

HOUSE FINANCE COMMITTEE  
February 28, 2017  
9:02 a.m.

9:02:03 AM

CALL TO ORDER

Co-Chair Seaton called the House Finance Committee meeting to order at 9:02 a.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 Scott Kawasaki  
Representative Dan Ortiz  
Representative Lance Pruitt  
Representative Steve Thompson  
Representative Cathy Tilton  
Representative Tammie Wilson  
Representative Mark Neuman (Alternate)

[Note: Representative Pruitt left during the meeting and Representative Neuman filled in as alternate for the remainder of the meeting.]

MEMBERS ABSENT

None

ALSO PRESENT

Heidi Teshner, Director, Administrative Services, Department of Education and Early Development; Alexei Painter, Analyst, Legislative Finance Division; Paloma Harbour, Director, Administrative Services, Department of Labor and Workforce Development; Pat Pitney, Director, Office of Management and Budget, Office of the Governor; David Teal, Director, Legislative Finance Division; Representative Justin Parish.

SUMMARY

HB 57            APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 57 was HEARD and HELD in committee for further consideration.

HB 59            APPROP: MENTAL HEALTH BUDGET

HB 59 was HEARD and HELD in committee for further consideration.

Co-Chair Seaton addressed the meeting agenda.

#hb57

#hb59

HOUSE BILL NO. 57

"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 reappropriations, and making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

#hb59

HOUSE BILL NO. 59

"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."

[9:03:11 AM](#)

^DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT FINANCE  
SUBCOMMITTEE AMENDMENTS

[9:03:47 AM](#)

Representative Ortiz addressed the subcommittee recommendations for the Department of Education and Early Development (DEED) with a prepared statement:

The subcommittee on the Department of Education and Early Development budget held 12 meetings for a total of 15.5 hours. Included in that was some public testimony - the subcommittee took one hour of testimony hearing from 16 individuals from 6 communities. In addition, we received written testimony, emails, and letters from approximately 50 individuals. Some of the topics of interest were early learning programs, Online With Libraries - in total 42 individuals testified in opposition to the reductions to early learning programs, 16 were opposed to reductions to Online With Libraries.

As a part of our presentation or report, the subcommittee is forwarding six amendments to this committee for our consideration. This includes three amendments from the governor, one amendment from the subcommittee, and two intent language statements. If these amendments are adopted today, the budget figures will include unrestricted general funds rounded off at \$48 million, designated general funds at \$26 million, other funds at \$57 million, and federal funds at \$251.3 million, for a total of \$383.1 million. If these amendments are adopted the unrestricted general fund difference between the FY 15 management plan to the FY 18 management plan is a reduction of \$21,203,000 for a decrease of 30.7 percent.

It was important for members of the committee to remember that 98 percent of this general fund (GF) budget is grants. This includes the foundation formula, pupil transportation, and smaller grants that go to school districts. Personal services make up only 1 percent of the general fund DEED budget. With respect to personnel, staff who work with K-12 schools, administer federal programs, and administer the \$1.3 billion in GF grants to school districts total fewer than 100 folks (97 full-time positions).

With that in mind, I'd like to move on to our recommendations. Before we actually move the first amendment it's also important to note that a statutory recommendation is coming forward from our subcommittee. The subcommittee reviewed the Public School Trust Fund, which is currently a revenue source for the foundation program. There was general consensus that the trust is not maximizing its full

earnings potential and a review of restructuring options is warranted, with the goal of increasing revenues for public education. No specific option is recommended, but instead a review of the options should be initiated.

Representative Ortiz elaborated that the idea of a review had been discussed by the subcommittee - the subcommittee believed the topic needed further review to maximize the potential returns for education funding.

[9:07:31 AM](#)

Co-Chair Seaton asked if the recommendation was to the [House] Education Committee.

Representative Ortiz replied in the affirmative.

Co-Chair Seaton asked for verification that Representative Ortiz would transmit the recommendation to the [House Education] Committee.

Representative Ortiz responded in the affirmative.

Representative Ortiz MOVED to ADOPT Amendment H DOE 1 (copy on file):

K-12 Support  
Boarding Home Grants  
H DOE 1 - Reduce Boarding Home Stipend Program by Underspent Amount

Offered by Representative Ortiz

Reduces General Fund authority to reflect declining use of the Stipend portion of the Boarding Home Grants program. The Boarding Home budget funds two programs: 1) the Secondary Boarding Home Stipend Program; and 2) the larger School District Operated Residential School Program. This amendment does not impact School District Operated Residential Schools. It reduces UGF authorization for the Stipend program to more closely align with actual costs.

Co-Chair Foster OBJECTED for discussion.

Co-Chair Seaton reminded members to view the transaction detail sheets to follow the amendments (copy on file).

Representative Ortiz explained would reduce \$70,000 in GF authority, which reflected declining use of the stipend portion of the boarding home grant allocation. He read from a statement:

The Boarding Home budget funds two programs: 1) the Secondary Boarding Home Stipend Program; and 2) the larger School District Operated Residential Schools. The district operated boarding schools included six across the state in Galena, Nenana, Chugach, Lower Kuskokwim, and Bering Straits districts. This amendment only reduces undesignated general fund (UGF) authorization for the stipend portion of the budget, it does not impact the school district operated residential boarding schools. By reducing it by \$70,000 there are ample funds that remain to cover what demand we expect to happen on that part of the budget.

Co-Chair Foster WITHDREW his OBJECTION. There being NO further OBJECTION, Amendment H DOE 1 was ADOPTED.

[9:09:30 AM](#)

Representative Ortiz MOVED to ADOPT Amendment H DOE 2 (copy on file):

Education Support Services  
Executive Administration  
H DOE 2 - School District Internet Access &  
Educational Opportunities

Offered by Representative Ortiz

It is the intent of the legislature that the State Board of Education report to the Alaska Legislature with findings and recommendations to ensure equity and affordable access to high speed internet, broadband services, and connectivity to all School Districts in Alaska. Further, it is the intent of the legislature that the State Board of Education address this in context of its Best Practices Initiative.

Co-Chair Foster OBJECTED for discussion.

Representative Ortiz read from a prepared statement:

Amendment 2 is intent language that addresses equity and access to broadband services and internet activity for schools across the state.

Representative Ortiz read the intent language from the amendment explanation [see above for detail]. He continued to read from a prepared statement:

The House and Senate Education Committees have dedicated a significant amount of time in evaluating the value of broadband and internet access to the educational opportunities they offer. This intent language focuses on the issue of affordable, equitable access to internet-based educational opportunities.

Co-Chair Seaton noted Representative Pruitt had joined the meeting.

Representative Wilson asked how the report differed from an amendment offered by Representative Guttenberg several days earlier, which directed the Regulatory Commission of Alaska (RCA) to do a report on broadband.

Representative Ortiz answered the report addressed by Amendment 2 would come from the State Board of Education as opposed to the RCA.

[9:11:22 AM](#)

Representative Wilson replied, "that's the whole point." She explained that the committee had voted to have the RCA look into broadband. She hoped it would include schools, the University, public buildings, and private residents. She believed Amendment 2 was a duplication. She asked if the subcommittee thought the State Board of Education needed to do a report because it did not believe the RCA would provide an in-depth report. She was trying to determine the difference between the two. She believed what the committee had previously directed the RCA to do would cover what Amendment 2 was aiming to address.

Co-Chair Seaton explained the two amendments came from different subcommittees. He detailed that items could be consolidated during a later amendment process.

Representative Wilson appreciated the comment, but she did not believe it necessarily required consolidation. She thought the two amendments may cover the same thing. She asked if the DEED subcommittee was looking for something different in a broadband report. Alternatively, she wondered if the amendments covered the same thing.

Vice-Chair Gara believed the amendment passed previously addressed broadband for communities and did not identify equal access for schools. He asked for the accuracy of his statement.

Representative Guttenberg answered that the broadband intent language for the RCA was meant to compare the ATA [Alaska Telephone Association] of the Alaska Plan versus needs for the state. Whereas, the current amendment was specifically for schools.

Vice-Chair Gara asked if part the intent was to have someone with expertise identify other fund sources (e.g. e-rate, private, and public).

Representative Ortiz answered in the affirmative. In response to Representative Wilson's question, he explained that the amendment asked the State Board of Education to address broadband from an education perspective, whereas the RCA was looking at infrastructure needs.

[9:14:35 AM](#)

Representative Guttenberg explained e-rate for school libraries was a unique fund source, which operated as a subsidy and drove the cost down. He noted that sometimes public libraries were included as well. He believed every department had a unique focus on their individual needs. He reasoned that it would be plausible to do a report for every department. He used telemedicine as an example pertaining to the Department of Health and Social Services. He believed it was appropriate for schools to evaluate their needs.

Co-Chair Foster WITHDREW his OBJECTION.

Representative Wilson OBJECTED. She did not have a problem with the amendment, but she was concerned the legislature was doing things in silos. She stated that broadband had

been a huge problem. She continued that the University was using broadband, but it did not necessarily go into high schools. Additionally, they were addressing broadband for schools. She continued that some agencies had vocalized they were not able to do work in some rural areas because there was insufficient broadband and another group would not share their access. She did not want to continue to splinter out broadband - a topic she viewed as one major issue that would have a big impact on the state's ability to move forward. She WITHDREW her OBJECTION.

There being NO further OBJECTION, Amendment H DOE 2 was ADOPTED.

[9:16:48 AM](#)

Representative Ortiz MOVED to ADOPT Amendment GA 4 (copy on file):

Teaching and Learning Support  
Student and School Achievement  
GA 4 2/15 Alaska Technical and Vocational Education  
Formula Funding

The Alaska Technical and Vocational Education Program (TVEP), is funded by 0.16 percent of employee contributions to the unemployment insurance trust fund. The taxable wages collected have declined more rapidly than originally anticipated. A reduction in TVEP authority is required in order to not overspend the fund. This is a new item for FY2018. It was not included in the FY2018 Governor's Budget due to timing of updated revenue collection projections.

TVEP, established under AS 23.15.830, provides non-competitive grants to institutions that are part of a statewide vocational training system. Institutions provide technical and vocational training programs that align with workforce regional demands.

The Department of Labor and Workforce Development (DOLWD) manages the TVEP administration, including projecting available revenue for distribution. DOLWD's proposal for the TVEP distribution in the FY2018 Governor's Budget assumed flat TVEP revenue FY2016 through FY2018. There was a carryforward balance from unspent prior year TVEP distributions at the end of

FY2016 that was anticipated to be sufficient to cover reduced revenues in FY2017 and FY2018. Actual revenue collections through the first two quarters of FY2017 indicate taxable wages are declining faster than what was anticipated prior to the start of the fiscal year. An overall adjustment of \$1,319.2 is needed, bringing the total available for distribution to \$11,970.1.

The Galena Interior Learning Academy's distribution is set by AS 23.15.835(d), and will receive \$478.8, or four percent, of total receipts available. This decreases the Galena Interior Learning Academy's authority by \$52.8 from the FY2017 distribution level.

Co-Chair Foster OBJECTED for discussion.

Representative Ortiz read from a prepared statement:

This amendment reduces Alaska Technical and Vocational Education Program (TVEP) funding by \$52,800 to align budget authorization with revenue collection. The revenue source was 0.16 percent of the employee contributions to the Unemployment Insurance Trust Fund. The Department of Labor and Workforce Development manages this program and makes awards to the vocational training program as specified by AS 23.15.830 with TVEP funds. This one grantee who receives TVEP funds is in the DEED budget and is the Galena Interior Learning Academy. This amendment reduces their grant by \$52,800 to align with anticipated revenues. This amendment was adopted by the subcommittee with no objection.

Co-Chair Foster pointed out that the only reason that the Galena Interior Learning Academy was listed was because out of a number of recipients receiving funds from the program, it was the only one that fell within the education budget. The other vocational schools fell underneath the Department of Labor and Workforce Development (DLWD). He stated the amendment was not singling out on entity. He clarified that the decrease had been proposed given that the fund was depleting caused by fewer people paying into the fund.

Co-Chair Foster WITHDREW his OBJECTION.

There being NO further OBJECTION, Amendment GA 4 was ADOPTED.

Representative Ortiz MOVED to ADOPT Amendment GA 5 (copy on file):

Teaching and Learning Support  
Child Nutrition  
GA 5 2/15 Additional Child Nutrition Grants from the  
US Department of Agriculture

Due to increased growth in the National School Lunch Program, School Breakfast Program, and Summer Food Service Program additional federal receipt authorization is needed for acceptance of the increase in United States Department of Agriculture (USDA) grant funds. These are 100% USDA funds and do not require an increase in state general funds or additional staff. This is a new request for FY2018. It was not included in the FY2018 Governor request because at the time of budget development it was unknown whether an amendment request would be necessary due to pending information from the U.S. Department of Education.

The Child Nutrition Programs (CNP) has experienced significant program growth in the National School Lunch Program, School Breakfast Program, and Summer Food Service Program, as well as continued growth in remaining programs. The programs have been impacted by an overall shift in economic status of children served, with an increase of children meeting the Alaska adjusted poverty guidelines, resulting in a substantial increase in the federal reimbursement rate. It is anticipated that CNP will continue to receive these same grants, as well as a technology grant, which will increase the need for additional federal authority. Additional federal receipt authorization is needed for acceptance of the increase in United States Department of Agriculture (USDA) grant funds.

CNP growth is expected to continue beyond 2017. The funds are from a block grant, which provides claim reimbursement money to schools, child care facilities, etc. The department receives incremental receipts throughout the year based on USDA estimates on the department's CNP actuals. The federal receipts are received by weekly draws. These are 100% USDA funds

and do not require an increase in state general funds. The department has existing, 100% federally-funded positions, which provide oversight and management for the various food programs; no additional staff will be required.

Without this additional authority, the department will not be able to accept the grant or provide reimbursements to Alaska school districts and other agencies for food and nutrition programs. Affected services and recipients include statewide food service programs that provide meals to economically disadvantaged Alaskans.

Co-Chair Foster OBJECTED for discussion.

[9:19:27 AM](#)

Representative Ortiz read from a prepared statement:

This amendment increases federal authorization for the Child Nutrition Programs by approximately \$10.2 million. These are 100 percent USDA funds that do not require an increase in state general funds or additional staff. Staff that administer these funds are 100 percent federally funded. Child Nutrition Programs include the National School Lunch Program, School Breakfast Program, and Summer Food Service Program. These federally funded Child Nutrition Programs have been impacted by an overall shift in economic status of children served - with an increase in numbers of children meeting the Alaska Adjusted Poverty Guidelines, resulting in a substantial increase in the federal reimbursement rate. Without this additional authority the department would not be able to accept the federal grant or provide reimbursement to Alaska school districts and other agencies for food and nutrition programs. This amendment was adopted by the subcommittee with no objection.

Representative Wilson asked to hear from the department. She stated that a few years earlier the legislature had heard from numerous school districts because the funds had not been sufficient to cover the cost for breakfast or lunch; therefore, districts had needed to use operating funds to supplement the costs (especially for breakfast).

She asked if districts were still using operating funds to supplement costs. Alternatively, she wondered if funds available for breakfast or lunch had increased over time.

HEIDI TESHNER, DIRECTOR, ADMINISTRATIVE SERVICES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, answered that the districts did subsidize with their GF money for the breakfast and lunch programs. She did not have the precise data on hand. The department had an annual report that included the data.

Representative Wilson addressed the breakfast program and remarked that it had become a big issue in Fairbanks because the buses often arrived just before classes began. She asked whether taking the funds meant districts (Title 1 schools) were required to offer the programs if there was no time for students to utilize the service.

Ms. Teshner answered it was up to the school district to choose to participate in the programs.

Co-Chair Foster WITHDREW his OBJECTION.

There being NO further OBJECTION, Amendment GA 5 was ADOPTED.

[9:22:41 AM](#)

Representative Ortiz MOVED to ADOPT Amendment H DOE 3 (copy on file):

Early Learning Coordination  
H DOE 3 - Early Childhood Programs

Offered by Representative Ortiz

It is the intent of the legislature that the State Board of Education evaluate and make recommendations on strategies to secure access to quality early educational opportunities for all Alaskan children. Further, it is the intent of the legislature that early learning be prioritized by the Department and State Board of Education as they set long term strategies to address Alaska's educational challenges.

Co-Chair Foster OBJECTED for discussion.

Representative Ortiz read from a prepared statement:

The intent of this amendment directs the State Board of Education to consider and address the issue of early learning programs as the board considers long-term strategies to improve education.

Representative Ortiz read the intent language from the amendment explanation [see above for detail]. He continued to read from a prepared statement:

Research shows that a high-quality preschool experience makes a significant difference in the outcomes for children. Alaska has been strategic in its investment of limited pre-K dollars. Nationally, Alaska scored 10 on a rating scale of 1 to 10, with 10 the highest rating, on the quality of its pre-K programs. According to a study done by Rutgers University in 2016. However, Alaska ranks 39th out of 50 states in access to pre-K programs. The intent of this language encourages the state board to consider and make recommendations on early learning programs as they examine long-term strategies to improve the state's educational system.

Representative Wilson stated that she hoped the amendment language addressed public and private pre-K programs. She had concern with prioritizing one program over all other programs. Currently the state's constitution mandated providing K-12 education. Although she had no problem with looking at early learning, she was also concerned about the state's dropout rate and ensuring that children were reading at a certain grade level. She wondered if prioritizing meant raising pre-K over and above the mandate the board had for K-12. She noted the discussion had occurred the previous day when the committee had addressed athletics and the University. She stressed that the state board was not mandated to do early learning, but it was mandated to do K-12.

[9:25:38 AM](#)

Representative Ortiz did not look at the intent as prioritizing early learning over K-12, but as a sound investment in the education for children. For example, statistics showed that when children had access to early

learning opportunities, the dropout rate and likelihood of further educational remediation expenses were reduced.

Vice-Chair Gara appreciated the amendment and liked that it would encourage the department to explore leveraging federal funds 3 to 1 or 6 to 1 to expand pre-K. He believed there was a competitive federal grant. He asked if the committee or the department had further detail.

[9:27:34 AM](#)

Co-Chair Seaton pointed to the last sentence of the amendment that read "prioritized...as they set long term strategies to address." The intent language did not mandate anything but asked the department to address pre-K as one of its long-term strategies.

Representative Guttenberg expressed appreciation for the amendment. He noted that most of the studies he had seen pertaining to the success rate of pre-K had been national. He wanted to see the department prioritize the success. He noted that nothing in the intent language specified whether the pre-K was private or public or other. He was interested in strategies on what had been successful in the past.

Co-Chair Foster WITHDREW his OBJECTION.

There being NO further OBJECTION, H DOE 3 was ADOPTED.

[9:29:05 AM](#)

Representative Ortiz MOVED to ADOPT Amendment GA 6 (copy on file):

Alaska Student Loan Corporation  
Loan Servicing  
GA 6 2/15 FY2018 Health Insurance Rate Increase

Alaska Student Loan Corporation (ASLC) contracts with the Alaska Commission on Postsecondary Education (ACPE) for loan servicing and pays for these services with ASLC receipts. The health insurance increase was added to ACPE's interagency receipt funding line within the appropriation but not within the ASLC's appropriation, which funds ACPE. This amendment provides FY2018 funding based on an FY2017 supplemental request of \$115.1.

Vice-Chair Gara OBJECTED for discussion.

Representative Ortiz read from a prepared statement:

GA 6 relates to the Alaska Student Loan Corporation; it contracts with the Alaska Commission on Postsecondary Education for loan servicing and pays for these services with student loan receipts. Health insurance increases were added to the commission's interagency receipt authority without a concurrent adjustment to the Student Loan Corporation. This amendment makes that adjustment.

Representative Wilson disagreed that the amendment only aligned. She believed it would mean individuals with loans would have to pay more. She reasoned that the money came from Alaskans who had loans with the corporation. She wondered if all the funds were utilized annually. She wondered how it would impact students with high interest loans. She asked how much more the state would need to get from the students to cover costs.

[9:30:53 AM](#)

ALEXEI PAINTER, ANALYST, LEGISLATIVE FINANCE DIVISION, replied that the Alaska Student Loan Corporation had funding in one appropriation, which was transferred to ACPE in another appropriation. The salary adjustments had been made in the ACPE appropriation, but not in the ASLC appropriation. The amendment was a technical adjustment - the money was already in the budget on the ACPE side. He relayed that the corporation paid out a dividend to the state in the current year, which was the first payout since around FY 09.

Representative Wilson asked for verification that the corporation had paid out a dividend to the state, but could not lower the interest on its loans to students.

Mr. Painter answered that his understanding was that the corporation had set its rates to not make a profit, but costs had been reduced because of operational efficiencies. Consequently, the corporation had made a profit and had returned a portion to the state as statutorily required.

Representative Wilson did not want to see the state profit from the interest rate the state was charging students. She considered that a statute change may be necessary that would return money to students paying on loans. She noted that the specific portion of the DEED budget was not scrutinized as closely by the legislature because it was not general fund dollars. She underscored there was a real problem if the state was profiting off students with loans.

Vice-Chair Gara WITHDREW his OBJECTION.

There being NO further OBJECTION, Amendment GA 6 was ADOPTED.

Representative Ortiz provided concluding remarks. He believed it was important to remember that the funding reductions to the department had not been inconsequential to DEED. He spoke to loss to the department and overall education system because of budget cuts. For example, it was important to recognize the loss of the Teacher Mentoring Program. He furthered that the department was trying to improve teacher retention, particularly in rural areas - the Teacher Mentoring Program had helped new teachers with curriculum and adjustments to living in rural Alaska. The department was trying to improve the delivery of services and education to the state's children, but funding reductions resulted in the loss of programs working to deliver education to the children. He noted that the Alaska Learning Network program had also been lost. He recognized the fiscal situation, but it was important to remember there was an opportunity cost of addressing the issue.

Representative Ortiz relayed that the subcommittee had discussed potential amendments in early learning that would have reduced or eliminated early learning programs. Proposals had included the elimination of funding for pre-K competitive grants by 25 percent and a reduction in Parents as Teachers by 20 percent. Members had discussed the merits of early learning programs and its importance to the comprehensive educational system. He continued that members who had spoken in support of reducing the program had talked about the need for state budget reductions in the face of the state's fiscal situation and saw pre-K as a lower priority. The subcommittee had also looked at an amendment that would have impacted funding for Bree's and Erin's Law. The amendment would have eliminated funding for

the implementation of Chapter II SLA 15. He recalled loud and clear support for the laws; however, districts had vocalized the difficulty of adding the items to the list of unfunded mandates facing state districts. He explained there was very little funding in the budget to implement the laws, which the amendment would have eliminated and would have resulted in a greater unfunded mandate to districts; therefore, he had been opposed.

Vice-Chair Gara to hear from the department about a federal competitive grant program for pre-K. He wondered if the department had taken any action.

Ms. Teshner replied that she was aware of the federal grant Vice-Chair Gara was referring to, but the department had not submitted anything for the grant.

Vice-Chair Gara discussed that many committee members were looking at ways to expand pre-K, but the state was facing a fiscal crisis. He asked if Ms. Teshner would follow up with information on the specific grant program and why the department had not applied. He recalled former DEED Commissioner Mike Hanley had relayed that a successful applicant could leverage either 3 to 1 or 6 to 1 federal matching dollars. He asked the department to follow up with a description of the program and why DEED had not applied.

Ms. Teshner agreed.

^DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT FINANCE  
SUBCOMMITTEE AMENDMENTS

[9:39:29 AM](#)

Co-Chair Foster provided a subcommittee report. He read from a prepared statement:

The finance subcommittee for the Department of Labor and Workforce Development had six meetings and recommends the House Finance Committee budget for the Department of Labor and Workforce Development include the following funding: \$20,982,000 in undesignated general funds, \$36,292,400 in designated general funds, \$20,410,100 in other funds, \$84,337,900 in federal funds, for a total of \$162,022,400 for FY 18. This is a decrease from the FY 17 management plan unrestricted general fund of \$1,515,400, a 6.7 percent

decrease. The subcommittee had no statutory change proposals. There are two governor's amendments and two subcommittee amendments.

Co-Chair Foster MOVED to ADOPT Amendment H DOL 1:

Labor Standards and Safety  
Occupational Safety and Health  
H DOL 1 - Maintain Workers' Safety Programs

Offered by Representative Foster

There is a sufficient Workers' Safety and Compensation Administration Account (WSCAA) fund balance to support more of the state's workers' safety program expenses.

WSCAA is a designated general fund revenue established via statute (AS 23.05.067) for the administrative expenses of the state's workers' safety programs under AS 18.80.

Vice-Chair Gara OBJECTED for discussion.

Co-Chair Foster explained the amendment with a prepared statement:

This amendment is a fund source change, reducing the department's UGF by \$600,000 and increasing spending from the Workers' Compensation Administration Account Fund by \$600,000. The funds will be used for administrative expenses of the state's workers safety programs and the fund balance can support this change.

Co-Chair Foster added that a department representative was available for any questions.

[9:41:26 AM](#)

Representative Pruitt referenced the H DOL 2 amendment. He relayed that the DLWD subcommittee had heard the amendment and he objected. He agreed the amendment would simply transferring money from GF to the Workers' Compensation Administration Account, which looked like a simple fund source switch. However, H DOL 2 increased the cost by \$600,000. He did not believe the explanation was a good representation of exactly what would take place. He spoke to some challenges he had with changing fund sources. He

understood that the worker's safety account may have sufficient funds, but changing fund sources so the legislature could then use the GF funding on other things did not result in the needed savings. Additionally, there was intent by the legislature on how to manage the reduction. He believed the amendment would go back on the legislature's intent. He objected to the increase in the budget resulting from the two combined amendments. He asked to stick only with H DOL 1, although he believed it was a false savings.

Co-Chair Foster agreed that H DOL 1 and H DOL 2 were connected. He explained that with an increase in unemployment rates, fewer people were paying into the unemployment insurance program. He detailed that vocational schools, Alaska Construction Academy, and regional training centers around the state received TVEP [Technical Vocational Education Program] funds; with fewer people paying into the unemployment insurance program (0.16 percent of payments went into TVEP funding), fewer funds were available for the training programs. The training programs helped to keep people employed by acquiring new skills in the event of job loss. The goal was to find other funds to backfill.

[9:45:25 AM](#)

Representative Wilson stated the construction academy did not receive TVEP funds. She asked for the current balance in the Workers' Compensation Administration Account.

PALOMA HARBOUR, DIRECTOR, ADMINISTRATIVE SERVICES, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, answered that the department was projecting a fund balance for the Workers' Compensation Administration Account of \$4.1 million at the end of FY 18. The amendment would bring the number down by \$600,000.

Representative Wilson asked what money went into the fund and what was paid out of the fund.

Ms. Harbour answered that the fund source had been established in statute to support the administrative costs of the state's Workers' Safety and Compensation programs. Currently the account supported the Worker's Compensation component, the Worker's Compensation and Appeals Commission, and occupational safety and health programs.

Representative Wilson asked if it was money going into or out of the account. She asked for the incoming and outgoing funds for the last year.

Ms. Harbour answered that in FY 16, \$7.2 million in revenue had been collected and \$7.9 million had been expended.

Representative Wilson observed that the account had been in the negative in FY 16. Ms. Harbour agreed, but there had been a remaining balance in the account of \$5.7 million.

Representative Wilson agreed with Representative Pruitt that the amendment would mean a switch in fund sources. She asked how many years the fund had brought in less than it had spent. She asked if taking money from the account would cause problems in the future. She was concerned about the ability to fulfill obligations in the future.

Ms. Harbour answered that currently the account was expending more than it was bringing in, but the department had worked with the governor to introduce legislation to reduce the draw on the fund. There were currently two bills under consideration - HB 69 and HB 79 - that would help improve the health of the fund. There were several years to get the bills through the process before there would be any fund sufficiency problems.

Representative Wilson asked why the department had initially chosen to use \$600,000 in UGF match instead of funds from the Workers' Compensation Administration Account.

Ms. Harbour answered that the governor's budget had included a fund source change for the Occupational Safety and Health programs of \$191,000. The issue had been reevaluated during the subcommittee process. When working through the subcommittee process the department had looked at what it could accommodate in the next several fiscal years to have time to get the legislation through.

[9:49:43 AM](#)

Vice-Chair Gara appreciated the amendment and believed it would create a benefit for people seeking work. He stated that the last year and in years prior, the committee had "cannibalized" the Higher Education Fund for things that

had nothing to do with education. He believed the current amendment seemed like a much more reasonable use of funds than funds that had been used from the education fund.

Representative Wilson asked if she could expect to always have comments made based on questions committee members asked. She believed it was the committee's responsibility to understand and help the public understand details on account balances and what funds were meant to do to prevent harming the balances. She agreed with Vice-Chair Gara that the Higher Education Fund was being used for things that it should not be. She pointed out that at the end of the day, the funds were all GF. She still believed it was the committee's responsibility to make sure the accounts remained healthy enough to fulfill their purpose. She questioned whether the department would have to go after general funds to pay for items that were supposed to be taken care of by the other accounts.

Co-Chair Seaton replied that the department had already commented that it had proposed taking some of the funds.

Representative Wilson countered that Vice-Chair Gara had brought the issue up. She believed Vice-Chair Gara was making it sound like other committee members were trying to do something, which she did not believe they were trying to do. She agreed that the department had brought the issue forward because everyone was looking for other non-GF fund sources. She wondered whether the legislature would be required to use UGF to pay for items typically funded by an account if the account was depleted to a certain level. She reasoned that committee members sat on the House Finance Committee for a purpose.

[9:52:44 AM](#)

Ms. Harbour replied that at present there was a sufficient fund balance to cover expenses proposed in the budget. She agreed that if the department was unsuccessful getting additional legislation through the process there would be a fund sufficiency problem in the future. However, the department had identified ways to save costs to prevent the problem. She explained that it would be up to the legislature in three fiscal years to determine if it wanted to make cuts to the programs if the administration's proposed legislation had not passed.

Co-Chair Foster believed it was the legislature's job to make the best guess possible. He detailed that the subcommittee had worked with the department to assess the risk; it had been determined there were sufficient funds available. Additionally, plans were underway to try to minimize any risk in the future. He observed it was necessary to make the best guess and he believed the action proposed in the amendment was prudent.

Vice-Chair Gara WITHDREW his OBJECTION.

There being NO further OBJECTION, Amendment H DOL 1 was ADOPTED.

[9:54:28 AM](#)

Co-Chair Foster MOVED to ADOPT Amendment GA 10 and Amendment GA 11 (copy on file):

Employment and Training Services  
Workforce Development  
GA 10 2/15 Alaska Technical and Vocational Education  
Formula Funding

The Alaska Technical and Vocational Education Program (TVEP), is funded by 0.16 percent of employee contributions to the unemployment insurance trust fund. The taxable wages collected have declined more rapidly than originally anticipated. A reduction in TVEP authority is required in order to not overspend the fund. This is a new item for FY2018. It was not included in the FY2018 Governor's Budget due to timing of updated revenue collection projections.

The Alaska Technical and Vocational Education Program (TVEP), established under AS 23.15.830, provides non-competitive grants to institutions that are part of a statewide vocational training system. Institutions provide technical and vocational training programs that align with workforce regional demands.

The Department of Labor and Workforce Development's proposal for the TVEP distribution in the FY2018 Governor's Budget assumed flat TVEP revenue FY2016 through FY2018. There was a carryforward balance from unspent prior year TVEP distributions at the end of FY2016 that was anticipated to be sufficient to cover

reduced revenues in FY2017 and FY2018. Actual revenue collections through the first two quarters of FY2017 indicate taxable wages are declining faster than what was anticipated prior to the start of the fiscal year. An overall adjustment of \$1,319.2 is needed, bringing the total available for distribution to \$11,970.1.

The Workforce Development component grants TVEP funding to select institutions prescribed in AS 23.15.835(d). They are as follows:

Alaska Technical Center will receive \$1,077.3, or nine percent, of total receipts available. This decreases the component's authority \$118.7 from the FY2017 distribution level.

Amundsen Educational Center will receive \$239.4, or two percent, of total receipts available. This decreases the component's authority \$26.4 from the FY2017 distribution level.

Ilisagvik College will receive \$598.5, or five percent, of total receipts available. This decreases the component's authority \$66.0 from the FY2017 distribution level.

Northwestern Alaska Career and Technical Center will receive \$359.1, or three percent, of total receipts available. This decreases the component's authority \$39.6 from the FY2017 distribution level.

Partners for Progress in Delta, Inc., will receive \$359.1, or three percent, of total receipts available. This decreases the component's authority \$39.6 from the FY2017 distribution level.

Southwest Alaska Vocational and Education Center will receive \$359.1, or three percent, of total receipts available. This decreases the component's authority \$39.6 from the FY2017 distribution level.

Yuut Elitnaurviat, Inc. People's Learning Center will receive \$1,077.3, or nine percent, of total receipts available. This decreases the component's authority \$118.7 from the FY2017 distribution level.

Alaska Vocational Technical Center

GA 11 2/15 Alaska Technical and Vocational Education  
Formula Funding

The Alaska Technical and Vocational Education Program (TVEP), is funded by 0.16 percent of employee contributions to the unemployment insurance trust fund. The taxable wages collected have declined more rapidly than originally anticipated. A reduction in TVEP authority is required in order to not overspend the fund. This is a new item for FY2018. It was not included in the FY2018 Governor's Budget due to timing of updated revenue collection projections.

The Alaska Technical and Vocational Education Program (TVEP), established under AS 23.15.830, provides non-competitive grants to institutions that are part of a statewide vocational training system. Institutions provide technical and vocational training programs that align with workforce regional demands.

The Department of Labor and Workforce Development's proposal for the TVEP distribution in the FY2018 Governor's Budget assumed flat TVEP revenue FY2016 through FY2018. There was a carryforward balance from unspent prior year TVEP distributions at the end of FY2016 that was anticipated to be sufficient to cover reduced revenues in FY2017 and FY2018. Actual revenue collections through the first two quarters of FY2017 indicate taxable wages are declining faster than what was anticipated prior to the start of the fiscal year. An overall adjustment of \$1,319.2 is needed, bringing the total available for distribution to \$11,970.1.

The Alaska Vocational Technical Center's (AVTEC) distribution is set by AS 23.15.835(d), and will receive \$2,034.9, or seventeen percent, of total receipts available. This decreases the component's authority \$224.3 from the FY2017 distribution level.

Vice-Chair Gara OBJECTED for discussion.

Co-Chair Foster explained the amendments with a prepared statement:

These amendments reduce the Alaska Technical and Vocational Education program (TVEP) funding to

grantees and Alaska Vocational Technical Center (AVTEC). The TVEP revenues collected have declined faster than expected and the adjustments reflected are required so that we do not overspend from the fund. The decrement is divided up to all grantees in AVTEC using TVEP funds.

Vice-Chair Gara WITHDREW his OBJECTION.

There being NO further OBJECTION, Amendment GA 10 and Amendment GA 11 were ADOPTED.

[9:55:27 AM](#)

Co-Chair Foster MOVED to ADOPT Amendment H DOL 2:

H DOL 2 - Restore Alaska Construction Academy Funding

Offered by Representative Foster

In accordance with legislative intent, the Governor's budget reduced the unrestricted general funds supporting the Construction Academy Training by \$600.0. This is shortsighted given there are already not enough trained Alaskans to meet workforce needs as evidenced by the high nonresident hire rate in these occupations. Restoring this funding is necessary to meet demand for a trained Alaskan workforce. Along with current Construction Academies, this funding still supports construction training at:

- Alaska Technical Center in Kotzebue \$150.0
- Northwestern Alaska Career and Technical Center in Nome \$150.0
- Southwest Alaska Vocational & Education Center in King Salmon \$50.0

Vice-Chair Gara OBJECTED for discussion.

Co-Chair Foster explained the amendment with a prepared statement:

This amendment restores funding to the Alaska Construction Academy and the regional training centers cut in recent years so they can continue to meet the demand for a trained Alaska workforce throughout all of Alaska. The restoration is \$600,000 in UGF, which had been noted in the prior amendment [H DOL 1].

Representative Kawasaki did not have a problem with the increment, but he took issue with a comment that there were not enough trained Alaskans to meet the workforce and the evidence cited of high nonresident hire rates. He relayed that in Fairbanks, it was clearly not the case. He furthered that individuals who used to work on the North Slope were being replaced by out-of-state workers rather than in-state workers. He appreciated the Construction Academy providing opportunities for new, young individuals to get into the industry. He remarked that it was also necessary to have industry partners willing to hire residents.

[9:56:49 AM](#)

Representative Wilson referred to the construction academy and stated that "when this was put in and it was a wrap down of five years," which was to be based private matching funds. She asked if any private funding had come in to the program.

Co-Chair Foster deferred to the department. He noted that the administration had voiced strong support for the Alaska Construction Academies.

Ms. Harbour answered that the academies had been administered by the Construction Education Foundation as a passthrough grant. She furthered that the department did not have all the information on funding for each academy. The grants to school districts for construction academies had been eliminated from the budget - as cuts had been made there was not sufficient funding for the programs. There were still construction academies occurring in school districts, which were now 100 percent supported by other funds. There had been successes, but she did not have the specifics because funds generated from private donors was up to each school district.

Representative Wilson was replied that the answer "tells me that we don't know." She remarked that it was a grant given by the state and it had been made clear several years ago that they [private donors] needed to be more of a participant. Based on Ms. Harbour's answer, she believed the state did not know who the partners were. She owned the Southwest Alaska Vocational Educational Center (SAVEC) located in King Salmon.

Ms. Harbour answered that SAVEC is a nonprofit organization.

Representative Wilson did not believe SAVEC owned the school. She believed a private corporation had built the facility, but it was not a school. She stated that the Alaska Technical Center was a school offering year-round classes. She continued that the Northwest Alaska Career and Technical Center in Nome was a great program that brought kids in year-round. She believed SAVEC was a facility that could be rented for training, but that it was not a school. She asked if her understanding was accurate.

Ms. Harbour answered that SAVEC owned the center and partnered with program training providers. She relayed that the center was rented out for all sorts of training. She did not have the Technical and Vocational Education Program Report on hand, but it outlined all the training occurring in the center.

Representative Wilson had issues with the amendment because she believed it involved picking winners and losers. She understood the decline in TVEP funds, but there was a long list of other schools losing funds as well (e.g. the University and AVTEC). She believed two of the three schools listed were more traditional "school type" facilities and not places that were rented to hold courses. She was disappointed that the legislature had made it clear in the past that it wanted more [private] participation and to understand more where the other grant money was coming from. She recognized the money was being utilized, but she wondered where the partnerships were. Additionally, she questioned why only construction had been selected. She reasoned there were out-of-state workers on the North Slope and in the mining industry as well. She wondered why the construction industry rose to the top and deserved \$600,000 in GF. She continued that the academies could ask for funds from the participants. She stressed that the academy was free; the same education at the University or in AVTEC would cost a participant money. She believed the academy was focused on helping individuals determine whether they wanted to get into the construction field versus going into a union. She stressed that the program did not provide the same training as was offered in other places. She emphasized that the amendment picked a winner for \$600,000 - a program that had not shown whether it had gone out in

the past three years to find alternative funding. She stated it had been a \$2 million appropriation in the past. She determined that the program had not raised the funds because it was not doing the things it had in the past.

[10:02:58 AM](#)

Co-Chair Foster relayed that the three regional centers included in the amendment were the only ones that had lost UGF. The centers had received a small amount of TVEP money and GF over the years; over the past few years, the centers were the only ones that had lost all or most of the UGF component, which was the reason they had been selected for the amendment.

Vice-Chair Gara WITHDREW his OBJECTION.

Representative Wilson OBJECTED.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Guttenberg, Kawasaki, Grenn, Ortiz, Foster, Seaton

OPPOSED: Thompson, Tilton, Wilson

Representative Pruitt was absent from the vote.

The MOTION PASSED (7/3). There being NO further OBJECTION, H DOL 2 was ADOPTED.

[10:04:57 AM](#)

AT EASE

[10:27:31 AM](#)

RECONVENED

Co-Chair Seaton noted that Representative Pruitt was ill and had left for the day. Representative Neuman would fill in as an alternate for the day.

^DEPARTMENT OF NATURAL RESOURCES FINANCE SUBCOMMITTEE AMENDMENTS

[10:28:17 AM](#)

Representative Guttenberg provided a subcommittee report. He relayed that the House Finance Budget Subcommittee for

the Department of Natural Resources held 11 meetings with the department during the budget overview. He requested that the committee adopt the recommended numbers. He pointed an incorrect number had been used during the subcommittee process - it had included the language section. The following numbers had been corrected to exclude the language section and the total was about 8.75 percent lower than the numbers provided in subcommittee. Without budget amendments the unrestricted general funds were \$59,200,000, designated general funds were \$30,694,000, other funds were \$38,259,000, federal funds were \$15,820,000. The UGF difference between the FY 15 [management plan] and the FY 18 [governor amended budget] was a reduction of \$27.4 million (a decrease of 31.7 percent).

Representative Guttenberg communicated that four statutory changes were recommended including the repeal of AS 27.30 to eliminate the mining Exploration Incentive Credit, which had not been used since FY 11; repeal AS 38.05.160 or require legislative approval of any shale oil rent or royalty waiver the commissioner recommended - because the department had never used the waiver, the waiver had not met its legislative intent; repeal AS 38.05.180(f)(6) to eliminate royalty relief for Cook Inlet platforms, which benefits six producers, and between FY 11 and FY 16 cost the state \$69.1 million in foregone revenue - it was unclear how the state benefitted from oil and gas production for which it received no royalties or taxes; and, repeal AS 38.05.180(f)(5) to eliminate royalty relief for Cook Inlet small discoveries - the provision had not been used since FY 12, and appeared to have served its purpose in restarting production from Cook Inlet leases - it was unclear how the state benefitted from oil production for which it received no royalties or taxes.

Representative Guttenberg continued that there were five proposals, which had not been advanced by the subcommittee. He had offered two of the proposals, which had been taken off the agenda due to opposition. One dealt with a forester in Haines, two related to parks, one related to the Public Access Defense Fund, and one pertained to the land banks. He noted the detailed information was available.

[10:32:26 AM](#)

Representative Neuman referenced the recommendations for repealing statute. He asked what the subcommittee chair's intent had been and observed that the changes were substantive. He wondered if Representative Guttenberg's intent was for bills to be introduced to repeal the statutes. Alternatively, he wondered if the recommendations only pertained to the funding sources for the items.

Co-Chair Seaton explained that he had set the parameters for the subcommittees; one of the things subcommittees had been asked to look at was indirect expenditures. The subcommittee was asked to submit recommendations for statutory amendments to the House Resources Committee. The House Resources Committee would have to determine if it agreed with the recommendations and would then have to submit either personal or committee bills.

Co-Chair Neuman explained that he had wanted clarification about whether the recommendations went to the full finance committee for the elimination of funds. He reasoned that the committee approved or disapproved the funds.

Co-Chair Seaton appreciated the clarification. He detailed that the items were statutory recommendations and did not currently change budgetary items.

[10:34:41 AM](#)

Representative Guttenberg MOVED to ADOPT Amendment H DNR 1 (copy on file):

Administration & Support Services  
Mental Health Trust Lands Administration  
H DNR 1 - Eliminate funding for public relations contracting.

Offered by Representative Guttenberg

The Trust Land Office published a request for proposals from public relations contractors, with a contract ceiling of \$250.0 per year. The TLO should not contract with any public relations firm. This amendment eliminates funding for TLO PR outsourcing.

Co-Chair Foster OBJECTED for discussion.

Representative Guttenberg explained that the amendment was a reduction to the Alaska Mental Health Trust Authority (AMHTA) Mental Health Land Office. The land office had put out a request for proposal (RFP) for \$250,000 per year for the next five years; the RFP had been canceled by the office. However, when the subcommittee had looked at the budget it had determined the land office had excess funds exceeding at least "twice \$250,000 in the last five years," with similar numbers going back ten years. The subcommittee did not recommend cutting any GF, but it would decrease the authorization for the land office. He explained that the Mental Health Trust Authority Authorized Receipts (MHTAAR) would go back into the AMHTA fund for use on their clients, which was its primary purpose.

10:36:00 AM

Representative Wilson asked if AMHTA would have the ability to take the money and use it for something else if the amendment was approved.

Co-Chair Seaton answered that it could come in as an additional amendment in round two of amendments after public testimony.

Representative Wilson asked for clarification that AMHTA could use the funds for anything if they found a committee member to carry an amendment.

Co-Chair Seaton answered in the affirmative.

Representative Guttenberg clarified it was MHTAAR money; therefore, the funds could only be used for purposes established for the trust.

Representative Wilson clarified that she was speaking about the AMHTA making a request to a finance committee member for the offering of an amendment to use the funds in another location. She believed committee members could offer an amendment on their own, but she did not believe it should be the intent.

10:38:04 AM

Representative Kawasaki asked for verification the money was specifically for public relations, not advertising expenses.

Representative Guttenberg replied that the canceled RFP had been for a public relations campaign. The amendment proposed to decrease the Trust Land Office authorization, which would mean the funds would not leave the trust. The agency could still manage its office as it wished with a decreased authorization. He added that going back ten years, the agency had always had excess funds.

Co-Chair Foster WITHDREW his OBJECTION. There being NO further OBJECTION, Amendment H DNR 1 was ADOPTED.

^NON-AGENCY: DEBT SERVICE AMENDMENTS

10:39:40 AM  
AT EASE

10:40:15 AM  
RECONVENED

Co-Chair Seaton provided a report.

Co-Chair Seaton MOVED to ADOPT Amendment H DBT 1:

Debt Service  
General Obligation Bonds  
L H DBT 1 - Delete Sec. 19(m) re 2012 State  
Transportation Project Fund Lapse Extension

Offered by Representative Seaton  
See 30-GH1855J.10, Wallace, 1-31-17 [copy on file].

Section 19(m) attempted to use lapsed money and is ineffective. The Governor submitted a supplemental request to accomplish the same purpose--to use the remaining balance of the 2012 State Transportation Project Fund.

Representative Wilson OBJECTED.

Co-Chair Seaton explained the amendment with a prepared statement:

This amendment deletes a subsection in the debt and other obligation sections - Section 19(i) page 65, lines 1 through 7 - in the governor's original budget this subsection was 19(m). In version J of the bill it

is 19(i). The subsection attempted to use lapsed money and is ineffective. This amendment deletes subsection (i). The governor also submitted an amendment to accomplish the same purpose and proposed supplemental request to replace this provision.

[10:41:26 AM](#)

Representative Neuman asked if the debt service had performed better than expected. He asked for verification the amendment made the debt service payment lower.

Co-Chair Seaton answered that there had been a transportation project fund lapse extension, which the amendment pertained to. Section 19(m) had attempted to use the lapse money and was ineffective. Supplemental money had replaced the funds and the old language.

Representative Neuman asked for verification the lapsed money was money that had been proposed for bonds but not used.

Co-Chair Seaton agreed and detailed that it was to use the remaining balance of the 2012 State Transportation Project Fund.

Representative Wilson WITHDREW her OBJECTION.

There being NO further OBJECTION, Amendment H DBT 1 was ADOPTED.

[10:42:51 AM](#)

Co-Chair Seaton MOVED to ADOPT Amendments H DBT 2, H DBT 3, H DBT 4, and H DBT 5 (copy on file):

International Airport Revenue Bonds

L H DBT 2 - Reduce funding for debt service and trustee fees for outstanding international airports revenue bonds

Offered by Representative Seaton

See 30-GH1855J53, Wallace, 2-18-17 [copy on file].

This amends sec. 19(j)(3) and was a Governor's amendment request to reduce the estimate of funding necessary for debt service and trustee fees on

outstanding international airports revenue bonds from \$39.8 million to \$34.4 million.

L H DBT 3 - Funding for the early redemption of international airports revenue bonds  
Offered by Representative Seaton  
See 30-GH1855J57, Wallace, 2-20-17 [copy on file].

This amends section 19(j) by adding a new paragraph to appropriate funding required for the early redemption of international airports revenue bonds from the International Airports Revenue Fund.

It rewords an amendment submitted by the Governor

H DBT 4 - Allow general fund cash flow borrowing for International Airports Revenue Fund projects  
Offered by Representative Seaton  
See 30-GH1855J54, Wallace, 2-20-17 [copy on file].

This amends rewords a Governor's amendment.

L H DBT 5 - Federal funds in International Airports Revenue Fund to repay general fund  
Offered by Representative Seaton  
See 30-GH1855J58, Wallace, 2-20-17 [copy on file].

The Governor submitted an amendment for this purpose, but Legislative Legal has revised it. This amendment allows for cash flow borrowing repayment from the International Airports Revenue Fund.

Representative Wilson OBJECTED for discussion.

Co-Chair Seaton explained the amendments with a prepared statement:

These amendments affect Section 19(j), debt and other obligations, on page 65 - they were governor's amendments but have been reworded.

Amendment 2 amends Section 19(j)(3) and was a governor's amendment request to reduce the estimate of the funding necessary for debt service and trustee fees on outstanding international airport revenue bonds by \$5.4 million (from \$39.8 million to \$34.4 million).

Amendment 3 amends 19(j) by adding a new paragraph to appropriate \$31.1 million required for the early redemption of international airport revenue bonds from the international airport's revenue fund.

Amendments 4 and 5 add a new paragraph to 19(j) - over \$40 million of Alaska International Airport System projects are annually funded by the Federal Aviation Administration reimbursement grants. Although the projects are ultimately paid by the federal government they require cash flow to accomplish this cash flow as historically been provided by the state's General Fund without any appropriation or any cost to the Alaska International Airport System. This implementation of the state's new accounting system, the past practice was determined to lack transparency in structure. Options reviewed to solve this issue were to increase landing fees at the airports, obtain a commercial line of credit from the capital markets, or formalize a relationship with in use of the General Fund. Amendment 4 allows the General Fund borrowing and Amendment 5 is the federal fund's repayment language.

[10:45:18 AM](#)

Co-Chair Neuman asked if the amendments were eliminating matching state funds associated with federal funding.

Co-Chair Seaton replied that the amendments would provide cash flow with state GF until the federal money from the airport system came in. The amendments offered a transparent and formalized process.

Representative Wilson asked for verification the amendments were changing language related to the funding mechanism, but the amount owed did not change.

Co-Chair Seaton answered that Amendment H DBT 2 would reduce the estimated funding necessary for the debt and trustee fees by \$5.4 million (a decrease from \$39.8 million to \$34.4 million). He expounded that Amendment H DBT 3 would add a new paragraph to appropriate \$31.1 [million] required for early the redemption of airport funds. He summarized that one section involved early redemption of funds to save money and the other included a reduction in debt service and trustee fees.

10:47:19 AM

Representative Wilson asked for a definition of trustee fees.

Co-Chair Seaton deferred the question to the administration.

Representative Wilson asked for the current fund balance and what would remain if the amendments passed.

PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, answered that when a bond was issued there were trustee fees associated with the financial consultants for the bonds. She did not have the balance of the fund at present. She offered to follow up.

Representative Wilson assumed there was a surplus in the fund. She remarked that the money had to be paid into the international airport and could not be utilized for other things. She wanted to know how much was going into the fund annually to determine whether there was potential to pay debt off earlier.

10:49:09 AM

Representative Neuman remarked that it seemed there was \$5 million less in appropriation bonds needed. He noted that Co-Chair Seaton had mentioned the amendments allowed for spending authority if there were future federal funds coming in.

Co-Chair Seaton replied that Amendments H DBT 4 and H DBT 5 formalized the procedure that did not show up under the new accounting system. The amendments would mean that the cash flow used while waiting for federal receipts would appear on the books. He expounded that the method of using the General Fund as cash flow until federal receipts were received had been used in the past. He was trying to ensure there was a clear and transparent process.

Co-Chair Neuman elucidated that he wanted to ensure the amendments did not mean the legislature would be approving future federal funds coming into the program that the legislature was unaware of.

Representative Wilson WITHDREW her OBJECTION. There being NO further OBJECTION, Amendments H DBT 2, H DBT 3, H DBT 4, and H DBT 5 were ADOPTED.

[10:51:08 AM](#)

Co-Chair Seaton MOVED to ADOPT Amendment H DBT 6 (copy on file):

School Debt Reimbursement  
L H DBT 6 - Reduce Unrestricted General Fund  
Appropriation by 50 percent

Offered by Representative Seaton  
See 30-GH1855J.26, Wallace, 1-31-17 [copy on file].

This amends section 19(1) of HB 57, version J.

This amendment revises a general fund appropriation for municipal school debt service reimbursement from an estimated amount of \$116 million to a fixed amount of \$67,278,294, a reduction of 50 percent.

Representative Wilson OBJECTED.

Co-Chair Seaton explained the amendment with a prepared statement:

This amendment reduces a General Fund appropriation in 19(1)(2) for school debt reimbursement by 50 percent, from an estimated \$97,356,587 to a fixed amount of \$48,478,294 from the General Fund. That change results in a change to the lead in language from the amount necessary, estimated to be \$115,956,587 to a fixed amount of \$67,278,294 being appropriated for school debt reimbursement.

Representative Wilson asked if the amendment would change the funding from 70 percent state/30 percent districts to 65 percent state/35 percent districts.

Co-Chair Seaton replied in the negative. He clarified that the amendment would reduce the bond debt from UGF by 50 percent, which was approximately 42 percent of the bond debt reimbursement because there were school trust funds in the bond debt reimbursement section as well. He furthered that the amendment would cut the UGF by 50 percent used for

the 70/30 or 60/40 bond debt reimbursement - the amount would depend on the bond mix.

[10:53:16 AM](#)

Representative Wilson asked what 70/30 bonds would look like (e.g. 50/50, 40/60, or other) if the numbers were kept separate. She wondered how the 60/40 would change the percentages. She remarked that legislators had made it clear to their districts that the 70/30 was not always possible and was only available as long as it was funded by the state. She thought it would be helpful to know the different percentages.

Co-Chair Seaton answered there would be a general reduction of 42 percent because the bond debt reimbursement came from two different sources - UGF and school trust funds. He furthered that a 50/50 reduction in the UGF portion would reduce the number from \$97,356,000 to \$48,478,000 - the change represented half of the UGF portion.

Representative Wilson asked for the calculation. She surmised the 42 percent could not be taken directly from the 70 percent to make the change.

Co-Chair Seaton answered that the calculations were based on the bond debt amounts and depended on the mix. He referred to 60/40 and 70/30 for a municipality that had incurred bond debt. He did not have specific percentages, but of the \$119 million, \$97 million was UGF and the UGF was being reduced by 50 percent.

Representative Wilson noted that in the past someone had produced a chart showing what the state was paying in each district and what impact the change would have. She agreed that the impact of the change depended on whether the reimbursement was 60/40 or 70/30 and how much debt an entity had. She asked to receive the detail before public testimony.

[10:56:15 AM](#)

Co-Chair Seaton replied he would follow up with the calculations.

Representative Thompson surmised the amendment shifted \$48,678,300 of debt payments on bonds back to communities.

He explained the communities had voted on bonding knowing the state would pay a certain portion (30 or 40 percent). He did not support putting the payments back onto communities. He spoke to voter imposed restrictions and caps on budget items such as property tax. He stated there had been a reduction the previous year and communities had already suffered when trying to determine how to deal with the consequences. He believed the amendment hit communities again. He stated that the issue had been addressed by stopping school bonding until the budget had been stabilized. He had communities wondering what they were supposed to do, with no way of raising additional money. Communities were wondering if they were going to have to default on their bonds.

10:58:20 AM

Co-Chair Seaton answered there was a \$2.7 billion hole in the state's budget. He believed everyone had been talked to and understood that K-12 education was one of the biggest components of the state's budget. He continued that reductions to education could occur in the following ways: through a base student allocation decrease; with a change to the Public Employees' Retirement System (PERS)/Teachers' Retirement System (TRS) formula, which would directly impact schools by taking money from their budgets; with a raise in the local contribution mill rate back to 4 mills, which would require a statutory change; or by reducing bond debt reimbursement, which had been done by the governor the previous year. He continued that unfortunately when the governor had reduced the bond debt reimbursement [the previous year] it had been as a veto and the school districts and municipalities had no time to react because budgets had already been passed. The amendment would give municipalities lead time and school budgets had not yet been adopted. The cut did not go directly to the classroom, which the other options generally did. He furthered that when municipalities had voted on the bonds there had been an expectation, but an understanding that the bonds were subject to appropriation and that they may not receive the reimbursement at the same rates. He continued that two years ago the legislature had specified that any bonds issued in the next five years would receive zero debt reimbursement. He reiterated that the last cut by governor veto had been very challenging for people to handle. He reasoned that providing school districts and municipalities with more lead time to handle the reduction in their

budgetary process was appropriate (instead of making a cut at the end of session via conference committee or by way of governor's veto). He reasoned that if a comprehensive and sustainable budget was not passed, all the things would "roll downhill" at the end of session after budgets were in. He agreed the reduction was to \$48 million. He believed schools should know where their options were long before their budgets were passed.

[11:01:26 AM](#)

Representative Thompson would like to see something showing how much the amendment would impact each community. He believed legislators would receive significant pushback from their constituents. He believed constituents would vocalize their inability to make up the differences that would occur.

Representative Neuman agreed with Representative Thompson. He spoke to the state's obligation to municipalities when entering into a debt service agreement. Additionally, municipalities also paid into their own education costs because they were in organized areas of the state. He stated, "we're upwards of 80 percent of what I pay in property taxes"; his personal payment was at least \$2,500 going directly to schools (his residence was in an organized area). He emphasized that the amendment would not treat people equally. He stated the amendment hit people in municipalities with a bigger hit from government. He thought Co-Chair Seaton had explained that the amendment reduced education funding; however, he did not believe that was the amendment's result. He explained that the amendment reduced debt service in the statewide portion of the budget, but did not reduce education funding and was not tied to the education funding formula. He stressed that the amendment placed further debt on municipal governments, not school districts. He stated that the issue was similar to tax credits. He explained that the state had made an obligation or commitment to the municipalities for their school districts and he believed renegeing on the commitment was a bad precedent for the state to set.

Co-Chair Neuman continued that the legislature had voted to implement a five-year moratorium on all debt service starting the preceding year. Additionally, the debt had been reduced to 60/40 only. He was concerned the amendment would take money away from municipalities that the state

was obligated to pay. He reiterated his belief that the amendment did not reduce the education funding. He referred to \$18,600,000 from the school debt bond (line 6). He asked if the bond had been overperforming to result in extra additional funding in the School Trust Fund for education.

[11:05:23 AM](#)

Co-Chair Seaton answered that historically the mixture of funds used to fund bond debt reimbursement came from the School Trust Fund and UGF. He detailed that the \$18.6 million from the school fund was the normal mix of appropriation that had been used historically. The amendment did not reduce the amount of school funds - it had been separated out. Only the UGF portion of the bond debt reimbursement would be reduced by the amendment. He added that DEED would be able to provide the numbers related to municipalities.

Co-Chair Neuman explained that he wanted an explanation of debt and the fund source.

Representative Ortiz noted that how the amendment would impact the various districts was included in a document he was referring to ["School Construction Debt Retirement AS 14.11.100 - FY2018 Estimated State Aid for October 15 Reporting" (copy on file)]. The sheet included the amounts funded at the current rate. He reasoned that the amendment would reduce the figures by half.

Co-Chair Seaton agreed, but the amendment would only reduce 50 percent of the UGF portion; it was about 20 percent school fund, which was not being reduced. He explained it was about 42 percent, but the impact depended on the mix of bonds (60/40 or 70/30) a municipality had.

[11:07:41 AM](#)

Vice-Chair Gara did not understand the math related to the amendment. He referred to the amendment and observed that of \$116 million that would have been due in school debt reimbursement, \$67.2 million would be paid, which the amendment called a reduction of 50 percent. He remarked that the reduction looked smaller than 50 percent. He pointed to the transaction detail for reference.

Co-Chair Seaton answered there was approximately \$18.6 million of school fund money included in the \$116 million. To get to the final number it was necessary to reduce it and take 50 percent of the remaining portion, which was UGF, and add back the school fund amount. The result was \$48,478,294.

11:09:59 AM

AT EASE

11:13:57 AM

RECONVENED

Representative Wilson pointed to the school construction debt retirement document the committee had just received. She used the North Slope as an example, which had only one bond at the 60/40 level and compared it to Unalaska, which had one bond at 70/30. She reasoned the example would be straightforward because it did not involve a district with a blended amount. She thought the example would help committee members calculate the totals for their own districts.

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, asked for clarification on the question.

Representative Wilson explained the committee was trying to ascertain how the amendment would impact each district. She used the North Slope as an example that had current bonding of \$75,272. She cited Unalaska as an example of a district with one 70/30 bond at \$672,831. The committee was trying to determine the new amount the municipalities would be responsible for if the amendment passed.

Mr. Teal believed Co-Chair Seaton had already explained it would all be prorated; it would not matter what the reimbursement rate was. The amount would be half; however, the confusion was it was not exactly half. He explained the calculation would involve starting with the \$115 million total debt service and subtract approximately \$18 million of school funds, which left about \$97 million in general funds. That end amount would be cut in half; \$48.6 million would be cut from the General Fund portion only, which left \$48 million and the \$18 million in school funds would be added back in. Everyone would have a reduction of approximately 42 percent regardless of their bond debt mix (e.g. 70/30, 80/20, 90/10, or other). It was possible to

determine the impact on each community by taking 42 percent of the numbers in the right column on the sheet provided.

[11:17:06 AM](#)

Representative Kawasaki appreciated the amendment, but commented that there were valid concerns from different districts. For example, Fairbanks had ten projects that had about \$40 million that qualified for reimbursement at the 70 percent rate [from the state]. Kenai had about the same, with three projects at the 70 percent rate. He pointed to a community like Mat-Su that had over \$250 million in qualifying projects at the 70 percent rate. He noted that the impact would differ by community based on whether school boards recently acquired new schools or other. He felt cautious about moving forward with the amendment.

Vice-Chair Gara remarked there was no proposal in the budget to cut classroom funding, Base Student Allocation (BSA) funding, or other school funding - funding remained flat. The amendment's proposal related to money going to municipalities to pay their debt. He thought it seemed to be less than the Senate's proposal to cut \$65 million from school funding. He believed the amendment was an attempt to cut the budget while not directly cutting from schools. He had concerns about the amendment, but asked for verification that the intent was to avoid a school funding cut. He did not support the Senate's approach.

[11:20:26 AM](#)

Co-Chair Seaton answered in the affirmative. The goal was to look at a large portion of the state's budget expense: education, without damaging the education system. He continued that reductions to education could occur in the following ways: through a BSA decrease; with a change to the Public Employees' Retirement System (PERS)/Teachers' Retirement System (TRS) formula, which would directly impact schools by taking money from their budgets; with a raise in the local contribution mill rate back to 4 mills from 2.65 mills, which would require a statutory change; or by reducing bond debt reimbursement, which did not directly impact school budgets. There could be ancillary impacts, municipalities could make decisions, but it would provide them with time to make decisions on options such as taxes or using money from reserve funds on a temporary basis. He reasoned that at least the communities would have the

information in time to factor the cut into their budgetary process. He noted that the previous year funding had been vetoed at the last minute after school budgets had been set. He stated that if cuts were made during conference committee, it would put schools in the same situation as the previous year. The amendment was an attempt to avoid directly impacting the school system. The amendment would reduce school bond debt reimbursement to municipalities. The other purpose was to get the amendment into the upcoming committee substitute so the public could weigh in. He furthered that if the public decided it would prefer a BSA cut or PERS/TRS option, he hoped the committee would hear about it. The state was facing a \$2.7 billion deficit and the goal was to determine how to have some savings and lower expenses with the least impact on the most vulnerable.

[11:23:49 AM](#)

AT EASE

[11:42:27 AM](#)

RECONVENED

Co-Chair Foster recapped that the committee was considering H DBT 6 related to school bond debt reimbursement.

Representative Wilson believed the amendment should be considered later in the day. She noted there were many unknown components. She addressed options such as using PERS and TRS or using the BSA, and the impacts the options would have. She stated that the committee members kept hearing about how things were supposed to be fair. She supposed the amendment was fair in one sense - she had told her constituents that the 70/30 reimbursement could go away at any time. She stated that the Fairbanks North Star Borough had passed a bond the previous year and its debt obligation would be 100 percent. She pointed to the list of communities and remarked that Mat-Su was \$22 million and Anchorage was \$43 million, mostly because some of the areas grew faster than other areas or had not gotten on the list as early as others. She wondered about trying to keep things equal between districts. She remarked on frustration vocalized by committee members on areas that paid property taxes and those that did not. She noted that caps were also a factor, but she believed debt fell under a separate area. She did not know what the TRS obligation would be for her district if it was changed. She continued that in the past

there had been significant concern from school districts when TRS legislation was considered - the concern had been that it would do more damage than flat funding the BSA (not adding a \$50 increase). She was uncomfortable moving forward at present because she did not have all the information. She thought it was prudent for the finance committee to know all the financial impacts. She wanted time to talk to members of her district and she wanted to ensure the amendment was accurate.

[11:46:21 AM](#)

Representative Neuman remarked that the Mat-Su Borough School District was one of the fastest growing districts. He added that the district had great schools. He stated that the borough had needed to build a new school annually - the burden had been voted on and accepted by residents. He would prefer to see a reduction in the education funding formula. Committee members had been told by Co-Chair Seaton that there would be an opportunity when the committee looked at the full budget. He was concerned the amendment went back to Mat-Su taxpayers. He noted that the governor had cut \$7 million or more to the Mat-Su School District the previous year. He explained that the cut had depleted the district's reserve fund. He stressed that the amendments cut of \$11 million to \$12 million would hit taxpayers. The state had already made the obligation to communities. He had asked the Legislative Finance Division about reducing other debt service. He relayed that other debt service was just over \$200 million; however, they were general obligation bonds providing the full commitment of the state and had to be paid statutorily - therefore, it was not an option. He supported a reduction to education funding because everything else had been hit; however, he was uncertain the amendment was the appropriate action.

[11:48:35 AM](#)

Representative Guttenberg surmised that the situation was perhaps like a quote by Winston Churchill about democracy: "it's terrible, except for everything else." He considered which of the options on the table (a reduction to debt service, PERS/TRS funding, and K-12 funding) hurt the least. He was leaning towards supporting the amendment to get something on the table. He stressed that doing nothing did not equate to dodging a bullet. He stated it would be a requirement and not an option in the future if the

legislature did not come up with a fiscal plan. He added that other draconian measures would be needed as well. He believed managing the situation was occurring because the legislature had been unable to put the state on sound fiscal footing. He stressed that the situation would worsen if nothing was done. He supported moving the amendment forward to put something on the table for comparison to other options; it was better than no proposal. He wanted to determine if the proposal was better or worse than some of the options proposed by the Senate, which he believed were more draconian.

Vice-Chair Gara remarked that if the state had a fiscal plan the committee would not be considering the amendments at present. Currently no plan had been adopted by both houses. He remarked that he had supported school funding his entire legislative tenure. He understood the comments from Co-Chair Neuman, which he stated were the same as those coming from the Senate. He did not support cutting the BSA - he believed it would be the hardest cut for schools to handle. He recognized that the amendment would hit Mat-Su harder than some other areas. He stated that a cut proposed by the Senate would be \$65 million from the BSA, which represented a \$200 BSA cut. He stressed that it would be massively damaging to schools. He stated the amendment would mean a transfer [of debt] to municipalities, which was not comfortable either. He reasoned that a \$2.9 billion deficit and no fiscal plan was also uncomfortable. He remarked that if he got to run things by himself there would be a fiscal plan. He understood if it was the will of the chair to have the amendment included so the public could comment. He believed the option was the least harmful on schools, but it did not come without cost to municipalities. He leaned in favor of supporting the amendment, but made no commitment to support it throughout the legislative process. He wanted to hear from people and wanted to avoid a BSA cut.

[11:53:14 AM](#)

Representative Wilson WITHDREW her OBJECTION.

There being NO further OBJECTION, Amendment H DBT 6 was ADOPTED.

[11:53:39 AM](#)  
AT EASE

11:53:47 AM

RECONVENED

Co-Chair Seaton MOVED to ADOPT Amendment H DBT 7 (copy on file):

Sport Fish Hatchery Bonds  
L H DBT 7 - Technical wording correction  
Offered by Representative Seaton  
See 30-GH1855J.5, Wallace, 1-30-17 [copy on file].

This amendment just adds the word "and" before the last phrase in section 19(m) in HB 57, version J, so that it reads " . . ., and for early redemption of those bonds."

Vice-Chair Gara OBJECTED for discussion.

Co-Chair Seaton explained the amendment. The amendment added the word "and" before the last phrase in Section 19(m) regarding sport fish hatchery bond debt (page 66, line 3 of the legislation, version J) to read "and for early redemption" of those bonds.

Co-Chair Neuman asked for verification the amendment was to ensure that any additional funds out of the fish and game fund or other funds received went towards reducing the bond debt for the fish hatcheries.

Co-Chair Seaton answered the amendment would allow early redemption of the bonds at a lower interest rate.

Vice-Chair Gara WITHDREW his OBJECTION.

There being NO further OBJECTION, Amendment H DBT 7 was ADOPTED.

HB 57 was HEARD and HELD in committee for further consideration.

HB 59 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

11:55:55 AM

The meeting was adjourned at 11:55 a.m.