

SENATE FINANCE COMMITTEE
January 20, 2016
10:08 a.m.

10:08:07 AM

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 10:08 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

PRESENTATION: OVERVIEW FY 17 OPERATING BUDGET

Co-Chair Kelly welcomed everyone back to Senate Finance. He introduced the committee members, as well as committee staff and members of the media. He recognized former Representative Mike Davis, former Representative Tom Brice, and Commissioner Randall Hoffbeck in attendance. He recognized the amount of work done by the committee and those associated with the legislature. He discussed the agenda for the day.

^PRESENTATION: OVERVIEW FY 17 OPERATING BUDGET

10:12:08 AM

PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET (OMB), OFFICE OF THE GOVERNOR, introduced herself and relayed that it had been a busy time for the administration. She shared that the administration had given more than 50 presentations throughout the state relating to the budget, and thought hearing from Alaskans as well as sharing budget information had been very valuable.

Ms. Pitney discussed the presentation "New Sustainable Alaska Plan FY 2017 Budget Overview" (copy on file). She commented that the 2017 operating budget, capital budget, and mental health trust bills provided the first steps towards reaching the new sustainable Alaska plan.

Ms. Pitney addressed slide 2, "New Sustainable Alaska Plan":

The Governor's FY2017 Budget includes key components of the Governor's three-year plan to assure sustainable and balanced budgets long term.

1. Sustainably Utilize the Earnings Reserve
2. Provide Dividends
3. Reduce Spending
4. Priority Investments
5. Broad Based Taxes and Credit Reform

Ms. Pitney informed the committee that she had been asked to focus on the FY 17 spending component of the plan versus going through the entire plan. She furthered that the FY 17 budgets, as listed in the presentation, provided the first four components of the New Sustainable Alaska Plan. She pointed out that there was separate legislation that covered the final component of broad based taxes and credit reform. She shared that the administration looked forward to discussing the plan in total, and she would be touching on a few of the forward-looking pieces as they applied to the FY 17 spending level.

Senator Hoffman asked if the key components listed on slide 2 were listed in order of priority or at random.

Ms. Pitney stated there was no priority to the way the items were listed, nor was it random; they were all components of the plan that were necessary to reach a sustainable, long-term balanced budget.

[10:15:17 AM](#)

Ms. Pitney moved to slide 3, "FY2017 Budget by All Fund Sources," which showed a pie chart. She stated that in total, the FY 17 budget was \$9.5 billion, half of which was unrestricted general fund (UGF). Other state funds was 7 percent of the total, half of which was a budgetary process in which the state recorded expenses in two different places. She continued that other state funds also included statutory designated program receipts that were specific to a particular program. She continued that 9 percent was designated general funds (DGF); which was largely earned revenue such as University tuition and fees, and marine highway tickets. She noted that both other state funds and the DGF were relatively stable year to year.

Ms. Pitney continued discussing the breakdown of fund sources on slide 3, pointing out the large federal funds component that comprised \$3.1 billion of the budget. She noted that there were two changes within the federal funds: within the Department of Transportation and Public Facilities federal funds there was a decrease in extra authority; and Medicaid federal funding had gone up due to Medicaid expansion. All other federal funds within the category were things such as the University and other departments. She continued that the Department of Corrections (DOC) and the Department of Education and Early Development (DEED) had federal funds (and most every agency), but were much smaller components than the federal highway match and Medicaid amounts.

Ms. Pitney observed that at \$9.5 billion (using a straight comparison), the budget would be down from \$10.2 billion in FY 16.

[10:18:03 AM](#)

Vice-Chair Micciche asked for clarification regarding the other state funds listed on the graph. Ms. Pitney specified that part of the category was interagency receipts, created when one department worked in service on behalf of another department. She advised that in the overall budget, the amount was counted twice - there was an agency that paid for the service, as well as an agency that serviced it. She used an example of services from the internet technology (IT) area, and described how OMB paid the Department of

Administration (DOA) for the IT service component, as did all other departments. She specified that approximately \$40 million of "other" funds were the expenditures associated with IT. She used another example of DOC providing laundry service for the Alaska Marine Highway System.

Vice-Chair Micciche asked if the total spend (\$9.5 billion) was actually less due to the accounting practices employed by the state. Ms. Pitney clarified that \$9.5 billion was the total budget and would be different if compared to a financial statement.

Vice-Chair Micciche asked if the committee could get information on the actual expenditures after the removal of the interagency service charges.

Ms. Pitney estimated that interagency receipts totaled approximately half of the other state funds at \$350 million to \$370 million. She agreed to provide the committee with the actual expenditures information Vice-Chair Micciche had requested.

[10:20:50 AM](#)

Co-Chair MacKinnon asked if the administration had completed an analysis of the federal funds and the required matching GF. She asked Ms. Pitney to comment in the context of "program creep," which she described as program growth motivated by an effort to gain additional federal funding. She noticed that federal receipts had been going up, and wondered what the administration was doing to analyze how the federal funds were being received as well as rules were associated with the receipt of the funds.

Ms. Pitney shared that the administration examined each request for federal funds, considering the long-term ramifications and future obligations to the state through a potential increase in matching funds or necessity of running the program without federal funds. Additionally, economic advantage and relevance to the state's mission was examined. She commented that the administration, for the most part, was interested in bolstering the economy to the degree that it could be accomplished with federal funds.

Co-Chair MacKinnon clarified that she was trying to understand the additional requirements inside state

government, in order to evaluate how the state was going forward with federal funds.

Co-Chair MacKinnon wondered if the budget being presented incorporated an assumption of passage of every component of what the governor had proposed, versus suggesting changes through bills.

Ms. Pitney stated that the budget incorporated everything in the capital, operating, and mental health trust budgets (SB 138, SB 139, and SB 140); without assuming the oil and gas tax reform and revenue bills, which were coming in separately. She furthered that if the broad-based tax bills were passed, the draw on the states savings for UGF would be just under \$500 million. She continued that by 2019 (under the plan) there would be no draw on savings save for a sustainable draw on the interest earned from any available savings. She concluded that the budget being presented assumed the Permanent Fund Protection Act, however there were separate pieces of legislation that carried revenue bills.

[10:25:48 AM](#)

Co-Chair MacKinnon emphasized the importance of communication during the current legislative session. She shared a concern that there were assumptions embedded in the governor's budget, some of which would require policy changes. She thought it might be confusing to the public. She thought it appeared that a capping of the Permanent Fund Dividend (PFD) was embedded in the numbers section of governor's proposal, which would require a huge policy discussion. She wondered if Ms. Pitney could point out which components of the proposal were predicated on legislative agreement and which were not.

Senator Dunleavy asked if it was the policy of the administration to accept as much federal money as possible.

Ms. Pitney answered in the negative.

[10:27:16 AM](#)

Ms. Pitney moved to slide 4, "FY2015-2017 Funding by Type," which showed a bar graph illustrating the FY 15 and FY 16 enacted budgets and the FY 17 governor's proposed budget.

She thought the slide was a good example of the pieces within the budget that would also require a policy change.

Vice-Chair Micciche wondered how the state could apply a formula under which federal funds were evaluated to determine if specific funding enabled a program or service that was not constitutionally required or added value to a program or service in the past that the state could no longer afford. He wondered if the administration had gone through such an exercise.

Ms. Pitney stated that the administration had an exercise for each program being considered with an opportunity for federal funds, and there was a determination of whether it was prudent to continue federal funding or not.

Vice-Chair Micciche asked if the exercise was a formal process that could be shared with the committee.

Ms. Pitney explained that the exercise was an agency-by-agency process that focused on the things that were changing from year to year. She used the example of numerous grants to the University that were not subject to the process. She used the example of the Department of Environmental Conservation supplemental request for a \$250 million federal grant, which had been examined through the following questions: did it require matching funds, were there strings attached, what service did it provide, and was it prudent for the state to accept the funds. She added that the determination would also come forward to the legislature.

[10:30:00 AM](#)

AT EASE

[10:34:35 AM](#)

RECONVENED

Ms. Pitney clarified that she misspoke regarding the other state funds, and the slide had represented the amount without duplication.

Senator Bishop asked if other funds counted interagency receipts twice.

Ms. Pitney clarified that the presentation did not include the interagency receipts and capital improvement project (CIP) receipts, which were duplicated funds.

Senator Dunleavy asked if the funds were double-counted or not. Ms. Pitney answered in the negative.

10:36:06 AM

Ms. Pitney continued discussing slide 4. She referred back to Co-Chair MacKinnon's question regarding policy change assumptions in the appropriations bill, and thought the graph was a good depiction. The graph was a trend graph from FY 15 to FY 17, indicating the different funding types: UGF, DGF, other state funds, permanent fund earnings reserve, and federal funds. She pointed out the rapid drop in UGF; while both DGF and other state funds were fairly flat. She highlighted the permanent fund earnings reserve, which showed a significant change in the FY 17 budget. She drew attention to a blue arrow, which noted that \$3.2 million from the permanent fund earnings reserve would go to the general fund (using the Permanent Fund Protection Act), and \$700 million would go towards dividend checks.

Co-Chair Kelly discussed the complexity of budgets, and expressed concern that there were assumptions in the budget. He referred to the previous session and the assumption of Medicaid expansion being included in the governor's budget. He thought that much of what was in the budget being presented were assumptions tied to huge policy decisions. He continued that there was an important distinction in the manner in which budgets were constructed; the administration had the ability to work on budgeting behind closed doors, whereas the finance committee was compelled to do so in public. He thought it was important that the public understood that the taxes and revenue measures that were built into the governor's proposed budget were not necessarily going to be put into action. He emphasized that there would be a large ongoing public process discussion on the matters.

Ms. Pitney pointed out that all of the legislation associated with the budget had been submitted (unlike the previous session), and was out in the open for consideration. She mentioned the Permanent Fund Protection Act and tax measures, and specified that because of the

appropriation language required in the act, the act was represented within the budget appropriation document.

Co-Chair Kelly warned Ms. Pitney not to be surprised if some of the items in question were pulled out of the budget over time to simplify the process.

[10:40:59 AM](#)

Ms. Pitney discussed slide 5, "FY2017 UGF Spend: \$4.82 Billion," and pointed out a continuous reduction in UGF. She commented that agency nonformula and formula programs comprised the largest share of the UGF at over 83 percent.

Ms. Pitney moved to slide 6, "FY2017 UGF Budget by Category." She noted that within the formula programs (at 42 percent of the UGF budget); the education formula was 26 percent of total UGF spending, and Medicaid and other health formula was 16 percent. She thought it was important to note that the Department of Health and Social Services (DHSS) formula programs included foster care, subsidized adoption, temporary assistance, adult public assistance, senior benefit payments, permanent fund dividend hold-harmless provision, and Medicaid. She continued that Medicaid was the largest component of formula programs, which counted for about \$650 million. She added that there were several other programs in health aside from Medicaid.

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

Senator Hoffman referred to slide 5, and wondered how much of the UGF were anticipated to come from the Constitutional Budget Reserve (CBR).

Ms. Pitney stated that based on implementation of the Permanent Fund Protection Act, \$427 million would come from the CBR.

Senator Hoffman asked for the total draw from the CBR.

Ms. Pitney stated that the draw from the CBR for FY 16 was in the area of \$3.5 billion. She continued that in FY 17 the draw from savings was anticipated to be \$426 million.

[10:43:47 AM](#)

Ms. Pitney continued to discuss slide 6, relating that the statewide appropriations category included items such as debt retirement and tax credits, which assumed \$73 million for tax credits. She directed attention to a footnote the slide:

* Statewide Appropriations does not include \$1,200 million for oil and gas tax credit reform funding from CBR/SBR

Ms. Pitney elaborated that the plan by the administration had put forward oil and gas tax credit reform. The administration anticipated honoring all earned credits that were earned by the time the current program was closed; which together would total an additional \$1.2 billion. She continued that going forward on oil and gas tax credits, the state would come down from \$600 million or \$700 million to a steady average of about \$100 million annually. The statewide appropriations only included \$73 million for oil and gas tax credits.

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

Co-Chair MacKinnon asked if the additional \$1.2 billion was included in the operating budget because the administration had reduced the availability of funds down to \$73 million for tax credits, while anticipating \$600 million to \$700 million in credit application requests.

Ms. Pitney answered in the affirmative, and stated that the existing tax credit statute had a required minimum based on ten percent of production tax. The minimum of \$73 million was included in the budget. She continued that the administration had wanted to make sure it was noted that it was the intent of the administration to honor all earned tax credits, while going forward with acceptable reform measures.

Co-Chair MacKinnon clarified that she had been trying to point out that the proposed policy may be consistent with Alaska state statute, yet was dependent upon policy being implemented by the legislature in order to accomplish what was intended.

Ms. Pitney concurred.

Ms. Pitney pointed out the capital budget on slide 6, noting it was constrained at \$195 million and focused on the federal match components for transportation, water and sewer, and a minor amount in maintenance and a few schools. She reiterated that it was a very small capital budget; and informed that the plan included provisions for a general obligation bond about which they would solicit discussion from the legislature before introducing.

[10:47:43 AM](#)

Ms. Pitney moved to slide 7, "FY17 UGF Agency Operating Budget," which showed a pie chart depicting funding categories. She thought the layout of the slide was a good start for a policy discussion. She looked at the "health, life, safety, justice" category; which included DHSS, DOC, the Public Defender Agency, the Office of Public Advocacy (OPA), the criminal division, and the Alaska Court System. She discussed criminal justice reform and identified that it would be an area for savings. She discussed significant reductions in the agencies, which had come down by almost 10 percent since 2015, and accounted for 44 percent of the UGF agency operating budget.

Ms. Pitney discussed the "all other executive" funding category - which included the Office of the Governor; DOA; the Department of Commerce, Community and Economic Development; and the Department of Natural Resources. The agencies had been reduced by 27 percent since FY 15.

Ms. Pitney looked at the education funding category, which included K-12 education, DEED, the University, and Alaska Vocational Technical Center (AVTEC).

Vice-Chair Micciche was concerned about the way that slide 7 was representing the budget. He commented that the slide suggested that education had been cut by 8.5 percent, and DHSS had been cut by 9.8 percent; and considered that it was not an effective way of viewing the budget.

Ms. Pitney described the slide as "forward looking" and mentioned large considerations such as criminal justice reform, Medicaid reform, holding education capacity, and adding efficiencies to government. She thought the slide was looking at the mentioned areas in a holistic way. She continued that the following few slides would provide the exact reductions in areas of K-12 education, DHSS, and

other areas; and the numbers were not substantially different than the percentages on slide 7.

Vice-Chair Micciche discussed the grouping of agencies on slide 7, and thought the slide was confusing.

[10:52:25 AM](#)

Ms. Pitney discussed slide 8, "Continue to Reduce Spending":

Goal: Maintain service delivery to the maximum extent possible while reducing costs

Multi-year approach

- All agencies and programs involved
- Maximize efficiency to do more with less, implementing 11 efficiency initiatives
- Offices closed across the state
- Services reduced or eliminated
- Workforce reductions
- Contract negotiations
- Grants reduced or eliminated

Ms. Pitney shared that the goal of the administration was to continue to reduce spending, and pointed out that the current fiscal year budget had reduced spending in the agency operating budget. She mentioned overall reductions, and thought that when reduction of government spending was discussed it was most often pertaining to reducing agency operations. The administration was viewing the reductions as a multi-year approach, and the current reduction consideration was a net of \$100 million. She detailed that there had been \$140 million in reductions combined with some increased spending on priority initiatives for a net reduction of \$100 million.

Ms. Pitney recounted that the administration had been working efficiency initiatives, had identified 11, and had been moving forward with 4 of those identified. The administration had not yet realized all the potential savings, as the initiatives were longer term efforts. She remarked that instead of the adage "do more with less," realistically the state would be doing less with less [funding]. She emphasized the need to continue state operations most efficiently.

Co-Chair MacKinnon referred to Ms. Pitney's comment about "doing less with less" which she thought raised the question of whether the state had transferred spending to federal funds while still engaged in the same activities. She asked if Ms. Pitney could provide the committee with a list of areas in which spending reductions were indicated, and federal dollars had been shifted to cover the expense in question. She was unsure about the accuracy of the alleged spending reductions in the presentation. She noted an increase in spending in DHSS, with more federal funding. She reiterated her request for a list of new federal funding and how it had offset the GF spending, or an indication of if there had been program reductions and program loss inside any agencies.

Ms. Pitney agreed that OMB could provide a list of some of the expenditure offsets. She specified that the administration had reduced the UGF spending by \$140 million, and had added roughly \$40 million in priority initiatives in the budget. She stated that it had used federal or other funds in the budget to offset reductions and maintain service delivery to the maximum extent possible.

[10:56:32 AM](#)

Co-Chair MacKinnon was concerned that the administration was presenting a budget containing spending increases. She wanted to see reduction in state government spending and was not sure changing funding sources would accomplish the goal.

Senator Hoffman asked Ms. Pitney to provide a detailed analysis of the \$40 million in additional funding priorities that the administration had identified.

Ms. Pitney stated that the information was contained in her presentation.

Ms. Pitney clarified that there were reduced services, and in no way was there a majority of costs offset. She listed Medicaid expansion as a significant opportunity for the state to use federal money for services that were previously state funded; and stated that Medicaid expansion had been an important and conscious decision by the administration.

Senator Dunleavy asked if Ms. Pitney could provide the committee with a list (to date) of what state funding had been saved, and in what manner, through the increased federal funding from Medicaid expansion.

Ms. Pitney answered in the affirmative.

Senator Dunleavy asked if the state had saved money. Ms. Pitney answered in the affirmative.

10:59:25 AM

Ms. Pitney discussed slide 9, "Budget Guidance to Departments":

Among the issues that departments were asked to consider as they evaluated their budgets:

- Is it required by a constitutional mandate?
- Is it required by a legislative mandate?
- Does it leverage other resources?
- Does it pay for itself or make money for the state?
- How utilized is the service?
- What is the impact on the statewide economy?
- How difficult would it be to privatize or be absorbed by another agency?
- Does it directly contribute to the vision of this Administration?

Ms. Pitney informed the committee that the administration had started the budget process with a recognition of how many reductions agencies had already taken before setting a target.

Ms. Pitney discussed slide 10, "Continue to Reduce Spending":

Workforce

- 600 fewer state employees compared to last year
- Additional staff reductions through 2019
- Contract negotiations continue

Agency Operating Budgets

- \$400M cut in FY16
- \$140M cut in FY17
 - o Education, UA, AVTEC reduced by \$25M (1.5%)

- o Health, Life Safety, and Justice reduced \$64M (3.6%)
- o Other agencies reduced \$50M (8.5%)

Senator Hoffman asked if Ms. Pitney had referred to a reduction in FY 17 or a reduction from the previous year.

Ms. Pitney clarified that the slide was comparing the number of permanent employees from December of the previous year to the number of employees in November 2015.

Senator Hoffman asked if comparing FY 16 to FY 17, how many fewer state employees were being proposed in the FY 17 budget.

Ms. Pitney stated that the administration was proposing an additional reduction of 185 positions.

Senator Hoffman asked if she was referring to actual positions with people occupying them in FY 16.

Ms. Pitney answered in the affirmative. She described the method at which the administration arrived at quantifying a reduction in workforce; through looking at budgeted positions over time, and data from the Department of Labor and Workforce Development. She continued that from December FY 15 to December FY 16, the state was paying 1,400 fewer individuals.

[11:03:40 AM](#)

Co-Chair Kelly asked if the reduction of 600 state employees was confined to permanent employees, and from what time span.

Ms. Pitney confirmed that it was from December 2014 to the current time.

Senator Hoffman asked how many of the position reductions were funded by GF.

Ms. Pitney estimated that of the proposed reduction of 180 positions, over 170 were funded by GF.

Senator Dunleavy asked about the full-time equivalent (FTE) status of the 600 positions listed on the slide.

Ms. Pitney stated that the data showed 626 fewer full-time permanent employees, and 8 additional permanent part-time employees.

11:05:14 AM

AT EASE

11:07:03 AM

RECONVENED

Ms. Pitney discussed slide 15, "Medicaid":

- Medicaid \$1,740M (all funding sources)
- FY15 through FY17 yields UGF savings of \$106,070.7 attributable to the Medicaid program
- Savings from the Medicaid Services Component are \$89,501.6 with the remaining balance of \$16,569.1 representing savings from Corrections, Behavioral Health, CAMA, and Juvenile Justice.

Ms. Pitney referred to Senator Dunleavy's question about Medicaid savings, and referred to a table on the bottom of the slide. She pointed out that there had been a \$57.9 million reduction of the Medicaid services component, which was not necessarily due to Medicaid expansion but due to some provisions of expansion as well as other reform efforts. The non-Medicaid service components showed state savings, as a result of federal dollars paying for items previously funded by the state. She discussed Medicaid-eligible prisoners, reduction in behavior health grants, and a catastrophic insurance program as examples of state savings enabled through Medicaid expansion. The administration anticipated a total savings associated with Medicaid expansion to be \$106 million.

Co-Chair MacKinnon related a personal anecdote about shopping and realizing equal savings to expenditures. She wondered if actual savings were realized, or if other expenditures outweighed the actual savings to the state.

Ms. Pitney responded that the state had spent less UGF for Medicaid and other programs than compared to the same time the previous year, due to Medicaid expansion.

Co-Chair MacKinnon wondered if the state had provided new services with federal money.

Ms. Pitney elaborated that there were individuals receiving health care through federal funding who previously did not have health care. She continued that there was enhanced funding in the state economy due to Medicaid expansion. Additionally, the state had funded 100 percent of care for some individuals who were now covered 100 percent by the federal government, which showed true savings.

[11:11:58 AM](#)

Ms. Pitney moved to slide 16, "K-12 Funding":

- K-12 UGF formula is 26% of all UGF funding
- K-12 UGF formula \$1,243M
- Base student allocation, in AS 14.17.470,
FY15 \$5,830
FY16 \$5,880
FY17 \$5,930
- FY17 budget projects 118,459 K-12 students
- Increase in School Trust Fund kept UGF level
- Several DEED grants reduced

Ms. Pitney elaborated that the K-12 formula funding went to communities with the exception of boarding schools and special schools. She discussed the School Trust Fund, which increased from \$13 million the previous year to \$30 million the current year. She explained that the funding was an off-set that allowed for meeting the increased base student allocation (BSA) at the same UGF.

Co-Chair Kelly wondered if Ms. Pitney had asserted earlier in the presentation that there was a reduction in state funding for education.

Ms. Pitney referred back to slide 12, and discussed the three components of the education funding group. Education and early childhood development (including K-12 formula and many education grants) was funded at \$116 million below the FY 15 appropriation level, but was not a true reduction in education spending due to one-time funding in FY 15. She asserted that there was \$40 million less in the FY 17 budget than if there had been no action taken on education funding the previous year.

[11:15:37 AM](#)

AT EASE

11:16:26 AM

RECONVENED

Senator Dunleavy asked if the projected 118,459 students listed on slide 16 was more or less students than the previous year.

Ms. Pitney responded that the 2014-2015 school year estimate had 10,000 more K-12 students than the projected number. She added that the slide reflected estimates done in the fall of 2015, and the update data would need to come from DEED.

Senator Hoffman asked if Ms. Pitney could provide his office with the comparison of student numbers broken down by school district.

Ms. Pitney answered in the affirmative.

Co-Chair Kelly stated that the committee would move forward with the presentation, but thought the subject K-12 funding necessitated more investigation and discussion about what constituted a cut to education. He had observed changes in student numbers but had not observed a cut to education funding while he was a member of the legislature.

Ms. Pitney reiterated that the reduction in question was from one-time funding that had been provided as part of the FY 15 appropriation.

Co-Chair MacKinnon asked about information listed on slide 12, and asked about Ms. Pitney's mention of utilization of assets rolling off of the School Trust Fund. She asked if Ms. Pitney had alleged that the legislature had taken a draw of \$17 million from the fund in FY 16.

Ms. Pitney thought it had been \$13 million, and stated that the draw from the fund in the current year was \$30 million.

Co-Chair MacKinnon asked if the one-time funding was being considered, and if the following year would lack a revenue source to fund an increase.

Ms. Pitney relayed that there had been a conservative investment earnings assumption and statute associated with the School Trust Fund; and there was legislation that would

make the School Trust Fund investment earnings more consistent with the Power Cost Equalization (PCE) Fund average annual investment earnings and draw.

[11:19:34 AM](#)

Co-Chair MacKinnon asked about the calculation for taking a fund draw. She wondered if it was a statutory privilege or regulatory change the administration was taking, and wanted to understand the formula that was being employed.

Ms. Pitney stated that there was an available balance of earnings in the School Trust Fund account, and the administration would put forward legislation to change the earnings estimate assumptions.

Co-Chair MacKinnon asked if the \$30 million draw in the FY 17 budget would take a majority of the funds in the earnings reserve.

Ms. Pitney replied in the affirmative.

Vice-Chair Micciche thought slide 16 had referred to AS 14.17.470 as though the BSA increase was required under the statute. He did not see the information in the FY 15 supplemental budget, and asked for clarification.

Ms. Pitney stated that the slide listed the prescribed amount when the statute was passed.

Ms. Pitney discussed slide 17 "FY08-FY16 Budgeted Positions," which showed a bar graph of budgeted positions from FY 08 to FY 17. She noted that FY 17 budgeted positions were fewer than in FY 08, and as well state population had gone up by 9 percent.

Ms. Pitney referred to slide 18, "FY08-FY16 State Employees," which showed a bar graph of actual state employment from FY 08 to FY 16. She noted that there was only a small change when comparing FY 08 to FY 17. She continued that not only had positions dropped to FY 08 levels, so had state employee counts. She clarified that the state employee numbers represented people receiving paychecks from the state. She pointed out a significant reduction in workforce from the peak in FY 14.

Ms. Pitney referred to slide 19, "All Agencies Are Making Reductions," which showed a bar graph illustrating reduction by agency. She commented that the graph did not include the increase in gasline investment, but noted that it did normalize the governor's reduction for a change made by moving the funding for the Division of Elections. The funding normally created a biannual rise in the operating budget. She explained that the administration had normalized the spending by proposing to fund the division through the capital budget, and leave a capital project account open over time.

[11:23:29 AM](#)

Ms. Pitney discussed slide 20, "UGF Agency Operating Budgets," which showed a bar graph depicting agency budgets from FY 08 to FY 19 in real dollars. She remarked that the budget for FY 17 was back to the FY 10 level, and by FY 19 the budget would be back to the FY 08 level in terms of real cost.

Ms. Pitney discussed slide 21, "FY2017 Limited Priority Investments":

- DNR (DOR/DOL) Gasline Pre-FEED \$38.3M
- DMVA Rural Engagement \$1.3M
- In-house financial experts (non-UGF funding)

Ms. Pitney discussed the priority investments, and remarked that the Department of Military and Veterans Affairs Rural Engagement Initiative was a step towards getting individuals into battalions to help with emergencies and issues in the community that would lead to more involvement in the National Guard.

Ms. Pitney commented that the administration wanted to build additional financial expertise within the state instead of spending two to three times the amount on hiring outside financial advisors. She noted that the Permanent Fund Protection Act had a large dependence upon managing the state's existing wealth.

[11:26:06 AM](#)

Ms. Pitney discussed slide 22, "Statewide Obligations":

1. \$73 million for oil and gas tax credits; plan estimated \$100 million annually assuming credits reformed as proposed
2. Debt \$218; plan anticipates increases due to gasoline, will use GO and PO Bonds
 - School fund reimbursement
 - GO bonds and other
3. Retirement plan is to finance actuarially required contribution
4. Revenue sharing plan is \$35 million (effective 6/30/16) allowing for \$50 million payout. Plan increases to \$60 million annually

If oil and gas tax credits are reformed: \$1,200 million to capitalize oil and gas tax credits

Ms. Pitney noted that the actuarially required contribution to the state retirement plan was a 25-year scheduled annual cost for the state to cover past service liability. She remarked that currently the earnings on state assets were higher than the state's cost of debt, and as the market changed the state's ability to finance diminished. She thought the state was still in a position in which financing made sense given that the Permanent Fund Protection Act relied on investment of the state's wealth in the long-term. She added that revenue sharing was another major component, and that the administration had introduced a supplemental into FY 16 for a \$50 million payout to communities, with a plan forward to go to \$60 million.

Senator Hoffman asked if Ms. Pitney could restate why the state was dealing with supplemental funding, and if the numbers she referred to were reflected in her overall FY 17 budget.

Ms. Pitney stated that the numbers were reflected in the FY 16 supplemental appropriation bill but not in the FY 17 budget.

Senator Hoffman wondered how revenue sharing would be effected if the supplemental bill did not pass.

Ms. Pitney pointed out that the item was included in SB 139 (FY 17 operating budget).

Senator Hoffman discussed the revenue-sharing program, which was heavily relied upon. He asked if the anticipated revenues to pay for program were included in FY 17 revenue forecasts.

Ms. Pitney responded in the affirmative.

Senator Hoffman asked for further clarification as to how revenue sharing was proposed in the supplemental and operating budgets. He stressed the importance of modifying the program downward and ensuring that the state could afford it. He had looked at the program extensively the previous summer, and thought it was unaffordable to increase it back to the \$60 million level.

[11:30:27 AM](#)

Co-Chair MacKinnon clarified that the budget (presented for FY 17) still needed an \$80 million appropriation to distribute, to be able to distribute \$60 million in FY 18. She reiterated the request for clarification on the revenue-sharing program, as well as further understanding of where the \$80 million was located.

Vice-Chair Micciche referred back to slide 20, and hypothesized that an additional overlay of revenue (in real dollars) would be helpful for Alaskans. He thought the services the state was able to provide in 2008 and 2009 were at much higher levels of revenue. He referred to the significant reduction in revenue that was not reflected, and thought it would show a more accurate picture of the problem the state was facing.

Ms. Pitney thought Vice-Chair Micciche had proposed a good idea.

Ms. Pitney briefly referred to slide 23, "FY2017 Capital Budget," pointing out a \$195 million in capital requests. She was sure there would be another capital budget overview in which the requests would be covered.

Ms. Pitney mentioned slide 25, "Funding Alignment for Permanent Fund Protection Act." She stated that the act discussed relevant appropriations, and would be expanded upon at a later date when the full budget plan was addressed.

[11:33:22 AM](#)

Co-Chair MacKinnon referred to a \$30 million unallocated reduction in the budget from the previous year. She had asked the administration for a detailed report on how it had implemented the reduction in the previous year's budget. She asked for a briefing at a later date.

Ms. Pitney relayed that the requested information was included in the information packet for the meeting. She referred to page 6 the document "Fiscal 2017 Governor Fiscal Summary" (copy on file); and pointed out the highlighted column that showed the distribution of the \$30 million unallocated reduction. She highlighted that there was no distribution of the unallocated reduction to the Judiciary or the Legislature, although it was allocated in the executive branch. She directed attention to the column on the right hand side that reflected which agencies took a larger proportional share of the unallocated reduction. She specified that an additional \$200,000 had been reduced from the DOA budget, and the reduction to DOC had increased by \$1.4 million (because of expected savings from Medicaid expansion). She highlighted additional information on pages 7 through 16, which showed how the unallocated reductions were distributed. She noted that all of the reductions were base reductions to the agencies, and in addition the FY 17 budget had the second base reduction for \$30 million. The administration was waiting for the outcome of salary contract negotiations, to see if any of the unallocated reductions could be adjusted.

[11:37:21 AM](#)

Co-Chair MacKinnon referred to the Division of Elections and potential savings that Ms. Pitney had mentioned.

Ms. Pitney clarified that there was no realized savings, but moving the Division of Elections to be funded from the capital budget would stabilize the operating budget.

Co-Chair Kelly discussed the upcoming schedule.

#

ADJOURNMENT

[11:39:45 AM](#)

The meeting was adjourned at 11:39 a.m.

