29TH ALASKA STATE LEGISLATURE
SECOND SESSION
CONFERENCE COMMITTEE ON HB 256 and HB 257
May 17, 2016
7:25 p.m.

7:25:14 PM
CALL TO ORDER

Chair Kelly called the Conference Committee meeting on HB 256 and HB 257 to order at 7:25 p.m.

MEMBERS PRESENT:

Senate:
Senator Pete Kelly, Chair
Senator Anna MacKinnon
Senator Lyman Hoffman

House:
Representative Mark Neuman, Vice-Chair
Representative Steve Thompson
Representative Les Gara

MEMBERS ABSENT

None

ALSO PRESENT:

David Teal, Director, Legislative Finance Division; fiscal analysts with the Office of Management and Budget and Legislative Finance Division; and aides to committee members and other members of the Legislature.

SUMMARY

HB 256 APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 256 was HEARD and HELD in committee for further consideration.

HB 257 APPROP: MENTAL HEALTH BUDGET

HB 257 was HEARD and HELD in committee for further consideration.

DEPARTMENTS:

COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT
LAW
NATURAL RESOURCES
REVENUE
UNIVERSITY OF ALASKA
FUND CAPITALIZATION
FY16 SUPPLEMENTALS
LANGUAGE
STATEWIDE SALARY ADJUSTMENTS
FISCAL NOTES

#HB256
#HB257

CS FOR HOUSE BILL NO. 256(FIN)

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; repealing appropriations; making supplemental appropriations; and providing for an effective date."

SENATE CS FOR CS FOR HOUSE BILL NO. 256(FIN)

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; repealing appropriations; making supplemental appropriations; and providing for an effective date."

and

CS FOR HOUSE BILL NO. 257(FIN)

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; making supplemental appropriations; and providing for an effective date."

SENATE CS FOR CS FOR HOUSE BILL NO. 257(FIN)

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

7:26:04 PM

Chair Kelly communicated that the committee would take up all remaining open items in HB 256 and HB 257, based on the motion sheets distributed to members earlier in the day (copy on file), dated May 17, 2016 for the following departments: Department of Commerce, Community and Economic Development, Law, Department of Natural Resources, Department of Revenue, University of Alaska, Fund Capitalization, FY 16 Supplemental, Language, Statewide Salary Adjustments, and Fiscal Notes.

7:26:36 PM
AT EASE

7:26:46 PM
RECONVENED

7:26:59 PM

DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT

Vice-Chair Neuman MOVED to ADOPT the Chair's recommendation on the following items for the Department of Commerce, Community and Economic Development:

Item 2 Senate
Item 3 Senate – Amend language to read
It is the intent of the Legislature that the Tourism Marketing Board develop a plan to phase out reliance on unrestricted general funds for marketing, moving towards a self-sustaining program funded by industry to be implemented in the FY18 budget and present the plan to the House and Senate Finance Committees by November 1, 2016.
Item 7 Senate
Item 8 House
Item 9 Senate

7:27:49 PM

Representative Gara OBJECTED to Item 2. He understood that the tourism industry was vital to the state. He stressed that, other than the cruise ship industry, the state did not receive revenue from the tourism industry. He felt that the House proposal, which saved $1.35 million was the more appropriate action in a time of a $4 billion fiscal crisis.

Chair Kelly shared that there was a spreadsheet that reflected a significant amount of tourism money returned to the treasury.

A roll call vote was taken on the motion.

IN FAVOR: Kelly, Neuman, MacKinnon, Thompson, Hoffman
OPPOSED: Gara

The MOTION PASSED (5/1).

7:30:04 PM
AT EASE

7:30:16 PM
RECONVENED

There being NO further OBJECTION, it was so ordered. The action closed all conferencable items in the budget for the Department of Commerce, Community and Economic Development.

DEPARTMENT OF LAW

Vice-Chair Neuman MOVED to ADOPT the Chair's recommendation on the following items for the Department of Law:

Item 1 House

There being NO OBJECTION, it was so ordered. The action closed all conferencable items in the budget for the Department of Law.

DEPARTMENT OF NATURAL RESOURCES

Vice-Chair Neuman MOVED to RESCIND the motion on Item 2 for the Department of Natural Resources. There being NO OBJECTION, Item 2 was before the committee.

Vice-Chair Neuman MOVED to ACCEPT Senate, less $100 thousand for Item 1.

There being NO OBJECTION, it was so ordered. The action reclosed all conferencable items in the budget for the Department of Natural Resources.

DEPARTMENT OF REVENUE

Vice-Chair Neuman MOVED to ADOPT the Chair's recommendation on the following items for the Department of Revenue:

> Item 4 Senate and revise the language appropriation to reflect Permanent Fund Dividend Fund as the fund source.
>
> Item 5 Senate

There being NO OBJECTION, it was so ordered. The action closed all conferencable items in the budget for the Department of Revenue.

UNIVERSITY OF ALASKA

Vice-Chair Neuman MOVED to ADOPT the Chair's recommendation on the following items for the University of Alaska.

Item 11 Senate for both items

There being NO OBJECTION, it was so ordered. The action closed all conferencable items in the budget for the University of Alaska.

FUND CAPITALIZATION

Vice-Chair Neuman MOVED to ADOPT the Chair's recommendation on the following items for the Fund Capitalization motion sheet:

> Item 1 House plus $132,079,900 (bringing the total appropriation to the Public Education Fund to $1,151,064,400).

Representative Gara OBJECTED. He wondered whether the money would cover the $50 Base Student Allocation (BSA) increase. Mr. Teal replied that it did not cover the $50 BSA increase, therefore the amount was approximately $12.9 million less than the Senate version.

Representative Gara recalled that the House and Senate budgets covered the $50 BSA increase. Mr. Teal agreed, but the item was conferencable, because it was funded in different ways.

Representative Gara wondered how the decision was made to eliminate the BSA increase. Mr. Teal replied that it was the conference committee motion.

A roll call vote was taken on the motion.

IN FAVOR: Kelly, Neuman, MacKinnon, Thompson, Hoffman
OPPOSED: Gara

The MOTION PASSED (5/1).

There being NO further OBJECTION, it was so ordered. The action closed all conferencable items in the Fund Capitalization motion sheet.

FY 16 SUPPLEMENTALS

Vice-Chair Neuman MOVED to ADOPT the Chair's recommendation on the following items within the FY 16 Supplemental motion sheet:

Item 1	House minus $14 million
Item 2	House
Item 3	House
Item 4	Senate
Item 5	House
Item 6	Senate

Representative Gara OBJECTED for discussion.

Representative Gara looked at Items 2 and 3, and wondered whether the amounts were the requests from the Alaska Retirement Management (ARM) Board for the Public Employees' Retirement System (PERS) and Teachers' Retirement System funding level.

7:36:22 PM

JAMES ARMSTRONG, STAFF, SENATOR PETE KELLY, replied that they were not requests from the ARM Board. He stated that

the appropriations were made in the Senate Finance Committee.

Representative Gara looked at Item 4 and queried the effect on school funding. Mr. Teal replied that Item 4 would have capitalized the Public Education Fund, so there was extra money in the fund. The Item allowed, under the House's plan, to reduce the deposits of the capitalization of the fund by $145 million per year for FY 17, FY 18, and FY 19. He stated that the conference committee declined that action with Item 1, so the money no longer pre-funded education.

Representative Gara queried Item 1. Mr. Teal replied that he was referring to Item 1 of the Fund Capitalization motion sheet.

Representative Gara queried the decisions behind Items 5 and 6. Mr. Armstrong replied that Item 5 capitalized the higher education with $80 million. He noted that higher education funds had been used for PERS and TRS, so the money almost replenished the funds. He furthered that Item 6 repealed the FY 16 inflation proofing, which was estimated at $47 million.

Representative Gara OBJECTED to Item 4. He felt that education was inadequately funded.

Representative Gara WITHDREW the OBJECTION.

There being NO further OBJECTION, it was so ordered. The action closed the FY 16 Supplemental motion.

LANGUAGE

Vice-Chair Neuman MOVED to ADD a new legislative intent Item 5 within the Language motion sheet.

Representative Gara OBJECTED to read.

7:40:18 PM
AT EASE

7:41:13 PM
RECONVENED

7:41:17 PM

Representative Gara OBJECTED to the MOTION. He felt that requiring the administration to review all their regulations would be at a cost, but noted that there were no costs attached to the appropriation.

Vice-Chair Neuman explained that the intent was for an examination of reductions within the departments.

Representative Gara stressed that fairness in budgeting should allow for money to be applied to the Item.

7:44:39 PM

Vice-Chair Neuman remarked that the administration continually examined regulations.

Representative Gara MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Neuman, MacKinnon, Thompson, Hoffman, Kelly
OPPOSED: Gara

The MOTION PASSED (5/1). There being NO OBJECTION, it was so ordered.

7:45:18 PM

Vice-Chair Neuman MOVED to ADOPT New Item 5, Amendment 29-GH2740\U.12 Wallace 4/5/16 (copy on file).

7:45:37 PM
AT EASE

7:46:03 PM
RECONVENED

Vice-Chair Neuman MOVED to ADOPT new Item 6, Amendment 29-GH2740\U.16 Martin/Wallace 5/16/16 (copy on file).

> This new intent language is in the members' packets. It adds intent language that the Department of Revenue transfer management and investment responsibility of the budget reserve fund to the Alaska Permanent Fund Corporation under AS 37.10.430(a).

Vice-Chair Neuman restated the motion.

There being NO OBJECTION, it was so ordered. The action reclosed the Language motion sheet.

STATEWIDE SALARY ADJUSTMENTS

Vice-Chair Neuman MOVED to RESCIND the motion in adopting Item 2.

7:47:28 PM
AT EASE

7:47:58 PM
RECONVENED

7:48:13 PM

Representative Gara OBJECTED for DISCUSSION. He recalled that the legislature had approved all the negotiated contracts. He wondered if the intent was to update for additional negotiated contracts. Mr. Teal replied in the affirmative. He stated that the Mt. Edgecumbe bargaining unit would be added to the approved bargaining agreements.

Representative Gara WITHDREW the OBJECTION. There being NO OBJECTION, Item 2 was before the committee.

Vice-Chair Neuman MOVED to AMEND the Conference Committee Salary and Benefit Adjustment language to include the collective bargaining agreement for the Teachers Education Association of Mount Edgecumbe.

Representative Gara OBJECTED for DISCUSSION. He surmised that all of the other approvals, plus the Teachers Education Association of Mt. Edgecumbe. Mr. Teal agreed.

Representative Gara queried and explanation of subsection C. Mr. Teal explained that subsection C was a provision that must be ratified by the members of the bargaining agreement and approved by the legislature. He furthered that the legislative approval was invalid if they are not approved by the bargaining unit.

Representative Gara surmised that the existing contract remained in place until an agreement was met. Mr. Teal agreed.

Representative Gara WITHDREW the OBJECTION.

There being NO further OBJECTION, the MOTION PASSED.

Vice-Chair Neuman MOVED to ADOPT new Item 3 to incorporate salary adjustments.

Representative Gara OBJECTED for DISCUSSION.

Vice-Chair Neuman explained Item 3:

> Item 3 adds salary adjustments for an Alaska Care Health Insurance rate increase to address the declining health insurance reserve balance. The total increase is $2.675 million and consists of:
>
> $477 thousand designated general funds
> $1 million 570 thousand other state funds
> $628 thousand federal funds
>
> The details on the amount by fund source are included in the members' packet and will be made available on Legislative Finance Division's website.

7:52:13 PM

Chair Kelly clarified that the first amount was $2.675 million.

Representative Gara OBJECTED for DISCUSSION. He surmised that the Item adopted the governor's proposal on the health insurance rates. Chair Kelly replied that it was not the full amount.

Mr. Teal furthered that the Item did not include the UGF portion. It only contained the DGF, the other funds, and the federal funds. He stated that there was approximately $5.7 million of UGF, which was excluded because it could not be determined whether the reserve would be emptied, because there was no way of knowing the claims. He explained that, should the reserves get dangerously low, the Item would allow for the administration to raise rates

at any point in the year by giving them the authority to spend the non-UGF receipts.

Representative Gara remarked that the governor had proposed an additional "cushion" of GF money to cover the insurance costs during the year, and $5 million was removed, which could result in rate increases. Mr. Teal replied in the affirmative, and explained that it was projected that the reserves would be low.

Representative Gara wondered whether the governor proposed an additional $5 million, and was not in the conference committee proposal. Mr. Teal agreed, and explained that the governor's proposal would have increased the rate for every salary.

Representative Gara recalled that the governor had proposed an additional $5 million in UGF, in order to minimize the chance of raising employee contribution rates. He asked for further information. Mr. Teal explained that the governor asked for UGF.

Representative Gara surmised that the governor's proposal would have been be a "cushion" to cover the employee rated, with the additional $5 million. Mr. Teal replied that it was the employer-paid rates, and not employee-paid rates.

Representative Gara understood that it was a matter of whether the state paid later in the supplemental or currently pay with UGF, without any impact on employee rate payments. Mr. Teal replied that it would not affect what the employees contribute, and only affected the employer portion. He remarked that it did not force the rate increase, but rather only allowed the rate increase.

Representative Gara WITHDREW the OBJECTION.

There being NO further OBJECTION, it was so ordered. The action reclosed the Statewide Salary Adjustments' motion sheet

7:57:56 PM

FISCAL NOTES

Vice-Chair Neuman MOVED to ADOPT the documents with the following footers:

"FY17 Fiscal Note Section to HB 256" as section 2 of HB 256

"FY17 Fiscal Note Section to HB 257" as section 2 of HB 257

7:58:51 PM
AT EASE

7:59:38 PM
RECONVENED

7:59:47 PM

Representative Gara announced that he had two separate fiscal note documents. Mr. Armstrong replied that the bottom right footers had the bill labeled on them.

Representative Gara shared that there was not a fiscal note attached to the oil tax legislation [HB 247] to pay for tax credits. He surmised that there was a fiscal note for HB 247 of $430 million to pay for the credits. Mr. Teal replied that the fiscal note was a conference committee note, and looked at line 20 of the HB 256 document, which used FY 16 money to make a deposit to the Oil and Gas Tax Credit Fund. The money would be available beginning in FY 17 to pay tax credits.

Representative Gara did not understand why there would be a fiscal note for HB 247, which only set the levels for tax credits, but did not require payment. Mr. Teal responded that it was not a requirement, but rather capitalized the fund to utilize the funds for the repayment of credits.

Representative Gara wondered whether there was a $430 million appropriation to pay the tax credits for the upcoming fiscal year. Mr. Teal replied in the affirmative.

Representative Gara OBJECTED to adopting the fiscal notes.

8:02:48 PM
AT EASE

8:03:20 PM
RECONVENED

8:03:28 PM

Senator MacKinnon declared that the governor had requested $1.2 billion to pay outstanding tax credits.

Vice-Chair Neuman noted that the legislature had used money from the Constitutional Budget Reserve (CBR) for oil and gas work. He furthered that there was some money left over, so the appropriation used the FY 16 funds to pay the earned credits in FY 16. He stressed that it did not affect the FY 17 budget.

Representative Gara looked at the FY 16 budget, and noted that $500 million was granted in case there were unanticipated FY 16 expenses. He understood that $430 million would be used for FY 17 oil and gas tax credits Mr. Teal replied that the $430 million was in addition to the $500 million in the FY 16 budget. He explained that the total FY 16 appropriation would be $930 million. He stressed that it was only put in the fund, and did not necessarily all be paid out. The paying of the credits depended on the terms of HB 247.

Vice-Chair Neuman stressed that there was already a request for $775 million in credits for FY 16. He did not believe the funds could not be used for FY 17.

Representative Gara wondered if the $430 million was in addition to the oil and gas credit payment. Mr. Teal replied in the affirmative.

Representative Gara declared that there was a statute that limited the amount the state was obligated to pay for tax credits. He explained that the formula was based on the state's production tax revenue-the less revenue to the state made for the probability that the state would pay less in oil and gas tax credits. The formula resulted in $37 million for the upcoming fiscal year. He shared that the state could pay more than that number, but felt uncomfortable appropriating an additional $430 million.

Vice-Chair Neuman felt that the amount did not associate with HB 247, because it set different tax rates. He shared that there was some remaining funds from FY 16, so the legislature could use the money to pay the credits.

Co-Chair MacKinnon stressed that the governor planned to pay the $770 million in credit. She stated that the number was compounded because of a veto from the administration.

Representative Thompson declared that the state needed to show the industry that it paid its bills.

Senator Hoffman stressed that the issue was about paying the bills now or later. He supported paying the bills "now."

Chair Kelly restated that there was "leftover" FY 16 money to currently pay the credits.

8:08:43 PM

Representative Gara wondered if any of the $430 million came from the CBR approval from the prior year's legislative session. Mr. Teal replied in the affirmative. He furthered that there was a $500 million "head room" approved by the three-quarter vote.

Representative Gara asked for a restatement. Mr. Teal replied $288 million came from the SBR and the remainder was from the CBR.

Representative Gara restated that the state had a statutory obligation of roughly $37 million for FY 17. He wanted to see the final version of HB 247 before deciding on the appropriation.

8:11:22 PM
AT EASE

8:11:48 PM
RECONVENED

8:11:52 PM

Co-Chair MacKinnon explained that HB 247 would shape how the numbers would be paid. She stressed that the money would not be attached to anything, should HB 247 fail to pass the legislature.

Representative Gara MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: MacKinnon, Thompson, Hoffman, Kelly, Neuman
OPPOSED: Gara

The MOTION PASSES (5/1). There being NO furthered OBJECTION, it was so ordered.

Vice-Chair Neuman clarified the motions:

1. Section 2 makes appropriations associated with the bills listed.
2. If a bill listed either fails to pass, its substance fails to be incorporated in some other measure, or is vetoed by the governor; the appropriations associated with that bill are reduced.

Chair Kelly stated that the meeting would go into recess.

#
8:14:19 PM
RECESSED UNTIL WEDNESDAY, MAY 18, 2016.