

SENATE FINANCE COMMITTEE  
February 20, 2015  
9:08 a.m.

9:08:40 AM

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 9:08 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 27        APPROP: OPERATING BUDGET/LOANS/FUNDS

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

SB 40        SUPPLEMENTAL/CAPITAL/OTHER APPROPRIATIONS

SB 40 was HEARD and HELD in committee for further consideration.

PRESENTATION: FY 16 BUDGET AMENDMENTS

#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."

[9:10:07 AM](#)

^PRESENTATION: FY 16 BUDGET AMENDMENTS

[9:10:10 AM](#)

PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, looked at the spreadsheet of the FY 2016 Operating Budget Amendments (copy on file). She shared that keeping with the governor's overall targets was the guiding principle behind drafting the operating budget. She remarked that there were additions and reductions that were represented as a combination. She shared that lines 1 through 3 restored funding for the Alaska Native Arts Marketing, which was the only program that was eliminated from the particular component. She noted an additional reduction to tourism marketing, and the Alaska Seafood Marketing Institute (ASMI). She shared that \$300,000 was the total request for the Alaska Native Arts Marketing. She furthered that there was a \$150,000 reduction to each of the other programs.

Vice-Chair Micciche queried the page number. Co-Chair Kelly replied that it was page 104.

[9:12:04 AM](#)

AT EASE

[9:12:33 AM](#)

RECONVENED

[9:12:35 AM](#)

Vice-Chair Micciche wondered how much of the \$300,000 appropriation was allocated for the direct purchase of art. Ms. Pitney replied that she did not know the exact proportion. The appropriation was both helping rural artist market their art from their community and moving the art into Anchorage to sell out of a retail area. The plan for

the function was to eventually move to privatization. There was a mistaken impression that it could happen in the current year, so it was restored with the expectation that it would move away from state subsidy in the future.

Vice-Chair Micciche shared that he was a supporter of native arts, but wondered if the appropriation was a priority. He felt that there were private options for this category and other budget categories.

Ms. Pitney looked at line 4:

Partially Restore Regional and Community Jails Program and Cover Prisoner Transportation Costs The Department of Corrections (DOC) will renegotiate contracts with communities to provide short-term confinement of unsentenced persons detained under state law for the actual cost per bed per day. This funding will also be used to cover any additional costs for prisoner transportation. 7,000.0

Senator Hoffman remarked that many of the programs, including the Regional Jails, were lined with the State Troopers and Judicial System. He urged the examination of eliminating one of those programs. He wondered if there was a better economical effort to enhance the system. He believed that the original proposal was a cost shift to a different department.

Senator Olson applauded the efforts of the administration in examining the law enforcement issue. He remarked that it was important for a community to have a holding facility for law enforcement. He wondered if there was a distribution of the communities that were reinstated to partial payment. Ms. Pitney replied that there was a list, and she had engaged in conversations with the Department of Corrections (DOC). She shared that the options would be presented in the subcommittee process.

[9:18:02 AM](#)

Senator Olson surmised that the final decisions were not yet made regarding the specific communities that would face partial or full funding. Ms. Pitney agreed. She shared that the administration had requested an analysis of the current jail usage. She stated that there should be an understanding that the funding would not be completely

eliminated, because the funding was set up like a revenue sharing program.

Senator Olson felt that it was not a revenue sharing program. He felt that communities, like Kotzebue, would bear all costs if the states eliminated the funding.

Ms. Pitney looked at lines 5 and 6. The items were for accounting to help the Post-Secondary Education Commission to provide a clear view of their receipts. They were intra-agency receipts to create a full picture of one component.

Ms. Pitney addressed line 7.

Medicaid Cost Containment Initiatives. The Department of Health and Social Services has identified ways to control growth in the current Medicaid program that will achieve an approximate \$20,000.0 general fund savings in the current Medicaid program. The majority of the initiatives will require new regulations and fee schedules and include changes to shift costs to 100% federal match for tribal services, changes to the Personal Care Assistance services eligibility requirements, to medical equipment, vision, dental, behavioral health, hearing services, transportation costs, and a contract for management of care.

Co-Chair Kelly queried the mechanism that caused the individuals to shift to tribal health. Ms. Pitney replied that there were some waiver requirements. She agreed to provide further information.

Co-Chair Kelly asked if the efforts were in anticipation of the Alaska Native Medical Center patient housing. Ms. Pitney asked for more information.

Co-Chair Kelly clarified that he would like more information about tribal housing at the Alaska Native Medical Center related to SB 88 from a former legislature. He shared that there was anticipated shift of medical expenses to pay for the lease. Ms. Pitney agreed to provide that information.

[9:23:12 AM](#)

Senator Dunleavy wondered if the governor was formulating a Medicaid expansion bill, so the legislature can hold

hearings. Ms. Pitney responded that the governor was considering a Medicaid expansion bill.

Senator Dunleavy felt that Medicaid expansion must have a number of hearings in order to understand the governor's point of view.

Co-Chair MacKinnon shared that Alaska had issued \$35,000 on a bond that was on payment in a hospital facility at Alaska Native Health Consortium. The state would then see repayment over time in the proposed cost savings. She wondered whether the funds were for housing or the neonatal center that was addressed in the current budget.

Co-Chair Kelly shared that the neo-natal health was part of the funding, but it was anticipated Medicaid money for more than just the neo-natal portions of the budget.

Co-Chair MacKinnon pointed out that there was an anticipated debt service payment on the current investment, with a portion represented as cost savings.

Co-Chair Kelly agreed. He wanted to clarify the intention of the funding.

Ms. Pitney looked at lines 8 and 9, which were related to the aerospace move to more self-reliance. The GF funding of \$4 million was reduced. The department asked that the funding be replaced with receipt authority for aerospace receipts.

Co-Chair Kelly recalled that the board and executive director had a different point of view. The executive director would welcome only federal receipts, and the board felt that they still may need \$2 million. Ms. Pitney shared that the administration had received information stating that they only wanted receipts.

Ms. Pitney noted that items 10 through 14 were combined. The ferry schedules were released in October, and people had purchased ferry tickets in the meantime, so there was a desire for a temporary ferry service restoration. There was a one-time reduction in the highway funds from the different regions.

[9:30:01 AM](#)

Vice-Chair Micciche felt that delaying the ferry reduction would make the legislature look bad. He shared that this was an example of a difficult decision for his subcommittee. He shared that he may not approve this request.

Senator Dunleavy wondered what services would be reduced from the road system by moving the money to the ferry system. He asked if the cost of fuel had been examined in the ferry system. He wondered if the potential savings in fuel could be transferred to the schedule issue. Ms. Pitney replied that there was \$27 million in the fuel trigger mechanism in FY 15. That fuel trigger mechanism was removed from the approved budget, so the Department of Transportation and Public Facilities (DOT/PF) lost that funding. In addition DOT/PF had faced additional cuts, like other departments.

Co-Chair MacKinnon wondered how many ferry tickets had been purchased, and the cost of submitting a new fee schedule.

Ms. Pitney highlighted lines 15 and 16. The contract was with the University of Alaska Federation of Teachers (UAFT) was finalized in the time between the endorsed budget deadline and the current meeting. The salary adjustment required under the contract would be \$1.5 million, of which 50 was GF. She remarked that line 16 was tied directly to that contract. She stated that OMB had a target for each operating budget for each department. She stated that line 16 should read, "Reduce the general fund amount to meet the administration's target for the University of Alaska not tied to this contract." She announced that a net increase of DGF of \$754,000 was required between the two line items.

Senator Dunleavy explained that school districts paid for their contracts out of their operating budgets that were outlined by the state. She wondered why that did not occur for the University. Ms. Pitney responded that the University's contracts were treated more like a state agency. The contracts were brought to the legislature for approval and funding. She shared that the legislature must approve the contract and appropriate the funding.

Senator Dunleavy restated his question. He wondered why the Universities did not function like school districts. Ms. Pitney explained that the school districts were not required to run their contracts through the legislature.

The University and other state agencies were required to run their contracts through the legislature. She did not know what it would require to get the University to act like school districts, but felt that there may need to be a statute adjustment. There was a provision in the operating budget which said, "The amount appropriated in this bill covers the provisions of these negotiated contracts." Therefore, any contract provisions must be funded.

[9:38:51 AM](#)

AT EASE

[9:40:00 AM](#)

RECONVENED

[9:41:09 AM](#)

Co-Chair Kelly felt it was unusual to receive this authority. He anticipated pushback on the University item.

Ms. Pitney understood that it was an unusual request. She shared that it was not common practice, but several states had a provision to allow for distributions within departments and across departments. She stressed that it was an unusual fiscal season, the request provided a degree of flexibility and prioritization within the legislature.

Co-Chair Kelly felt that attaching flexibility to a specific amount resulted in a "slush fund." He felt there may be constitutional and statute problems. He was not sure he was comfortable with the proposed mechanism.

Ms. Pitney looked at line 18. It was contingency language for the Spill Prevention and Response (SPAR) fund. She stated that during the formulation of a long-term solution, the request covered the SPAR fund through 2016. She shared that there was an anticipated settlement that would make the fund solvent.

Co-Chair Kelly wondered if the request was for Aniak. Ms. Pitney replied in the affirmative.

Vice-Chair Micciche remarked that he was working on a solution to the SPAR fund issue. He shared that Alaska was in a difficult fiscal time. He remarked that state departments seemed to want to continue with the status quo,

rather than examining creative ways to solve problems within the law.

Ms. Pitney looked at lines 19 and 20. They were the latest projections of the adjustments from Permanent Fund into the earnings reserve.

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

[9:48:01 AM](#)

AT EASE

[9:51:09 AM](#)

RECONVENED

#sb40

SENATE BILL NO. 40

"An Act making supplemental appropriations, capital appropriations, and other appropriations; making reappropriations; amending appropriations; repealing appropriations; making appropriations to capitalize funds; and providing for an effective date."

[9:51:33 AM](#)

Senator Dunleavy wondered how the budget approach reduced the budget by 25 percent.

PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR replied that the budget reduced the agency operating budgets by approximately 6 percent. She stated that, over a four-year timeframe, it was the first step in a 25 percent reduction. She stressed that this was a first step, and remarked that the solutions would be more dramatic as the pressure was building.

Ms. Pitney looked at line 4 of the FY 15 Supplemental Budget Amendment Spreadsheet (copy on file). She stated that it was a request for emergency repairs for the State Forest Road System in the Tanana Valley State Forest. She shared that it was a request that had been presented on multiple occasions. The need became more apparent recently, which was why it did not appear in the previous versions of the supplemental budget. The request was an \$896,000 road repair, which was needed because of the rain. The revenue

from the forest was approximately \$250,000 per year, so the repair was required to maintain the revenue.

Ms. Pitney looked at line 9, which was a reappropriation of two projects. The Harbor Program would not be complete because of an alternative funding source. The Glenn Highway ruts would be complete, plus additional federal funds. The reappropriations allowed DOT/PF to install injection wells.

Ms. Pitney addressed lines 10 and 11, which were airport repairs fund source changes. They were originally in the construction fund and were moved to the airport fund. These were net zero changes, but changing the fund source for project completions.

Ms. Pitney looked at line 12 was a repeal of \$2.7 million for Alaska Gasline Inducement Act (AGIA).

Ms. Pitney explained lines 13 and 14. The items were intended to note that there were appropriations in the previous year that exceeded the fund balance of the funds that they were originated.

Vice-Chair Micciche felt that the final operating budget would result in a great amount of discomfort.

SB 40 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT  
9:59:06 AM

The meeting was adjourned at 9:59 a.m.