

SENATE FINANCE COMMITTEE
February 23, 2016
9:12 a.m.

[9:12:47 AM](#)

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 9:12 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

David Teal, Director, Legislative Finance Division; Lacey Sanders, Legislative Analyst, Legislative Finance Division.

SUMMARY

FY 17 AMENDMENTS

[9:13:10 AM](#)

Co-Chair Kelly informed that the committee had asked the Director of Legislative Finance to present the operating budget amendments. He suggested that the members ask questions as they came up.

^GOVERNOR'S FY 17 OPERATING BUDGET AMENDMENTS

[9:13:42 AM](#)

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, stated that he and other Legislative Finance Division (LFD) staff

would review the amendments. He clarified that he would be taking a technical approach rather than defending the amendments from a policy perspective as the Office of Management and Budget (OMB) might. He stated that he would introduce the amendments and discuss what effect they would have.

Co-Chair Kelly assured Mr. Teal that his proposed method was the desire of the committee.

Mr. Teal described that there were three categories of amendments: amendments spreading the unallocated reductions, the numbers section amendments, and language amendments. He specified that the numbers section amendments, typically known as Section 1, would go to subcommittees for review; while the language amendments were not usually assigned to subcommittees for review.

Mr. Teal directed attention to a two-page summary from the LFD budget system, entitled "2016 Legislature - Operating Budget; Agency Summary - House Structure" (copy on file). He noted that the document was a standard agency summary report, and reflected all three of the aforementioned amendment categories. He summarized that agency reductions totaled just over \$950,000. There was a large statewide reduction of \$6.5 million, due to the decision to back off on pension obligation bonds and pay only the actuarial recommendations. He added that he and LFD staff would discuss each topic individually as they were reviewing the transactions.

Co-Chair Kelly asked about the statewide reduction.

Co-Chair MacKinnon clarified that the reduction pertained to pension obligation bonds.

Mr. Teal pointed out a category at the bottom of page 1, "Statewide Items," which showed a reduction in Debt Service of \$218 million, as well as an increase in State Assistance to Retirement in the same category. He continued that both of the changes were related to the decision not to issue pension obligation bonds, and to simply pay the actuarial recommendations for state assistance to retirement.

Mr. Teal directed attention the document "Distribution of FY 17 Governor's Unallocated Reductions (UGF Only)" (copy on file). He highlighted the yellow column, "Remaining

Unallocated Reduction not Distributed in GovAmend," which signified if an agency had assigned the unallocated reductions. He continued that a hyphen listed in the column indicated that the agency distributed the unallocated reductions within the agency at net zero. He noted that there were some agencies with remaining unallocated reductions. He used the example of the Department of Administration (DOA), which had a \$957,000 unallocated reduction; \$506,000 of which they had allocated, leaving \$450,000 unallocated. He reported that there were no additional cuts taken. He suggested that the committee could either direct the subcommittees to take the advice of OMB (that no additional cuts could be found); or could direct the subcommittees to find cuts somewhere for the \$450,000 unallocated reduction remaining in DOA.

[9:18:20 AM](#)

Mr. Teal thought there might be some confusion regarding the Department of Natural Resources (DNR), which ended up with some unallocated cuts as well as taking a large reduction in the North Slope Gas Commercialization Office. He explained that if the amount was counted as an unallocated reduction, then DNR may have actually reduced more statewide than the unallocated reduction. He thought it could be argued that the reduction was merely a reduction in the budget request, which was very different than taking a cut to the existing budget. He repeated that the choice was up to the committee to accept what OMB had done, or take more cuts in subcommittee.

Senator Hoffman asked if Mr. Teal was aware of how each department used the vacancy factor as a method to address unallocated reductions.

LACEY SANDERS, LEGISLATIVE ANALYST, LEGISLATIVE FINANCE DIVISION, stated that the method varied from agency to agency, and thought the Department of Law (DOL) had increased their vacancy rate. She continued that some agencies, such as the Department of Military and Veterans Affairs, had allocated their unallocated distribution by taking a mandatory 9-day furlough for exempt positions. Other agencies had taken other reductions, such as deleting positions that had general funds (GF) associated with them. She offered to provide the committee with a report specifically on the transactions in question.

Senator Hoffman expressed a desire to see such a report.

Mr. Teal informed that the committee was provided with two additional documents; including an 18-page report entitled "2016 Legislature - Operating Budget; Transaction Detail - House Structure" (copy on file), which included notes incorporated into the OMB transactions. He shared that the transaction notes rendered the report lengthy and hard to follow. The second document was an Excel summary sheet that detailed the transactions, and included some notes from LFD (in the far right column). He thought the spreadsheet would be much easier to follow; and shared that Ms. Sanders would review the document, entitled "FY17 Governor's Amendments (Excludes transactions distributing the unallocated reductions)" (copy on file).

Ms. Sanders clarified that the report and spreadsheet included all of the remaining transactions outside of the distribution for the unallocated reductions.

[9:22:00 AM](#)

Mr. Teal explained that the unallocated reduction transactions (100 or more) were complex and would also be seen in subcommittee. He clarified that the single page sheet indicated that most agencies summed to zero, or allocated the unallocated reductions as expected. There were a few that did not. He thought that to walk through all of the transactions would be a burdensome level of detail.

Co-Chair Kelly expressed understanding.

Vice-Chair Micciche asked how the committee might reconcile the \$2.638 million remaining unallocated reduction that it had counted on. He wondered if Mr. Teal had any suggestions as to how to apply the reduction elsewhere.

Mr. Teal recommended that the committee do whatever they choose. He continued that the House Finance Subcommittees had been varied in their response. Some subcommittees had not looked for additional cuts, other had taken some or all of the unallocated reductions and made further reductions. He reiterated that the decisions were up to the committee, and LFD was simply providing the information that \$2.6 million of the transactions expected to be allocated to specific locations in the budget had not been allocated.

Co-Chair MacKinnon spoke to her experience on the Finance Committees and asked Mr. Teal if it was typical of an administration to provide a budget to a legislative body with massive unallocated cuts.

Mr. Teal stated that the previous year had been somewhat similar, and shared that LFDs response to the matter had been that unallocated reductions should rarely be used. He furthered that if unallocated reductions were used, it was a legislative prerogative. He suggested that the governor should not submit unallocated reductions, and that her or his job in submitting the budget was to inform where reductions were taken. He thought that at the current point in the budget process, LFD would not expect to see unallocated reductions. Rather, LFD expected to see unallocated reductions taken only if the legislature was unable to find (after working with agencies) an exact area to cut.

[9:26:17 AM](#)

Co-Chair MacKinnon asked for an example of the unallocated cuts from the previous year.

Ms. Sanders recalled that the previous session, the salaries for FY 16 were included in the budget as a one-time item. She continued that there had been a direction to remove the item in 2017. The governor's budget had reflected the salaries as being removed; while at the same time added an increment back for an equivalent amount in each area of the budget, for a net zero. Additionally, an unallocated reduction equivalent to the incremental amounts in the governor's submission. The finance committees' direction had been that they did not want to see the unallocated reductions, because it was difficult to make further reductions without knowing where the cuts were coming from. She explained that the governor's amended budget had then spread the unallocated reduction, which she described as a trickle-down effect.

Co-Chair MacKinnon restated that the administration had entered the budget process with unallocated cuts of a large magnitude that she had never observed before. She wondered if there had been a previous administration that proposed such massive unallocated cuts in a budget delivered to a legislative body. She acknowledged that the legislature

used unallocated cuts at the end of the budget process if it could not reach consensus.

Co-Chair Kelly followed up to ask if Mr. Teal could distinguish that the governor's budget the previous year was that of the former governor. He wanted to clarify that if LFD was answering questions about unallocated reductions the current administration may have provided, it would have been through the amendment process.

Mr. Teal concurred with Co-Chair Kelly. He stated that the current budget was the first time he had seen a governor submit a new budget with unallocated reductions. He continued that there had been unallocated reductions the previous year.

Senator Olson remarked on the length of Mr. Teal's employment with LFD. He referred to the Knowles administration, during a time when there was deficit spending and a Constitutional Budget Reserve (CBR) draw-down that was negative. He thought that former Governor Knowles had also had unallocated reductions.

Mr. Teal could not recall if there had been unallocated reductions, and stated that LFD generally examined the end product of the budget process. He thought it was entirely possible that at some point previously a governor had submitted unallocated reductions in the budget proposal that came to the legislature on December 15, but it would not have been a common occurrence.

[9:30:35 AM](#)

Senator Olson emphasized the importance of addressing the situation.

Mr. Teal reiterated that it was up to the committee as to how to address the unallocated reductions. He suggested that the governor may not have done what the legislature expected, to allocate the full \$16 million of his share of the unallocated cut.

Ms. Sanders reviewed the document "FY 17 Governor's Amendments - (Excludes transactions distributing the unallocated reductions)" (copy on file). She addressed Item 2, a \$750,000 request of GF program receipts by DOA. The department planned to contract with a fee collection agency

to collect accounts receivable from multiple departments. The department stated that if 5 percent of the current receivables portfolio of approximately \$500 million was collected, the state would receive about \$25 million. She read a transaction note that inquired if there would be an offsetting decrement if the service was no longer being paid for by the department internally.

Ms. Sanders addressed Item 3 and Item 4 for DOA; which were for a statewide single audit, and included a request for \$1.4 million of GF. Item 3 included a request for \$932.1 thousand for multi-year funding for increased workload resulting from the new IRIS accounting system. Item 4 was a request of \$450,000 in Unrestricted General Funds (UGF) to pay for the Legislative Audit Division to provide services to LFD. She detailed that cost was increasing from the existing amount of \$300,000 to \$750,000.

[9:34:08 AM](#)

Vice-Chair Micciche asked why there was \$932,000 on line 3, when Ms. Sanders had mentioned a request or \$1.4 million.

Ms. Sanders explained that she had combined Item 3 and Item 4, for a total of \$1.4 million.

Senator Hoffman asked if there was a breakdown of the outsourcing of the single audit listed on line 3.

Ms. Sanders did not have the information at hand but agreed to follow up with DOA and OMB to provide him with the data.

Senator Hoffman asked if there was justification for requesting FY 18 funds the current year when the funds should be considered for the next legislative session.

Ms. Sanders agreed to look into the matter.

Mr. Teal pointed out that the presentation was a "rough review" of the governor's amendments, and LFD had not finished an analysis and still had unanswered questions. He urged the committee members to ask for detail as Senator Hoffman had. He thought it would be helpful if the members indicated specific areas of interest so that LFD could find answers.

Ms. Sanders addressed Item 5, for the Office of Tourism Marketing and Development in the Department of Commerce, Community and Economic Development (DCCED). In the FY 17 governor's budget, the tourism marketing program would have continued under the department's purview. The amendment transferred the funds to the grant line, as well as reduced the receipt authority for statutory designated program receipts. She furthered that the department was moving back to a grant to a named recipient, through the Alaska Travel Industry Association (ATIA). The receipts that were collected for the visitor's brochure and the booths that were run would be collected directly by ATIA in the future.

Mr. Teal summarized that DCCED was turning over the tourism marketing activities to the private sector.

Co-Chair Kelly thought the amendment would restore the funding arrangement to how it was done in the past.

Ms. Sanders addressed Item 6, within DCCED. She explained that with declining energy costs, the governor's office submitted a decrement eliminating the entire statewide project development and alternative energy and efficiency allocation within the budget. She noted that the spreadsheet listed all the fund sources that were included. She relayed LFD's concern (brought to its attention by the department) was the renewable energy funding that was being eliminated. She detailed that there were approximately 133 outstanding grants under the Renewable Energy Grant Fund, and the reduction decremented the grant funding that was managing the grants.

Ms. Sanders addressed Item 7 and Item 8 from the budget of the Department of Education and Early Development (DEED). The items would add back a total of \$2.8 million for Pre-K grants, the Parents as Teachers Program, and the Best Beginnings Program.

[9:38:32 AM](#)

Vice-Chair Micciche asked about the fund source in Item 6 listed as "Ren Energy."

Ms. Sanders explained that the Renewable Energy item was the funding that was managing the 133 outstanding grants. The funding came directly from the Renewable Energy Fund, and was a Designated General Fund (DGF) fund source.

Mr. Teal clarified that the issue was that the department had eliminated their grant monitoring capability, presumably on the grounds that it would be issuing no new grants; however there was still 133 grants outstanding that needed monitoring. He continued that some, or perhaps all, of the \$2 million was something that the department would be asking to be returned in the budget process. He was not sure if the matter would come up in subcommittee or would be a governor's amendment. He presumed that if the department was going to continue to monitor the outstanding grants, it would need the funds to do so.

Senator Olson asked about the total of the 133 grants.

Ms. Sanders stated that she could acquire the information from the Alaska Energy Authority.

Senator Olson asked if the amount was roughly under \$2 million.

Ms. Sanders clarified that the outstanding grants were previous grants that had been appropriated in prior years.

Senator Bishop thought he understood that Mr. Teal was communicating that there was outstanding grants and it was important to ascertain if the money was being spent appropriately, which included expending the \$2 million to do so.

Mr. Teal reiterated that LFD had not finished a thorough review of the governor's amendments. He opined that it did not take \$2 million to monitor outstanding grants, and considered that some of the funds may be for other purposes. He articulated that LFD had not assessed the details yet and could not provide an amount solely for the grant monitoring activity.

Ms. Sanders discussed item 9, a \$100,000 request in federal receipts for DEED to digitize newspapers. The funding would pay for one non-permanent position for the duration of the project.

Senator Hoffman asked if the digitization was a new or ongoing program.

Ms. Sanders understood that the project was through a new grant that DEED was receiving funding for. She added that the information she received did not have an accompanying timeline, and LFD was uncertain how long the program would go.

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Ms. Sanders turned to page 2 of the document, and addressed Item 10. The Office of the Governor requested \$29,000 of statutory designated program receipts to receive a grant from the Pew Charitable Trust. The grant funding would allow the Division of Elections to participate in a data sharing agreement. The grant would pay for 50 percent of the initial mailing to unregistered voters; and the remaining 50 percent of funding would come from the Help America Vote Act funding, which was currently in a capital project.

Ms. Sanders discussed Item 11, in the Department of Law (DOL), which would reinstate a decrement that was made in the governor's FY 17 budget and restore the department's Dillingham office. After further consideration, the governor's office had decided to restore the cut that was submitted, and maintain the current level of funding. The funding would support one attorney and one support staff.

Ms. Sanders discussed Item 12 in DOL, a request for \$50,000 in tobacco cessation education funding as a one-time item. Due to a multi-state arbitration with tobacco companies, it was expected that the department would need the funding beginning in FY 16 and would extend into FY 17. She detailed that the funding would pay for attorney time, travel costs, arbitration proceedings, and potential expert witnesses.

Senator Dunleavy asked if the settlement funds were originally intended for K-12 education, or if the funds were intended for general public tobacco cessation education.

Mr. Teal indicated the latter.

Ms. Sanders addressed Item 13, which provided a technical correction for DOL. The governor's budget had originally submitted a transaction for \$18.5 million in interagency receipts for Alaska's Liquefied Natural Gas Project

(AKLNG). She continued that because DNR had UGF funding under fund code 1241 (AKLNG), the money had to be reflected in DOL's budget as interagency receipts. Money that came directly from the AKLNG Fund had a different fund code. The fund code correction was order to avoid duplication in counting the funds.

Ms. Sanders addressed Item 14 for DOL, which was related to the previous item. The amendment requested a reduction of interagency receipt authority for AKLNG by \$1 million, for a remaining total of \$17.5 million.

Ms. Sanders addressed Item 15, for the Department of Military and Veterans Affairs (DMVA). The item would delete a division operations manager, which was a vacant position in the Air Guard Facilities Maintenance Division. She understood that the position was a middle management position that operated under a director.

Ms. Sanders addressed Item 16, also for DMVA, which would delete 16 vacant unfilled positions in the Alaska Military Youth Academy. The authority that went with the positions was uncollectable receipt authority. She explained that the academy had received funding from DEED until two years previously, after which it received GF directly rather than passing through the department. The amendment would eliminate the excess receipt authority the academy had retained since the funding change.

[9:46:30 AM](#)

Ms. Sanders addressed Item 17 and Item 18, which would both delete vacant positions for the Alaska Aerospace Corporation (AAC) in DMVA. She noted that there was language in the operating budget bill that allowed AAC to receive and expend additional receipts if it entered a contract in which additional positions were needed. The corporation would have the ability to work with the governor's office to get the positions established.

Senator Hoffman asked if the AAC would have to go to the Legislative Budget and Audit Committee (LBA) to get additional positions established, or if the budget language did not require it.

Ms. Sanders clarified that the language in the budget allowed AAC to receive and expend the receipts without going to LBA.

Ms. Sanders addressed Item 19 for DNR, which was a summary of a very large detailed transaction that was in the members packets of information. The item would reduce funding for the AKLNG project by \$7 million in UGF. The reduction had to do with timing issues on the AKLNG project.

Ms. Sanders addressed Item 20 on page 3, which was a request by the Department of Revenue (DOR) for \$50,000 of UGF in one-time funding due to cash logistics for anticipated marijuana tax. She addressed Item 21, also for DOR, which proposed to add a position to the Mental Health Trust Authority and \$150,000 in administration receipts for data analysis and policy planning. She relayed that Mr. Teal would address the statewide items on the remainder of the document.

Mr. Teal addressed Item 23 through Item 30. He summarized that the administration had made a decision not to issue pension obligation bonds. He furthered that the decision would reduce anticipated debt service cost, and Items 23 and 24 reflected resultant large negative numbers. He explained that if the legislature was no longer depositing money from the bond proceeds, it would need to go back to the original actuarial recommendations for state assistance to retirement; which was approximately \$99 million for the Public Employees' Retirement System (PERS), and \$116 for the Teachers' Retirement System (TRS). He specified that the net change was a reduction of approximately \$46 million to \$47 million. In addition, there had been a \$12 million supplemental to cover the cost of issuing the pension obligation bonds. He expected that the supplemental would be reduced by the same amount, but the action was not taken in the set of amendments being considered. He added that the total reduction would be \$59 million.

[9:49:52 AM](#)

Co-Chair Kelly asked if the reduction was year to year.

Mr. Teal clarified that the reduction was dependent upon earnings on the bonds. He explained that if the legislature issued pension obligation bonds, it would be replacing

state assistance costs for retirement with debt service costs. He discussed the uncertainty of bond returns, and clarified that the item was a one-time reduction in FY 17. He added that going forward, the legislature would continue to pay the actuarial recommended costs, which were projected to increase yearly.

Co-Chair Kelly wondered if the FY 17 reduction was reflected in the language being considered.

Mr. Teal answered in the affirmative. He restated that the debt service on the bonds would exceed the normal state assistance to retirement deposit. Consequently, by not bonding there would be a one-time savings in FY 17 of about \$43 million, and another \$12 million of savings in FY 16. He noted that costs would go up in FY 18 and FY 19.

Mr. Teal addressed Item 32 through Item 34, which were fund transfers. He explained that Item 32 reflected the governor's decision to reexamine a planned deposit of \$5 million to the Renewable Energy Fund submitted in December and later reconsidered. He continued that Item 33 and Item 34 were related to money for permanent fund dividends. The items reflected money that flowed first from the GF (the royalty proceeds) into the Earnings Reserve Account (ERA), and then was transferred to the dividend fund. He expected a supplemental change to happen that would delete the \$1.4 billion for the FY 16 dividend. He furthered that beginning in FY 17, the state would begin paying dividends from royalties. He informed that there was no need to put the \$1.4 billion from the ERA and put it toward dividends, which was essentially replaced by the \$700 million appropriation. The \$469 million from Item 33, in combination with another \$230 million from the GF would pay the \$1000 dividends in FY 17. He clarified that the amount used for the \$1000 dividend was not in addition to the anticipated \$1.4 billion for the approximately \$2000 dividend; rather, the \$1.4 was being removed from the previous year's budget.

Mr. Teal explained that Item 37 was a wordage amendment that referred to the Commercial Fisheries Entry Commission, and its carry-forward language. The language was standard year after year, and would be added back after being unintentionally omitted.

[9:54:30 AM](#)

Mr. Teal addressed Item 40 and Item 41 on page 3, explaining that both items were fund capitalizations that were excluded from LFD reports. He specified that Item 40 was a \$926 million appropriation to the Oil and Gas Tax Credit Fund. The appropriation was in addition to the \$73 million that was already in the governor's budget, for a total of \$1 billion for tax credits. He explained that the item was submitted as a contingent appropriation, while LFD considered it was more appropriate as a fiscal note. He added that if the operating budget bill passed, there would be a fiscal note attached.

Mr. Teal discussed Item 41, which was capitalization for the loan fund for tax credits, and which would also be reflected in a fiscal note.

Mr. Teal addressed Item 44, which was for a sustainable draw from the ERA to the GF. He noted that when it was originally submitted the draw was for \$3.2 billion annually, and with the amendment would be increased to \$3.3 billion annually.

Mr. Teal pointed out that there was one thing not listed, which reflected a major policy difference between OMB's view of dividends and LFD's view of dividends. He furthered that OMB had reflected the ERA and the payment of dividends as Designated General Funds (DGF). The implication was that dividends did not contribute to the deficit, either positively or negatively, and did not compete with other expenditures. The fiscal summary did not track permanent fund earnings nor the amount of dividends that were paid out. He stated that LFD had discussed the situation internally for years, and did not want to distort the cash flow in the fiscal summary. He elaborated that permanent fund earnings typically exceeded the amount that was paid out as dividends, and earnings were traditionally not spent. If a dividend payment was included as a GF expense, and permanent fund earnings were recorded as GF revenue, it would distort the financial picture when there was an extra \$3 billion to \$5 billion (of earnings) showing as revenue.

Mr. Teal continued discussing the concept of how dividend earnings were categorized. He relayed that it had occurred to LFD that it was possible to show an undistorted picture by showing only revenues used for dividends. Therefore the fiscal summary reflected the \$3.3 billion draw as GF

revenue, as well as the dividend cost of \$700 million as revenue and expense. He thought it was important to recognize that the ERA had always been available for any purpose, but it had not been reflected as UGF. He continued that LFD made the argument that as royalties and production tax were deposited, which were clearly UGF revenues, that it changed the character of the fund. He thought it was important to recognize that the ERA was truly a UGF account. He pointed out that there was no impact on the deficit to regard it as such, and thought it clarified that permanent fund earnings were government expenditures like any other, and competed with K-12 education and any other expenditures made by the state.

[9:59:45 AM](#)

Senator Olson asked about the elimination of a position in air guard facilities maintenance for Item 15, and wondered how many aircraft were being maintained by the Air Guard.

Ms. Sanders did not have the information, but agreed to follow up at a later date.

Co-Chair Kelly thanked Mr. Teal and Ms. Sanders for their presentation.

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ADJOURNMENT

[10:00:47 AM](#)

The meeting was adjourned at 10:00 a.m.