evaluate the Mount Spur request, in order to prevent future redundant requests. Co-Chair Kelly replied that the concern was related to previous administration.

Co-Chair Kelly asked that the Department of Corrections (DOC) connected with Senator Bishop to address the redundancy concern. Ms. Pitney agreed to provide that information.

Co-Chair Kelly requested a discussion regarding the future of the SPAR fund. He stressed that there was not enough money to sustain the program, and the mechanism to provide money was connected to oil production. He noted that oil production had decreased, and also remarked that there was no benefit at higher oil prices. He felt that a half-hour discussion would be sufficient.

Vice-Chair Micciche echoed Co-Chair Kelly's concerns. He explained that there were entities that paid into the fund who had their own spill response program, supplementing many other industries that did not pay into the fund. He felt that other industries should share the cost. He remarked that he was not against raising the SPAR fee.

Co-Chair Kelly suggested that a subcommittee be formed to discuss the issue.

9:48:30 AM

Senator Dunleavy remarked that the subcommittee for DEC had addressed the SPAR fund issue during recent years. He remarked that the original mission of the SPAR fund must be examined.

Ms. Pitney looked at page 6, line 29, which was the reappropriation that opened the scope for the Interior Gas Project to allow for purchase of instate versus strictly North Slope assets, for facilitation of the Interior Gas Project.

Co-Chair Kelly wondered if the item should be included in the budget rather than legislation. He noted that the original appropriation was a statute from SB 23.

Vice-Chair Micciche shared that he had offered an amendment to SB 23 to provide for statewide potential, but the amendment was not accepted. He felt that a discussion should occur in a committee setting, rather than included in the supplemental budget.

Ms. Pitney addressed page 7. She stated that lines 33 and 34 were judgments and settlements; and line 35 was a scope change for existing funds to be used for information technology beyond the safety and information network. She stated that line 36 was an estimate for the anticipated fire suppression activities for Department of Natural Resources (DNR) for \$3 million. She stated that line 38 would repeal funding for the redistricting board, because it had completed its work.

Ms. Pitney looked at page 8, line 39 through 43, which outlined the repeals. She stated that line 39 was the school debt reimbursement reduction, which reduced the overall required debt service.

9:53:22 AM

Co-Chair Kelly remarked that one-time funding for education from the previous year, had dollars specifically targeted to policy. The bill had an increase to the base student allocation (BSA), and the other dollars were related to the

policy initiatives. He requested an analysis of an adjustment, if the BSA-increase were removed, instead of the policy initiatives' funding. He wondered what would occur, if there was a reduction to the BSA.

Vice-Chair Micciche remarked that there should be transparent conversations regarding policy adjustments. The SPAR fund required important discussions, because there was \$7 million into the SPAR fund for emergency management. The open discussions should occur regarding what the state could afford. The SPAR fund should be utilizing fees from the individuals that take advantage of its services. The state could not afford to continue to cover the costs of many programs. He appreciated the creative efforts to manage the shortfall, but reiterated that the cost should be shared by those who use the benefits of the program.

Co-Chair Kelly restated that he would set aside some time for committee discussion. He encouraged Vice-Chair Micciche to organize a task force related to the SPAR fund.

Ms. Pitney stated that page 8, lines 47 through line 63 were ratifications, which were prior year accounting "clean-ups."

[9:58:14 AM](#)

Co-Chair Kelly surmised that the ratifications were essentially bills that required payment. Ms. Pitney agreed.

Co-Chair Kelly appreciated the work of Ms. Pitney. He remarked that there were no assistants in Ms. Pitney's presence. He cautioned against using the budget to shape policy that was already designated by the legislature. He looked at the one-time funding repeal, and stressed that the previous year's education discussion was impactful and important, and did not feel that the funding should be repealed.

Co-Chair MacKinnon remarked that each administration could draft a supplemental budget as they work to resolve financial challenges. She noted that Alaska was facing a financial challenge, and remarked that it was a great challenge to find \$2.4 billion. She remarked that education was bearing the cost of paying a bill from 2014 that once had a positive revenue. She pointed out that the legislature was facing difficult choices. There were

students in Alaska that were seeking a quality education, and the legislature had worked to specifically allocate some various resources to enhance education. She furthered that there were many in the state that were accessing current Medicaid services, and the state needed to pay \$92 million to Medicaid. She noted that there was an intent from the current administration to expand Medicaid. She looked forward to the conversations to determine the cost to Alaskans in perpetuity. She stressed that the cost of Medicaid services would be weighed against the cost of education. She announced that Alaska's education used 28 cents of every dollar in the general fund, and another 28 cents was spent on health and human services in the state.

Co-Chair Kelly remarked that there was a large amount of money that needed to be removed from government.

Vice-Chair Micciche cautioned against "short-cutting" the system. He stressed that policy discussions were important to the process, and budget issues could not be solved by discounting recently enacted policy.

[10:05:04 AM](#)

Co-Chair Kelly expressed opposition to most new budget requests because Alaska had a bonded indebtedness bill of \$228 million per year in the operating budget. He felt that the bond debt should be in the capital budget instead, because it effected the actual size of the capital expenditures. The capital budget should reflect the total capital expenditures. The capital budget was used to balance the needs of different communities in the state, but the \$228 million provided a skewed perspective. He noted that the current year's capital budget was unusually small, but encouraged the inclusion of the bonded indebtedness in the capital budget in future years.

[10:07:08 AM](#)

Senator Dunleavy hoped that the administration was composing methods to work with the legislature to reduce the size of government. He understood that budget reductions were imperative in this time of fiscal crisis, but felt that laws must be made to limit the growth of government. He stressed that the cost drivers would always require funding. He felt that many of his constituents understood the budget issues, but understood that it will

be devastating to some people. He encouraged the administration to eliminate some regulations to lower the cost to specific industries, non-profits, etc. He remarked that there would be continual budget reductions, and the legislature may violate its own laws and regulations. He shared that the education system bureaucrats were trained to continue to ask for more funding for programs. He feared that Alaskans may wait for the cost of oil to increase, and felt that waiting would be a devastating mistake for Alaska. Ms. Pitney appreciated Senator Dunleavy's comments.

Co-Chair Kelly felt the Senator Dunleavy adequate described the direction of Alaska.

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ADJOURNMENT

10:12:39 AM

The meeting was adjourned at 10:12 a.m.