

HOUSE FINANCE COMMITTEE
March 10, 2017
8:33 a.m.

8:33:54 AM

CALL TO ORDER

Co-Chair Seaton called the House Finance Committee meeting to order at 8:33 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Representative Louise Stutes; Representative Gary Knopp

SUMMARY

HB 57 APPROP: OPERATING BUDGET/LOANS/FUNDS

CSHB 57(FIN) was REPORTED out of committee with a "do pass" recommendation.

HB 59 APPROP: MENTAL HEALTH BUDGET

CSHB 59(FIN) was REPORTED out of committee with a "do pass" recommendation.

Co-Chair Seaton addressed the agenda for the meeting.

#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. 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."

[8:34:37 AM](#)

Co-Chair Foster MOVED to ADOPT the proposed committee substitute for HB 57 (FIN), Work Draft 30-GH1855\N (Wallace, 3/9/17).

Representative Wilson OBJECTED.

Representative Wilson spoke to her objection. She had known that all of the amendments she put forward would not be adopted. She shared that she had offered a number of the amendments because she believed the committee needed to have some discussions. She elaborated that the committee needed to discuss government's role and how much they should be funding each area. She stated it was not merely about the programs, but about how many things the state had started paying for that had initially been paid for with federal funds or because Alaska was a small state and had not had some of the organizations able to meet some of the needs. She underscored that it was no longer the situation.

She continued that the state had urban areas, great nonprofits, and ways of raising funds that had not been present in the past. She relayed that the current version of the budget was larger than it had been a few days earlier. She thought the state would never have a sustainable budget with additional spending. She stated the legislature was presently talking about an income tax, motor fuel tax, and other to fill the budget gap. She stressed that the Permanent Fund had been taken from Alaskans the previous year and the current bill proposed taking it again. She stated the bill would take \$4 billion from the Permanent Fund earnings reserve. She reasoned it was not only about the \$4 billion, but about the earnings the fund would no longer receive because of taking more than necessary from the reserve.

Representative Wilson believed the budget showed that the legislature would prefer to drain the highest earning savings account instead of using an account that earned little to no interest. She surmised that at some point there would only be one other way to get the money - from the people - when savings could have been earning the money instead. She would prefer to utilize the earnings off of its savings versus taxing hardworking Alaskans. She reasoned that Alaskans were contributing to nonprofits and schools. She reiterated she had offered numerous amendments because there was much discussion the committee needed to have. She spoke about the new amendment process and noted members had been told much of the discussion would occur in the committee process instead of in subcommittees. She emphasized that the discussion had not occurred. She referenced a previous discussion about whether a forester position in Haines was needed. She believed the real question was what had happened to the timber receipts and timber economy in Haines, Ketchikan, and other areas that previously had sawmills. She spoke to economic development in the timber, mining, oil, and other industries. She stressed it was the way to fill the fiscal gap, not by taxing or creating a larger deficit. She was not supportive of the budget.

[8:39:03 AM](#)

Vice-Chair Gara thought the numbers were very difficult to understand for people not sitting on the finance committee. He believed one of the media outlets had been having trouble with the issue. He clarified that the current bill

continued to cut the budget. He relayed that the budget was down almost \$3.5 billion since 2013. He compared the current budget to the governor's vetoed budget from the previous year (noting that the governor had vetoed a significant amount) and relayed agency spending of general funds was down by \$61 million. He thought one of the media reports had mistakenly reported it as an increase. He reasoned that statewide spending could not really be controlled in terms of retirement, and school bond debt was down \$81 million in general funds. He did not think the legislature could play the game of comparing unrestricted general funds (UGF) and designated general funds (DGF) because the fund sources had been used interchangeably in the past couple years. He continued that the preceding year, to reduce the appearance of the use of general funds, designated general funds from the Higher Education Fund were used to fund the retirement debt. He reiterated that overall state general funds were down \$61 million in agency spending and \$81 million in statewide items.

Co-Chair Seaton corrected that the statewide total was down \$20 million. The total reduction between agency and statewide operations was \$81 million.

Vice-Chair Gara appreciated the correction as he had been referencing the wrong line in his document. He reiterated that the total general fund spending was down \$81 million. He concluded that anyone who wanted to argue it was a budget increase was not using the numbers. He believed the important question was how the budget was impacting humans, children, and seniors. He underscored that without a fiscal plan, classroom funding would remain flat. He had heard a comment that education funding had increased, but he countered that the increase related to debt service, pupil transportation, and retirement payments owed in the Teachers' Retirement System (TRS). He emphasized that the money going to classrooms was down over \$20 million compared to several years earlier. He continued that many legislators would like to get to a point where school funding would be aligned with actual costs in order to avoid teacher layoffs. He hoped to get there by the following year; however, a fiscal plan was needed. He noted that Representative Wilson wanted a smaller budget and furthered that even if the committee had adopted every one of her proposed amendments, the state's savings were disappearing. He believed the amendments merely rearranged the budget components, but the attempt ultimately was

futile. He elaborated that within two years the state's savings would be depleted.

Vice-Chair Gara expounded that without a fiscal plan the budget would require the use of the earnings reserve, which would mean at some point there was no money for a dividend. He stressed that the proposed budget was part of a plan. He supported finding rational cuts to the budget, which he believed the current budget did. He addressed the Department of Health and Social Services that was responsible for caring for seniors, abused children, disabled individuals, and other. He stressed that the agency had been cut by \$30 million. He stated that at some point inflation would need to be recognized. He added that it had been factored in the budget process up to a few years back. He underscored that at some point it was necessary to fund schools and the University. He remarked that cuts to the University were hindering its ability to bring in grant funding. He reasoned that it did not work to provide inadequate education to a child in fourth grade, while planning to get them the education they deserved later on. He emphasized that it was not possible to fix what had been lost in fourth grade. He spoke to attempts made by others to cut pre-K. He stated the public had asked the legislature to spend money on programs that worked, but not on programs that did not work. He relayed that the evidence was that pre-K worked. He stated that if a child was lost by third grade, significant money would be spent to get less achievement and success. He detailed that if a child was caught up, they succeeded.

Vice-Chair Gara continued to discuss cuts that had been proposed to things like suicide prevention, domestic violence shelters, homeless shelters for youths, and food banks. He stressed that at some point the cuts would rip apart the fabric of society. He continued that the cuts would rip apart the contract between the well off and those who lived with difficulty. He stated that the proposed budget kept the contract together even with budget cuts. The proposed budget strategically made cuts and did not merely cut for the sake of cutting. He believed cutting domestic violence shelters and education qualified as cuts for the sake of cutting. He stressed the legislature represented the people - human beings who deserve the right to opportunity and dignity. He specified that the budget did what it could with the money available. He reasoned it was also necessary to consider what the budget would do to

the economy. He stated that the Institute of Social and Economic Research (ISER) had indicated that cutting another \$1 billion from the budget meant 15,000 public and private sector jobs would be lost. He noted that 9,000 jobs had already been lost in the past year. He believed the cuts would extend the current recession for three to ten years. He reiterated his concerns about cuts. He remarked that parents would decide they did not want to raise their children in schools with dramatically reduced budgets. He believed the legislature needed to get serious about the issue. He stated the arbitrary cuts that would harm people had been debated by the committee for days. He added that some of the proposed cuts in amendments had been cuts to positions that had already been cut and would therefore be a double cut, which had been communicated by the Legislative Finance Division and agencies. He concluded that the current budget was rational and minimized the harm. He stated it was not the legislature's job to maximize the harm.

Co-Chair Seaton reviewed the handouts in member packets (copies on file). He advised members to notice that some handouts pertained to UGF and others to GF-only. He recognized Representative Louise Stutes in the audience.

[8:51:17 AM](#)

Representative Pruitt asked whether the committee was speaking to the objection to the adoption of the CS or if it was the final discussion.

Co-Chair Seaton answered it was the final discussion.

Representative Pruitt commented that it had been fascinating "sitting over on this side of the budget discussion this year." He acknowledged co-chairs for the respectfulness they had shown during the budget subcommittee process. Additionally he credited the departments. He explained that in the majority of cases in the current budget, the reductions had been brought forward by the agencies as opposed to the legislature. He provided the Department of Transportation and Public Facilities (DOT) as an example and noted the legislature had actually increased the DOT budget above the agency's request. He wanted to make sure to give agencies the credit where credit was due.

Representative Pruitt spoke to his concerns about the current budget. He discussed that there had been work done by the agencies and the House Finance Committee. He added that overall the committee had increased the governor's proposed budget. He did not believe the current budget was aligned with the public's desires. He pointed to the decision to use a substantial portion of the Permanent Fund earnings reserve account to fund the budget and set aside for other things. He recalled knocking on doors in his district and relayed there were people who would like to see government cut to the exact amount of revenue coming in and who did not support any use of the Permanent Fund. However, there were numerous people who fell in the middle - people who understood that the reserve account may need to be accessed, but who were distrusting of the way money was currently being spent on government. He believed that with substantial revenue reductions, many individuals were asking for something they could point to. He did not know that a 1 percent reduction to agency operations was significant enough. He recognized there was also a debt service component as well.

Representative Pruitt continued that under fund capitalization, the committee had reduced what it had to pay on tax credits, which did not mean the tax credits were not still owed. Additionally, it meant state could find itself in a position where the companies were going to be taken over by the people who invested money. He elaborated that New York agencies could potentially own the companies and substantial amounts of the state's debt. He noted he had mentioned credit ratings and had been told that the state was not going to borrow any money. He countered that most of the time the state did not believe it was going to borrow money, but then something came along like a large gasline that the state did not have the credit for. He believed the legislature needed to be cognizant of the state's credit if the conversation was going to continue.

Representative Pruitt was very concerned that the legislature was making policy in the budget by not having a discussion and settlement on how to provide the sustainable revenue approach. He continued that instead, the policy had been inserted into the budget ad hoc. He believed the strategy differed from the request of the business community that was asking for a stable approach. He wanted to settle the issue in a committee discussion and align the budget in conference committee.

Representative Pruitt had been very surprised there was not a single thing the Republican Minority could offer that the House Majority could support. He stated the Majority had proven to the public that the two sides did not get along. He remarked that the Minority had been told no repeatedly without conversation. He commended Representative Wilson for doing the work that she did. He believed she had done what she had been instructed to do - to look at surgical cuts. He added that she had not offered amendments in subcommittee because members had been told they were not allowed to. He continued that members had been told the only thing that would be discussed was programs, but no programs had been cut during the subcommittee process, and programs offered in the full committee had been turned down. He stated they [the Minority] had offered surgical cuts to the full finance committee and not a single one could be entertained. He stressed that at some point in time the House Majority would need the Minority because the budget could not ultimately pass without their help. He asked why none of the amendments had even been considered. He remarked there had been \$30 increments proposed that would merely go back to 2016. He had wanted to have a strategic conversation, but that had not occurred.

Representative Pruitt appreciated proving the public right - that there was no bipartisanship in the legislature. He noted he had voted in support of several Majority amendments. He reiterated that there had been no conversation or debate about the amendments proposed by the Minority. He was frustrated and believed he was speaking for numerous people in the public. He stated the public wanted the legislature to cut the budget and to work together. He agreed that the public did not want the budget to harm people. He stressed that the public wanted the legislature to accept the reality that the Alaska of tomorrow would differ from the Alaska of the past. He underscored that if the legislature could not adjust to that reality it would saddle the next generation with a debt it could not pay. He restated his objection to the current version of the budget and noted that a conversation had not occurred.

[9:02:04 AM](#)

Representative Guttenberg referred to the spreadsheets provided to the committee (copy on file). He thanked the

previous chairs of the committee for their work and remarked there had been significant budget reductions over the past several years. He acknowledged Representative Thompson as a former co-chair of the committee. He discussed that he had been on both sides - in the Minority and currently in the Majority - and the work was never easy. He recognized that even when the state had money there were aspects of the budget process that were difficult. He reiterated that cuts to the budget over the years had been significant. The current financial picture was a result of how the economy had been structured over the years. He reminded the committee that all of the amendments over the years were not a snapshot in time, but a result of something that had been put in place for a reason - perhaps in times of financial surplus. He spoke to the goal of increasing efficiencies and making improvements. He underscored that the committee had done significant work on the budget over the years. He recalled working as a staffer in the building when oil prices had been around \$12 [per barrel] - the situation had not been easy. He spoke to the importance of recognizing the historic process that went back much farther than 2015. He spoke to necessary considerations about what the state was required to do, what it should be doing, and other.

Representative Guttenberg continued that some of the discussion had been that it was very expensive to provide things in rural Alaska and that people should move into the urban areas. He reasoned someone in Seattle, Washington could say the same thing about the expense of living anywhere in Alaska. He detailed that at the end of the day the state had vast resources, distances, and different climates, which were all major considerations. He spoke to the importance of remembering those things when going through the budget process. He emphasized it was necessary to use all of the tools available. He acknowledged that the current budget was difficult and he did not believe anyone was happy with all of its aspects, but the committee had kept some control. He noted that merely keeping up with inflation was about \$250 million per year, which the budget was far below. He thanked everyone for the historic work done over time to get to the current point. He underscored the importance of remembering how the state got to the current point, why things had been done in the past, and what had been the right thing to do. He wanted to pass along the lessons of the past into the future.

9:06:41 AM

Representative Grenn thanked the individuals who had put the bill together and all of the hands that contributed to the process. He thanked the other committee members for their work. He discussed learning about the budget process and how contributions from members provided a more in depth look at various items. He spoke about learning how everything tied together, priorities, who the state took care of and kept safe. He thought the current budget took care of all Alaskans and slowly began to steer the state towards a bright future. Additionally, he believed the budget showed that the legislature could deal with crises in a smart, caring, and hardworking way. He opined that Alaskans would be thankful they would be taken care of and would be part of something great for the state's future. He believed he could go back to his community and say that the legislature was working for the betterment of everyone in the state. He reiterated his thanks to committee members and shared that he was proud to vote in support of the budget.

Co-Chair Seaton recognized Representative Gary Knopp in the audience.

9:09:46 AM

Representative Tilton thanked some of the finance subcommittee chairs for the way they had presented all of the information. Although, she noted that members had been told what they were not allowed to bring forward in subcommittee, which was the reason the Minority had brought amendments forward to the full committee. She added that the reporting of the vote count had been accurate, which she appreciated. She also thanked the agencies for their work. She detailed that the agencies had tried to bring their receipt authority closer to their actuals in order for people to understand what was really happening when looking at budget numbers. She also thanked the Legislative Finance Division analysts for working long hours to answer questions from the legislature as much as possible. She understood there was a desire to minimize the reduction of the state employee headcount, but she reasoned that for many in the private sector, keeping their jobs was a new bonus. She stated that individuals in the private sector were happy to have a job. She relayed that a friend working in the oil field and he had taken a 40 percent pay cut in

the past year. She underscored that he was happy to have a job and was not asking for a merit increase. Representative Tilton stated that her proposal to eliminate the Serve Alaska program was not because she disliked volunteerism. She mentioned her volunteer work in her community as a mother. She believed that the private sector and nonprofits could take care of the responsibility. She stated the government was taking money away from the entities. She believed that forgoing \$1.9 million in federal grant money was not compelling because the private sector and nonprofits could get the money and she believed they could probably do a better job distributing it. She spoke to the importance of considering whether government should be providing a service instead of asking how government could provide the service better or more efficiently. She discussed that at the start of the amendment process the committee members had been informed there was significant question about the validity of the FY 16 actual numbers. She and her colleagues had done significant work looking back in the budget and had used the FY 16 numbers. She asked who would have thought the numbers were not the numbers. She stressed that the public did not have access to analysts and departments to verify whether the numbers were real. She questioned whether the FY 15 actuals were real. She relayed that dozens of the Minority amendments had been based on the concept.

Representative Tilton wondered why the numbers were sacrosanct if they could not depend on the actuals. She believed it may be necessary to look at how the legislature did its budgeting. She continued that the amount of spending reduced since FY 15 was not a particularly compelling argument because there was still a \$3 billion fiscal gap. Her constituents were looking at money being taken from their pockets. She did not want to reduce "boots on the ground" for seniors or individuals with disabilities; however, she wanted core government services to be run more efficiently. She reasoned that in her own business she made reductions when she did not have the money to spend. She had done more with less many times. She added that she had lived through the 1980s and had done more with less in her business. She stated that agency operations had been reduced by \$400 million since FY 13 or \$600 million in FY 15.

Representative Tilton referred to discussion about the realities of inflation. She had added a percentage for

inflation in her proposed reductions. The committee had also heard that \$61 million in agency spending and \$20 million in statewide spending had been reduced. She stressed that the committee had not had the discussion about the change of UGF, DGF, or the motor fuel tax. She thanked members who supported her intent language amendments that had passed. She believed the intent language she had offered was a "no-brainer." She detailed that people had been killed on the streets in Mat-Su due to a paused project. She did not think there should be any arguments over rectifying the situation. She emphasized that the policy related to the earnings reserve that had been put in the budget should have been discussed. She stressed it was a bigger discussion. She opposed the budget.

Co-Chair Seaton wanted to make sure that everyone understood that he had requested the multi-year agency summaries in order for people to sort out the idea of UGF and DGF as if they were not all money. It was possible to look at the all general funds and know it included the money the state had and all of the money the state spent instead of having some of it hidden away as DGF. He was pleased that the spreadsheets were available. He explained that the totals would show a restoration of \$6.5 million in pupil transportation funds for the Department of Education and Early Development and \$1.2 million for pre-K representing the philosophies and priorities of the [House] Majority. He pointed out that funds for wage freezes had been backed out (because the bill had not passed). Additionally, DGF from fuel had been removed, which had been put in the Department of Public Safety and had been moved to the Department of Transportation and Public Facilities budget. He detailed that the goal was to ensure DGF money was appropriated from the right place to the right place. The use of DGF from the Higher Education Fund had also been taken out and moved to UGF. He elaborated that the change made the budget look higher, but it was not; it was the same amount of money, but coming from the appropriate location. He hoped that as the process moved forward legislators would look at the budgets and all of the funds to see how they were well managed and well designated usage. He informed members that the Legislative Finance Division was preparing several other reports that would be posted online after the current meeting. He extended thanks to the division for all of its assistance

and advice on crafting the budget. He thanked Legislative Legal Services and his staff for their hard work.

Representative Foster MOVED to report CSHB 57(FIN) out of Committee with individual recommendations [Note: it was subsequently clarified that the following roll call pertained to the adoption of the CS and not moving the bill from committee].

Representative Wilson OBJECTED.

A roll call vote was taken on the motion.

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

OPPOSED: Pruitt, Thompson, Tilton, Wilson

The MOTION PASSED (7/4).

Representative Pruitt noted that the roll call had pertained to the adoption of the CS.

Representative Foster MOVED to report CSHB 57(FIN) out of Committee with individual recommendations.

Representative Wilson OBJECTED.

A roll call vote was taken on the motion.

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

OPPOSED: Pruitt, Thompson, Tilton, Wilson

The MOTION PASSED (7/4). There being NO further OBJECTION, CSHB 57(FIN) was REPORTED out of committee with a "do pass" recommendation.

[9:24:55 AM](#)

Co-Chair Foster MOVED to ADOPT proposed committee substitute for HB 59, Work Draft 30-GH1856\0 (Wallace, 3/8/17). There being NO OBJECTION, it was so ordered.

Representative Foster MOVED to report CSHB 59(FIN) out of Committee with individual recommendations.

Representative Wilson OBJECTED. She clarified for the record that CSHB 59(FIN) was the mental health budget. She WITHDREW her OBJECTION.

There being NO further OBJECTION, CSHB 59(FIN) was REPORTED out of committee with a "do pass" recommendation.

[9:25:54 AM](#)

Co-Chair Seaton spoke to the schedule for the following week.

ADJOURNMENT

[9:26:27 AM](#)

The meeting was adjourned at 9:26 a.m.