

SENATE FINANCE COMMITTEE

April 23, 2015

1:34 p.m.

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CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 1:34 p.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; Senator Cathy Giessel; Senator Kevin Meyer.

SUMMARY

^PRESENTATION: PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR: ALASKA'S FISCAL CRISIS

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Co-Chair Kelly stated that the presentation should be focused on the future. He felt that the price of oil would not increase. He wondered if the administration had any plans for the following year. He stressed that he wanted to support the administration. He

PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, commented that // She discussed the

presentation titled, "FY2016 Budget Overview, Senate Finance Committee" (copy on file).

Ms. Pitney looked at slide 2, "Budget Priorities":

- Opportunity for Alaskans
- Stable Economy
- Education
- Resource Development
- Affordable Energy
- Supporting Alaskan Families

Ms. Pitney addressed slide 3, "Budget Guidance: Limit Spending":

- Multi-year approach
- All agencies and programs involved
- Maintain maximum service delivery
- Seek partnerships and opportunities to privatize
- Assess programs not specifically required by state law
- Involve Alaskans

Ms. Pitney highlighted slide 4, "All Agencies Contributing." She noted the expense and revenue reality.

Ms. Pitney passed slide 5, "UGF Revenue Scenarios: FY 14 to FY 19."

Ms. Pitney looked at slide 6, "Reserves Projection at Forecast."

Ms. Pitney highlighted slide 7, "UGF Revenue Scenarios: FY14 to FY19." She stated that the slide was based on the fall 2014 forecast. The dark line represented the revenue, assuming the fall forecast where oil returned to \$100. The gap in 2016 was significant, even with the additional reductions. She stated that there may be reserves through 2022.

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Ms. Pitney looked at slide 8, "Reserves projection at \$50 oil." The graph reflected the same discussion that David Teal addressed the previous day. The state could see no reserves in the constitutional budget reserve (CBR) in FY

18, if oil stayed at \$50. She felt that \$50 was more likely than \$100.

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Ms. Pitney discussed slide 9, "Average Total State Expenditures." The slide showed where Alaska fit with other state spending. The line was a population adjusted line for spending. If Alaska was spending on an average per state, adjusted for population, state spending would be \$5.3 billion. She furthered that removing the big states would decrease the average to \$4.8 billion. She stated that the state was currently within the \$4.8 billion to \$5.3 billion range within the current budget.

Ms. Pitney looked at slide 10, "Inflation and Population Adjustment Approach." She stated that agency operations were in the same place as in 1998.

Vice-Chair Micciche wondered why the "Statewide Ops" was an outlier since 2008. Ms. Pitney replied that there were three aspects: \$228 million in debt service, and half was considered school construction reimbursement; the Public Employees' Retirement System (PERS) and Teacher Retirement System (TRS) reimbursement; and oil and gas tax credits.

Co-Chair Kelly wondered if the revenue was \$500 million. Ms. Pitney agreed. She stated that the PERS and TRS was a repayment for all the years when the full cost of the retirement system was not collected.

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Vice-Chair Micciche assumed that the decline in FY 14 and FY 15 was the reduction in liability because of the \$3 billion infusion. Ms. Pitney replied that the payment was in the \$600 million range in FY 14; and \$3 billion was invested separately from the CBR in FY 15. It was considered a fund transfer, so it was not considered an expenditure.

Co-Chair MacKinnon encouraged a conversation about evaluating the debt payment of \$265 million as an annual reoccurring cost, rather than an upfront investment. She felt that the debt should be balanced and what needed to be utilized to pay off debt. She offered that an investment of \$3 billion, with \$500 million a year of savings, might

prompt other similar debts. She encouraged that type of discussion with the Department of Revenue (DOR).

Co-Chair Kelly requested a graph that reflected the loss of interest revenue. Ms. Pitney stated that the interest earnings would be approximately \$140 million.

Co-Chair Kelly wanted to see a graph of the interest revenue.

Co-Chair MacKinnon remarked that the utilization of assets was the greatest interest to Alaska. She encouraged a conversation with DOR.

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Co-Chair Kelly queried the reduction in the number of students. Senator Dunleavy replied that 2004 to 2014 saw an approximately 3000 student decline.

Co-Chair Kelly surmised that, over that time, the state had increased the DEED budget by \$400 million per year. Senator Dunleavy replied that he did not know the exact number.

Ms. Pitney looked at slide 11, "Examination of Core Agency Missions":

OMB analysis of state statutes and agency budget components

-How do they align with the legislature's core agency missions?

-Some Functions and Components Do Not Align with Core Agency Missions

-Options:

Leave Status Quo in Place
Narrow the Function or Component
Transfer or Consolidate the Function or Component
Privatize or Outsource the Function or Component
Repeal the Function or Component

-Examples

- OMB has identified 50+ statutes that appear to be defunct

- Consider repeal

- Revolving Loan Funds

- There are 32 revolving loan funds in 6 different agencies

- Consider administration consolidation in one entity

- Proprietary Entities (example: Alaska Aerospace Corp)

- Consider privatizing, or forming public private entity

Senator Dunleavy wondered if there was anything that would not be considered for privatization. Ms. Pitney recalled the same question from another meeting.

Senator Dunleavy restated his question. He stressed that the knowledge of possible privatization may enhance the conversations. Ms. Pitney responded that, generally speaking, anything could be privatized. She stated that the voucher program would not be highly prioritized in the current administration.

Senator Dunleavy clarified that SJR 9 would have attempted to change the constitution. He stated that the Alaska Performance Scholarship was awarded to those to attend private colleges, included religious colleges, in the state.

Senator Dunleavy surmised that education was not part of the conversation about privatization. Ms. Pitney replied that OMB wanted a strong public education system. Senator Dunleavy agreed.

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Senator Bishop remarked that he had a strong opinion on Deferred Maintenance. He stated that he hoped that the deferred maintenance budget would become zero.

Co-Chair Kelly queried a strategy for dealing with the larger cost drivers, specifically education. He felt that there would be a crisis situation for school funding. Ms. Pitney replied that the governor reduced the previously approved \$32 million. The legislation that funded the \$32 million required additional studies on the formula program, which should be available the upcoming summer. The studies would provide an opportunity for dialogue. The administration wanted high performing and efficient schools. She agreed that education was a large cost driver. She furthered that oil and gas tax credits were large costs drivers and the Permanent Fund Dividend was a large cost driver. The conversation regarding the value to the state was the most important aspect in drafting further budgets.

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Ms. Pitney looked at slide 13, "Engaging Alaskan":

Initial Conversation (June): Reductions, Right Size, Priorities, Revenue Options

Engaging Alaskans across the state: Public Trust, Respect, Persistence, Service, Teamwork

Ms. Pitney reiterated that there was significant wealth in the state, but many people must be engaged to bring awareness to the budget crisis.

Co-Chair Kelly believed that budget choices should be transparent, but felt that a "roadshow" would not be effective. He shared an anecdote about managing a sales staff.

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Vice-Chair Micciche noted that Alaska was generally spending more per capita than other states. He remarked that the governor had announced that he wanted a sustainable budget model, and remarked that there may be a 20 percent budget reduction. He stated that the

administration was concerned with a reduction in the 9 percent budget cut. He wondered how there could be a plan for a sustainability model without the larger budget reductions. He felt that the legislature was very careful in there budget reduction considerations, but wondered how only a 9 percent cut would provide further sustainability. He wondered how the state would reach further budget cuts, without the discussion in the current year. Ms. Pitney replied that the 25 percent target was first determined after a conversation with each commissioner regarding a 5 percent reduction scenario. The 25 percent was across a three or four year period. The 25 percent was intended to examine how the agency would look, if it were reduced by 25 percent. She announced that some agencies that had already seen a 25 percent reduction.

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Vice-Chair Micciche stated that the gap was almost parallel in every combination of solutions, unless oil saw a dramatic increase in price.

Co-Chair Kelly stated that there were two additional documents titled, "Agency Operations" and "Agency Share of total agency Operations, FY16 Governor's Request."

Senator Dunleavy echoed Vice-Chair Micciche's comments. He felt that there should be a conversation about taxes. He queried the administration's position on the current budget proposal from the legislature. Ms. Pitney replied that, in some cases, the budget went too far in its reductions.

Senator Dunleavy wondered how the legislature needed to reconcile the reductions with the earlier 16 percent reduction suggested by the governor. Ms. Pitney replied that there should be prioritization, and the dialogue must occur.

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Co-Chair Kelly remarked that there was an engagement with the education community regarding the previous year's budget infusion. He stated that the education community would only state that they wanted more money. He felt that an attempt to have a conversation about charter schools and home schools was rejected by the education community, and they only wanted more money. He remarked that there was a 4

percent decrease to education, and there was over a thousand emails in a few days. He felt that there could not be a reasonable dialogue about some items, because every dollar in state government had a constituency. He furthered that some dollars had a more active constituency than others.

Senator Dunleavy felt that the other sources of revenue, like taxes, would need to be greater to fill those gaps. He stressed that the state could not tax its way out of its fiscal shortfall. He stressed that the state must deal with its budget problem.

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Senator Hoffman remarked that there may be some arguments about the level of funding for education. He stated that the presentation from David Teal that showed that the state had \$16 billion in FY 14. He stated that, in five years, the \$15 billion would be gone. He remarked that the state would then be short \$2.5 billion, but there was some revenue from the last of the CBR. He remarked that the state only had two to three years to come up with the difference.

Co-Chair MacKinnon remarked that there was a challenge in determining the proper help in increasing the revenue stream. She stated that the state would still not fill the "hole" so she was willing to reduce more programs.

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Senator Olson wondered what effect a possible Medicaid expansion would have on the cost drivers. Ms. Pitney replied that the Department of Administration (DOA) supported Medicaid expansion.

Senator Olson wondered if there was a possibility that the gap would be even greater than what was presented by David Teal. Ms. Pitney replied that there was an existing revenue gap, which would still be in place after reducing all of state. She stated that Medicaid reform would not reduce the budget gap.

Co-Chair MacKinnon felt that the math must be understood before proceeding with the budget request. She did not know how the state benefitted by 50 percent of the proposed

enrollees that could currently receive a 100 percent payment from the federal government, with a 10 percent state subsidy. She felt that the state would not benefit from Medicaid expansion, although, the people of the state may have better access to health care. She stated that Tri-care recipients were 100 percent covered by the federal government, except veterans may not be fully covered. She furthered that the state would be picking up 10 percent of the Tri-care reimbursement. She queried the math of the Affordable Health Care Act. She shared that the U.S. president announced that the system would provide for the less fortunate who needed additional health care, and would see a \$2000 savings in the individual families. She shared that some of her constituents shared that their insurance rates increased, or their insurance was lost. She specifically wondered how this particular time was different than other times of health care strife. Ms. Pitney replied that there had been 26 hearings related to health care in the House and Senate. She stated that the administration wanted to have Medicaid conversations with those particular questions addressed in Senate Finance hearings.

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Co-Chair Kelly stressed that the committee had done the proper work to reduce the budget.

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ADJOURNMENT

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The meeting was adjourned at 2:51 p.m.