

HOUSE FINANCE COMMITTEE
February 3, 2017
1:36 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:36 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Paul Seaton, Co-Chair
Representative Les Gara, Vice-Chair
Representative Jason Grenn
Representative David Guttenberg
Representative Dan Ortiz
Representative Lance Pruitt
Representative Cathy Tilton
Representative Tammie Wilson

MEMBERS ABSENT

Representative Scott Kawasaki; Representative Steve Thompson.

ALSO PRESENT

Randall Hoffbeck, Commissioner, Department of Revenue; Pat Pitney, Director, Office of Management and Budget, Office of the Governor.

SUMMARY

HB 61 PERM. FUND:DEPOSITS;DIVIDEND;EARNINGS

HB 61 was HEARD and HELD in committee for further consideration.

HB 95 APPROP:SUPP; CAP; REAPPROP; AMEND; REPEAL

HB 95 was HEARD and HELD in committee for further consideration.

Co-Chair Foster indicated that Representative Thompson and Representative Kawasaki were excused. He reviewed the agenda for the day.

#hb61

HOUSE BILL NO. 61

"An Act relating to the Alaska Permanent Fund Corporation, the earnings of the Alaska permanent fund, and the earnings reserve account; relating to the mental health trust fund; relating to deposits into the dividend fund; relating to the calculation of permanent fund dividends; relating to unrestricted state revenue available for appropriation; and providing for an effective date."

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RANDALL HOFFBECK, COMMISSIONER, DEPARTMENT OF REVENUE, introduced the PowerPoint presentation titled "PFPA MODELING" (copy on file). He commented that on the previous day the committee had covered a lot of ground on the Permanent Fund Protection Act (PFPA). There had been significant concern whether the 5.25 percent draw was sustainable and durable. He indicated he would be walking through some of the modeling that had been done to determine the durability of the proposed draw amount. He would also be discussing the impacts of some of the decisions about other fiscal issues surrounding the PFPA and their impacts on the durability of a restructured Permanent Fund.

Commissioner Hoffbeck turned to slide 2: "Scenarios Modeled":

1. Status Quo: ad hoc use of permanent fund earnings to fill budget deficit
2. PFPA with \$2.4 billion transfer to the CBR
 - With Full Fiscal Solution
 - With No Fiscal Solution for remaining budget deficit.
3. PFPA without transfer to the CBR
 - With Full Fiscal Solution
 - With No Fiscal Solution for remaining budget deficit.

Commissioner Hoffbeck explained that the committee would be looking at three different modeling scenarios. The first model reflected the status quo where no changes would be made. The state would continue to spend the Constitutional Budget Reserve (CBR), and when it was gone, begin to spend from the Permanent Fund (PF) earnings reserve account (ERA). The second scenario reflected the PFFPA proposed in the governor's bill, HB 61. A proposed effective date of FY 17, as proposed in the budget, would create a draw for FY 17 and replace the CBR draw using PF earnings to fund the current year's budget. The committee would look at the second scenario in two ways: One would reflect a full fiscal solution closing the remainder of the budget gap, and another would show a budget gap. The third scenario reflected an effective date of July 1, 2018. The draws would start for the FY 18 budget.

Representative Wilson had heard frequently that the legislature was doing nothing. She opined that the legislature had made several reductions and put two bills forward in the prior year to help save the state money. She did not think it was appropriate to tell the public that it appeared the legislature would do the usual. She argued that the legislature had taken significant steps to reach a sustainable level of spending. Although the legislature might not have made enough changes, it had worked diligently to reduce costs.

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Vice-Chair Gara asked if the legislature had burned through close to \$6.5 billion or \$7 billion in savings in the previous 2 years. Commissioner Hoffbeck responded, "That is correct."

Vice-Chair Gara asked what would be left in the CBR if the legislature did nothing to address the revenue issue in the current year. He asked for a number. Commissioner Hoffbeck responded that the presentation did not contain many numbers but there were some numbers on the charts.

Vice-Chair Gara asked what would be left in the CBR after FY 18, under the governor's proposed budget, if the legislature failed to adopt revenue measures in the current year and had to use the CBR to pay the budget gap.

Commissioner Hoffbeck reported that it was about \$2.1 billion.

Commissioner Hoffbeck continued to discuss slide 2. He noted the critical test when looking at the modeling was to maximize the use of the asset. The department wanted to be able to extract as much revenue from the PF without putting the corpus of the fund at risk. He suggested that leaving any money on the table had the effect of limiting future options for solving the fiscal crisis. He continued that the idea was to find the "sweet spot" extracting as much as possible while maintaining a durable fund into the future.

Commissioner Hoffbeck continued to slide 3: "Model Sophistication and Vetting." He reviewed some of the key aspects of the model. The model was probabilistic, as it looked at a range of potential scenarios that could occur over time rather than deterministic. Deterministic meant choosing a single scenario and extrapolating it over time. The model used thousands of iterations of multiple scenarios and produced a range of potential outcomes. The department looked at the median within the range. He thought the modeling had been a robust process. The focus was on how the money flowed between the PF, the general fund, and the dividend to identify any potential failures in the modeling. The modeling addressed questions such as whether there was enough money to fund government services and the dividend, whether the corpus of the fund would be impacted, or whether there was enough money in the ERA to make the annual payment. He reported using as many objective resources as possible in calibrating the model to remove any concern about the model being skewed. Later he would be discussing some of the data the sources used in the model.

Commissioner Hoffbeck reported that the department used Monte Carlo simulations to get a range of results. In the previous year there were multiple hearings in which the modeling process was discussed. The department had been asked to bring back a tremendous number of variations on that modeling. The department hired the McKinsey and Company, an international consulting firm that has worked with all the sovereign wealth funds around the world, to ensure that the modeling was robust. The company was asked to review the department's modeling process for reasonableness and accuracy. The company found that there were no mechanical errors in the state's modeling and that

the assumptions were reasonable. The company approved the Monte Carlos process and suggested some improvements to the modeling, which the Department of Revenue had incorporated.

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Commissioner Hoffbeck reviewed the graph on slide 4 titled "Budget Assumptions." He highlighted the yellow line at the bottom that represented the fall forecasted revenues from the 2006 Revenue Sources Book less unrestricted royalties and production tax. Royalties and production taxes were taken out because they were estimated within the modeling. He further explained that they were removed from the baseline numbers because they became a critical component in the modeling. He pointed to the blue line which represented the Office of Management and Budget's 10-year budget plan. In the plan, the budget held flat for several years, then increased with inflation going out in time.

Commissioner Hoffbeck scrolled to slide 5: "Status Quo: Method, Inputs, And Assumptions" The slide showed how the PF earnings performed overtime without changing the budget or increasing revenues. The slide showed the list of assumptions used in the process. The assumptions included a PF starting balance of \$54.9 billion (reflective of the anticipated amount at the end of 2017), a 6.95 percent geometric return with a 12.32 percent standard deviation (the return could be 6.95 percent, as high as 19.3 percent, or as low as -5.5 percent), and an inflation rate of 2.25 percent. He explained that about 90 percent of the investment returns were realized within the statutory net income payout.

Vice-Chair Gara referred to slide 5. He asked about the 6.95 percent return assumption on the PF and the 50 percent probable 6.24 percent. Commissioner Hoffbeck responded that the second line represented the realized returns - the statutory net income. He further explained that of the 6.95 percent total fund return, 6.24 percent would be realized, a 90 percent realization.

Commissioner Hoffbeck discussed slide 6: "Status Quo: Method, Inputs, And Assumptions." He explained that probabilistic modeling (used in generating the revenue sources book) was applied to oil price production. Deposits to the fund consisted of 31 percent of royalties, the weighted average of the deposit that occurred. There was no

planned payout from [to] the general fund from the ERA, but unplanned payouts would occur after the depletion of the CBR. The balance of the CBR would be \$4.4 billion at the beginning of 2018 with a 2.25 percent rate of return projected.

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Representative Pruitt referred to slide 6. He recalled that in a meeting in the prior year the CBR was expected to have a balance of \$3.5 billion in 2018. He asked about the shift to \$4.4 billion.

Commissioner Hoffbeck answered that the original number was \$3.2 billion, but multiple things had happened. He elaborated that the \$4.4 billion number was a cash versus accrual accounting number - the cash that would be in the fund. There were some items such as capital projects that had been approved but not funded that would show as a decrement on an accrual basis. He continued that the \$3.2 billion number was an accrual number rather than a cash number. He continued that much of the shift was being driven by the fact that in FY 16 the state had \$100 million less in draws than anticipated. Also, in FY 16 and FY 17 the state had received more revenues than anticipated. It was a combination of some accounting issues and better-than-projected returns from the time the number was published in the previous year.

Representative Pruitt asked about the balance on an accrual basis to compare apples-to-apples. He wondered if the number would be \$4.4 billion. He suspected it would not be as low as \$3.2 billion. Commissioner Hoffbeck would get back to him with an answer.

Representative Pruitt asked about the statutory budget reserve (SBR) balance. Commissioner Hoffbeck responded that it was \$200 million. He added that the \$4.4 billion included the balances of both the CBR and the SBR.

Commissioner Hoffbeck continued to slide 7: "Status Quo: Method, Inputs, And Assumptions":

STATUS QUO: METHOD, INPUTS, AND ASSUMPTIONS

Dividend Calculation:

- Total distributed is equal to half of the sum of the last 5 years' statutory net income multiplied by 0.21 or half of the ERA, whichever is less

Inflation Proofing:

- The fund's principal is inflation proofed at the predicted inflation rate.

Commissioner Hoffbeck reported the dividend calculation was the last 21 percent of the previous 5 years' earnings - essentially the average of the previous 5 years, just slightly more. Inflation proofing was a direct appropriation based on the measured inflation of the prior year. He reiterated he was speaking of the status quo. He noted that the dividend calculation was 21 percent of the prior 5 years or half of the remaining ERA, which ever was less. In other words, when the state started to deplete the ERA the dividend would decrease because it could never be more than half of the ERA balance.

Vice-Chair Gara did not agree with the term "status quo" because in the previous year the legislature did not fund inflation proofing. He asked if he was correct. Commissioner Hoffbeck confirmed Vice-Chair Gara was correct. The commissioner was explaining the statutory status quo.

Representative Wilson had heard about a 50/50 plan. She asked about what would have been left in the ERA had the state paid the full dividend amount of approximately \$1.2 billion. She wanted to know the figure for realized earnings. Commissioner Hoffbeck asked her to repeat her question.

Representative Wilson thought that the state would have paid out about \$1.2 billion in dividends had the amount not been reduced. She surmised that there would have been another \$1.2 billion left to put in the ERA and utilized with a 21 vote. Commissioner Hoffbeck indicated she was correct. He furthered that the portion that had historically been used for inflation proofing could have been used in the previous year. He noted that the state could have used any amount that was in the ERA balance, about \$8.0 billion, with a simple majority vote.

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Commissioner Hoffbeck advanced to the chart on slide 8: "Status Quo, No Fiscal Plan: Dividend paid per Person." He indicated that the slide showed the dividend that would be paid per person under the status quo plan. He noted that the 2018 value would be about \$2400 based on the forecasted PF returns. He reported that the 2041 median value, the end of the modeling period, would be zero. He emphasized that there would be no dividend. He explained that the yellow bar represented between the median and a factor of 75 percent. The blue bar represented the median to a factor of 25 percent. The median fell between the yellow and blue lines on the chart. The whiskers represented the total range of the forecast. The chart showed how far the total range could deviate over time. It fell off precipitously after only a few years. He added that the status quo without a fiscal plan would result in a median value of \$67 billion in 2041. The real value would be \$39.563 billion. He redirected members' attention to the first slide of the presentation that showed a real fund balance of \$54.9 billion.

Commissioner Hoffbeck turned to the chart on slide 9: "Status Quo, No Fiscal Plan: Nominal Fund Size." He reported that the value of the fund would be significantly degraded under the status quo. The ERA failure rate over 24 years was 98.24 percent. There was absolute surety that the ERA would run out of money during the forecast period.

Commissioner Hoffbeck spoke to the chart on slide 10: "Status Quo, No Fiscal Plan: Cumulative ERA Failure Rate." He thought the graph provided a good visual of the ERA failure rate. He stressed that the dividend was paid from the ERA. Therefore, when the ERA failed, the dividend would likely be reduced to zero. He highlighted that by 2023 or 2024 there would be a 50/50 chance of having no money in the ERA and no dividend without a different plan in place. It was clear that the status quo plan would lead to the depletion and failure of the fund.

Commissioner Hoffbeck reviewed slide 11: "APFPA with CBR Transfer: Method, Inputs, And Assumptions":

APFPA WITH CBR TRANSFER: METHOD, INPUTS, AND ASSUMPTIONS

- Permanent Fund Starting Value: \$53.4 billion
 - Realized portion of corpus: \$40.7 billion

- Realized portion of ERA: \$6.3 billion
- Unrealized earnings held by the fund: \$6.3 billion
- Starting value was estimated based on the following:
 - \$54.9 billion estimated EOY 2017 balance of PF under status quo
 - Plus \$0.8 billion from the difference in the calendar year (CY) 2017 dividend calculation
 - Less \$2.4 billion transfer to CBR (repaying for last year's withdrawal as if we started PFPA a year earlier)
- Investment Return: Callan Associate's 10-year forecast
 - Total return: 6.95 percent geometric, 12.32 percent standard deviation
 - Statutory return: P10 = 3.70 percent, P50 = 6.24 percent, P90 = 8.14 percent
 - Inflation rate: 2.25 percent

Commissioner Hoffbeck clarified that the Alaska Permanent Fund Protection Act (APFPA) had a 2017 effective date, essentially creating a transfer to the CBR. The constitutional Budget Reserve draw would be replaced with PF earnings. The Permanent Fund starting value would be about \$53.4 billion. He pointed to the middle of the slide which showed the calculation of how to go down from \$54.9 to \$53.4. The investment returns were the same.

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Commissioner Hoffbeck spoke to slide 12: "APFPA with CBR Transfer: Method, Inputs, And Assumptions":

- Petroleum Revenues:
 - Oil price: Probabilistic analysis of ANS oil prices using a PERT distribution from the fall 2016 price forecasting session.
 - Production: Probabilistic analysis of ANS oil prices using a PERT distribution from the DNR provided Fall 2016 RSB
- Deposits: 25% of royalties deposited into the permanent fund.

- Payout Calculation: 5.25% of the average of first 5 of the last 6 years' total fund size. This value can then be decreased if the combined royalty and production tax revenues for the year are above \$1.2 billion, by the amount over \$1.2 billion. This can not reduce the payout amount by more than 80%.
- Unplanned Payouts: After depleting the CBR, budget deficits are filled from the ERA.
- CBR: \$6.8 billion BOY 2018 balance with Rate of Return of 2.25%
 - Initial Balance of \$6.8 billion is estimated based on a forecasted balance of \$4.4 billion and a \$2.4 billion transfer from the ERA

Commissioner Hoffbeck reported that the petroleum revenue calculations would be the same. However, the percentage of royalties being deposited would be reduced to 25 percent from 31 percent. He detailed that the only deposit that would be made in the APFPA would be the constitutionally required deposit. The plan did not include the additional statutory deposit. He detailed the payout calculation which would be 5.25 percent of the average of the first 5 years of the previous 6 years. There was a \$1.2 billion draw limit. Once the state reached \$1.2 billion in oil and gas severance tax and royalties, the payout of the dividend would be reduced dollar for dollar. He observed that everything that had been discussed in the prior year would be imbedded within the calculation. He continued that unplanned payouts would come out of the ERA after the CBR was entirely depleted. Although, under the scenario where a full fiscal plan would be in place, it was anticipated that the budget gap would be closed and, therefore, would not require additional draws. He clarified that if additional draws were necessary, the money would come out of the ERA. He added that the CBR would begin with a higher balance of \$6.8 billion because the \$2.4 billion draw from the CBR would be replaced with a \$2.4 billion draw from the ERA.

Commissioner Hoffbeck discussed slide 13: "APFPA with CBR Transfer: Method, Inputs, And Assumptions":

- Dividend Calculation:
 - The sum of:
 - 20% of the POMV payout before any reduction, and

- 20% of the unrestricted royalties (about 15% of total royalties) from the most recent FY ended
 - Overwriting the above calculation there is a fixed dividend of \$1,000 per person for CY 2018.
- Inflation Proofing:
 - If four times the 5.25% POMV payout (21% of the total fund value) remains in the ERA after the POMV transfer, the amount over the four times the POMV is transferred into the corpus.

Commissioner Hoffbeck reviewed the dividend calculation under the new 20/20 formula. It equaled 20 percent of the percent of market value (POMV) payment and 20 percent of unrestricted royalties. Inflation proofing would be tied to the 4-times draw (once the ERA had 4-times the annual draw money would flow back into the corpus of the PF). He noted that the structure when doing the modeling had been discussed in the previous day.

Co-Chair Seaton asked about the calculation. He reiterated that if the POMV percentage was fixed and after it flowed in, 20 percent of the POMV deposit would go out. He wondered if it would go out prior to the money flowing back to inflation proofing or whether the POMV draw would be reduced. Commissioner Hoffbeck responded that the 20 percent of 5.25 percent would always be calculated against the maximum draw. He continued that as the actual draw started to be reduced, the dividend would not be reduced. The dividend would always be calculated on the maximum draw amount rather than the actual draw.

Vice-Chair Gara referred to slide 13 and asked about the 20 percent of unrestricted royalties. He wondered if the amount would come out of the POMV or out of royalties. Commissioner Hoffbeck responded that it would come directly from royalties, the portion of the royalties not dedicated in the constitution to the corpus of the fund (the other 75 percent).

Vice-Chair Gara stated that if the state had a deficit and 20 percent was taken from royalties instead of from the ERA, it would come out of the CBR. It would not be additional money until there was no deficit left. He asked if he was accurate. Commissioner Hoffbeck did not understand the representative's question.

Vice-Chair Gara restated his question. He suggested that if the state was in a position where revenues did not approach expenditures and the state wanted to take 20 percent of royalties to pay for part of the PF, it would mean 20 percent less for general fund spending. It would require a larger CBR draw. He continued that instead of taking money from the ERA the money would be taken out of the CBR. He asked if he was accurate. Commissioner Hoffbeck answered, "yes." He added that the intent was for the monies to come out of royalties first. The net effect was if there was not enough in the general fund, a larger CBR draw would have to be made. It did not make any mathematical difference whether the money was used for the dividend or for covering the remaining general fund expenditures.

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Commissioner Hoffbeck detailed slide 14: "APFPA with Transfer, Full Fiscal Plan: Dividend paid per Person." He reported that the plan had a guaranteed dividend of \$1000 until 2041 when it would increase to \$1416. Essentially, the dividend amount would be about \$1000 for the 24-year life of the forecast.

Commissioner Hoffbeck advanced to slide 15: "APFPA with Transfer, Full Fiscal Plan: Nominal Fund Size." He detailed that the 2041 value of the PF would be \$99.254 billion, which would start at \$53.4 billion. The real value of \$99 billion would equal \$58.188 million. The fund would be growing at a rate greater than inflation. It would not only protect the fund but would allow the fund to grow slightly over time. The earnings reserve account failure rate would be 1.2 percent. There would be very little chance of the ERA being depleted to the point where the annual payment would not be viable. The failure rate was reflected in the following slide.

Commissioner Hoffbeck continued to slide 16: "APFPA with Transfer, Full Fiscal Plan: Cumulative ERA Failure Rate." He made the point that the chart did not show much because the failure rate followed the same line as the base line.

Representative Ortiz returned to slide 14 that showed the projected dividends until 2041. He asked about the factors in play that would prevent the dividend from increasing in value with at least inflation. He thought the commissioner

was saying that it would remain around \$1000 into 2041. The value would consistently go down. He wondered what was in the formula that would prevent the dividend from keeping pace with inflation. Commissioner Hoffbeck answered that it was primarily the production forecast. The royalty side of the equation was based on price and production. He indicated the state did not see large price increases and saw falling production over time. He commented, "That piece is going to drop."

Commissioner Hoffbeck detailed slide 17: "APFPA with Transfer, No Fiscal Plan: Dividend paid per Person." The slide assumed that the current structural deficit would remain in the budget. Once the CBR was depleted the state would turn to the ERA to continue to fill the gap. He posed the question about what impact it would have on the durability of the PF and the size of the dividend. The dividend would start out at \$1000 and would grow to \$1,239 over the 24-year projection which was about \$200 less than under a full fiscal plan. The real value was less than the \$1000.

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Commissioner Hoffbeck advanced to slide 18: "APFPA with Transfer, No Fiscal Plan: Nominal Fund Size." In 2041 the median value of the fund would be \$76 billion which provided a nominal value of \$44.6 billion. The start value was \$53.4 billion. In the current scenario there would be degradation of the fund itself over the period. There would be an ERA failure rate of 45.38 percent. There was a very good chance that at some point there would not be money in the ERA to make the dividend payment or for funding government expenditures.

Vice-Chair Gara commented that he had heard Commissioner Hoffbeck state that without a fiscal plan the state would run out of savings and earnings reserve money to pay a dividend. He thought the commissioner was saying that with no fiscal plan the state would still have a dividend. He asked for clarity about the chart. Commissioner Hoffbeck indicated that the chart reflected a permanent fund only solution. All that would be done would be to restructure the PF without any other changes.

Representative Wilson asked about the amount of the budget and about the growth rate. She wondered about the starting

number without a fiscal plan. She wondered about the growth rate and a percentage decrement. Commissioner Hoffbeck directed members to slide 4 which showed the budget numbers in a graph. The budget stayed flat through FY 20 and then started to grow with inflation.

Representative Wilson clarified that flat meant no gain whatsoever and no new contracts. She asked if he was talking about the same amount until FY 20 at which time inflation would be included. Commissioner Hoffbeck responded that he could not drill down specifically, but confirmed that the budget amount of \$4.2 billion would essentially be what it was currently through 2020.

Representative Wilson thought it would be very helpful to get further clarification about how the numbers worked. Commissioner Hoffbeck commented that there was no dollar growth in the budget through 2020. If there were contract increases, they would be absorbed in other parts of the budget. After 2020, growth would be seen at the rate of inflation.

Commissioner Hoffbeck continued to slide 19: "APFPA with Transfer, No Fiscal Plan: Cumulative ERA Failure Rate." The chart showed when the state would start seeing the potential for failure in the ERA without a fiscal plan. The earnings reserve account would stay stable up to the late 2020s. The chance of failure would grow dramatically after that time.

Commissioner Hoffbeck continued to slide 20 "APFPA with Transfer, No Fiscal Plan: Median UGF Revenue/Budget." He explained that the reason the chance of failure would grow dramatically after 2028 was because, under the APFPA only solution with the FY 17 transfer, there would be CBR money available to fill the void until 2028, after which the ERA would be tapped.

Co-Chair Seaton asked if "Other revenue Draws" included only the CBR. He wondered if it included drawing from the higher education fund or the Power Cost Equalization fund. Commissioner Hoffbeck responded, "That's only the CBR."

Commissioner Hoffbeck relayed slide 21: "APFPA without CBRF Transfer: Method, Inputs, And Assumptions":

Permanent Fund Starting Value: \$55.8 billion (See estimate below)

- Realized portion of corpus: \$40.7 billion
- Realized portion of ERA: \$8.7 billion
- Unrealized earnings held by the fund: \$6.3 billion
- Starting value was estimated based on the following:
- \$54.9 billion estimated EOY 2017 balance of PF under status quo
- Plus \$0.8 billion from the difference in the CY 2017 dividend calculation

Investment Return: Callan Associate's 10-year forecast

- Total return: 6.95% geometric, 12.32% standard deviation
- Statutory return: P10 = 3.70%, P50 = 6.24%, P90 = 8.14%
- Inflation rate: 2.25%

Commissioner Hoffbeck indicated the slide reflected an FY 18 start. He reported that the scenario was very similar to the previous two scenarios he had just discussed. The difference was that there would not be an FY 17 draw. A draw would begin in FY 18. The scenario would include a full plan to fix everything as well as implementing the APFPA. The Permanent Fund starting value would be higher because of a lack of an FY 17 draw. The other significant difference could be found on the following slide.

Commissioner Hoffbeck relayed slide 22: "APFPA without CBRF Transfer: Method, Inputs, And Assumptions":

Permanent Fund Starting Value: \$55.8 billion (See estimate below)

- Realized portion of corpus: \$40.7 billion
- Realized portion of ERA: \$8.7 billion
- Unrealized earnings held by the fund: \$6.3 billion
- Starting value was estimated based on the following:
 - \$54.9 billion estimated EOY 2017 balance of PF under status quo
 - Plus \$0.8 billion from the difference in the CY 2017 dividend calculation

Investment Return: Callan Associate's 10-year forecast

- Total return: 6.95% geometric, 12.32% standard deviation

- Statutory return: P10 = 3.70%, P50 = 6.24%, P90 = 8.14%
- Inflation rate: 2.25%

Commissioner Hoffbeck explained that the CBR would be lower because of not including the payback to the CBR.

Commissioner Hoffbeck relayed slide 23: "APFPA without CBRF Transfer: Method, Inputs, And Assumptions":

- Dividend Calculation:
 - The sum of:
 - 20% of the POMV payout before reductions, and
 - 20% of the unrestricted royalties (about 15% of total royalties) from the most recent FY ended
 - Overwriting the above calculation, the dividend for CY2018 is \$1,000/person.
- Inflation Proofing:
 - If four times the 5.25% POMV payout remains in the ERA after the POMV transfer, the amount over the four times the POMV is transferred into the corpus.

Commissioner Hoffbeck reported that the dividend calculation would be the same as previously calculated.

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Commissioner Hoffbeck detailed slide 24: "APFPA without Transfer, Full Fiscal Plan: Dividend paid per Person." He detailed the impact on the dividend. He relayed that, with a FY 18 starting date and a full fiscal plan, the dividend would start at \$1000 and grow to \$1468. He added that with an FY 17 draw it would equal \$1416 - a difference of about \$50 without a FY 17 draw.

Co-Chair Seaton asked about slide 22. He was looking at the CBR value of \$4.4 billion. On slide 6 the CBR value was listed at \$4.4 billion. However, he thought that the commissioner had stated that if the draw did not occur the CBR would be higher. Commissioner Hoffbeck suggested that rather than looking at slide 6, Co-Chair Seaton should look at slide 12. It showed the CBR listed at \$6.8 billion. Slide 12 reflected an effective date of FY 17.

Commissioner Hoffbeck advanced to slide 25: "APFPA without Transfer, Full Fiscal Plan: Nominal Fund Size." He reported that the slide showed the effect on the PF with a FY 18 effective date. The fund would grow to \$104,079 billion in a 24-year period. The fund would have a real value of \$61 billion. The fund would start out at \$55.8 billion and would grow to \$61 billion. In the scenario with a full fiscal plan the fund would grow at a rate greater than inflation. The earnings rate estimated failure rate would be 0.18 percent or less than one-fifth of 1 percent.

Commissioner Hoffbeck continued to slide 26: "APFPA without Transfer, Full Fiscal Plan: Cumulative ERA Failure Rate." He remarked that there would be little chance of failure under the scenario.

Commissioner Hoffbeck detailed slide 27: "APFPA without Transfer, No Fiscal Plan: Dividend paid per Person." He explained that the slide reflected a scenario in FY 18 without solving any of the fiscal issues. The Permanent Fund Dividend would go from \$1468 under the full plan down to \$1271 over the life of the 24-year projection.

Commissioner Hoffbeck advanced to slide 28: "APFPA without Transfer, No Fiscal Plan: Nominal Fund Size." He reported that the nominal value of the fund would drop to \$46.3 billion down from \$55.8 billion. There would be a degradation of the fund without fixing the remainder of the fiscal problem as well as implementing the APFPA. The failure rate of the ERA would be 44.61 percent.

Commissioner Hoffbeck continued to slide 29: "APFPA without Transfer, No Fiscal Plan: Cumulative ERA Failure Rate." He highlighted that the failure rate would start to climb in the late 2020s.

Commissioner Hoffbeck continued to slide 30: "APFPA without Transfer, No Fiscal Plan: Median UGF Revenue/Budget. He emphasized that the CBR would start to run out in the late 2020s at which time the state would have to tap into the ERA to fill the void.

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Commissioner Hoffbeck presented the conclusions listed on slide 31 "Conclusions":

Status quo situation:

- Dividend will collapse
- Permanent Fund will be used to fill budget deficits, depleting value

Permanent Fund Protection Act:

- Stabilizes the dividend and budget with or without CBR transfer
- However, additional revenue measures or budget cuts are required to protect the fund. Otherwise, the remaining budget gap will lead to unplanned withdrawals from the permanent fund that will degrade its value.

Commissioner Hoffbeck concluded that there was very little difference in durability with or without the FY 17 draw. The fund would be slightly more durable, as it would grow larger and the dividend would be slightly larger with a start date in FY 18. He suggested that the 5.25 percent draw worked under the modeling - it was durable and sustainable. All models containing a full fiscal solution worked. However, models without a full fiscal solution were not sustainable. Stand-Alone models were not durable or sustainable. A broader plan was necessary.

Co-Chair Foster would be passing the gavel to Co-Chair Seaton to discuss the supplemental budget. He asked for questions from the committee.

Commissioner Hoffbeck indicated Emma Pokon, Special Assistant, Office of the Attorney General, Department of Law, was available for anyone wanting more detail or to walk through the various forecasts. She was happy to meet with anyone one-on-one that wanted more information regarding the modeling.

Co-Chair Seaton asked about the transfer of the PFD for prisoners. He thought it was calculated based on the full dividend. He wondered if there was a necessity for a transfer from another account to fund the amount. He asked how the amount was accounted. He wanted to get it on record that there was a calculation or a fund transfer that the legislature wanted to see.

Commissioner Hoffbeck would have to get back to Co-Chair Seaton.

HB 61 was HEARD and HELD in committee for further consideration.

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AT EASE

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RECONVENED

#hb95

HOUSE BILL NO. 95

"An Act making supplemental appropriations, capital appropriations, and other appropriations; making reappropriations; amending appropriations; repealing appropriations; and providing for an effective date."

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Co-Chair Seaton invited Ms. Pitney to come to the table.

PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, would be reviewing the components of the supplemental budget request. She would highlight some of the more significant items. The information packet provided to members had a list of every change presented in the "FY 2017 Supplemental Bill" (copy on file).

Ms. Pitney reviewed slide 2: "FY2017 Supplemental Summary." She reported that the total supplemental request was \$51.7 million unrestricted general funds (UGF) and \$113 million in total. The supplemental request under review was one of the smaller requests in the past several years.

Ms. Pitney continued to slide 3: "UGF/DGF/Other/Fed Summary by Department (1088)." She indicated that the slide showed a breakout of the operating supplemental request by department. The unrestricted general fund operating request totaled \$51.6 million and \$95 million in total funds.

Ms. Pitney detailed slide 4: "Statewide Department Summary - Capital Budget (1183)." The slide showed the capital appropriations which totaled \$75,000 UGF and \$18 million in total funds.

Ms. Pitney advanced to the detail sheet on slide 5: "FY2017 Supplemental Bill - Page 1 of 10." She would not review

every item but was happy to answer any questions about any numbers she did not cover. She referred to line 2. The first request was an increase which included UGF for a health insurance rate increase. The rate would be increasing from \$1346 per month to \$1555 per month. In the previous year the administration had requested an amendment for the FY 17 budget once it recognized that the state's reserves were getting low and that the state would need to have a rate increase for FY 17. She continued that rather than a rate increase, there was a deposit into the working reserve in FY 16 that bolstered the reserve amount. It allowed the state to receive the same rate from July to January. The Department of Administration had put in savings measures and had increased the cost to all employees for their health care premiums. All the actions were not enough to keep the reserve healthy. Therefore, the department had to impose a mid-year rate increase which was out of the ordinary. It was the same rate that was in the FY 18 budget request. The total came to \$6.0 million of which \$5.3 million was UGF. She relayed that in the previous year the UGF was not provided, but many of the non-general fund components were provided for a health rate increase. It was the reason the general fund was a larger part currently.

Ms. Pitney moved to the item listed on line 3. She reported that furlough days were negotiated into the supervisor union contracts. The negotiation ended after the budget was put together the previous year. The result was that the budget was reduced in accordance with the mandated furlough days.

Vice-Chair Gara commented that the court system had a budget savings measure by offering their own voluntary retirement incentive plan. If a person was 3 years past retirement age they were offered 3 months pay. As a result, several folks retired generating a significant cost savings. He wondered if such a plan was in place in other departments. Ms. Pitney thought the question would be better answered another day.

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Ms. Pitney scrolled to slide 6 (Page 2): "FY2017 Supplemental Bill - Page 2 of 10." She pointed to line 6. She explained that the Public Defender agency received

receipts from collections for representing clients. Often those collections came from garnishing clients' PFDs. The collections were down because of the lower dividend rate. The supplemental request would replace the amount expected from collections not materialized.

Representative Wilson asked when the last time the administration reviewed the criteria for qualifying for a public defender. She was aware that a formula was applied based on income. There were some clients that would qualify even though they did not have money immediately. She thought that was the reason for the \$455,000 request. She wondered if the criteria needed updating. Ms. Pitney responded that the amount a defendant paid was based on a court decision. The issue concerning the criteria used by judges to determine how much should be paid was currently being addressed. She commented that conversations among the different affected parties were some of the best outcomes of the justice reform effort in the previous year.

Ms. Pitney reviewed item 7, a federal grant that would allow the state to address some audit issues pertaining to commercial driver's license examiners. The state would incur an ongoing cost of \$36,000 for the software that would be implemented.

Ms. Pitney detailed that line 8 was an increase due to a classification study completed in December of 2016. Occupational licensing examiners would move from a range 13 to a range 14. There was also a corresponding amount in the FY 18 budget.

Representative Pruitt asked for the amount. Ms. Pitney responded that it was approximately \$165,000 or \$170,000. She would provide the exact number later.

Ms. Pitney discussed slide 7: "FY2017 Supplemental Bill - Page 3 of 10." The two items listed were technical in nature.

Ms. Pitney spoke to slide 8: "FY2017 Supplemental Bill - Page 4 of 10." Lines 11, 12, 13, and line 14 on page 5 [slide 8] were supplemental requests for the Medicaid program. She recalled that in the prior summer the state relayed payments in FY 16 pushing them into FY 17 because the FY 16 budget was insufficient to cover the payments. The state essentially wrote 2 checks in FY 17. The amount

requested reflected the 2 checks. The amount of money in Medicaid was about \$580 million. The total would be \$27 million higher with the supplemental request. She reported that the amount was just over \$60 million less than it had been in FY 15. In FY 17, not counting the expansion population, there had been a 9 percent enrollment increase and a 12 percent increase in utilization. Therefore, all the reform efforts moving billing from state funding to federal funding has allowed the Medicaid program to remain steady and below where the state was in FY 15.

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Vice-Chair Gara asked her to repeat her previous comments about the increase in utilization and the associated increase in costs and the comparison between fiscal years. Ms. Pitney reported that in 2017 the number of people eligible for Medicaid increased 9 percent. The utilization was up a total of 12 percent. She clarified she was speaking of the regular Medicaid program, the non-expansion program. She reported that there were reform efforts and several savings initiatives occurring prior to the reform efforts. The state was about \$60 million below where it was in FY 16 on an annual basis. It was a recurring savings.

Co-Chair Seaton asked if it was before or after the supplemental request. Ms. Pitney responded after the request.

Representative Wilson asked for an actual number of participants. She wanted to know how many participants made up the 9 percent she mentioned. She thought the percentage was substantial. She wondered what the reason was for the substantial increase. Ms. Pitney could provide the numbers after the meeting. She thought the increase was reflective of the economy and job losses and the number of Alaska's aging population.

Representative Wilson was aware there was not a cap for the regular Medicaid program. She thought that for the optional portions of Medicaid a limit could be set. She thought the legislature had set a limit. She wondered if she was correct. Ms. Pitney would have to consult with the Department of Health and Social Services.

Representative Wilson wanted the information. She was under the impression that the optional programs were capped. She

knew the medical portion could not be capped. However, the dental and other programs could be capped.

Co-Chair Seaton asked if Representative Wilson was talking about a dollar cap or a limitation of services. Representative Wilson thought there was a dollar cap for the optional plans. Co-Chair Seaton suggested asking HSS.

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Vice-Chair Gara was confused. He referred to pages 4 and 5 [slides 8 and 9] and noted that for each line item the descriptions reflected FY 16 costs that the state delayed paying until FY 17. He indicated there were 4 items with various amounts including: \$2.9 million, \$219,000, \$15.9 million, and \$7.6 million. There were also unanticipated costs associated with more people using Medicaid in FY 17. He only saw delayed payments on the slides.

Ms. Pitney responded that the savings initiatives, memorandum of agreements with providers allowing higher billing on the federal side, and utilization management initiatives put in place by the Department of Health and Social Services (DHSS) would offset unanticipated growth. The program was being managed to keep costs contained. She suggested that, had the department not had to write the checks in FY 17 from FY 16, it would have met the overall budget target. They were doing many things and would be very tight at the end of the year in meeting the department's overall costs. She reported the department believed it would "Squeak in under the wire" with the savings initiatives and the reforms put into place.

Vice-Chair Gara stated that in terms of the unanticipated increase in the number of people applying for Medicaid, the state was not seeking a supplemental request because enough savings had been generated. The savings would compensate for the increase in the number of people qualifying for Medicaid and who the state was paying for. He asked if he was accurate. Ms. Pitney made one correction - 17.

Vice-Chair Gara asked why the line items were 4 separate components. Ms. Pitney replied that each were different allocations within the appropriation.

Ms. Pitney addressed to slide 9: "FY2017 Supplemental Bill - Page 5 of 10." She noted that the rest of the items on

page 5 and the first few items on page 6 [slide 10] were smaller grants or accounting technical changes.

Ms. Pitney explained to slide 10: "FY2017 Supplemental Bill - Page 6 of 10." She referred to line 24, the first capital supplemental request for the Whale Pass organizational grant. She explained that when a new city was formed it was entitled to a \$75,000 grant from the Department of Commerce, Community and Economic Development. The item satisfied statute.

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Representative Guttenberg asked about the money provided to new municipalities. He asked if calculations had been created for second class cities. He mentioned student enrollment counts and municipal assistance. Ms. Pitney would have to get back to him. She noted that community revenue sharing would be a factor.

Vice-Chair Gara stated that the previous year the department had come to the legislature reporting they would be getting more aggressive with leveraging extra federal funds to try to replace state funds. He recalled that many initiatives had been presented to reduce the FY 17 by generating extra federal funds. Currently, more people had applied for Medicaid than anticipated (12 percent more) generating extra costs. He wondered how the costs would be offset by federal savings which he thought was already reflected in the budget in the prior year. He did not want to see the department absorb all the extra costs. He was unclear about the real costs having to do with the increased Medicaid recipients. He asked if there was extra federal savings that the department generated that was not reflected in the FY 17 budget.

Ms. Pitney relayed that 9 percent reflected the additionally eligible, and 12 percent was the actual change year over year. Some of the increase was anticipated, However, 12 percent was not anticipated. She thought Vice-Chair Gara's question was complex. She would be happy to sit down with DHSS to discuss the numbers. She mentioned that among the savings initiatives, some were working faster than others generating a higher-than-expected savings. She mentioned pharmacy and travel agreements. She would be happy to have a stand-alone discussion.

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Vice-Chair Gara was concerned with having a large gap for the budget in FY 17 for Medicaid. The budget in FY 18 for Medicaid would reflect the extra people. He was concerned with the FY 17 budget absorbing all the costs for the extra people. He was unsure if the comparison of the budget years would be true.

Co-Chair Seaton thought there was some confusion. He clarified that Ms. Pitney was saying that in FY 17 the state had 9 percent more eligible people and the state had 12 percent greater Medicaid utilization overall. The increases were offset in FY 17 with savings that had occurred. The costs from FY 16 that were being paid in FY 17 were independent of the number of new eligible people and the utilization rate. He asked if he was correct. Ms. Pitney responded, "That is correct."

Co-Chair Seaton further commented that the committee should have had 2 conversations separately because the number of people eligible and the utilization rate were not included in any of the figures. The costs were being absorbed in the cost savings generated in the current year. He thought Vice-Chair Gara was asking if the state had anticipated the questions and had reduced the budget by the amount of savings, or was the savings greater than anticipated for FY 17.

Ms. Pitney responded the FY 17 budget was reduced from the FY 16 budget for savings initiatives. Many of the cost savings were going well and others were not. Independently, the Medicaid group was managing the program and managing their care utilization to limit costs where possible. The administration was asking the department to manage as tight as possible. The administration believed the FY 17 budget would be adequate to meet FY 17 costs. There was a small chance the state might have to check write into FY 18. Early on, it became apparent that the administration would have to come back to the committee.

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Vice-Chair Gara thought the math did not add up. He reported that he had heard from the department that they were trying to achieve the federal savings in the budget the prior year. The department had not been able to achieve

all the savings. On one hand, the state had less federal money coming in than was expected. Also, there was some portion of the 12 percent of people seeking Medicaid that the state anticipated in the previous year and put in the budget. Additionally, there were more people that received Medicaid services. It appeared that Alaska had less federal dollars coming in for federal replacement money than the state had hoped for and more Medicaid costs going out. He did not understand how there could be less federal funds and more state expenditures, without asking for a supplemental.

Ms. Pitney responded that his logic was fair. The federal savings did not line up program-by-program, but lined up collectively. The state would receive a savings. The administration was watching the department items including expenditures and every check that was written monthly. The administration believed that through the department's efforts it could get through the current fiscal year with the amount of money being requested. There was a slight chance that a small amount would have to be written in FY 18.

Vice-Chair Gara was frustrated because the costs were FY 17 expenses. He anticipated that there would be real FY 17 costs. He argued that more people could not be treated with Medicaid services for free with annual increases to medical care costs. He opined that there would be an FY 18 amended budget that would add costs to the budget when they were really FY 17 costs that should be paid. He thought the budget comparison between years would be skewed making it appear that the budget was increasing.

Ms. Pitney acknowledged Vice-Chair Gara'S concerns. The administration was confident enough that the FY 17 budget would meet the FY 17 needs. There was a chance that all the management efforts would fall a little short. If that was the case, the administration would come back to the legislature. The administration felt confident enough. It wanted to keep the supplemental requests low while leaving the pressure to manage the program high. The administration thought it could get through the current year with the amount requested.

Representative Guttenberg reported that the expansion of Medicaid brought in a new group of people, more than anticipated. Some of the projected savings was intangible.

He spoke of fewer emergency rooms and better handling of chronic illnesses. He asked if there was an aspect of measuring the changes. He wondered about the effect of the new group on intangible items. He asked if the department was trying to measure the changes with the expanded Medicare [Medicaid] group. Ms. Pitney responded affirmatively.

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Representative Ortiz returned to the \$60 million. He understood that the state spent \$60 million less for Medicaid than it did in 2015. He asked if he was accurate. Ms. Pitney answered, "Yes." Representative Ortiz replied, "I feel good about that. Thanks."

Ms. Pitney advanced to slide 11: "FY2017 Supplemental Bill - Page 7 of 10." She explained that items 25 and 26 were the Department of Fish and Game (DFG) supplemental requests. The first was for a continuation of studies that began in 2013. There were 2 groups, Pacific Seafood Processors and Northern Southeast Regional Aquaculture Association Incorporated, that were funding the continuation of the studies. The second request fulfilled a necessary match and the federal funds to receive the Pittman Robertson funds that were available for Alaska. The match source would come from DFG funding. She expounded that the money was designated for several capital projects that were part of a prioritized list.

Co-Chair Seaton asked whether the funding match would be ongoing or if additional federal funding had become available that had not been anticipated. Ms. Pitney reported there had been periodic capital requests for Pittman Robertson funding. The current item was a periodic request. In the past, the request had been submitted on a regular basis as part of the supplemental bill, which she had not been aware of. However, she believed the request should have been part of the FY 17 or FY 19 budget.

Ms. Pitney highlighted line 30 on page 7 [slide 11]. The request was technical in nature. She explained that 2 years prior, capital project funding had been inserted because of several ongoing negotiations. The request would allow the Department of Administration to continue to use the funds in labor negotiations as necessary.

Ms. Pitney continued to line 31 on the same slide. She detailed the request for an appropriation for the Alaska Land Mobile Radio (ALMAR) system. The amount of the request was \$3 million. The amount would come from money originally appropriated for a car driving range at the Sitka Police Academy. The Department of Public Safety felt the money would be better spent maintaining the ALMAR system. The administration was \$1.5 million short of the needed funds outside of the \$3 million and was currently looking for another source for the additional monies.

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Representative Pruitt asked if the money would be used to maintain or upgrade the system. Ms. Pitney responded that the money would be used for both the equipment maintenance and a refresh of the system.

Representative Pruitt asked about what the legislature should expect in the future in terms of funding requests. Ms. Pitney indicated that the amount would be consistent. State records showed \$5 million to \$7 million being spent on the system each year. It was an expensive system used throughout the state by public safety employees. It was the state's statewide emergency communications system.

Representative Pruitt asked if the state upgraded the system each year. He asked for clarification. Ms. Pitney used the example of software upgrades. They did not happen every year. However, the equipment maintenance happened every year. It depended on what maintenance was being done each year. It was cyclical.

Ms. Pitney advanced to slide 12: "FY2017 Supplemental Bill - Page 8 of 10." She spoke to line 32, which would allow the state to receive a federal grant. Line 33 was a significant item. The amount of the request was \$8 million for the Department of Corrections (DOC). One of the Medicaid expansion savings came in the form of the department being able to bill Medicaid for prisoners hospitalized for more than 24 hours. She noted that although the provision was working, the total healthcare costs for inmates did not materially change by being able to bill for extended hospital stays. The department was seeing increased costs because of nursing staff turnover resulting in overtime and temporary hiring costs. Higher drug costs and higher than anticipated utilization also

contributed to increased costs. She reported that the department had asked for \$11 million to cover the costs. The administration worked with the department to look at management action that could be taken to contain costs. The funding of \$11 million included the \$8 million request and cost savings resulting from tighter management within the healthcare area. Hiring nurses to provide adequate coverage would be the most effective method of reducing costs within the department. She asked the commissioner and his management team to scrutinize every cost to find \$3 million in savings. She reiterated that only \$8 million was being requested from the general fund.

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Representative Wilson understood if an inmate was at a halfway house or on electronic monitoring they would be able to take advantage of Medicaid expansion. Yet, the Department of Corrections had reduced the number of halfway houses by about \$8 million. The electronic monitoring program (EMP) had also been cut in half from 400 to 200. In terms of high medical costs, halfway houses and EMP were two avenues the state was not utilizing. She had heard stories of people walking away from halfway houses, which she considered to be a contract issue. She believed it was up to the contractor to make sure [people did not walk away]. She thought it was unreasonable to hope to see the savings by prisoners only being hospitalized for 24 hours. She imagined hospitals would want to them [prisoners] out as soon as possible to avoid paperwork. She thought the high costs were due to prisoners not being able to utilize options such as halfway houses and the EMP. She argued that further savings could not only be found in Medicaid expansion but within the prison system itself. Ms. Pitney would investigate the issue.

Vice-Chair Gara was concerned with the corrections issue. The commissioner of DOC had said that the department had \$11 million in unanticipated costs. The department requested an \$11 million increment to deal with the shortfall. In turn, the administration directed the department to find \$3.7 million in savings that was never identified in the budget in the previous year and limited its supplemental request to \$8 million. He asked if he was right in his interpretation. Ms. Pitney replied, "Yes."

Co-Chair Seaton stated that DOC had identified one of the problems having to do with medical facilities not identifying the times people were out [hospitalized], hence, the 24-hour period was not tracked. Therefore, there was no mechanism to bill Medicaid for the 95 percent federal reimbursement. He asked if the issue had been taken care of. Ms. Pitney responded that the staff of the commissioner's office looked at the bills to confirm the timeframe. The office was actively managing the issue. In the case where someone had stayed over 24-hours they sent it back. The office was managing the issue on a case-by-case basis.

Co-Chair Seaton asked if things were now being tracked properly. Ms. Pitney responded that there was a disincentive for the provider: It was easier to bill DOC than to bill Medicaid. Also, providers received higher reimbursements if they billed DOC rather than Medicaid. She relayed that there were some built-in incentives and disincentives that she hoped to manage. She thought the issues were longer-term contract management issues.

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Representative Guttenberg suggested that if the provider billed DOC they received a higher reimbursement rate than if they billed Medicaid. He wondered what rate the state received when it returned to Medicaid for billing for the same service - the higher or lower rate. Ms. Pitney asked Representative Guttenberg to repeat his question.

Representative Guttenberg heard Ms. Pitney state that the provider would rather bill DOC because they received a higher reimbursement rate than if they billed Medicaid directly. He wondered if the state got reimbursed a comparable amount. He wondered which number the state received. Ms. Pitney answered that the provider received the Medicaid rate if they were billed on Medicaid which was lower than if they billed DOC directly. She added that the rate could be adjusted after the transition.

Vice-Chair Gara asked if the \$11 million shortfall for DOC had anything to do with withheld felon PFD funds. Ms. Pitney responded in the negative. The current year's felon funds were based on the prior year's check amount. The amount in the budget was lagging a year.

Ms. Pitney advanced to slide 13: "FY2017 Supplemental Bill - Page 9 of 10." She spoke to line 37 which was a special appropriation for a class V injection well consent decree. The agreement between the Department of Transportation and Public Facilities and the Environmental Protection Agency had to do with the clean-up of how oil was collected in the maintenance stations. She addressed line 38 having to do with refinancing. There was a savings of \$655 million by refinancing the Goose Creek debt.

Representative Pruitt asked what terms changed in the refinancing agreement. He wondered if the state obtained a better financing rate or extended the financing for a longer time. Ms. Pitney was happy to provide more details. However, the change was made primarily because of an interest rate reduction. Representative Pruitt confirmed he wanted to see the refinancing details.

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Ms. Pitney advanced to slide 14: "FY2017 Supplemental Bill - Page 10 of 10." Ms. Pitney spoke about line 39 regarding a \$3 million request for the disaster relief fund. The fund balance was currently about \$2 million. The amount would replenish the fund to the normal level of about \$5 million. She thought that in the years before her tenor she thought the amount might have been significantly higher.

Representative Wilson noted that wildfire relief was not a part of the current supplemental request. Typically, relief funding associated with wildfires in Fairbanks would appear in the supplemental request each year. She asked if, in the current year, relief funding for wildfires was paid for by the federal government. Ms. Pitney would have to check into the issue. She thought plenty of funds were available.

Representative Wilson wondered how much was in the fund. She indicated there had been discussion about putting an actual amount in the fund.

Co-Chair Seaton asked if it was different than the disaster relief fund. Ms. Pitney would get back to the committee.

Representative Pruitt would love to see if the state returned money to the general fund for wildfire relief. He commented that the state issued its "make whole" payments to welfare recipients in October because of the Permanent

Fund. He asked if the PF was reduced to a point where a supplemental request was necessary. Ms. Pitney would follow up with an answer.

Vice-Chair Gara was told by a few people that the legislature would see a supplemental for fire suppression expenses in the current year. He asked if the state was using up more of the fund than normal. In other words, was the state changing its policy about the amount of reserve funds to have available for fire suppression. Ms. Pitney reported that the administration was not changing the policy. She had not received a supplemental request from the Department of Natural Resources. She would find out.

HB 95 was HEARD and HELD in committee for further consideration.

Co-Chair Seaton thanked Ms. Pitney and reviewed the agenda for the following meeting.

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ADJOURNMENT

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The meeting was adjourned at 3:24 p.m.