

HOUSE FINANCE COMMITTEE
February 28, 2017
1:35 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:35 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 Scott Kawasaki
Representative Mark Neuman, Alternate
Representative Dan Ortiz
Representative Steve Thompson
Representative Cathy Tilton
Representative Tammie Wilson

MEMBERS ABSENT

Representative Lance Pruitt

ALSO PRESENT

Alexei Painter, Fiscal Analyst, Legislative Finance Division; David Teal, Director, Legislative Finance Division; Angela Rodell, Executive Director, Alaska Permanent Fund Corporation; Pat Pitney, Director, Office of Management and Budget, Office of the Governor; Representative Dan Saddler; Representative Justin Parish.

PRESENT VIA TELECONFERENCE

Megan Wallace, Attorney, Legislative Legal Services.

SUMMARY

HB 57 APPROP: OPERATING BUDGET/LOANS/FUNDS

House Finance Committee

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02/28/17 1:35 P.M.

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 Foster addressed the meeting agenda. He indicated the committee would be taking up language amendments in fund capitalizations, fund transfers, state assistance to retirements, and special appropriations.

#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."

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."

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^NON-AGENCY: FUND CAPITALIZATION AMENDMENTS

[1:36:45 PM](#)

Co-Chair Seaton MOVED to ADOPT L H FND 1 (copy on file):

Fund Capitalization (no approps out)

Oil and Gas Tax Credit Fund FND 1 - Reduce deposit to the Oil and Gas Tax Credit Fund by 50% (from \$74 million to \$37 million)

Offered by Representative Seaton
See 30-GH1855J.12, Wallace, 1-31-17.
This amends sec. 21(f) in HB 57, version J.

Due to budget constraints, the Governor's requested deposit of an estimated \$74 million unrestricted general fund is reduced by 50% to \$37 million.

Representative Wilson OBJECTED for discussion.

Co-Chair Seaton read the amendment (see above).

Representative Wilson understood there was a formula that determined the amount going into the fund.

Co-Chair Seaton responded there was a current formula.

Representative Wilson asked how much would be deposited into the fund if the formula were used.

Co-Chair Seaton responded that if the formula were correct the amount would be \$74 million.

Representative Wilson asked about the arrival of the formula. She wondered if the formula was in statute. If so, she queried whether the state had not abided by the statute in previous times.

Co-Chair Seaton responded that it removed an amount equal to 15 percent of all revenue from taxes levied by AS 43.55.011 that was not required to be deposited in the Constitutional Budget Reserve (CBR). He also referred to the Alaska Constitution, Article 9, Section 17a. The constitution contained "estimated to be" language. A fixed amount of \$37 million was appropriated presently.

Representative Wilson did not feel like her question was answered. She indicated that there was a statute that had a formula that determined an amount per barrel that went into the fund. The legislature had instituted tax credits that would benefit the state with royalty oil. A fund was established to pay out tax credits. She did not want to

have a debate on the amount. However, it appeared to her that the amendment would break statute.

Co-Chair Seaton responded that funds appropriated were subject to appropriation by the legislature. He suggested having someone from the Legislative Finance Division (LFD) provide additional information.

Representative Wilson agreed. She was already aware that the legislature could use all funds. She asked if there was currently statute in place designating what went into the fund. If the answer was affirmative, she wanted to know if there had been another time the legislature decided not to follow statute having to do with the fund.

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ALEXEI PAINTER, FISCAL ANALYST, LEGISLATIVE FINANCE DIVISION, responded that statute AS 43.55.028 set out the calculation. The legislature had not always followed the statute. He reported that for several years the legislature appropriated the amount necessary to pay all the credits that were redeemed in a particular year. In some years, the amount was less than the statutory deposit.

Representative Wilson remarked that although the legislature did not put as much into the fund as specified in statute, the state met its obligations. Therefore, the state would have had money in the fund unused. Whereas, the legislature would have unpaid credits outstanding, if the proposed amendment was adopted. She wondered what the balance would be if the state only paid \$37 million towards outstanding tax credits.

Mr. Painter thought it was about \$800 million. However, he would have to get the exact amount later.

Representative Wilson noted that the state's tax credit obligations could be paid off. She noted the Higher Education Fund and the Power Cost Equalization Fund. She disagreed with the state being in debt to such an extent. Companies had done what the state had asked them to do. In the previous few years, the state had indicated that it did not have to pay its obligations according to statute. She thought it was a hard reality. Currently, the state was not going pay its obligations because it was short money. She

relayed that if the state moved all its funds into the general fund the balance would be more than \$1 billion. She was not including the Permanent Fund corpus or earnings. She did not agree with having a debt obligation, having the money to pay for it, but wanting to use the money for something else. She was disappointed.

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Co-Chair Seaton clarified that the state did not have a debt and the payments were not specifically owed. The state was required to issue a certificate based on a credit amount that could be written off against future production tax liability. There was an additional provision that if the state had the money, it could buy back credits with cash subject to an appropriation. The item being discussed was the amount the legislature would appropriate for paying credits. The credits were not a debt to the state and no interest was owed on them. He continued that it was a secondary method of redeeming tax credits. The state was not obligated to fund them at any certain time. The obligation was truly satisfied by issuing a credit, which could be used against future production taxes. He spoke to having done things in the past when the state had excess money. Past legislatures had established a fund to make deposits and payments. The obligation of the current legislature was to appropriate funds in the best interest of the state. The amendment was offered with a 50 percent reduction to the amount. It equaled the 50 percent reduction the legislature voted on regarding municipalities' bond debt reimbursement. It was very difficult to tell the school districts that the state was only going to provide 50 percent of the bond debt reimbursement. He noted that the state would be providing 100 percent of the amount to the 028 fund. The reductions were equivalent.

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Representative Neuman objected to the amendment. He commented that a portion of the credits pertained to the Cook Inlet Recovery Act. The program was effective due to the resulting information about having 12 years of known reserves in Cook Inlet. The credits assisted companies in finding additional oil. He reported that the formula was based on the amount of oil coming down the pipeline and oil

prices. One component gave the proportion due in statute. He recalled that last year the legislature used \$430 million left over from the FY 15 budget. The state received \$500 million of appropriation authority to pull from the CBR for oil and gas related issues. The state thought it was headed into some gas pipeline discussions and was aware that the oil and gas tax credits existed. In the spring at the Legislative Information Office in Anchorage, the committee knew there would not be time to address the credits issue. Members wanted to make sure that the state had the money that would be due. The committee used \$430 million out of \$500 million; the rest went to the oil and gas fund (\$57 million) for the gas pipeline and other related issues. He continued that the \$430 million was vetoed by Governor Walker in the prior year, which brought up the total debt on the credits to over \$1 billion. He believed the amount of outstanding tax credits was a debt owed by the State of Alaska. He was adamantly opposed to the amendment. He believed the state was in its current fiscal situation because the government's primary source of revenue came from oil. He spoke to the necessity of diversifying the economy. He believed the business climate of Alaska was due to regulations. He thought certain policy decisions discouraged investments, such as the one being discussed. He thought it was important to send the message that Alaska was open for business. He believed it was important for the state to stand behind its obligations. He opined that the state breaking its agreements with investor companies did not help create jobs in the state. He reiterated his strong opposition to the amendment.

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Vice-Chair Gara commented that the amendment raised the bigger issue of who should get in line and the state having the ability to fund the things it needed to fund. He respected the previous speaker's comments that the state should fund oil and gas tax credits. He wondered if oil companies should come before children or seniors in need. Until there was a fiscal plan in place, people would have to get in line. It was unusual for the state to ask the oil and gas industry to get in line. He suggested that almost everything was being cut. He thought that if the tax credit system paid out more than the state received in production taxes, there would be a problem. If the state was going to start funding things, including oil and gas tax credits

that were owed, the state needed to come up with a fiscal plan. He was concerned about how long the recession would last.

Co-Chair Foster acknowledged Representative Saddler in the audience.

Representative Thompson viewed the amendment as job killing. He expressed his concerns about stifling investments to get oil in the line. The tax credits were given out to incentivize investment. He recognized that the tax credits were a large investment, but the returns would be worth it in the future. He did not favor the amendment.

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Representative Wilson remarked that the formula was a little different. It was put together when the incentives went out to the companies. The legislature was not asking for more undesignated general funds (UGF), which had been done in the past. During the rough patches, companies had come back to the state in the prior year asking the state to make good on its promises. The state's response was that there was a formula in statute and to expect anything over the formula was the fault of the companies. The money was used to incentivize further investment. She emphasized that oil investment was the reason the state had the services it had. She was concerned that the legislature was not going to follow statute. The majority of what Alaska had was because people believed in the State of Alaska.

Representative Wilson MAINTAINED her OBJECTION.

A roll call vote was taken on the motion.

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

OPPOSED: Thompson, Tilton, Wilson, Grenn, Newman

The MOTION PASSED (6/5).

Amendment L H FND 1 was ADOPTED.

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Co-Chair Seaton MOVED to ADOPT L H FND 2 (copy on file):

House Finance Committee

7

02/28/17 1:35 P.M.

Fund Capitalization (no approps out)
Regional Education Attendance Area School Fund 1222
L H FND 2 - Reduce deposit into the REAA Fund from
\$40.64 million to \$23.58 million

Offered by Representative Seaton
See 30-GH1855J.27, Wallace, 2-7-17.

The deposit into the REAA Fund is reduced by 42% from
\$40,640.0 to \$23,579.4, the same percentage reduction
that is proposed for the school debt reimbursement
program.

Representative Wilson OBJECTED for discussion.

Co-Chair Seaton read the amendment (see above).

Representative Wilson did not believe it was the same.
Although the percentage was the same, the impact to the
districts was different. She elaborated that what had been
passed earlier caused boroughs to have to pay more money to
fulfill the obligations of the communities. She wanted to
clarify that with a 42 percent reduction certain upgrades
would not be met. However, district communities would not
incur additional obligations. She asked if she was correct.

Co-Chair Seaton responded in the affirmative. The Regional
Educational Attendance Area (REAA) funds were state funds.
The formula was set to balance the school debt
reimbursement with the REAA fund deposit, which would allow
the completion of the next school on the list - Shishmaref.
The renovation and addition cost were estimated at a little
over \$16 million and would leave approximately \$4 million
in the fund.

Representative Wilson asked how many students were enrolled
in the school and about any upgrades that would not be
completed without the money being available.

Co-Chair Seaton did not have the details on the school.
There was a list of schools, Shishmaref being at the top.
There was money in the account to complete the project with
\$4 million left in the fund.

Representative Wilson MOVED to ADOPT Amendment to Amendment L H FND 2 changing the amount to \$40,640,000.

Vice-Chair Gara OBJECTED for discussion.

Representative Wilson argued that the money was not going to be paid back. In Fairbanks, a bond was passed in the previous year. The community was paying back 100 percent of the money. The state would be paying 100 percent of the project. She did not believe it was a fair comparison. She supposed that if the legislature was not going to allow the districts to bond then no one else should be allowed to receive a percentage.

Co-Chair Seaton asked LFD to come to the table.

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DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, explained that the amendment was essentially a conforming amendment. The statutes required a certain amount of money (determined with a long and complicated formula) to be deposited into the REAA Fund. The formula included the amount of debt service reimbursement that was paid to municipalities. He continued that it would be very difficult to reduce the amount to zero because the case was affected not only by the statutory guidelines but was also associated with the Kasayulie case. The case stated that Alaska would build five rural schools and would contribute to the REAA fund in accordance with what the legislature chose to pay for debt service. The amount was determined by the reduction and debt service. He could not say, for certain, that the state would be sued if it reduced the amount to zero, but the lawsuit could be reopened.

Vice-Chair Gara asked if he was correct that the state's funding of rural schools was based on the state's funding of school debt reimbursement.

Mr. Teal responded affirmatively.

Vice-Chair Gara clarified that by passing the previous amendment, the state would deposit \$17 million less into the REAA Fund.

Mr. Teal responded that he was correct.

Vice-Chair Gara asked about the ramifications of a full reduction. He understood the effects of a \$23 million reduction. He wanted to know the consequences of a \$40 million reduction.

Mr. Teal explained that it was not to fund anything in particular. It was a fund for the construction of rural schools and was done to keep parity between urban and rural school construction. The urban schools received the debt service reimbursement, whereas, rural schools had no ability to issue debt. Therefore, the state paid the full cost of construction of rural schools. He noted three schools were in line for funding. The amount would provide sufficient funding for one of the school and portions of a second school. The following year's funding would continue to fund the schools currently in line. The state had no way of knowing what additional schools would be placed on the list in the future.

Co-Chair Foster relayed that Shishmaref was eligible to receive \$16.5 million. The second school on the list was in the Lower Kuskokwim area eligible for \$44 million, and the third on the list was another school in the Lower Kuskokwim area for \$31 million. There were approximately 15 schools on the list.

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Vice-Chair Gara opposed the amendment. He relayed that when he moved to Alaska he believed he was moving to a great place. He was aware that there had been people in Alaska 10,000 years prior. In many of the communities, there was not much of a tax base or a way to build and maintain schools. Under the state constitution, Alaska had a unified school system and an obligation to all schools. He opposed taking more money away from school districts where there was very little tax base to help urban school districts with a larger tax base. He opposed the amendment to eliminate \$23.5 million.

Representative Wilson indicated she would be withdrawing her amendment to the amendment. However, she asked about the impact of the sunset clause on the amount of money going towards schools. She thought Mr. Teal was saying that the statute was based on debt level. She wondered if it

would go down to zero if the state decided not to fund the debt level for municipalities all together.

Mr. Teal responded that it would, but it would take about 15 years. He elaborated that school debt was usually issued for a 20-year period. There was a 5-year moratorium in place, but the state continued to make deposits into the REAA Fund. The Regional Educational Attendance Area Fund was not based on the urban school that was built in a certain year. Rather, it was based on the amount of debt service being reimbursed. The debt services payment would continue over 15 years.

Representative Wilson emphasized that it would take 20 years or 30 years to reach zero. It was based on the debt rather than when a school was built. She remarked that it was interesting that the committee was talking about not breaking statute when it had broken it previously during the meeting.

Representative Wilson WITHDREW her AMENDMENT to Amendment L H FND 2.

Vice-Chair Gara asked if the amendment could be rolled.

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AT EASE

[2:14:29 PM](#)
RECONVENED

Co-Chair Foster brought the meeting to order.

Representative Wilson WITHDREW her OBJECTION.

Vice-Chair Gara OBJECTED. He suggested that the amendment might be appropriate; he had not seen it in the online system. He might revisit it later.

Vice-Chair Gara WITHDREW his OBJECTION.

There being NO OBJECTION Amendment L H FND 2 was ADOPTED.

[2:15:35 PM](#)
AT EASE

[2:16:26 PM](#)

RECONVENED

^NON-AGENCY: FUND TRANSFER AMENDMENTS

[2:16:26 PM](#)

Co-Chair Foster indicated the committee would be addressing the fund transfer amendment packet.

Co-Chair Seaton MOVED to ADOPT L H XFR 1 (copy on file):

OpSys DGF Transfers (non-add)
Civil Legal Services Fund
H XFR 1 - FY18 capitalization of the Civil Legal Services Fund

Offered by Representative Seaton
See 30-GH1855J.42, Wallace, 2-16-17.

This amends sec. 22 in HB 57, version J, by adding a new subsection to capitalize the Civil Legal Services Fund with an amount equal to 50% of punitive damages deposited into the general fund during FY17 (per AS 09.17.020(j)).

Representative Wilson OBJECTED for discussion.

Co-Chair Seaton read the amendment (see above).

Representative Neuman asked if there was a reason for the amendment.

Co-Chair Seaton responded that an amount was to be transferred to capitalize the Civil Legal Services Fund. Often the funds were variable and every few years needed to be pulled forward. He furthered that when the committee took up the supplemental bill he anticipated an amendment to capitalize the fund with the FY 14 to FY 16 punitive damages awards in the amount of approximately \$10,000.

Representative Neuman asked whether the fund was underutilized or there were draws on the fund that exceeded its balance.

Co-Chair Seaton asked LFD to come forward.

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Mr. Teal relayed that the action did not have to be carried out. It was a fund created ten years prior by Senator McGuire. No money was put into the fund until FY 12. All Civil penalties per AS 09.17.020(j) from FY 08 through FY 11 were scooped into the fund in FY 12. He noted another provision that took FY 13 through FY 17 money and deposited it into the fund. The amount of money was 50 percent of punitive damages ranging from zero to a few thousand dollars per year. It had not been viewed as necessary to implement every year. However, it was something that could or should go in statute each year. He explained that the money went from the general fund into the Civil Legal Services Fund, which then made grants for low-income legal services civil cases.

Representative Neuman wondered if there was a need for additional funds in the account.

Mr. Teal answered that a grant of \$1,000 would not necessarily make a lot of difference. However, to someone that needed legal services, it could make a big difference. He did not want to say anything definitively.

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Representative Wilson asked if Legal Services was funded through a general fund appropriation.

Mr. Teal responded that the state funded Legal Services from the Office of the public Defender to the Office of Public Advocacy in many ways. The amendment was a different proposal: It was a way to take punitive damages and issue grants to an entity that offered legal services to low-income people. He could not recall the name of the entity. He continued that they were typically awarded the grant. There were at least three ways Legal Services was funded.

Representative Wilson commented that another fund would be started because the state did not have enough. The general fund money would be taken away from somewhere else. She thought the state had enough funds. She suggested that if the state wanted to fund the grants or the entity the state should just fund it rather than creating another fund. She was not in favor of starting another fund.

Mr. Teal clarified that the amendment was not creating a new fund, as the fund was created several years prior. It was the appropriation following the funding mechanism.

Vice-Chair Gara guaranteed there would not be a huge amount of money going into Alaska Legal Services. The state used to fund Alaska Legal Services, civil legal services for people in abusive relationships and other civil cases. The state used to support Alaska Legal Services Corporation substantially. It barely supported it anymore. There had been attempts in the past to put 50 percent of punitive damages into a state fund that would go to Legal Services. However, when lawyers settle cases to avoid the 50 percent rule, they settled the cases stating that all the damages were compensatory rather than punitive damages. As a result, there was no money to go to Legal Services and other entities. He supposed there would have to be a way to fund Legal Services.

Representative Wilson MAINTAINED her OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Grenn, Guttenberg, Ortiz, Seaton, Foster
OPPOSED: Tilton, Wilson Neuman, Thompson

The MOTION PASSED (6/4).

Amendment L H XFR 1 was ADOPTED.

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Co-Chair Seaton MOVED to ADOPT L H XFR 2 (copy on file):

OpSys DGF Transfers (non-add)
Oil and Hazardous Substance Release Prevention Account
H XFR 2 - Amend year and amount of surcharge deposited
into the oil and haz. waste prevention account

Offered by Representative Seaton
See 30-GH188J55, Wallace, 2-18-17.

This is a Governor's amendment to sec. 22(c)(3) to base the deposit into the oil and hazardous waste prevention account in the oil and hazardous waste prevention and response fund from the surcharge levied

under AS 43.40.005 on actual collections instead of prospective estimates.

Representative Wilson OBJECTED for discussion.

Co-Chair Seaton read the amendment (see above).

Representative Wilson suggested not transferring the money at present and utilizing it for UGF, since the amendment reflected general funds and the state was short of money. It was her understanding that the fund was doing quite well, and it was not necessary to fulfill its mission at the current time.

Co-Chair Seaton informed members that the amount was going to actual collections instead of prospective estimates. It reflected a realistic dollar deposit instead of an estimate.

Representative Wilson remarked that the legislature could keep the money if it wanted to. She understood the payment was an exact amount. The money could be put towards schools or other programs. The legislature was not obligated to put the money into the fund. She asked if she was accurate.

Co-Chair Seaton relayed that the surcharge was a per dollar surcharge with a designated deposit into the fund. He thought LFD could give further clarification.

Representative Wilson did not need to hear from LFD. She argued that the amendment was no different from the previous fund discussed for tax credits. She suggested that during the current meeting the committee had already established that the legislature could do anything it wanted with state money. She reported that \$400,000 could be used for an attorney discussed by Representative Grenn. She continued that the money could go towards other programs where TVEP funding was no longer available. She understood the money was collected based on clean-up fees. She continued to provide examples of money set aside in funds. She thought it would be better to put the money towards the state's deficit.

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Representative Neuman wanted to hear from LFD. He asked who the beneficiary was of the \$400,000. He wondered if the money went to the Department of Environmental Conservation (DEC). He thought the money was funded with 1 cent or 2 cents collected on every barrel of oil. He was confused about the fund source.

Mr. Painter answered that the money went to the spill response fund, which funded the division of the same name within DEC. The fund was solely funded by the surcharge on oil until 2 years prior when the legislature passed a bill that placed a 95-cent tax on motor fuels. The amendment helped to create a time lag so that there would be certainty in the amount. The fund went to the Spill Prevention and Response Division in DEC.

Representative Neuman believed the answer was yes that the funds went to DEC.

Representative Kawasaki was unclear why it looked like it was UGF. He thought that if the funds were meant for spill prevention and response they should be designated as DGF.

Mr. Painter relayed that, by the constitution, taxes were UGF. In other words, the money came in as UGF and then deposited into a fund, which then was spent as DGF.

Representative Wilson MAINTAINED her OBJECTION. She thought the \$400,000 could be spent elsewhere.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Grenn, Guttenberg, Kawasaki, Foster, Seaton
OPPOSED: Wilson, Ortiz, Neuman, Thompson, Tilton

The MOTION PASSED (6/5).

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AT EASE

[2:45:40 PM](#)
RECONVENED

^NON-AGENCY: STATE RETIREMENT PAYMENTS AMENDMENTS

[2:45:40 PM](#)

Co-Chair Seaton MOVED to ADOPT L H SAR 1 and L H SAR 2
(copies on file):

PERS State Assistance
All Other PERS
H SAR 1 - Eliminate use of the Alaska
Higher Education Investment Fund for retirement
assistance and replace it with UGF

Offered by Representative Seaton
See 30-GH1855J.15, Wallace, 1-31-17.

The use of the Alaska Higher Education Investment Fund
in the FY17 budget for retirement assistance was
expected to be a one-time item. This amendment
eliminates the use of the Alaska Higher Education
Investment Fund and replaces it with UGF for
retirement assistance in FY18.

TRS State Assistance
School District TRS
H SAR 2 - Eliminate use of the Alaska
Higher Education Investment Fund for retirement
assistance and replace it with UGF

Offered by Representative Seaton
See 30-HG1855J.16, Wallace, 1-31-17

The use of the Alaska Higher Education Investment Fund
in the FY17 budget for retirement assistance was
expected to be a one-time item. This amendment
eliminates the use of the Alaska Higher Education
Investment Fund and replaces it with UGF for
retirement assistance in FY18.

Representative Wilson OBJECTED for discussion.

Co-Chair Seaton read the amendments (see above). He
indicated that the first amendment affected PERS and
replaced \$37,852,900 appropriated from the Alaska Higher
Education Investment Fund. The second affected TRS and
replaced \$20,434,100 appropriated from the Alaska Higher
Education Fund.

Representative Neuman asked if there was an objection.

Co-Chair Foster confirmed there was an objection.

Representative Wilson asked how much was currently in the fund. She also inquired about how much money was made in interest.

Co-Chair Seaton responded that the total UGF appropriation was \$111,757,000.

Representative Wilson asked if she was correct in saying that there was \$111,757,000 million in the Higher Education Fund prior to the amendment.

Co-Chair Seaton requested that LFD respond to Representative Wilson's question.

Mr. Teal informed the committee that the FY 17 ending balance was \$349 million.

Representative Wilson asked if the amount took into account what was used in the Department of Education and Early Development (DEED). The legislature used funds to replace general funds.

Mr. Teal answered that he had provided the FY 17 ending balance. The FY 18 appropriations from the fund included; about \$12 million for scholarships; \$6 million for grants; \$6 million for museums, libraries, OWL programs, and various other programs; and \$58 million for the current appropriation being discussed [PERS/TRS State Assistance] for a total of about \$82 million.

Representative Wilson wondered about an interest amount made in the previous year. She noted that the fund had \$400,000,000 before the legislature dipped into the fund.

Mr. Teal relayed that interest earnings on the fund were a little less than \$3 million in FY 16. In FY 17, they were expected to be about \$23 million. Interests varied. He added that the interest earnings for FY 18 was projected to be about \$19 million.

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Representative Wilson wondered about the interest projections if the budget passed in its current form. She asked about the basis of the projection. Mr. Teal answered that the starting balance for FY 18 was about \$350 million. At the end of FY 18 the balance would be approximately \$286 million - an anticipated \$82 million of expenditures including the \$58 million and about \$19 million in interest earnings.

Vice-Chair Gara asked whether the numbers were approximately the same as the amount appropriated out of the Higher Education Fund to pay for the retirement debt in FY 17.

Mr. Teal responded that they were not the same. He explained that in FY 17 the state paid approximately \$90 million. In the previous year, the money used was based on projections provided by the state's actuaries. It was determined that the FY 18 contributions would fall by about \$90 million which was the reason it was presented as a one-time use of money. In FY 18, the legislature planned to return to using general fund monies. The projections changed. The state did not get a reduction of \$90 million as the legislature had been told. In June, just a few months after the projection was received, the valuation came out showing that the reduction was about \$30 million rather than \$90 million. Therefore, about \$60 million remained in the budget from the Higher Education Fund. The appropriation was expected to be a one-time appropriation. Under the circumstances, with several parties trying to cut the budget, there was an unexpected \$60 million increase in UGF spending. The governor turned in the budget indicating he did not want to absorb the reduction, instead he suggested continuing to use the Higher Education Fund in FY 18. He thought the chairman stated that the legislature needed to true-up the circumstance even though it could not continue this course in the future. It was better to true it up presently. However, he thought it was up to the chairman to explain the situation.

Vice-Chair Gara supported the amendment. He remarked that for some things the legislature was using UGF, and for some expenditures that were normally UGF it was using DGF. He thought it would be best to combine all general fund spending to compare FY 17 to FY 18. In his view, it would keep people from making false comparisons between budget

years. He opined that the expenditures should go back to UGF. In the meantime, he thought the legislature should be comparing all general expenditures, whether UGF or DGF, from one year to the next. He thought it would be closer to transparent budgeting.

[2:55:56 PM](#)

Representative Neuman asked about the year-end balance in the previous year.

Mr. Teal responded, "About \$350 million."

Representative Neuman wondered how the fund performed in the current year.

Mr. Teal replied that in FY 17 he expected about \$23 million in investment returns.

Representative Neuman remarked that the fund containing \$360 million was performing well and had produced an additional \$23 million. The state had \$19 million from the \$11 million requested for the Higher Education Fund. He thought it would be better to use funds from some of the funds that performed well. He wondered why the state would take money out of the CBR when it had funds that were performing well, meeting their constitutional obligations with funds left over. He thought it would be prudent to increase the balance of the funds with the leftover funds or use them to pay the state's debts instead of borrowing additional money from the CBR. He thought it made more sense. The fund had been doing okay, as it could hold its own and added to revenue that could be put towards state services. He mentioned the time value of the dollar. He provided a hypothetical scenario about re-roofing his home.

[2:58:26 PM](#)

Representative Ortiz asked when and why the fund was started.

Mr. Teal responded that the fund was a priority of Governor Sean Parnell. He had worked on the legislation for several years with it eventually passing in 2014 or 2015. The fund was a \$400 million endowment established to pay for grants and scholarships for Alaska high school graduates to attend

universities. The fund was expected to produce larger payouts than it had. He reported that a \$30 million or \$40 million return was expected per year. The fund had only produced about a \$20 million in payouts annually. The \$400 million balance was more than required to make the grant and scholarship payments. He suggested that if the legislature was to fund retirement funding in the current year it would drop the balance to about \$280 million, which was sufficient to spin off investment revenue of about \$18 million per year; roughly equal to the grants and scholarships combined. However, the legislature was also using about \$6 million per year from the fund to pay for other educational items. He reiterated that if the legislature was to use the fund in the current year, grants and scholarships could be funded on an endowment basis. He reported that there was a small negative cash flow expected. He suggested that the legislature could reduce \$6 million or backfill it with UGF. The program could fund itself if the committee accepted the amendment. The governor submitted the budget using these funds. However, the governor's Office of Management and Budget (OMB) was clear that it would have to be the last year for using the funding, as there would not be investment returns sufficient to pay for even the scholarships and grants if the amount was used in FY 19.

Co-Chair Seaton added that the Alaska Performance Scholarship Fund was one of the basic initiatives to give a draw through middle school and high school to have kids take higher education classes and more math classes. It was one of the few very successful programs that had changed student behavior in high schools across the state. He expressed his concern about continuing to deplete the fund for non-designated uses and sending the message to students that there might not be funds available in 4 or 5 years. He thought it was important for students to understand that the legislature was fully committed to making sure there were scholarships available to students who took certain actions and performed well. He relayed that the scholarships could be used for certification programs in workforce development. He thought the fund was very valuable to maintain long-term and did not want to send the wrong message to students. He wanted to keep UGF draws down, so the budget looked better. He thought the payment for the retirement fund should come from UGF rather than the education fund, as it would be more truthful in the

budgeting process. By using UGF funds to pay retirement obligations a strong Alaska Performance Scholarship Fund would be maintained as well.

[3:04:48 PM](#)

Representative Neuman asked if the Higher Education Fund was used to fund anything other than higher education. He specifically asked if it had been used to fund Online with Libraries (OWL).

Co-Chair Seaton replied that there were a few other education programs paid for with the fund but not for funding PERS and TRS or anything that was a general government expense.

Representative Neuman thought he heard an affirmative response from the Co-Chair. He asked Co-Chair Seaton if he was saying it was okay to use the Higher Education Fund to fund OWL and other grant programs in the amount of \$6 million but not okay to use excess funds to reduce the UGF draw. He asked if he heard incorrectly.

Representative Ortiz referred to his last years of teaching. He remembered the AK Performance Scholarship Fund being a powerful program for his students. He supported the amendment.

Representative Wilson MAINTAINED her OBJECTION.

Representative Neuman clarified that members would be voting on both amendments.

Co-Chair Foster responded in the positive.

A roll call vote was taken on the motion.

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

OPPOSED: Neuman, Tilton, Wilson

The MOTION PASSED (7/3).

Amendment L H SAR 1 and Amendment L H SAR 2 were ADOPTED.

[3:08:28 PM](#)

Co-Chair Seaton MOVED to ADOPT L H SAR 3 (copy on file):

Unlicensed Vessel Personnel Annuity Retirement Plan
H SAR 3 - Reduce estimated cost for the Unlicensed
Vessel Personnel Annuity Retirement Plan

Offered by Representative Seaton
See 30-GH1855J.19, Wallace, 1-31-17.

This new language reduces the \$25.0 cost to an estimate of zero. The Department of Administration, Division of Retirement and Benefits is searching for eligible participants.

Representative Wilson OBJECTED for discussion.

Co-Chair Seaton read the amendment (see above).

Representative Wilson asked about having to search for someone.

Co-Chair Seaton responded that state had been depositing \$25,000 into a retirement fund account. Currently, no one was still eligible for the benefit. It was a retirement plan that would be taken to zero.

Representative Wilson asked how much was in the fund.

Co-Chair Seaton answered that there was zero in the fund presently. The amendment would put \$25,000 in the fund in case someone was found eligible.

Representative Wilson asked if it was a subtraction rather than an addition. She wanted to verify that nothing was in the fund.

Co-Chair Foster invited LFD to the table.

Mr. Teal informed the committee that it was a very small retirement program, which functioned like military retirement. There was no balance in the fund. Rather, benefits were paid when due. The governor requested \$25,000 be placed in the fund in case the administration found someone eligible for the small payment. The amendment clarified that the money did not need to be appropriated.

If the administration found an eligible party, the funds would be available. He continued that the \$25,000 that was appropriated did not need to be appropriated. The amendment reversed the appropriation.

Representative Wilson WITHDREW her OBJECTION.

There being NO OBJECTION Amendment L H SAR 3 was ADOPTED.

[3:12:32 PM](#)

AT EASE

[3:15:43 PM](#)

RECONVENED

^NON-AGENCY: SPECIAL APPROPRIATIONS AMENDMENTS

[3:15:43 PM](#)

Co-Chair Foster indicated the committee would be addressing the special appropriations amendment packet.

Co-Chair Seaton MOVED to ADOPT L H SAP 1 (copy on file):

Language Amendments

L H SAP 1 - Add intent language regarding supplemental requests

Offered by Representative Seaton

See 30-GH1855J.1, Wallace, 1-30-17.

This amends sec. 4 in HB57, version J.

The amendment expands the section title (from "cost of job reclassifications") and restores typical intent language relating to supplemental budget requests.

Representative Wilson OBJECTED for discussion.

Co-Chair Seaton read the amendment (see above).

Representative Neuman asked why the amendment was necessary.

Mr. Teal answered that the committee did not have to offer the amendment. He elaborated that the amendment contained intent language that had been in the budget for several

years. It conveyed to the executive branch what the legislature expected the administration to spend. The legislature did not expect the administration to come back with a supplemental request unless there were truly unforeseen circumstances. It was intent language and unenforceable. It directed the administration to manage the money appropriated by the legislature.

Representative Wilson WITHDREW her OBJECTION.

There being NO OBJECTION Amendment H SAP 1 was ADOPTED.

[3:18:12 PM](#)

Co-Chair Seaton MOVED to ADOPT H SAP 2 (copy on file):

Language Amendments

L H SAP 2 - The FY18 AHFC Dividend (net of debt issued on behalf of the State) is deposited into the General Fund

Offered by Representative Seaton

See 30-GH1855J.2, Wallace, 1-30-17.

This amendment changes the lead-in language of sec. 6(b) and (c) in HB 57, version J.

The amendment effectively deactivates the AHFC dividend fund code (1139, which is classified as UGF) so the net dividend is spent as UGF (code 1004). There is no impact on UGF spending and no loss of information caused by this amendment.

Representative Wilson OBJECTED for discussion.

Co-Chair Seaton read the amendment (see above).

Representative Kawasaki read the related text. He asked LFD if any information would be lost.

Mr. Teal responded that the bill stated the amount of the dividend. The state had records of the dividends paid by Alaska Housing Finance Corporation (AHFC) and Alaska Industrial Development and Export Authority (AIDEA). He continued that the amount of money that was spent was somewhat confusing because, in the case of AHFC, they

retained some of their dividend for debt they had issued on behalf of the state. The remaining funds were typically spent in the capital budget with the dividend codes noted. There was also a provision that looped back around that stated whatever was not spent in the capital budget went somewhere else. He explained that a dividend code was not necessary because it was a UGF code. It made no difference which code was used because they were both in the UGF group. There was no loss of information. All that would likely happen would be that the capital budget would use the UGF code rather than the AFHC or AIDEA dividend code.

Representative Wilson WITHDREW his OBJECTION.

There being NO OBJECTION Amendment L H SAP 2 was ADOPTED.

[3:21:40 PM](#)

Co-Chair Seaton MOVED to ADOPT H SAP 3 (copy on file):

Language Amendments

L H SAP 3 - The FY18 AIDEA Dividend is increased and is deposited into the General Fund

Offered by Representative Seaton

See 30-GH1855J56, Wallace, 2-20-17.

This amends sec. 8 in HB 57, version J.

This amendment increases the estimated amount of the AIDEA dividend from \$9.5 million to \$12,883,000 and also deactivates the AIDEA dividend fund code (1140, which is classified as UGF) so the dividend is spent as UGF (code 1004). There is no impact on UGF spending and no loss of information caused by this amendment.

Representative Wilson OBJECTED for discussion.

Co-Chair Seaton read the amendment description.

Representative Neuman asked if the AIDEA Board decided the amount of the dividend.

Co-Chair Seaton redirected the question to LFD.

Mr. Teal responded that they did. He relayed that the AHFC board, the AIDEA board, and the student loan board all paid

dividends in 2018. The AIDEA and AHFC boards determined the amount based on a statutory formula tied to profit. The dividend changed substantially from year-to-year. The dividends had been relatively low in recent years. There was a time when the AHFC dividend was \$100 million. Presently, it was less than \$20 million. The boards determined the dividend amounts.

Representative Neuman wondered about the discrepancy in the payout numbers for AIDEA.

Mr. Teal responded that there was a governor's amendment truing up the amount. The amendment did not set the dividend in anyway. It simply stated that whatever dividend AIDEA declared would be deposited straight into the general fund. It would then be spent as code 1004, the generic UGF code, instead of the code for dividends, which did not need to be tracked.

Representative Neuman did not have a problem with the fund code. He thought he had heard two different answers about the board deciding how much money they could afford after expenses. He wondered if the board determined the amount was \$9.5 million or \$12.8 million.

Mr. Teal was unsure the reason for the governor's amendment. The board decided that the dividend was \$12.8 million. There was a bill in which AIDEA had requested a change in the way they computed their dividends. There was a zero-impact fiscal note associated with it. A statute change was required to change the way it was calculated. He suggested Representative Neuman direct the question to Pat Pitney from OMB.

[3:26:21 PM](#)

Representative Neuman thought if there was legislation, the amendment would have to specify that it was subject to the passing of legislation. He did not see such language. He asked if the amendment was an increase or whether it was addressing authority pending a piece of legislation.

Mr. Teal reported that it was not legislation. No legislation was needed. The appropriation bill simply stated that whatever dividend was declared by AIDEA would be deposited into the general fund. It was an estimated

amount. Technically, it did not matter if the amount was \$9.5 million or \$12.8 million. Either amount would be deposited. The amendment tried to get the right amount of money in the estimate. The amount was just an estimate.

Representative Neuman asked for clarification. He relayed, "This is an estimate on the appropriation authority based on the dividend that is approved by AIDEA's board."

Representative Wilson WITHDREW her OBJECTION.

There being NO OBJECTION Amendment H SAP 3 was ADOPTED.

[3:28:07 PM](#)

Co-Chair Seaton MOVED to ADOPT H SAP 4 (copy on file):

Language Amendments

L H SAP 4 - Appropriations involving the Permanent Fund, the ERA, the PEF, the Dividend Fund and the general fund

Offered by Representative Seaton
See 30-GH1855J70, Wallace, 2-21-17.

See supporting documentation offering an explanation of appropriations related to the permanent fund

Representative Wilson OBJECTED for discussion.

Co-Chair Seaton read the amendment (see above). He invited Mr. Teal to walk through the amendment.

Representative Wilson thought the amendment was really a bill. She thought most of the amendment was already in a bill. She queried the reason it was being included in the budget.

Co-Chair Seaton responded that the language corresponded with the bill currently in finance. The budget bill was proceeding at its own speed and the other bill was proceeding at its own speed. The committee would proceed with both.

Representative Wilson asked if it was like the motor fuel surcharge in that the legislature would be putting

something in the budget anticipating that a bill would pass.

Co-Chair Seaton answered that the committee was putting direction lines of where deposits were made.

3:30:01 PM

Representative Wilson wondered whether the language would change in the budget bill if any other related bills did not pass.

Co-Chair Seaton asked her to repeat her question.

Representative Wilson asked if the amendment would be impacted if the amendment passed and the bill did not.

Co-Chair Seaton responded, "No."

Mr. Teal directed the committee's attention to the supporting documents for ASAP 4, page 1 of 5. The document provided an explanation of the amendment, which had seven parts. He pointed out a "typo" on page 2, line 1. The amount shown was \$1.69 million and should have been \$1.69 billion. Another typo on page 1, line 2 was \$2.41 million and should have been \$2.41 billion. He also pointed to the amount \$1.62 million listed under Part 5, which should have been \$1.62 billion. He suggested looking at the Legal Services version of the amendment on page 4 or 5. He advised members to follow the chart that began the explanation. He pointed to Part 1 of the amendment, which reduced the royalty payments that currently went into the Permanent Fund - 25 percent minimum mandated by the constitution. There was a law that put in another 25 percent of royalties from new fields (fields put into production after 1980) into the Permanent Fund. Currently the amount was about \$55 million per year. The 25 percent coming from the legacy fields was about \$244 million per year. The amendment would leave money in the general fund rather than placing it in the Permanent fund in the amount of \$55 million in the current year. The amount would go up to about \$70 million based on the revenue projection over the following 6 years. The second part of the amendment replaced the \$55 million that would stay in the general fund with annual inflation proofing from the earnings reserve account (ERA). The inflation proofing calculation

was .25 percent of the average 5-year balance. It amounted to about \$120 million in the current year. He pointed to page 3 of the amendment, which showed a chart that provided the average balance of the Permanent Fund, an explanation of the computations, and the actual amended amounts. He explained that when he stated \$1.69 billion, the actual carried out to more decimal places. He added that in Part 1 and 2, the principal of the Permanent Fund got more inflation proofing than it did presently.

[3:35:23 PM](#)

Representative Wilson asked about inflation proofing in the past 5 years. She asked if the amount was lower than \$120 million for inflation proofing.

Mr. Teal responded, "Typically not." He elaborated that the full inflation proofing, based on the Consumer Price Index (CPI) and the current balance had been, on occasion, about \$900 million. The legislature did not inflation proof in FY 16 or FY 17. There was no CPI based inflation proofing in the bill for FY 18. The amendment was the inflation proofing for FY 18. He reported that the bill in front of members had additional inflation proofing that would unlikely take effect in FY 19. It would come later.

Representative Wilson suggested that when Mr. Teal stated it was more than the legislature had been doing, it was because they had been doing nothing. She asked if it would go back to 5 years and the dividend. Part of it was inflation proofing. She suggested that the methodology generating \$120 million was very different than the one set at approximately \$900 million.

Mr. Teal responded, "Absolutely." He elaborated that in the past the Permanent Fund was fully inflation proofed. Some people thought it had been over-inflation proofed. The current CPI or anticipated inflation rate was about 2.25 percent. The amendment used .25 percent or one-eighth inflation proofing.

Mr. Teal explained that Part 3 was an FY 17 deposit to the Public Education Fund. The amount was determined by taking the balances between FY 11 and FY 15, a 5.25 percent payout, and reducing that amount by the dividends that were

paid out leaving a \$1.69 billion to \$1.7 billion deposit. In the governor's bill, that money would go to the general fund. In the current bill, the amount would go to the Public Education Fund.

Representative Wilson asked to confirm both were general fund monies, whether deposited into the general fund or the Public Education Fund.

Mr. Teal replied, "That's correct." He noted that by putting it in the Public Education Fund Part 4 would be allowed. Part 4 deleted the FY 18 deposit of about \$1.25 billion that, in the governor's bill, flowed into the Public Education Fund to fund K-12 in FY 18. The legislature would not need to do so because there would be \$1.7 billion in the account sufficient to fund pupil transportation and the foundation formula for FY 18. There would be a balance of about \$400 million in the fund.

Mr. Teal discussed the FY 18 payout in Part 5, which was based on a 5-year average. A payout of 5 percent would provide \$1.6 billion from the ERA to the general fund. He relayed that the state's deficit was roughly \$2.9 billion. Between the payout of \$1.6 billion and \$1.3 billion not placed into the Public Education Fund, the FY 18 deficit would be eliminated. It also depended on oil prices, and additions to and subtractions from the budget. The state would be close to balancing the budget in FY 18.

[3:40:35 PM](#)

Representative Wilson asked for clarification. She suggested that the state would be taking a \$1.6 billion payout. She wondered if a second amount would be taken from the ERA.

Mr. Teal replied in the affirmative. He detailed that the legislature would be taking a payout for FY 17. The governor implemented a portion of the bill that did not pass in the previous year by vetoing dividends. He then came back in the FY 18 bill and effectively implemented the other major piece of the prior year's Permanent Fund Protection Act, which was to pay money out in FY 17. It did not happen. Presently, the governor was implementing it in his budget with a supplemental payout. He recapped that there was a FY 17 payout of \$1.7 billion and an FY 18

payout of \$1.6 billion. The FY 18 payout went to the general fund rather than the Public Education Fund.

Representative Wilson spoke to the \$1.6 billion that would go to the Public Education Fund. She surmised that the legislature was forward funding education. She asked if the second \$1.6 would go into the general fund.

Mr. Teal replied in the affirmative.

Representative Wilson believed that the state had \$3.2 billion coming out of the ERA. She asked if she was correct.

Mr. Teal answered in the affirmative.

Representative Wilson asked about the impact of \$3.2 billion being taken out of the ERA. She thought it was a substantial amount of money to take out in one year.

[3:43:20 PM](#)

Representative Thompson was trying to determine the numbers. According to his addition, it looked like there would be a \$4.2 billion draw from the ERA in the current year. He wondered if he was accurate.

Mr. Teal answered that inflation proofing was not considered a draw - it was a transfer within a fund. The payout from the ERA was \$1.7 billion plus \$1.6 billion. The dividend was another \$790 million. Adding all the items equaled over \$4 billion. The amount that would go to the general fund would be \$3.3 billion. It depended on what to include or exclude from the calculation.

Co-Chair Seaton clarified that the \$1.7 was a draw in FY 17 and deposited in the education fund. It was not a draw in FY 18. He asked if he was correct.

Mr. Teal replied in the affirmative.

Representative Neuman did not know how to look at the amendment, besides observing the changes were very substantive. He had not heard anything about the use of the ERA to fund any of the items yet. He believed the amendment

represented a huge policy change. He asked about a draw on the CBR.

Mr. Teal replied that it depended on oil prices and what actions the legislature decided to take on the budget. He reviewed the rough estimates. He relayed a deficit of \$2.9 billion being filled with a \$1.6 billion payout and a deletion of \$1.3 billion FY 18 would lead to a balanced budget. A balanced budget would not require a CBR draw or a super majority vote associated with it.

Representative Neuman thought that avoiding the discussion might be a big reason for the amendment. He heard the committee talking about clarity in the budget. He guaranteed the public did not know anything about the amendment. He did not support the process. He thought that there would be a funding source already allocated. He did not believe it was good policy.

[3:48:08 PM](#)

Representative Ortiz asked if the impact of the \$1.7 billion for FY 17 lessened the draw for FY 18 to below the \$4 billion mark.

Mr. Teal replied, "That's correct."

Vice-Chair Gara asked about remaining funds in the CBR and Statutory Budget Reserve (SBR). He inquired what would be left in savings at the end of FY 18 if the state paid for its projected deficit out of the SBR and the CBR.

Mr. Teal replied there would be \$2.5 billion or so remaining at the end of FY 18, which could possibly get the state through FY 19 at which time the CBR would be gone.

Vice-Chair Gara asked if the savings accounts would be empty by FY 19.

Mr. Teal replied the CBR would be empty. The Statutory Budget Reserve balance would depend on oil prices and the budget. The amount was about \$300 million. It would provide some headroom in terms of budget deficits. The Constitutional Budget Reserve and Statutory Budget Reserve were referred to as the reserve accounts. The earnings

reserve account was not a true reserve account but was far larger at \$10 billion.

Vice-Chair Gara wondered what would be left at the end of FY 19 if the legislature funded the budget with those two savings accounts.

Mr. Teal answered that he did not recall the number specifically. The balance would depend on which bill was used - whether the legislature drew from the ERA or the CBR to fill the deficit. He suggested that there was about \$10 billion in earnings reserves that continually replenished itself by about \$3 billion annually. It was difficult to provide a figure without looking at his model.

Vice-Chair Gara asked that assuming the state continued just drawing [Representative Wilson interjected].

Representative Wilson called for a point of order. She thought the discussion was going way beyond the amendment.

Vice-Chair Gara responded that he was trying to figure out the impacts of drawing on the CBR and the SBR as the legislature had done without the amendment [Representative Wilson interrupted Vice-Chair Gara].

Representative Wilson countered the conversation was about the current amendment and its effects on the budget.

Vice-Chair Gara believed he was entitled to understand what would happen if the committee did not adopt the amendment and spent from the remaining budget reserves.

[3:52:48 PM](#)

AT EASE

[3:53:15 PM](#)

RECONVENED

Vice-Chair Gara restated his question to Mr. Teal. He suggested that if the state continued to fund its budget by using the CBR and SBR the state would have about \$2.7 billion left at the end of the following fiscal year [Representative Wilson interjected].

Representative Wilson requested an "At Ease."

3:53:40 PM

AT EASE

3:54:16 PM

RECONVENED

Vice-Chair Gara commented that the state would be out of savings in two years if the legislature did not make a change the way it did things.

Co-Chair Seaton referred to a question posed by Representative Neuman about the structure of the bill and the distribution. He pointed out that the governor had the exact structure in his version of the budget. There was a 5.25 percent draw to be deposited directly into the general fund. One of the problems was that the governor did not subtract the dividends paid in 2017. The amendment had a draw of 5.25 percent and subtracted the actual dividend payment that was made which provided \$1.7 billion into the Public Education Fund. Although depositing \$1.7 Billion into the Public Education Fund, a general fund account, the reduction made in the amendment was sounder than double pulling the amount of the dividend for FY 17 from the ERA.

Representative Thompson wanted to return to the subject of inflation proofing. He was uncomfortable with the inflation proofing percentage of 2.5 percent. In reviewing the 2014 actual value of the Permanent Fund compared to its value in 2016 after not having inflation proofed for two years, it had gone from \$45 billion down to \$44.4 billion. He furthered that 2.5 percent was not an adequate amount for inflation proofing. He thought it made the Permanent Fund into a semi-permanent fund. He emphasized that the legislature would be cheating Alaska's children in the future. He wanted to ensure the growth of the fund. The value would not grow without inflation proofing the fund. Inflation would otherwise eat up the fund's spendable value. He referred to legislators with children. He was concerned for his son's future. He highlighted the importance of keeping up with inflation by properly inflation proofing the Permanent Fund to maintain its growth. Currently, the legislature was taking money out of the ERA, which would potentially decrease future dividends. The legislature was taking \$4.2 billion out of the ERA presently and would reduce the Percent of Market Value

(POMV) in the future. He asked Mr. Teal to address his statements.

Mr. Teal responded that inflation proofing simply transferred money from the ERA to the principle. He continued that the Permanent Fund's [Corporation's] view of safety was having the money in the principle of the fund. The job of the board was to protect the fund. Mr. Teal's job was different. He was trying to protect the treasury, which to him meant that it was not a bad idea to leave the money in the ERA. If the money was in the corpus of the fund, it could not be spent. He was concerned the ERA would be gone, the payout to the general fund would not be available because it was in the corpus, and there would be no other reserves available. He would rather see the funds left in the ERA. The corpus and the ERA made up the Permanent Fund. He indicated that whether an actual inflation proofing transfer was made mattered in the political sense and spending-wise. It was a matter of deciding whether the money should be in the principle of the fund and unavailable for spending, or available by having it in the ERA as a safety to the treasury. It was a political and philosophical question.

[4:00:47 PM](#)

Representative Neuman asked if the ERA was available to use for expenditures. Mr. Teal responded in the affirmative. He specified that a simple majority vote of the legislature was necessary.

Representative Neuman asked if there was about \$10.5 billion in reserves. Mr. Teal replied, "That's correct."

Representative Neuman asked if there was \$3.5 billion in the CBR. Mr. Teal responded positively.

Representative Neuman suggested that there was over \$14 billion in reserves presently between the CBR and the ERA. He opined that the state was not in crisis, as its deficits were running \$3 billion and the legislature had the ability to use the ERA for appropriations. He suggested that the amendment made significant changes to how the state funded its budget. He thought it was inaccurate to say that the state would run out of money in the following year because it did not have money in reserves. The legislature knew

that the ERA could be spent. He continued that the complexity of the amendment and the fund source changes, without the opportunity to weigh in on the process, would cause a huge backlash. He suggested that it was a ploy to make it so the Majority would not have to negotiate with the Minority in the House. He adamantly opposed the amendment.

Co-Chair Seaton relayed that the committee had already had several presentations including economic presentations, fiscal analysis, POMV calculation presentations, and several others. He was sorry Representative Neuman had not been present for the presentations. However, he felt that the issues had been broadly discussed in the committee. The amendment came after public testimony on issues involving POMV distributions. It was not as if the committee had not been dealing with the issue from the start of session. The amendment was strictly in the budgetary context not in a separate ongoing law. If the amendment was adopted, the public would have an opportunity to comment on the following Thursday, Friday, and Saturday. All the supporting documents could be found online. He did not want the statement left hanging that the issue had not been discussed in committee.

[4:05:33 PM](#)

Mr. Teal explained item 6, payment of dividends, on the supporting documentation. In the appropriation bill, it did not mention precisely how the amount was computed but was based on market value and a percentage payout. Instead, it was a generic \$794 million appropriated to dividends, which corresponded to the 30 percent split of a 5 percent POMV payout.

Co-Chair Seaton clarified that it was 33 percent. Mr. Teal agreed. In the appropriation bill, it stated \$794 million was appropriated for dividends from the ERA to the dividend fund.

Mr. Teal continued that in Part 7 it stated that it was deleted, unlike the governor's bill that appropriated some royalty proceeds to the dividend. The dividends would be comprised of only the appropriations from the ERA to the dividend fund.

Vice-Chair Gara asked if it was accurate that instead of last year's dividend in the amount of \$1020, the current provision would allow for a dividend of about \$1150. Mr. Teal replied in the affirmative.

Representative Wilson wanted to bring Ms. Rodell to the table for questions regarding the impacts of a draw.

[4:07:50 PM](#)

ANGELA RODELL, EXECUTIVE DIRECTOR, ALASKA PERMANENT FUND CORPORATION, responded that \$120 million going from the ERA to the corpus only required an accounting entry. There were no changes to the investment strategy regarding that portion. She continued that about \$4.09 billion would be drawn. The Permanent Fund Corporation (PFC) had the capacity to create the liquidity and to make the adjustments for that type of draw. The corporation would not adjust any of its long-term investment strategies. The corporation would start to plan for liquidity. The corporation would work with the Department of Revenue (DOR) and the Division of Finance within the Department of Administration (DOA) as to the timing of when the full \$4.09 million would be needed. Generally, there was a cash management plan in place as to how it would roll out. It was unlikely that one check on July 1st would be needed. It was more likely there would be a series of transfers to the state general fund for cash purposes, which would allow the corporation to manage the liquidity more effectively.

Representative Wilson asked if the state would take \$1.6 billion out and place it into the Public Education Fund. She asked if it would be done immediately. Ms. Rodell responded that it was possible that the reimbursement for FY 17, \$1.7 billion, would be done first, which would not be a problem. It would be similar to when PFC made a dividend transfer. The transfer to the dividend fund was made in August. The corporation started planning it out in conjunction with DOR as to how it would take place. She continued that the following \$1.6 billion for UGF for FY 18 might have more flexibility with a longer period to transfer the funds.

Representative Wilson asked which fund made more money: the ERA or the CBR. Ms. Rodell explained that the CBR was

restricted on the type and duration of investments. The Earnings Reserve Account had a higher return than the CBR.

Representative Wilson was aware that the \$120.7 million for inflation proofing was just a fund source change except that it protected the fund in the long run unless the realized earnings came out depleting the fund. She wondered about the impact of lowering the amount from over \$900 million to \$120 million.

Ms. Rodell responded that it would not have the same impact as if the statutory formula for inflation proofing was being funded in its entirety. She clarified that the 2016 amount that was zeroed out was estimated to be about \$900 million based on an inflation rate of 2.25 percent. The actual inflation rate and the amount that would have gone in, had the language and appropriation remained, would have been \$47 million because inflation was flat. Currently, for FY 17 the inflation-proofing amount would be just over \$450 million. The rate was at about 1.6 percent to 1.7 percent. Historically, inflation moved around from high inflation to low inflation. She thought the \$120 million recognized that the statutory formula was still in place and that there was at least some appropriation towards the formula.

Representative Wilson commented that it was a huge thing to expect people to understand. She suggested that the committee would be hearing 2-minute testimonies from the public on Thursday, Friday, and Saturday on the entirety of the bill including the current amendment. The amendment would take \$1.7 billion from the ERA and put it into the Public Education Fund and another \$1.6 billion would be placed into the general fund. She thought another \$400 would be withdraw but was unclear of its use. The amendment would also set the dividend at \$1150 for 1 year taking a total of \$4 million out of the fund. There had been a similar piece of legislation introduced a couple of years prior. However, she remembered a group of people opposing the legislation wanting to put the issue to a vote of the people. She was trying to figure out what had changed in two years. She also did not understand why the legislature would take from the highest earning pool of funds. She suggested taking out only what was needed. She did not see what revenue would be lost by transferring money into a fund that did not make as much money. There was no way she could support the bill. It was not fair to the public. She

hoped that people were taking good notes. She asked if any of the other bills would be needed if the transfer was made. The only difference she could see was the amendment would only apply for one year. She thought the ERA would be placed in jeopardy.

[4:18:18 PM](#)

Co-Chair Seaton referred to the \$794 million for dividends for FY 18. He wondered when the funds were transferred from the corporation. Ms. Rodell responded that the dividend requirement was typically moved in August in advance of September. The payout came out of the dividend fund in the first week of October.

Co-Chair Seaton asked if she would anticipate any changes with the adoption of the amendment. Ms. Rodell indicated it would not change.

Representative Thompson asked Co-Chair Seaton about the removal of the draw limit. He squired how volatility of revenues would be addressed if the state suddenly were to bring in large oil revenues. He asked if the annual draw on the ERA would be reduced. Co-Chair Seaton stated that the amendment only applied to FY 17 and FY 18. He explained that the draw of \$1.7 billion applied to FY 17. The other draw would apply to FY 18. The first would be drawn in FY 17 and the second would be drawn in FY 18 rather than one draw at one time.

Mr. Teal wanted to address concerns about cash flow. He explained that \$1.7 billion would be paid from the ERA on June 30, 2017. In August, the dividends would be paid out from the ERA. During the year, the other \$1.6 billion would be borrowed from the CBR on a short-term basis throughout the year. The Permanent Fund Corporation would make payments throughout the year to repay money to the CBR. He clarified that the CBR would be used to ensure that PF investment decisions were affected. He suggested that if a draw was taken all at once in FY 18 the PFC might be forced to sell investments at an inopportune time. It provided PFC a full year to repay \$1.6 billion.

Mr. Teal addressed Representative Thompson's question about the volatility of oil revenue. The current bill was an appropriation. However, the bill affecting the PF had a

revenue limit that would reduce the draw. Such language could be added to the appropriation bill. It was not added to keep things as simple as possible. Under HB 115 there might not be a \$1.6 billion payout in FY 18 if oil prices were over \$70 per barrel - the POMV draw would be reduced.

Representative Tilton was very concerned with the ability of the public to understand the amendment. She was aware that the amendment was posted on Basis on the previous day and that there was an opportunity for people to look at it. The committee had had the opportunity to look at modeling. Even with that opportunity, she thought the amendment was very involved and difficult to follow. She was not comfortable supporting it.

[4:24:20 PM](#)

Representative Neuman remarked that he was uncertain about the legality of the intent language. The amendment would be setting the value of the PFD using a POMV. He wondered if substantive changes could be added that was essentially a piece of legislation as an amendment in a budget bill. He wanted to see a legal opinion on the issue. He suggested that several members had asked about the process.

Co-Chair Foster thought the committee might need to talk with Legislative Legal Services.

Mr. Teal referred to page 4 of the supporting documents, which was the Legislative Legal Services amendment that had been prepared. It did not mention the term POMV, count years, or indicate a percent. Instead, it stated that the sum of "X" was appropriated. It did not change substantive law.

Representative Neuman read from page 1 of the supporting documents:

Part 2 of this amendment adds a new subsection that appropriates \$120.27 million (.25% of the average five-year market value of the permanent fund) from the earnings reserve account to inflation proof the permanent fund. In terms of inflation-proofing permanent fund principal, this annual appropriation more than offsets the impact of redirecting royalty

revenue from the permanent fund to the general fund as is done in part 1 of this amendment.

Representative Neuman did not feel he had received an answer to his question. Mr. Teal responded that there was an explanation included in the description of how the number was derived. The bill did not mention 5.25 percent and .25 percent. It only stated that the sum of \$120.27 billion was appropriated from the ERA to the principle. There was no mention of how the amount was calculated. He clarified that the information regarding the POMV, the rate that was applied, and how the market value was computed was only information, not part of the appropriation bill.

Representative Neuman interjected that in the explanation of the amendment it clearly stated the intent of the amendment.

Co-Chair Foster suggested that the alternative would be to get someone from Legislative Legal Services to respond. He conveyed that Megan Wallace would be online shortly.

[4:28:42 PM](#)

AT EASE

[4:43:55 PM](#)

RECONVENED

Co-Chair Foster indicated that Meagan Wallace was online from Legislative Legal to answer questions.

MEGAN WALLACE, ATTORNEY, LEGISLATIVE LEGAL SERVICES (via teleconference), asked that the question be repeated.

Representative Neuman restated his question concerning the legality of the substantive changes in the amendment. Ms. Wallace responded that the proposed appropriation in the amendment (J.7) from the ERA to the various funds including the Public Education Fund, the general fund, and the dividend fund, did not present a consignment clause issue, in in her opinion. She continued to explain that the ERA was always available for appropriation by the legislature. She relayed that from the Hickel vs. Cooper case the Supreme Court stated that the ERA was available for appropriation to the legislature. There were substantive provisions in Title 37 and Title 37.13, which stated that

the ERA was to be used for specific purposes. The state's prohibition against dedicated funds meant that essentially those substantive provisions were always subject to appropriation. Therefore, if the legislature or the committee decided they wanted to transfer the funds outside of the ERA to the other funds mentioned, as long as it was for a public purpose, there was no legal prohibition from the legislature doing so. She reiterated that in her opinion, the amendment did not prevent a consignment clause issue.

[4:47:35 PM](#)

Representative Neuman asked about forward funding education by an additional year. Ms. Wallace reported having forward funded education in prior years from the general fund or other funds. The money in the Public Education Fund did not lapse. The substantive provision governing the Public Education Fund dictated how the funds could be spent. She did not see any legal issue with depositing the money from the ERA into the Public Education Fund so long as it was spent in accordance with the provisions in AS.14.17.300.

Representative Neuman was unfamiliar with the provisions in statute. Ms. Wallace clarified she had referenced the statute that governs the Public Education Fund which dictated that the money in the Public Education Fund was to be spent on state aide for public schools and transportation.

Representative Wilson MAINTAINED her OBJECTION.

A roll call vote was taken on the motion.

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

OPPOSED: Neuman, Thompson, Tilton, Wilson

The MOTION PASSED (7/4).

Amendment L H SAP 4 was ADOPTED.

[4:50:06 PM](#)

Co-Chair Seaton MOVED to ADOPT L H SAP 5:

Language Amendments

L H SAP 5 - Increase the amount that may be scooped from lapsing balances to the Group Health and Life Benefit Fund

Offered by Representative Seaton

See 30-GH1855J.21, Wallace, 1-31-17.

This amends sec. 9(d) in HB 57, version J.

The Governor's budget requested up to a \$5 million unobligated balance in the Group Health and Life Benefits Fund after scooping lapsing appropriations at the end of FY18.

This amendment increases the potential unobligated balance to \$10 million. The Governor requested an FY17 deposit of \$20 million. The legislature appropriated \$7.5 million. The fund pays health claim costs for state employees and has a balance that is low by historical standards.

The fund pays about \$130 million in claims annually. This amendment provides roughly one month of reserves.

Using lapsing balances to fill the fund avoids general fund appropriations and stabilizes contribution rates.

Representative Wilson OBJECTED for discussion.

Co-Chair Seaton read the amendment (see above).

Representative Neuman understood the state did not have enough funding to cover the same item in the previous year. He thought there were left over funds. He wondered if he was accurate.

Co-Chair Seaton deferred to OMB.

PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, reported that in the previous year the administration had requested a \$15 million amendment to cover FY 17 because the reserve balance was low. The administration had presented its request in 2 ways. The first was a cash deposit into the reserve fund or funding for a rate increase. Half of it was funded in the reserve

fund. The other half, the general fund portion, was not funded. In May of the prior year, the administration had communicated that without the remaining funding it anticipated a supplemental request. Subsequently, it submitted a supplemental request for FY 17 because the low reserve balance in the health fund. In conjunction with the rate increase and the supplemental request, they would allow the administration to backfill the reserve. It would also allow the department to moderate any future increases by using a lapse balance.

Representative Neuman recalled the discussion from the previous year. He reported that there had been an increase in the cost of insurance. Some members thought that the increase in insurance costs should be passed on to the insurance recipients rather than the state. The increase to the reserve fund would be used to cover the costs of increases to health insurance for state employees rather than passing on the costs. Ms. Pitney noted that the administration was also passing on some of the costs to employees. It would be increasing in FY 17 and FY 18.

Representative Neuman thought the answer was a "Yes" to subsidizing increased payments. Ms. Pitney responded, "Yes."

Representative Neuman asked how fair it was to appropriate the additional money. He opined that everyone should have to share in the burden. He recalled conversations with DOA about union contracts being held to zero increases for the following 3 years. Last year the department had committed to reducing the cost to the state. Presently, the legislature was being asked to put general fund dollars back in to cover insurance costs. He opposed the amendment.

Representative Wilson MAINTAINED her OBJECTION.

A roll call vote was taken on the motion.

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

OPPOSED: Neuman, Thompson, Tilton, Wilson

The MOTION PASSED (7/4).

Amendment L H SAP 5 was ADOPTED.

[4:57:26 PM](#)

Co-Chair Seaton MOVED to ADOPT L H SAP 6:

Language Amendments

L H SAP 6 - FY17 lapse balance to be used in FY18 to eliminate backlog in DHSS, public assistance field services

Offered by Representative Seaton
See 30-GH1855J68, Wallace, 2-20-17.

This amendment appropriates to the Department of Health and Social Services up to \$500,000 of any FY17 lapsing funds for use in FY18 in the Division of Public Assistance, Public Assistance Field Services to eliminate the backlog in eligibility determinations.

Representative Wilson OBJECTED for discussion.

Co-Chair Seaton read the amendment (see above). He further explained that in FY 16 the Division of Public Assistance was cut by \$1.1 million in UGF. It was a combination of reduced funding and positions, which eliminated the ability to fund overtime. An increased caseload had resulted in Public Assistance experiencing a significant backlog in eligibility determinations. Although the office was able to keep up with new cases, it was struggling to address the backlog. The one-time funding would be matched with approximately \$500 thousand in federal funds and would help with addressing the backlog. There was sufficient federal receipt authority in the existing budget.

Representative Wilson asked how many vacancies there were in the division.

Co-Chair Seaton deferred to Vice-Chair Gara.

Vice-Chair Gara responded that the amendment came out of the Health and Social Services Finance Subcommittee. The division planned on using overtime. If overtime did not cover the need, part-time workers would be used but would not be retained for more than 1 year. There was a major backlog of food stamp applicants and other public benefit applicants. If a person qualified for food stamps, which

were fully federally funded, it took a month or more for those who qualified to receive an interview. An application approval took additional time. The committee saw the timeline as a problem for families that were living on the edge. A way to try to fix the issue without increasing the budget was the amendment. It stated that if the traditional amount of money lapsed at the end of the year, up to \$500 thousand could be used as a one-time increment. The department believed that it only needed a one-time appropriation to get through the backlog.

[5:01:20 PM](#)

Representative Wilson asked how many vacancies existed in the division. Vice-Chair Gara responded that the department testified that they did not have the funding to add more positions and could not clear the backlog.

Representative Wilson asked how many PCN's were open in the division. Vice-Chair Gara responded they did not have any funded vacancies at present.

Representative Wilson asked how often recipients had to renew their application. Vice-Chair Gara replied that the eligibility staff tended to work on more than one kind of public benefit. For instance, those folks who applied for food stamps also applied for other benefits. He was uncertain of the rules for each of the benefit programs in terms of recipients having to prove eligibility.

Representative Wilson was aware that for some programs the state had a tedious method for recipients to prove that their income had not changed. She remarked that the amendment would add to the budget. She was concerned with another backlog occurring based on the inefficiencies of the system. She knew of several people that had been affected by the backlog. She would not be supporting the amendment without knowing how the backlog came to be.

Representative Neuman asked where the lapse in funds came from. Vice-Chair Gara answered that the amendment did not change or increase the FY 18 budget. If there were lapsing funds within DHSS and only in the non-Medicaid portion at the end of FY 17, they would be able to use up to \$500,000.

[5:05:33 PM](#)

Representative Neuman asked where the lapse in funds came from. He asked what money was left unspent. Vice-Chair Gara was unsure if there would be any lapsing funds by the end of FY 17 (June 30, 2017). If there were lapsing funds, up to \$500.000 could be used to reduce the backlog for people who were qualified for food stamps and other benefits, rather than the money going back into the general fund.

Representative Neuman wondered which appropriations would unlikely be spent. He remarked that the commissioner could move the funds around. He wanted to hear from the department. He suggested that it was possible the department would intentionally not spend certain funds so that they could be moved to OCS. He was confused. Vice-Chair Gara thought Representative Neuman had a good question. He did not think the department would take the action without legislative approval. They would not move money over from FY 17 to FY 18 without legislative approval to spend it in the following fiscal year. Certainly, within one fiscal year a department could move funds around. If there were no left-over funds, the amendment would have no effect.

Representative Neuman wanted to have a report of any unspent funds in each department.

5:09:28 PM

Representative Tilton believed the department divisions had testified they were all in need of funding. She reported there were excess funds of \$3.6 million in Adult Public Assistance that was moved over to OCS. She thought the divisions would have identified funds that could be moved around. The commissioner had the ability to move funds around with certain guidelines in place. Some of the reasons for the backlog was because of people not being able to come to their appointments due to their work obligations or because of a lack of childcare. Therefore, the backlog was not entirely because of a lack of staffing but because of commitments made by the people requesting the funds.

Representative Grenn asked for clarification regarding a federal match. Vice-Chair Gara responded that many of the benefits qualified for a federal match. The department

estimated that the funds would bring in about \$530 million in federal matching dollars. He confirmed that there was enough receipt authority in the budget for that amount.

Representative Wilson MAINTAINED her OBJECTION.

A roll call vote was taken on the motion.

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

OPPOSED: Neuman, Thompson, Tilton, Wilson

The MOTION PASSED (7/4).

Amendment L H SAP 6 was ADOPTED.

[5:12:17 PM](#)

Co-Chair Seaton MOVED to ADOPT L H SAP 7, L H SAP 8, and L H SAP 9:

Language Amendments

L H SAP 7 - Reduce appropriation to the Crime Victim Compensation Fund by \$400.0

Offered by Representative Seaton

See 30-GH1855J.47, Wallace, 2-15-17.

This amends sec. 21(p) by reducing the capitalization of the crime victim compensation fund from \$1,422.5 to \$1,022.5 with the PFD Crime funds.

Another amendment will reduce unrestricted general funds in the Department of Corrections by \$400.0 and increase the PFD Crime funds by \$400.0.

Another amendment will decrease the authorization of the Violent Crime Compensation Board in the Department of Administration by \$400.0 from the crime victim compensation fund.

Language Amendments

L H SAP 8 - Reduce appropriation from the Crime Victim Compensation Fund to \$1,022.5

Offered by Representative Seaton

PF felon funds (code 1171) are typically appropriated to the CVCF. With the reduction in FY17 PFD amount, the amount of PF felon funds was reduced by approximately 50%. A language amendment reduces the deposit to the CVCF by approximately 30%--from \$1,422.5 to \$1,022.5. This amendment reduces the appropriation from the CVCF to the Board by a corresponding amount.

Language Amendments

L H SAP 9 - Reduce use of UGF in DOC and replace with PF Crime Fund

Offered by Representative Seaton

Another amendment reduces the \$1,422.5 PFD Crime deposit into the crime victim compensation fund by \$400.0.

This amendment reduces the use of unrestricted general funds in the Department of Corrections and increases the appropriation of PFD Crime by that same \$400.0.

Representative Wilson OBJECTED for discussion.

Co-Chair Seaton explained that the amendments were linked. He read the amendments.

Representative Wilson asked about the \$400 thousand being taken out of L H SAP 7 and L H SAP 8. She wondered if the funds were not available because of the cut to the dividend.

Co-Chair Seaton invited Mr. Teal to respond.

Mr. Teal explained that it was not that the funds were not available. The funds available through the PFD Felon Funds - dividends that would have otherwise gone to felons - was reduced by 50 percent because the dividend was reduced 50 percent. There was much less money available. The money was typically split between the Department of Corrections (DOC) and the Crime Victim Compensation Fund (CVCF). Rather than giving them both a 50 percent reduction in PFD criminal funding, the chairman wanted to reduce the CVCF by about 30 percent instead of 50 percent and have DOC absorb the rest.

Representative Wilson asked about the \$400 thousand decrement in both amendments. Mr. Teal replied that the PFD criminal funds were deposited into the CVCF. It was created in such a way because the money did not lapse. The money was then appropriated from the CVCF to the board, which made grant awards to victims of crimes. Less money would be placed into the fund and less money would be transferred from the fund over to DOA. He suggested that by depositing less money (\$400,000) into the fund it made the money available to DOC, offsetting UGF.

[5:16:55 PM](#)

Representative Wilson suggested that Amendment L H SAP 9 reflected another \$400,000 transfer where general fund money was being replaced with money from the PF Felon Fund. She wondered if the extra \$400,000 was available because of the subtractions taken from the other two organizations, which allowed the other \$400,000 to be transferred for general funds. Mr. Teal responded, "Through the chair, that's correct."

Representative Neuman asked if all three amendments would be voted on together in one vote. Co-Chair Foster stated that they would be voted on as they were moved by the maker of the motion.

Representative Neuman wondered if it was because the same \$400,000 was affected. He asked if when the governor reduced the amount of the PFD it automatically reduced the amount going into the compensation fund. He remarked that the inmates' dividend was already reduced.

Co-Chair Seaton responded that the linked deposits were compensation for the reduction. He invited Mr. Teal to comment.

Mr. Teal added that there was no automatic reduction. There was \$1.4 million appropriated in FY 17. The amount was about the same in FY 16. However, there was no automatic reduction for them, as they had to be adjusted manually each year. That is the purpose of the amendment.

Representative Wilson WITHDREW her OBJECTION.

Representative Neuman OBJECTED. He thought if there was \$400,000 left, it should be used to reduce the budget overall.

A roll call vote was taken on the motion.

IN FAVOR: Thompson, Wilson, Gara, Grenn, Guttenberg, Ortiz, Seaton, Foster

OPPOSED: Neuman, Tilton

The MOTION PASSED (8/2).

Representative Kawasaki was absent from the vote.

Amendments L H SAP 7, L H SAP 8, and L H SAP 9 were ADOPTED.

5:20:03 PM

Co-Chair Seaton MOVED to ADOPT L H SAP 10:

Language Amendments

L H SAP 10 - Remove reference to the Alaska Aerospace Corporation from the Federal and Other Receipts section

Offered by Representative Seaton
See 30-GH1855J.22, Wallace, 1-31-17.

This amends sec. 20(a) in HB 57, version J, by deleting the reference to the receipts of the Alaska Aerospace Corporation because the language is redundant. Sec. 5 in HB 57, version J, appropriates unanticipated federal and other corporate receipts directly to the Corporation.

Representative Wilson OBJECTED for discussion.

Co-Chair Seaton read the amendment (see above).

Representative Wilson WITHDREW her OBJECTION.

There being NO OBJECTION, Amendment L H SAP 10 was ADOPTED.

5:20:57 PM

Co-Chair Seaton MOVED to ADOPT L H SAP 11:

Language Amendments

H SAP 11 - Reverse Governor's Unallocated Reduction
for Merit Freeze Legislation

Offered by Representative Seaton

This amendment reverses an unallocated reduction submitted as a placeholder for savings associated with legislation regarding an Executive Branch Exempt and Partially Exempt Pay Freeze. The projected savings should be reflected in a fiscal note.

This amendment directs Legislative Finance Division to reverse the entire unallocated appropriation as submitted by the Governor's Office.

\$1,817.9 TOTAL

\$1,005.2 UGF

\$157.0 DGF

\$612.4 Other

\$43.3 Fed

Representative Wilson OBJECTED for discussion.

Co-Chair Seaton read the amendment (see above).

Representative Wilson asked why the amendment was different from other amendments that were attached to other pieces of legislation. Co-Chair Seaton explained that the amendment reversed an unallocated reduction submitted as a placeholder. She was free to disagree with the amendment. Disregarding other amendments, the amendment stood on its own.

Representative Wilson requested an "at ease."

[5:22:58 PM](#)

AT EASE

[5:24:58 PM](#)

RECONVENED

Representative Wilson wanted to make sure she understood the amendment. She wondered exactly what the amendment did. Co-Chair Seaton responded that the amendment was asking LFD

to reverse the unallocated appropriations as submitted. It was unallocated and was in a bill coming before the committee. It would reverse the appropriations because he did not like them where they were.

Representative Wilson WITHDREW her OBJECTION.

There being NO OBJECTION, Amendment L H SAP 11 was ADOPTED.

[5:26:19 PM](#)

Co-Chair Seaton MOVED to ADOPT L H SAP 12:

Language Amendments

L H SAP 12 - Contingency related to HB 60, Motor Fuel Taxes

Offered by Representative Seaton

See 30-GH1855J.48, Wallace, 2-17-17.

The Governor's budget redirects \$64.8 million of motor fuel tax receipts from the unrestricted general fund (UGF) to the new Transportation Maintenance Fund that would be created by the passage of HB 60. HB 60 reclassifies motor fuel tax receipts as designated general funds (DGF) and appropriations from the fund would be DGF as well.

Similarly, HB 60 would reclassify \$4.5 million of Aviation Fuel Tax receipts as DGF.

If HB 60 is not enacted into law, this amendment changes the DGF appropriations of motor fuel and aviation fuel tax receipts to UGF code 1004.

Without this amendment, failure to adopt HB 60 would leave DOT&PF with \$70 million of appropriations from a fund source that does not exist.

Representative Wilson OBJECTED for discussion.

Co-Chair Seaton read the amendment (see above).

Vice-Chair Gara commented that Representative Wilson used a new phrase that he liked that he hoped to use also, which was, "I take my objection back."

Representative Wilson WITHDREW her OBJECTION.

There being NO OBJECTION, Amendment L H SAP 12 was ADOPTED.

[5:28:06 PM](#)

Co-Chair Seaton MOVED to ADOPT L H SAP 13:

Language Amendments

H SAP 13 - Technical and vocational education program
(TVEP) funding contingency

Offered by Representative Seaton
See 30-GH1855J50, Wallace, 2-18-17.

The TVEP funding distribution formula expires June 30, 2017. The Governor's FY18 budget contains TVEP funding. This amendment makes that budgeted TVEP funding contingent upon passage of legislation extending the distribution formula beyond June 30, 2017.

Representative Wilson OBJECTED for discussion.

Co-Chair Seaton read the amendment (see above).

Representative Wilson asked if all the corrections that had been made to the TVEP funding was in anticipation of what would be going into the fund. She thought the amendment was saying that it would not matter if the bill did not pass. She suggested that the figures would not change but if there were not a bill, the amounts would be zeroed. She asked if she was correct. Co-Chair Seaton responded in the affirmative.

Representative Neuman asked why the amendment was needed. Co-Chair Seaton responded that there were amounts throughout the budget. He wanted to make sure, that if the bill did not pass a contingency would be in place to reverse them.

Representative Neuman further queried about the TVEP funding and a sunset clause. Co-Chair Seaton explained that the legislature had to authorize the spending, which was authorized in the bill. If the bill sunsetted,

authorization would not continue. The amendment provided contingency language removing the amounts if the bill did not pass.

Representative Neuman wanted to make sure that point was very clear.

Representative Wilson WITHDREW her OBJECTION.

There being NO OBJECTION, Amendment L H SAP 13 was ADOPTED.

[5:31:33 PM](#)

Co-Chair Seaton MOVED to ADOPT L H SAP 14 and L H SAP 15:

Language Amendments

L H SAP 14 - Add bargaining units to Salary and Benefits section 8 in HB 59

Offered by Representative Seaton See 30-GH1856D1, Wallace, 2-20-17

The Governor submitted the amendment to add the names of seven bargaining units to the listing in section 8 of the Mental Health budget bill.

Language Amendments

L H SAP 15 - Add bargaining units to the Salary and Benefits section 24 in HB 57

Offered by Representative Seaton
See 30-GH1855J51, Wallace, 2-18-17.

This amends section 24, Salary and Benefits, in HB 57 by adding the names of seven bargaining units as requested by the Governor.

Representative Wilson OBJECTED for discussion.

Co-Chair Seaton read the amendments.

Representative Wilson asked if the groups were out for the current year. If so, she wondered if the state anticipated bringing the contracts back during the current session for comparison purposes.

Co-Chair Seaton asked Ms. Pitney to come forward with a response.

Ms. Pitney requested that the question be restated.

Co-Chair Seaton responded that the committee was reviewing Amendment L H SAP 14 and Amendment L H SAP 15 on page 6.

Representative Wilson referred to page 6 that listed all the bargaining units. She asked if Ms. Pitney anticipated the negotiations to be done while the legislature was in session. If so, she wondered if she would bring them back to the legislature to compare them to the previous year's negotiations. Ms. Pitney replied that the ones added in the amendment were only those where negotiations were completed. If there were additional units that completed negotiations prior to the end of session the information would be brought to the legislature. Otherwise, they would not be added to the language.

Vice-Chair Gara asked how the bargaining contracts agreed upon after the end of session were funded. Ms. Pitney replied, "Through the supplemental process."

Representative Wilson WITHDREW her OBJECTION.

There being NO OBJECTION, Amendments L H SAP 14 and L H SAP 15 were ADOPTED.

[5:34:57 PM](#)

Co-Chair Seaton MOVED to ADOPT L H SAP 16:

Language Amendments

L H SAP 16 - Remove CBR section related to filling the FY18 budget deficit

Offered by Representative Seaton See 30-GH1855J41, Wallace, 2-15-17

This deletes sec. 27(b) which would fund the FY18 deficit from the CBR.

Representative Wilson OBJECTED for discussion.

Co-Chair Seaton read the amendment (see above).

Representative Wilson was disappointed that the CBR was the fund that was being proposed to fill the budget gap. She believed that in the present day the committee had taken its most valuable asset and moved it into accounts that would not be making much money. She thought the motive behind the amendment had to do with avoiding a CBR vote. She thought the action sent a strong message to the public that the legislature was maintaining or enlarging the size of government rather than reducing it. She would be maintaining her objection.

Representative Neuman asked if the option to fund the budget with the CBR was off the table.

Co-Chair Seaton deferred to LFD.

[5:37:08 PM](#)

Mr. Teal would not say the amendment was taking the option of using the CBR off the table. There would be other opportunities to put the language back in either in the Senate or in the capital bill. The amendment took the option out of the operating bill in the House.

Representative Neuman clarified that he heard an affirmative response. It was his impression that everything was on the table. He supposed that the amendment was taking the use of the CBR off the table. He suspected that the reason for doing so was to keep the House minority from having the ability to negotiate on the budget. He asked what he was missing.

Co-Chair Seaton thought the point Representative Neuman missed was that with the amendments adopted and the plan going forward the budget was fully funded. Therefore, a CBR was not needed.

Representative Neuman thought it was a heck of a statement to make at the current point in the process. He was left without words as to why things would be handled in such a way. He thought the legislature was a long way from a balanced budget. He thought all options as to how to fund state government should stay on the table. He adamantly opposed the amendment.

Representative Tilton was deeply disappointed in the process. She commented that her constituents and others had not had the opportunity to have a voice on the budget. She believed that the public felt there would be more transparency and that their voices would be heard. She did not believe there was transparency in the process and strongly objected to the amendment.

Co-Chair Seaton thought the process had been the most transparent process he had seen. Every amendment that had been put forward to change the governor's budget had been brought forward as an amendment and voted on by the full House Finance Committee. The public would see the budget as it was proposed and would have an opportunity to comment. If members of the public decided to comment and did not want the state to have a balanced budget requiring a CBR vote, the legislature would have the option to put it back in during the second round of amendments. He reiterated that every amendment was put forward and voted up or down in the House Finance Committee. He noted that all the subcommittee meetings were broadcast and recorded on web television. He could not quite understand how someone could argue that the process was not transparent.

[5:42:49 PM](#)

Representative Wilson assumed that the SBR was still in play. She asked about all the available accounts. She indicated that the budget was not balanced because it was being paid for, in part, with savings. Co-Chair Seaton responded that the CBR would need a three-quarter vote.

Representative Wilson wondered if taking the CBR off the table had any impact because without having a three-quarter vote on a specific amount, it would not have been used anyway. Co-Chair Seaton responded in the affirmative.

Vice-Chair Gara commented that a few years prior the state had roughly \$17 billion in savings. Through the previous year, the legislature had spent most of it. By the end of the current fiscal year, if the legislature kept using the savings account, the balance would be \$2.7 billion. The remainder of savings would be gone by the subtenant year. He did not want to be at the point where the legislature was rearranging the chairs on the Titanic. He supposed the legislature could decide to keep spending out of the

savings account until it was gone. He also pointed out that he did not know how the new subcommittee and finance process would work. He thought it was worth a try because the old method had not worked.

Representative Neuman called for a point of order asking that the amendment be discussed. Vice-Chair Gara explained that he was addressing a point that had been made.

Co-Chair Foster asked Vice-Chair Gara to address the amendment. Vice-Chair Gara commented that the process had been the most transparent that he had been through.

Representative Wilson commented that the state was draining its savings. She MAINTAINED her OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Grenn, Guttenberg, Ortiz, Foster, Seaton
OPPOSED: Thompson, Tilton, Wilson, Neuman

The MOTION PASSED (6/4).

Representative Kawasaki was absent from the vote.

Amendment L H SAP 16 was ADOPTED.

Co-Chair Seaton reported that Legislative Legal Services and LFD would be preparing the new committee substitutes for HB 57 and HB 59.

Co-Chair Foster MOVED to give Legislative Legal Services and the Legislative Finance Division the ability to make conforming and technical corrections to HB 57.

There being NO OBJECTION, it was so ordered.

Co-Chair Foster MOVED to give Legislative Legal Services and the Legislative Finance Division the ability to make conforming and technical corrections to HB 59.

There being NO OBJECTION, it was so ordered.

Co-Chair Foster reviewed the agenda for the following day.

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ADJOURNMENT

5:49:06 PM

The meeting was adjourned at 5:49 p.m.