

SENATE FINANCE COMMITTEE
February 1, 2016
9:15 a.m.

[9:15:26 AM](#)

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 9:15 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 (via teleconference)

MEMBERS ABSENT

Senator Donny Olson

ALSO PRESENT

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

PRESENT VIA TELECONFERENCE

SUMMARY

^PRESENTATION: FY 16 UNALLOCATED AND POSITION REDUCTIONS

[9:16:02 AM](#)

PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced her support staff.

[9:17:45 AM](#)

Ms. Pitney discussed the presentation "FY 17 Budget Overview - Unallocated and Position Reductions". She shared that the unallocated reductions were the result of negotiations between the administration and the legislature during the previous legislative session; roughly \$38

million would be taken from salary increases in order to move forward. She addressed Slide 2, "FY16 Unallocated Reduction by Department", which offered a bar graph illustrating the amount of the deductions, per state department. She said that the administration allocated the \$30 million of unallocated reductions, while focusing on efficiencies and other efforts for savings. She explained that the efficiency practices that the administration was working on dealt with contract negotiations; the state has a range of \$1 billion to \$2 billion in everyday contracts. The state had hoped to renegotiate many of the contracts in order to cover costs. She opined that it had been difficult to put unallocated reductions against particular contract savings, but that the reductions had to be taken somewhere in order to meet the cost. She said that during the 2015 summer months the departments each reviewed their amount of unallocated reduction and then put forward a number to be considered.

[9:20:03 AM](#)

Ms. Pitney drew attention to a backup document entitled "FY 2016 Unallocated Reduction for Salary/COLA Increases (6)" (copy on file). The chart showed the magnitude of unallocated reductions based on the \$30 million figure; additionally, when the legislature left after conference committee 2015, there were 9 departments with additional unallocated reductions that were passed out of the budget totaling \$4 million. She spoke to the top row of the detailed table on Page 1. She noted that the salary adjustments that made up the unallocated reduction could be found in the fourth column. She said that if every department took an unallocated reduction that was equal to their salary increase, it would follow the fourth column.

[9:21:35 AM](#)

Co-Chair Kelly understood that the average was not weighted, but was a percentage of increase the department would have experienced, charged against the total.

Ms. Pitney explained that the salary increases had been funded, which meant that every department received an equivalent amount for their salary increases, but then the departments took a corresponding reduction. All if the executive agencies took a higher reduction because those agencies had to absorb legislative salary increases and

judicial salary increases. She furthered that savings that might otherwise be exacted had been taken into account when moving on the distribution of the unallocated reductions.

[9:23:26 AM](#)

Ms. Pitney referred to Page 2 of the unallocated reduction document, noting that it explained all of the various reductions that had been taken in an effort to meet the unallocated distribution. She pointed out to the committee that the Department of Administration had reduced unrestricted funds available for lease costs, reduced positions and enforced furloughs, and reduced unrestricted funds for facility rental.

[9:24:25 AM](#)

Co-Chair Kelly asked whether there had been savings due to efficiencies in space distribution.

Ms. Piney attempted to answer.

Co-Chair Kelly interjected that he would get back to the question after the presentation was complete.

[9:24:38 AM](#)

Ms. Pitney pointed out the Department Commerce, Community, and Economic Development had taken an unallocated reduction in the area of tourism marketing, and outreach for rural energy programs (Page 3). She highlighted larger unallocated reductions in the Department of Corrections in the areas of prisoner transport and physical health care. She continued to the Department of Environmental Conservation, which had reduced two engineer positions by streamlining the Pipeline Integrity Program.

[9:26:42 AM](#)

Vice-Chair Micciche wondered who would be most qualified to discuss the philosophy of the Department of Environmental Conservation.

Ms. Pitney responded that Larry Hartig, Commissioner, Department of Environmental Conservation would be the best person to answer questions concerning that particular department.

[9:27:24 AM](#)

Senator Dunleavy relayed that the Department of Education and Early Childhood Development had reduced their personnel services by \$200,000, but had maintained 3 vacancies. He asked whether position control numbers (PCN) were being eliminated in every department.

Ms. Pitney stated that the present slide was the only slide in the presentation on unallocated reductions, the rest of the presentation was on position vacancies. She said that positions were not being reduced for every agency, but that 880 positions had been reduce since FY 15.

Senator Dunleavy asked how many of the 880 positions that had been eliminated were PCNs.

Senator Dunleavy understood that state law stipulated that state school boards should approve education budgets. He asked whether school boards were, by law, independent in the preparation, execution, and approval of school budgets.

Ms. Pitney agreed to provide the information at a later date.

[9:30:01 AM](#)

Ms. Pitney discussed Page 4 of the backup document, noting that the Department of Fish and Game had taken reductions in personal services and studies. She furthered that the Department of Health and Social Services (DHSS) had frozen cost of living increases for various service providers and programs; bigger cost savings were associated the federal funds that accompanied Medicaid expansion. She continued that each department had a listing, and that the number of transactions that it took to accommodate an unallocated reduction were many. She asserted that the reductions were made up of many small reductions, and thought that given the nature of the budget, the reductions were made to create the smallest amount of impact on departments. She stressed that identical savings would no longer be available in the next round of reductions.

[9:32:31 AM](#)

Co-Chair MacKinnon referred to Slide 2. She understood that only general find dollars were reflected on the slide.

Ms. Pitney responded in the affirmative.

Co-Chair MacKinnon asserted that the current governor's budget reflected an actual total increase of 1.2 percent in total spending.

Ms. Pitney asked whether she was speaking to FY 16, or FY 17.

Co-Chair MacKinnon clarified that the FY 17 budget had an increase in spending of 1.2 percent.

Ms. Pitney replied yes, when considering federal funds.

Co-Chair MacKinnon contended that savings reflected in the DHSS budget did not represent a reduction in spending, but the supplanting of UGF with federal funds.

Ms. Pitney replied that there were 2 components at play: paying for a service with federal funds that would otherwise be paid for with general funds, and the reduction in the amount of money that the state would pay for the staff available.

[9:33:57 AM](#)

Co-Chair MacKinnon queried the aforementioned eliminated 880 positions.

Ms. Pitney stated that there were two ways in which to view the work force: 880 positions had been eliminated from FY 16, 600 fewer full time employees were working in the agencies that came through the state accounting system; Department of Labor statistics reflected 1400 fewer employees on the payroll than in fall of 2014.

[9:35:13 AM](#)

Co-Chair MacKinnon opined that the presentation lacked clarity. She requested a straightforward list of PCNs that had been eliminated from each department in the FY 16 budget, as well as the dollar value associated with the PCN number. Additionally, she requested the PCN number associated with the vacancy factor. She understood that federal dollars were being used to maintain services, but felt that any reoccurring operating reductions remained

unclear. She felt that the information would be useful to the Operating Budget Subcommittees.

[9:37:03 AM](#)

Co-Chair Kelly used the analogy of fat cells to illustrate PCNs that were not associated with employees.

[9:37:29 AM](#)

Senator Dunleavy understood that the departmental budgets were shrinking, but wanted assurances that overall government was shrinking.

[9:38:18 AM](#)

Vice-Chair Micciche pondered efficiency in government. He said that efficient organizational charts were triangular shaped, while state governments tended to be bell shaped. He wondered whether departments were being evaluated for staff efficiency.

[9:40:11 AM](#)

Ms. Pitney responded to Vice-Chair Micciche regarding the span of control for supervisors and "paper pushers". She said that merging of director positions was being left to the discretion of commissioners. She said that the administration was actively pursuing facilities consolidation; several departments were exploring how facility maintenance for Juneau facilities could be consolidated under one umbrella.

[9:41:49 AM](#)

Vice-Chair Micciche felt that an overlaying philosophy should limit the number of people reporting to each supervisory position. He wondered whether the administration planned to streamline organizational charts for each department.

Ms. Pitney stated that the philosophy was to look at whether supervisory positions were adequate. She said the philosophy was not prescriptive, given the diverse nature of the different operation, but maximizing the span of control was a clear philosophy across departments.

[9:43:13 AM](#)

Vice-Chair Micciche thought that as the subcommittees moved through the budget process it would be important to understand the role of labor costs when searching for cost efficiencies. He said that he would be requesting the departments of the subcommittees that he chaired to demonstrate that they had an optimum distribution of labor across the board.

[9:44:30 AM](#)

Co-Chair MacKinnon asserted that it was difficult for the public, let alone the legislature, to understand the nuances of the eliminating of positions. She contended that Ms. Pitney had used several figures when discussion position reductions, which was confusing and unclear. She wanted to know how the position counts would affect, long-term, the FY 17 budget going forward. She mentioned that the state was facing a budget deficit.

[9:46:26 AM](#)

Co-Chair Kelly interjected that in the previous session the committee had worked to make absolute cuts. He hoped to come to an agreement with the administration over the actual number of jobs cut in the current budget.

[9:48:29 AM](#)

Senator Bishop added that both the administration and the legislature needed to be working with the same numbers and information.

[9:49:05 AM](#)

Senator Dunleavy furthered that it would be difficult for him to support any revenue enhancements if he was not sure of the baseline in government. He argued that the burden was on the administration to prove to him that enough reductions had been made, before seriously discussing revenue enhancements.

[9:50:08 AM](#)

Co-Chair Kelly asked that unallocated reductions be clearly identified when the administration submitted its budget amendments in two weeks.

[9:50:35 AM](#)

Ms. Pitney discussed Slide 3, "Available Position and Employee Data":

What position and employee data are available?

- Budgeted positions (all agencies)
- Filled positions (agencies using the state accounting and payroll system)
- All state employees (Department of Labor and Workforce Development)

Ms. Pitney stated that significant reductions had been made. She explained that budgeted positions were "slots" that could only be filled if there was funding. She said that some positions had some money, federal or otherwise. She asserted that the ability for work to get done was based on the capacity of the workforce; government is service and service is built on the number of employees available to provide services. She stated that specific accounting detail was available for the 600 fewer state employees, and the number was being tracked on a monthly basis. She added that budgeted positions from FY15 to FY17 decreased by 871 positions.

[9:53:57 AM](#)

Co-Chair MacKinnon wondered why comparisons had not been limited to FY16 and FY17, when the current administration took over the governor's office. She warned that if the 600 positions previously mention had gone over to the retirement system it would result in new costs for state government. She added that if the reduction in positions resulted in people claiming unemployment that would also be of additional cost to the state. She queried where the people that had held the reduced 600 positions had gone.

[9:55:36 AM](#)

AT EASE

[9:56:48 AM](#)

RECONVENED

Co-Chair Kelly requested a report that delineated the different categories for PCN numbers, and a report based on impacts on the Public Employees' Retirement System (PERS) and the Teacher's Retirement System.

[9:57:33 AM](#)

Ms. Pitney presented Slide 4, "FY2008-FY2017 Budgeted Positions". She relayed that OMB had compared the numbers after the election of the current governor. She asserted that the numbers were from the time of the current administration and not previous administrations. She said that budgeted positions had been reduced and deleted out of the system; the state was down to 24,000 budgeted positions, which was lower than FY 08 numbers.

[9:59:01 AM](#)

Ms. Pitney turned to Slide 5, "State Employees 2008-2015". She explained that the slide reflected all state employees that were being paid on a monthly basis, which was also lower than in FY 08. She said that the number of people being paid was down to the 2008 level.

[9:59:31 AM](#)

Co-Chair MacKinnon asked whether there was a discernable relationship between the PCNs and private contracts.

Ms. Pitney reiterated that the slide reflected actual employees and not PCNs. She said that to the degree that there was a service required that needed a contract, a contract would be filled. She thought that 1 in 50 of the deleted PCNs might require the state to seek out a contract employee. She furthered that funding for contracts was less than money for actual employees, which mad the practice uncommon.

[10:00:52 AM](#)

Co-Chair MacKinnon asserted that she would like the Division of Legislative Legal to look over the overall contract line to see if contract services had increased.

[10:01:08 AM](#)

Senator Dunleavy asked whether the increase in employees from 2013 to 2014 had been related to pipeline activities.

Ms. Pitney replied that she could look into the issue and provide information at a later date.

[10:01:37 AM](#)

Vice-Chair Micciche thought that the charts on Slide 4 and Slide 5 demonstrated approximately 1000 more employees had existed on the books than had been covered in the budget. He wondered about the employee figures for FY16, and the assumptions for FY17; he speculated that past administrations had also exceeded their budgets in payroll costs. He queried why the chart on Page 5 stopped at 2015.

Ms. Pitney replied that 2015 was the calendar year on Page 5, the state had yet to receive January 2016 data from the Department of Labor and Workforce Development. She said that the data reflected actual bodies being paid. She added that often, temporary, non-permanent employees would not be listen under a PCN.

[10:03:13 AM](#)

Ms. Pitney discussed Slide 6, "Filled Positions by Location 2014-2015". She noted that the slide contained the percentage change in positions from December 31, 2014 to November 15, 2015. She said that the positions had been full-time and part-time permanent employees held by people who had been benefit eligible. She relayed that Anchorage was down 193 positions, 38 in Fairbanks, 198 in Juneau, 3 in the Lower Kuskokwim, and 15 in Arctic. She offered that some of the positions may have been vacated by a retiree, but technically, funding for retirement should have been collected over the course of the person's employment.

[10:04:51 AM](#)

Co-Chair MacKinnon noted that the slide reflected an increase for out-of-Alaska employment; 9 percent, with a position count of 2. She furthered that Greater Wasilla had an increase of 2 as well, while North Kenai had seen an addition of 1. She queried the nature of the increases.

Ms. Pitney clarified that there was a mix of employees that constituted the increased positions; programmers and an

accountant in the Department of Administration, and administrative assistant and a legislative auditor in the Legislature constituted the 25 positions reflected on the Outside Alaska line.

[10:06:22 AM](#)

Ms. Pitney addressed Slide 7, "Percent of All FY17 Positions 100% UGF", which reflected in a bar graph the percent of FY17 positions that were budgeted 100 percent on unrestricted general funds. She noted that the Department of Transportation and Public Facilities was heavily federally funded, 98 percent; 86 percent the employees with the Department of Corrections were 100 percent general funded. She said that as the administration was working to reduce unrestricted general fund positions, the starting base was 50 percent less than the total state employee base. She stated that every position was not created equal in terms of funding source.

[10:07:51 AM](#)

Senator Dunleavy asked whether the numbers on the chart for education referred to only the department, and pointed out that the numbers for the university had to be for the entire University System; there is no University Department. He understood that the education numbers on the graph were for the department and not the 53 school districts throughout the state.

Ms. Pitney replied in the affirmative. She noted that the University line reflected all of the positions for all campuses that were 100 percent UGF.

[10:08:48 AM](#)

Co-Chair MacKinnon asked whether the graph on Slide 7 captured employees that were funded by designated receipts.

Ms. Pitney clarified that the chart contained only UGF. She reiterated that different employees were funded by different funding sources.

[10:09:28 AM](#)

Co-Chair MacKinnon surmised that the graph represented 30 percent of state employees.

Ms. Pitney thought that the percentage was closer to 45 percent. She clarified that 50 percent of the budgeted salaries were funded by UGF.

[10:09:52 AM](#)

Ms. Pitney showed Slide 8, "Nominal Salary and Benefit Costs FY2000-2016". She pointed out the red bar, which illustrated average benefits. She said that the rate increase between 2004 and 2007 was an increase on PERS. She stated that beyond 2007 the rate increase was mainly health benefits. She pointed out to the committee that the average salary level had remained flat, and that the doubling of costs could be attributed to benefit rates.

[10:10:55 AM](#)

Ms. Pitney presented slide 9, "Real Salary and Benefit Costs FY 2000-2016".

[10:11:02 AM](#)

Ms. Pitney discussed Slide 10, "Union Contract Negotiation Dates". She related that the administration was waiting on the outcomes of current contract negotiations, which were hoped to offset some of the unallocated reduction.

[10:11:36 AM](#)

Senator Dunleavy asked whether 4-day work weeks or furlough to reduce personnel costs had been discussed.

Ms. Pitney stated that both ideas had been considered. She said that the furlough discussion was receiving the most attention because it would not change the work week timeframe, but would reduce hours.

[10:12:38 AM](#)

Co-Chair Kelly asked whether the administration had studied what the Court System had done to reduce employee costs.

Co-Chair Kelly applauded the creative solutions being discussed by the Court System. He urged the administration to follow suit.

[10:14:19 AM](#)

Ms. Pitney offered that Slide 10, "Union Contract Negotiation Dates" was for reference.

Ms. Pitney turned to Slide 11, "Additional Information Available" and relayed that the slide contained a webpage where all of the detail on every position that had been cut from the budget was available.

[10:15:35 AM](#)

Ms. Pitney showed Slide 12, which was an image of the webpage for OMB, on a page titled "FY2017 Governor Personal Services Reports." She drew attention to page 12 of the backup document, with a chart entitled "Department Position Count Summary (10)". She explained that there had been, at FY 16 Conference Committee, 477 positions deleted. She said that in order to make the budget balance by management plan, an additional 214 positions were deleted. She stated that the current budget proposed by the governor reflected an additional cut of 181 positions. She spoke to Slide 13, which offered a personal services filled employee payroll count two way comparison, FY16 and FY17.

[10:17:41 AM](#)

Co-Chair MacKinnon asked whether the graph on Slide 13 could be found on the department's website.

Ms. Pitney replied in the affirmative. She reiterated that every position for the Department of Administration could be researched on the site for fund source, range, and location.

Co-Chair MacKinnon thought that it should be easy for the administration to email the information on an Excel spreadsheet to the committee.

Ms. Pitney responded that the information could be emailed.

[10:18:54 AM](#)

Ms. Pitney directed the committee's attention to the document, "Positions, Vacancy Factors and Legislative Control", which had been published in the Legislative Finance Division's handbook. She recommended the piece as a reference document for legislators.

10:20:03 AM

Senator Dunleavy spoke to the concept of reducing overall government by 16 percent, and wondered whether it remained a guiding principal for the administration.

Ms. Pitney held that the concept remained a guiding principal. She shared that the ten-year plan separated agencies into the areas of health life, and safety. The Department of Public Safety, Department of Corrections, Department of Health and Social Services, the Court System, and agencies related to health life, and safety would not be reduced to 16 percent without significant impacts to the overall wellbeing of Alaska residents. She stated that the second area that could not be cut by 16 percent without serious repercussions to Alaskans was education: K-12, the University, and AVTECH. She noted that all other government was currently at a 27 percent UGF reduction.

10:22:05 AM

Senator Dunleavy asked whether the goal was to shrink the overall budget by 16 percent.

Ms. Pitney clarified that the ten year plan included a goal of a 14 percent cut overall, with the cuts in government agencies that were not responsible for health, life, or safety bearing the brunt of the cuts.

Senator Dunleavy understood that over the next 10 years the overall government budget should be reduced by 14 percent.

Ms. Pitney stated that the 14 percent reduction in agency operations should be realized by FY 19.

10:24:20 AM

Senator Dunleavy asked whether the administration anticipated increased federal funding over the same time frame, or to reduce agency operation by 14 percent while holding federal funding flat.

Ms. Pitney replied that to the degree that the state could access federal dollars to provide the state services that were currently being provided on UGF, and every opportunity for federal funding would be taken. She stated that, beyond

Medicaid expansion, the administration did not expect much of an increase in federal dollars.

[10:25:52 AM](#)

Senator Dunleavy commented on the seeming growing dependency on the federal government for money. He feared that federal dollars would come accompanied by mandates.

[10:26:56 AM](#)

Co-Chair Kelly harkened back to his liposuction metaphor and likened federal dollars to additional fat cells.

[10:27:59 AM](#)

Co-Chair MacKinnon probed Governor Walker's suggestion to systematically change education.

Ms. Pitney responded that the Commissioner of Education and the governor were working together on the issue, inclusive of school boards. She agreed to provide further information at a later date.

[10:28:40 AM](#)

Co-Chair MacKinnon hoped that the administration would work collaboratively with the legislature on the matter.

Senator Dunleavy reminded the committee that the constitution charged the legislature with establishing and maintaining for education in the state. He lamented that the legislature would receive a bill to pay for decisions made by the executive branch of government. He urged the administration not to make great plans for education without first consulting the legislature.

[10:30:40 AM](#)

Co-Chair Kelly discussed housekeeping.

[10:31:29 AM](#)

Co-Chair MacKinnon stated that the subcommittee on Medicaid reform would meet Monday, Wednesday, and Friday at 1:30PM.

[10:31:39 AM](#)

Ms. Pitney relayed that Commissioner Hoffbeck had been held over in Senate State Affairs Committee. She hoped that the committee could delay in the morning to accommodate his schedule.

#

ADJOURNMENT

10:32:07 AM

The meeting was adjourned at 10:32 a.m.