

SENATE FINANCE COMMITTEE

May 4, 2015

1:33 p.m.

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CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 1:33 p.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair (via teleconference)
Senator Pete Kelly, Co-Chair
Senator Peter Micciche, Vice-Chair (via teleconference)
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; Representative Sam Kito;

PRESENT VIA TELECONFERENCE

SUMMARY

SB 1001 APPROP: OPER. BUDGET/LOANS/FUNDS/AM APPRO

SB 1001

#sb1001

SENATE BILL NO. 1001

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

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Co-Chair Kelly discussed housekeeping.

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PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, noted that there were others in the gallery that could speak to specific items. She explained that the CS isolated minor changes, while leaving HB 72 intact. The CS was isolated to the changes provided by the administration as a starting point to spur discussion and work toward a fully funded budget.

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Ms. Pitney referred to page 2, section 1, which listed specific program funding sources:

*** Section 1.** The following appropriation items are for operating expenditures from the general fund or other funds as set out in section 2 of this Act to the agencies named for the purposes expressed for the fiscal year beginning July 1, 2015 and ending June 30, 2016, unless otherwise indicated. A department-wide, agency-wide, or branch-wide unallocated reduction set out in this section may be allocated among the appropriations made in this section to that department, agency, or branch.

Ms. Pitney spoke to the reinstated education funding line items on Lines 13 and 14:

Alaska Learning Network - 599, 700
Pre-Kindergarten Grants - 2,000,000

Ms. Pitney continued to Lines, which reflected the restoration of funds for Children's Services:

Front Line Social Workers - 1,000,000

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Ms. Pitney referred to Page 2, lines 21 through 27, which showed unallocated reductions to the Department of Health and Social Services:

Departmental Support Services 0 1,175,000 -1,175,000
Public Affairs 0
Commissioner's Office 0
Administrative Support 0
Services
Information Technology 0
Services

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Co-Chair Kelly asked whether funding for the Frontline Social Workers were in the governor's original budget.

Ms. Pitney replied no.

Co-Chair Kelly asked whether Family Preservation funding had been in the original budget.

Ms. Pitney replied yes.

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Senator Dunleavy wondered how the administration expected the CS would succeed in being fully funded.

Ms. Pitney hoped that the CS would be a starting point for a conversation that would result in the compromise necessary to garner a three-fourths vote needed to get to a fully funded budget.

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Co-Chair Kelly noted that the CS was not fully funded either.

Ms. Pitney agreed.

Co-Chair Kelly declared that the senate had passed a fully funded budget with HB 72.

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Senator Dunleavy asserted that the senate had passed a fully funded budget. He said he did not understand how SB 1001 was fully funded.

Ms. Pitney reiterated that the budget would only be fully funded if a compromise were struck between the minority and the majority that resulted in a majority vote. She restated that SB 1001 was intended to inspire further conversation that lead to a compromise. She said that although the senate passed the budget, the legislation now sitting on the governor's desk was only two-fifths funded.

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Ms. Pitney continued to speak to Page 2, lines 21 through 27, which restored unallocated administrative reductions in the Support Services area of the Department of Health and Social Services. She said that the reductions had been fund source changes from general fund to inter-agency receipts, but would be restored back to general funds because the inter-agency receipts would be unrecoverable. She added that the Agency-wide unallocated reduction of travel and support on Line 29, would also be restored.

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Ms. Pitney referred to Page 3, line 6 of the previous, unfunded budget. She relayed that \$9 million of a \$14 million dollar request had been included for efforts on North Slope Gas Commercialization; the CS reflected the remainder of the original request from the governor at \$4.9 million.

Ms. Pitney continued to Line 9, which listed the proposed requests for the Department of Public Safety:

Alaska State Troopers	500,000	500,000
Alaska Wildlife Troopers - 500,000		
Aircraft Section		
Council on Domestic Violence and Sexual Assault	1,500,000	1,500,000
Council on Domestic Violence and Sexual Assault - 1,500,000		

Ms. Pitney spoke to the prioritization of prevention funds by the previous and current administrations for the Council on Domestic Violence and Sexual Assault (CDVSA). She shared

that the program had been funded at \$3 million in FY 15. She said that the administration felt that the prevention efforts in the areas of domestic violence and sexual assault were significantly important in the state. She reiterated that the bill was meant to be a tool to generate discussion that would result in a fully-funded budget.

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Co-Chair Kelly asked how much had already been allocated for the CDVSA.

Ms. Pitney said approximately \$16 million, 80 percent of which was for operating shelters.

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Senator Hoffman understood that the dollars would be transferred from the Governor's Office to the Department of Public Safety as one-time funds and would be eliminated in FY17.

Ms. Pitney replied that the funding had been changed to one-time funding on the house side, and cut altogether by the senate. She stated that the \$1.5 million would be used for prevention efforts.

Senator Hoffman interjected that the council had \$16 million in its budget.

Ms. Pitney clarified that the current \$16 million of available funding was not prevention funds.

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Ms. Pitney spoke to the Alaska Marine Highway System (AMHS) item on page 3, line 22:

Marine Vessel Operations - 7,000,000

Ms. Pitney explained that AMHS had been sharply reduced in the previous budgets; the CS would restore all of the already published schedules for summer 2015, and maintain some winter schedules. She noted that some winter schedules would be impacted even with the restoration of the funds.

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Ms. Pitney moved to Line 27:

**Budget Reductions/ Additions - 7,000,000
- Systemwide**

Ms. Pitney related that the restoration would remove the need to eliminate approximately 70 positions at the University of Alaska.

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Senator Bishop asked whether a breakdown of the 70 positions could be provided.

Ms. Pitney replied that 40 percent of the positions would be from the University of Alaska Fairbanks (UAF); 30 percent at the University Alaska Anchorage (UAA); 7 percent at the University of Alaska Southeast (UAS); 17 percent at the statewide office. She stated that UAF, UAA, and UAS would see a 50 to 60 percent of faculty and a 50 to 60 percent staff reduction. The statewide office only had staff positions. She shared that each university branch was preparing a priority list of programs and services that would be reduced.

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Co-Chair Kelly asked how much of the allocation was in anticipation of salary increases.

Ms. Pitney explained that the \$7 million was separate from the salary increases.

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Senator Bishop stated that he had written a letter to the UAA Board of Regents with cost savings suggestions and had yet to receive a response. He hoped that the board would respond so that positions could be saved.

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Senator Dunleavy asked Ms. Pitney to repeat what the reductions would be at each university branch.

Ms. Pitney replied that current percentage distributions of the reduction of the \$30 million in general fund was: 41.9

percent at UAF; 33.4 percent at UAA; 7.2 percent at UAS; 17.5 percent in the Statewide Administration Office. She furthered that the statewide off had been given a proportionally larger share of the unrestricted funds to minimize the impact on campuses and academic programs.

Senator Dunleavy queried the total number of positions that could be lost.

Ms. Pitney replied up to 70.

Senator Dunleavy asked how many of the positions would be teaching positions.

Ms. Pitney responded that the current estimate was 50 to 60 percent teaching positions.

Senator Dunleavy understood that the increase would fund positions that were filled by real people; there would be no empty PCN's.

Ms. Pitney said that the funds would save 70, currently filled, positions.

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AT EASE

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RECONVENED

Ms. Pitney referred to page 3, line 32, which listed the restoration of the cost of living (COLA) increases for employees under labor contracts. She explained that the intent was to allow the administration to honor existing labor contracts and to perform "good faith" negotiations with unions, while understanding that non-union employees would not receive the COLA increase. She said that there were three contracts, representing half of the state's union employees, currently under negotiation. She relayed that the intent was not to treat employees unequally, but to honor the labor contracts in the same way the state would honor its contracts with any other third-party.

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Co-Chair Kelly asked why the non-union COLA increases had been removed.

Ms. Pitney replied that the increases for partially-exempt and exempt employees were not under legal contract; the state was not legally bound by contract to pay those increases.

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Co-Chair Kelly understood that negotiations would happen again with the three biggest unions in 2017.

Ms. Pitney confirmed that negotiations would be happening for 2017, the state would be asking to reopen contracts for 2016.

Co-Chair Kelly asked why keeping the funds for non-union employees had not been considered.

Ms. Pitney stated that the determination had been based on the state's fiscal climate and the interest of honoring the legal contract.

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AT EASE

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RECONVENED

Ms. Pat Pitney referred back to the question of funding for labor contracts versus funding for non-union statewide employees. She noted that the crux of the issue was the honoring of the legal contracts, while understanding the current fiscal constraints. She stated that the contracts had been negotiated in good faith; the administration would ask for reopeners in 2016, and certainly the fiscal crisis would be considered during negotiations for FY17.

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Co-Chair Kelly stated the legislature not funding the increases constituted a reopener. He opined that rejecting the language was not equal to not honoring the contracts, it would just reopen the negotiations. He added that he still did not understand why the non-union contracts had been removed.

Ms. Pitney stated that the COLA funding for only union employees made the most fiscal sense.

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Ms. Pitney referred to Section 2, pages 4 through 11, which listed the funding sources associated with Section 1. She continued to Section 4, page 12, which listed the numbers associated with Medicaid expansion. She pointed out that the Department of Corrections (DOC) would see a savings of \$4,108,200 as a result of Medicaid expansion. She relayed that the Department of Health and Social Services (DHSS) was expected to see a savings of \$1,558,700 in Behavioral Health and \$1,000,000 in Catastrophic and Chronic Illness Assistance. Line 22 listed the acceptance of \$145,438,400 in federal funds for the expansion.

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Ms. Pitney pointed out to the committee that Section 5, page 13, listed the previous numbers by fund source.

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Ms. Pitney turned to Page 15, section 7, which appropriated \$118,000,000 from the in-state gas pipeline fund to the public education fund.

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Senator Hoffman asked what the additional funding did to increase the base student allocation (BSA).

Ms. Pitney replied that she did not have the figure.

Co-Chair Kelly interjected that the bill would bring the BSA to \$58.80.

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Vice-Chair Micciche understood the bill was intended to create conversation that would lead to the three-quarter vote needed to fully fund the budget. He contended that the appropriations in the bill were the desires of the governor. He thought that the politics of saving a few programs would not be the answer to working toward a three-quarter vote.

Ms. Pitney reiterated that the items in the CS were reflective of the governor's priorities, and that the bill

was meant to reopen the conversation in order to negotiate a way to a fully-funded budget.

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Vice-Chair Micciche wondered whether the governor realized that the appropriation process was the responsibility of the legislature. He asked whether the governor could ever support the previously passed budget bill.

Ms. Pitney responded that if a fully funded budget had come to the Governor's desk, he would have supported the authority of the legislature to pass a budget. She related that the problem was that HB 72 had not been fully funded, and there was no mechanism in place to move forward with that piece of legislation.

Vice-Chair Micciche stated that the cuts that had been made to HB 72 had been painful for everyone. He wondered whether the administration recognized the difficulty of the job that the legislature had done.

Ms. Pitney stated that the administration and the governor were well aware of the state's fiscal situation. She asserted that the governor's original budget had proposed an approximately \$700 million reduction, SB 1001 only changed the spending plan proposed in HB 72 by 1.4 percent, and the governor would have accepted HB 72 had it been fully funded. She related that revenue measures would need to be further discussed in the future because, realistically, oil prices would not be rebounding to a level that would balance the budget.

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Senator Hoffman asked how large of a cut the administration anticipated in 2017.

Ms. Pitney reminded the committee that when the governor took office he had requested that all commissioners provide 5 and 8 percent reduction scenarios, which had been the basis for the initial budget submitted for FY16. She said that departments had been asked to project what their agencies would look like after a 25 percent reduction in budget. She stated that talks concerning efficiencies across all agencies were still underway. She noted that Conference Committee reductions relative to management plan

for several agencies exceeded 25 percent. She anticipated that cuts for FY17 would be more difficult.

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Senator Hoffman understood that 8 percent was most likely unachievable. He surmised that the administration was looking to submit a further reduced budget to the legislature in the future.

Ms. Pitney replied that that was the goal.

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AT EASE

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RECONVENED

Co-Chair Kelly expressed that the unexpected spending proposed in SB 1001 would be difficult to explain. He spoke of the \$118 million in education funding, which was one-time money. He thought that it was the governor's goal to not have any cuts to education, but replacing the \$118 million - plus increases - would be challenging. He spoke of all of the cuts that the committee had made to the budget already and warned that crafting a balance budget in FY17 was going to be even more of a challenge.

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ADJOURNMENT

[2:31:29 PM](#)

The meeting was adjourned at 2:31 p.m.

