

HOUSE FINANCE COMMITTEE  
January 23, 2018  
1:33 p.m.

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CALL TO ORDER

Co-Chair Seaton called the House Finance Committee meeting to order at 1:33 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 Dan Ortiz  
Representative Lance Pruitt  
Representative Steve Thompson  
Representative Cathy Tilton  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

David Teal, Director, Legislative Finance Division; Amanda Ryder, Fiscal Analyst, Legislative Finance Division; Representative Harriet Drummond; Representative Chris Birch; Representative Justin Parish.

SUMMARY

HB 285      APPROP: MENTAL HEALTH BUDGET

HB 285 was HEARD and HELD in committee for further consideration.

HB 286      APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 286 was HEARD and HELD in committee for further consideration.

FY 19 BUDGET OVERVIEW: LEGISLATIVE FINANCE DIVISION

PRESENTATION: PERSONAL SERVICES VACANCY FACTOR: LEGISLATIVE FINANCE DIVISION

Co-Chair Seaton reviewed the meeting agenda.

#hb285

#hb286

HOUSE BILL NO. 285

"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."

HOUSE BILL NO. 286

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

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^FY 19 BUDGET OVERVIEW: LEGISLATIVE FINANCE DIVISION

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DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, provided a PowerPoint presentation titled "Overview of the Governor's FY19 Budget Request and Plans" dated January 23, 2018 (copy on file). He preferred to hear questions throughout the presentation.

Co-Chair Seaton recognized Representatives Harriet Drummond and Chris Birch in the audience.

Mr. Teal planned to address the abbreviated version of the fiscal summary. He noted that the full version of the

fiscal summary was available and was on page 8 of an overview of the governor's budget. He explained the reason for looking at undesignated general funds (UGF) only. He detailed that federal funds, designated general funds (DGF), and other funds were not used because it was not possible to spend more than was available. He elaborated that even if there was authorization to spend \$1 million, if only \$700 million [\$700,000] in federal funds was received, the lower amount was all that could be spent. There could not be any deficit on federal, other, and DGF funds. The only place it was possible to have a deficit was the UGF category. He understood there were others who were interested in total spend, which he was not trying to say was unimportant. The presentation was meant to focus on the deficit; therefore, it was limited to UGF.

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Mr. Teal began on slide 2, which included a table titled "FY19 Revenue and Appropriations." The slide showed UGF only on a cash flow basis. Revenue of approximately \$2.1 billion excluded transfers from the Permanent Fund Earnings Reserve Account (ERA) - there was no percent of market value (POMV) payout included. He elaborated that revenue was primarily from oil and also included interest, taxes, and other. He pointed to appropriations totaling \$4.6 billion, which was broken out into agency operations, statewide items, and capital. Appropriations excluded Permanent Fund Dividends (PFD) and transfers to or from reserves. There was a small \$21 million transfer from reserves, but it was excluded from the table. The table also excluded items that required legislative action beyond a simple majority vote; the table was limited to cash received without drawing from the Constitutional Budget Reserve (CBR). The goal was to present an accurate picture of the fiscal situation based on cash flow only and no draw from reserves.

Mr. Teal continued to address slide 2. Bills had also been left out of the equation and would continue to be left out until a bill passed. The table also excluded an appropriation to purchase oil and gas tax credits. The aim was to get a clean start in order to see how much corrective action was necessary. The difference between revenue and appropriations showed a \$2.5 billion deficit. He underscored that the table did not show the governor's plan. He referenced a debt purchase plan on oil and gas tax

credits. He detailed that if a person believed the state owed the minimum statutory amount and had to purchase the credits, the budget was missing \$206 million. The governor planned to introduce legislation for the tax credits and had excluded the \$206 million from the budget. He detailed the governor's legislation would allow the state to sell bonds with an interest of \$27 million. He stated that a person could argue they wanted a fiscal note for that plan. The governor did not request money to purchase oil and gas tax credits in the version of the fiscal summary under consideration. He continued that even if the bill did not pass, the governor did not have to request funds to purchase oil and gas tax credits. He expounded that if the legislature wanted to add the funds that was fine, but the governor did not have to follow the minimum statutory requirement.

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Mr. Teal stated that it was possible to argue that the proposed budget understated the deficit and it should be \$2.7 billion. One could argue that a worse deficit had been seen, which was correct; however, the current year was a game changer. He detailed that the reserve balance of \$2.1 billion in the CBR and \$172 million in the Statutory Budget Reserve (SBR) totaled \$2.4 billion. The savings were insufficient to fill the deficit even before the amount owed for oil and gas tax credits.

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Vice-Chair Gara stated the previous year there had been discussion about starting to include the PFD as spending. He noted that based on LFD charts, spending was down about \$3.5 billion with capital and operating. He asked if LFD or the governor planned to begin counting the PFD as spending.

Mr. Teal replied that the cash flow slide excluded the payout from the Permanent Fund to the General Fund and dividends. The governor's budget included a payout to the GF and dividends from the payout; dividends became a GF expense.

Vice-Chair Gara surmised that LFD was not planning to do the same thing. He stated that a constituent had looked at the governor's budget and thought it raised spending by \$1 billion. He explained that the increase was the result of

including the PFD - the cost had never been included in the past. He asked what LFD thought.

Mr. Teal replied that the current and previous year, LFD had included the PFD as a GF expenditure in the fiscal summary. He had not included it in the current slide because it only reflected cash flow. He intended to address two additional versions to arrive at the governor's view of the budget. He explained that the governor had proposed transferring money from the ERA to the GF and paying dividends from that deposit. He elaborated that LFD would present the information that way and had done so up to the end of session the prior year when there had been no payout to the GF and an appropriation had been made directly from the ERA to the dividend fund. He stated that the payout had not gone through the GF the prior year and that was how LFD would present it.

Mr. Teal explained that it was the reason there were comparisons that were difficult to make. The way to make the comparisons equal was to show dividends as revenue to GF and an expenditure from GF so the \$1 billion increase in spending did not occur. It was not technically accurate to say that dividends had been paid from GF, but they were treated that way in order to make the comparisons easier.

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Representative Ortiz asked if the \$27 million the governor had set aside to pay interest on bonds for oil tax credits was included in slide 2. Mr. Teal replied in the affirmative.

Representative Wilson asked if retirement or anything that may be DGF and everyday costs were included.

Mr. Teal preferred to answer the question throughout the presentation in order for everyone to see how it worked.

Representative Wilson clarified she was interested in anything qualifying as DGF that could end up being something else at a later time. She remarked the committee had the discussion that everyday operating had been out of a different fund and qualified under DGF; although, at some point the DGF funds could run out and would mean the use of GF. She elaborated that she was referring to anything that may be in the budget as DGF, but had only been put there

because higher education money [or other DGF sources] may be available, but not necessarily what it would be utilized for. She believed there were some things funded with DGF that should have probably been in UGF.

Mr. Teal replied it was an excellent point. He detailed that over the past couple of years higher education funds had been used to pay for retirement costs. He explained UGF expenditures were seen for that purpose. The prior year the legislature had included intent language asking the governor not to repeat the practice. The governor's proposed budget funded retirement from the CBR. He would address the issue later in the presentation.

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Mr. Teal moved to a bar chart showing budget reserves on slide 3. He discussed that the current situation where reserves were not sufficient to fill the deficit should not come as a surprise. The slide was based on an LFD model from 2015, which showed that reserves would not last through FY 19. Projections were merely projections and it was easy to ignore them, especially when they were not desirable. However, they were no longer looking four or five years ahead. He underscored that the future was here, and reserves were essentially gone if the CBR was used to balance the budget in the current year; there was insufficient money to do so. Alternative options for fixing the deficit included new revenue such as taxes, additional expenditure reductions, and money from the Permanent Fund. He remarked it was up to the legislature to decide on the combination it would use, but a balanced budget was constitutionally required prior to the legislature's departure.

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Mr. Teal turned to slide 4 and addressed the primary strategy the governor had proposed to fix the deficit - Permanent Fund earnings. The table included UGF only, cash flow basis, and POMV and transfers. The table included POMV payout of \$2.7 million (5.25 percent); of the \$2.7 million, \$819 million went to dividends, leaving a net revenue gain of \$1.9 billion. The slide showed revenue of \$4.8 billion. He emphasized that the table did not reflect the governor's plan; it was merely a step in getting there. The first step used by the governor was a POMV payout, which went a long

way. The table added transfers, which was pulling money from small funds/accounts; in the current case it was the capital income fund.

Mr. Teal explained that more was being taken out than put in by \$21 million in the current budget. The math was simple: there was a \$2.5 billion deficit, reduced by \$1.9 billion, leaving a \$600 million deficit, which was an improvement. After filling the deficit from budget reserves, the reserves would have \$1.8 billion remaining. Some people may say there was no need to panic - \$1.8 billion spent at \$600 million per year meant three years before the state was out of reserves if the budget continued to be paid with a POMV payout. Others may argue that it [the deficit] was not \$563 million because the governor did not include \$200 million for tax credits and retirement may be underfunded. He explained that when factoring in the \$200 million, reserves dropped to \$1.6 billion and the deficit went up closer to \$800 million, which left two years of reserves. How long the reserves would last was tenuous.

Mr. Teal believed the committee had heard several times that the Office of Management and Budget (OMB) and LFD would prefer one year's worth of reserves (\$5 billion - roughly one year's worth of spending) in the CBR, but \$2 billion was a goal now that the fund was long past having a \$5 billion balance. He noted that OMB had said the balance should not drop below \$1 billion for cash flow purposes. One could glean from the table that a POMV payout would get the state through FY 19, but there would still be a deficit to fill in FY 20 and FY 21. He cautioned it would be harder and harder to fill the deficit, leaving lower and lower reserves, unless something else was done (i.e. raise taxes or cut spending).

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Mr. Teal stated that it did not get all the way to the governor's plan. He moved to a table showing the governor's budget on slide 5, which included a column showing additional items. The slide included an additional \$200 million in revenue from payroll and motor fuel taxes, bringing the total revenue to slightly over \$5 billion. The payroll tax was projected to bring in \$160 million in the first year and motor fuels taxes would generate \$40 million. However, the plan would spend \$309 million more.

He detailed that \$29 million came from fiscal notes on the three bills the governor had built into his budget. He noted the bills had not yet passed, but LFD had counted them. Additionally, the governor's plan included an economic recovery act. He referenced \$160 million in revenue and noted that the bill [payroll tax legislation] would spend \$280 million in the first year.

Mr. Teal believed there were three issues of small digression on the economic recovery act. The bill allowed the legislature to appropriate the balance of the fund (the fund balance came from the tax revenue - \$160 million). He reasoned the bill specifying the balance could be appropriated, was not being followed if the balance could not exceed \$160 million and \$280 million was appropriated. He continued that OMB did not believe it was a problem because it did not intend to spend more than \$160 million. He explained that LFD questioned why the money would be appropriated during the current budget cycle if OMB did not plan to spend it; LFD thought the appropriation should be held off until FY 20. It was necessary to ask OMB about the reasoning because LFD did not count that way.

Mr. Teal continued that LFD counted the money the year it was appropriated; it did not count the amount of money spent on the project each year - it would require an incredible amount of work to track all of that. If \$280 million was appropriated and there was only \$160 million in the fund, there was not enough money to spend. However, it was not true in the current situation because the bill would create a sub-fund to the GF and any expenditure exceeding the balance in the sub-fund would come from GF. It was not what was intended to be done, but what could be done that LFD worried about; therefore, LFD counted it as a \$280 million appropriation.

Mr. Teal spoke to a third issue pertaining to the bill. He explained that it was a plan that required tax legislation to pass. He asked what would happen to the regular capital bill if the tax legislation did not pass. He wondered if the capital bill would increase because perhaps several of the things in the economic recovery act were things the legislature wanted, but the governor had moved them from the regular capital budget into the economic recovery act. He furthered that if the legislature did not pass the tax, it could choose to move money back into the capital budget, thereby increasing the deficit. With the new revenue,

appropriations, and transfers, the governor's deficit would be closer to \$700 million

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Mr. Teal continued that the governor proposed to fill the deficit with a firm draw from the CBR. He explained that the governor's fiscal summary showed a \$400 million draw, whereas the LFD summary showed \$425 million. The governor's bill also included a reduction of CBR spending if savings in retirement were achieved related to decreased medical costs. He detailed that when contingent appropriations were made, meaning they were dependent on something else happening such as achieving savings, LDF put in the maximum value, while OMB put in the minimum value. He elaborated that LFD used maximum value because it wanted the legislature to know what could happen - LFD did not want to paint a rosier picture than what may occur.

Mr. Teal provided a scenario where a supermajority vote occurred on the \$400 million and it turned out the savings were not achieved. He considered whether it would mean getting another supermajority vote for an additional \$25 million. He stated that LFD did not want to go there and showed the item as withdrawing \$425 million. He explained it was better to spend less from the CBR than what was appropriated rather than to be stuck spending more than what was appropriated. He added that supermajority votes were not easy to get. He pointed out that there was an imbalance even using all of the reserves including the SBR resulted in a negative number.

Mr. Teal stated that the governor was required to submit a balanced budget. He did not characterize the governor's proposed budget as a constitutional crisis; the governor had backed into the CBR spending by showing revenue and appropriations and specifying the amount needed from the CBR. He detailed that LFD had found some errors including double counting of some revenue and undercounting of some appropriations. Slide 5 showed a deficit of \$74 million, which could be fixed in the governor's amendment process if so desired. He stated that it was merely a math equation that had arrived at the \$425 million. He remarked the figure could just as well be \$500 million and the deficit would go away.

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Mr. Teal advanced to slide 6 that showed a comparison between FY 18 and FY 19 (UGF) and was intended to add perspective to the discussion. He remarked that the comparison was not as easy as it may seem because the governor had released a transparent budget report showing a reduction of \$150 million from FY 18 to FY 19. The fiscal summary did not show the same \$150 million reduction; it showed a reduction of \$257 million. While the LFD fiscal summary showed an increase of \$287 million. He relayed that LFD had provided OMB with the 16 points of difference between the OMB and LFD fiscal summaries. He addressed the two primary differences. First, was the \$400 million to \$425 million spent from the CBR. The governor said spending from the CBR was not UGF spending, which was true - the CBR was constitutionally created as another fund. However, taking \$400 million from the CBR and saying it reduced UGF spending was unhelpful. He stated that LFD did not count that way and he advised against doing so. He continued that it implied another \$700 million could be taken from the CBR to fill the deficit and reduce UGF spending by \$700 million. He believed the method fooled the budget makers and the public.

Mr. Teal reported that the supplemental items were the second difference. He discussed that the operating and capital bills contained a number of FY 18 supplemental requests totaling about \$170 million. The governor added the supplementals to the FY 18 prior to making a comparison to FY 19. He advised against counting that way (LFD did not use that method). He continued that it was possible to increase the budget every year, but the numbers would show it was declining - it was a distortion that LFD avoided by not counting supplementals. The other way to do it would be to count FY 18 and FY 19 supplementals, but the FY 19 supplementals were not yet known. He added that the FY 18 supplementals were not even known; the legislature would not see a full supplemental bill for another week for FY 18. He concluded that LFD believed the legislature was better off leaving supplementals out of the calculation entirely.

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Representative Wilson asked if the supplementals were added in the FY 17 actuals in order to see what should have been spent in that year.

Mr. Teal replied in the affirmative. The supplementals were shown in the FY 17 actuals. He explained that supplementals should be counted, which was the reason looking back historically actuals were often counted instead of management plan. He detailed that if supplementals were not counted somewhere, there was an incredible incentive to underfund the budget. For example, the legislature could underfund Medicaid to deal with the current deficit of \$600 million. The governor could come back with a supplemental and it would appear the FY 19 budget had been cut by \$600 million. It was a question of when the money should be counted, not whether it should be counted.

Representative Wilson asked how to stop the supplementals. She understood that supplementals were necessary for things like earthquakes. She stated that Medicaid had been underfunded by over \$100 million, which was now in the current budget. She asked whether the money would come out of FY 19 if the legislature chose not to fund the [FY 18] supplemental.

Mr. Teal answered that only the legislature could stop supplementals. He explained that in the case of Medicaid, the legislature would fund to the projections (assuming the projections could be trusted). He stated it was a big "if" having seen the number of supplementals and how far off the projections had been from actuals. He mentioned that because of the situation LFD had met with Department of Health and Social Services (DHSS) staff during the interim to talk with the department about participating in its projection process. Unless the legislature was comfortable with the projections, DHSS may not get the money it needed to run its program.

Mr. Teal confirmed that the [FY 18] supplemental would eventually get funded anyway if the legislature chose not to fund it, though not in FY 19. He detailed that in an entitlement program like Medicaid, people who were eligible were entitled to get healthcare. When the individuals received care, the state owed and paid the healthcare provider. The state then received federal reimbursement; however, much more had been spent on Medicaid in FY 17 and FY 18 than anticipated. The supplemental was \$100 million, \$92 million of which was Medicaid. If the supplemental was not passed, the department would say that the money left the treasury and it could not get the money back, but it had to give the money back to the legislature as a

ratification. He explained that ratification meant ratifying expenditures that left the treasury without an appropriation. The [state] constitution specified that no money could leave the treasury without an appropriation. His description showed how money did leave the treasury without an appropriation. The situation left the legislature with no choice but to ratify the expenditure by approving the money going out. He concluded it was a long-delayed appropriation.

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Representative Pruitt spoke to truth in budgeting. He stated that the amount spent in a particular year because of supplementals was larger than the initial budget that was passed. He thought adding the supplemental in at present made it look like a reduction was taking place; however, ultimately there may be a supplemental that increased the budget over the last year's budget. He asked how to ensure truth in budgeting.

Mr. Teal responded that the legislature could work as hard as it wanted to reduce supplemental budgets, but they would always persist; however, they could be reduced. He cited examples of wildfire costs and other. He added that the Office of Public Advocacy and the Public Defender Agency routinely came in for supplementals. He reasoned it was something that should probably not happen. He stated that an agency, for operating costs, should probably not come in for 20-something consecutive years for a supplemental because of constant underfunding. Medicaid was the same way. To the extent that the legislature could fully fund programs, it would avoid the distortion caused by supplementals. He continued that it was not necessarily possible; projections were just projections. He reminded the committee that Medicaid cost about \$15 million per week. Consequently, if the budget was off by two days of checks, a \$5 million supplemental would result. He did not believe supplementals could ever be eliminated, but they could be reduced. The other distortions in budgeting were crossing fiscal years, using DGF for non-designated purposes, and using one-time money for ongoing operating costs. All of the things would come back to haunt the legislature in the future and distort the year-to-year comparisons, making it difficult to compare one year to the next.

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Vice-Chair Gara stated that the administration's explanation on the Medicaid increase was that it had reduced Medicaid reimbursement to physicians, but an increased number of people had showed up for more claims and federal law required paying for them. He asked if Mr. Teal disputed the administration's explanation.

Mr. Teal replied that there were a number of things going on with Medicaid. Several people blamed the cost increase on Medicaid expansion, but that was not the cause. Medicaid expansion had added more people, mostly at federal expense; there was some GF, but it was not the cost driver. The driver on the big supplemental was that Medicaid had been underfunded the previous year. Some people had thought it had been underfunded by \$30 million to \$40 million, but they also had hopes that Medicaid could contain its costs. The hours of a particular service had not been cut the way they had been planned.

Mr. Teal did not believe DHSS would have agreed it had been only underfunded by \$30 million to \$40 million. He reported that an RPL [revised program legislative] had come in during the interim showing that DHSS had been underfunded somewhere between \$60 million and \$100 million. He shared that it had not been a big surprise when the budget came out in December [2017]. The department would have told legislators it was underfunded the day the legislature left [in 2017]. It did not do any good to underfund that way. He stated that Medicaid could not control its costs, once a person was eligible, the reimbursement rate was set, and service was provided, the money was spent. It was a question of believing their projections and funding Medicaid at the projected amount. He elaborated that it may leave some supplementals or may leave a little over appropriation. Until that was done, there would be supplementals.

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Representative Guttenberg reasoned that some parts of the discussion about supplementals was academic because whatever happened with Medicaid was one thing, but the day after the budget passed fuel prices may rise resulting in costs for Alaska Marine Highway System (AMHS), there may be a bad fire season, and other. He stated that \$50 million in

costs for wildfires was not unusual. He referenced an earthquake that occurred early that day, which could have resulted in a coastal disaster. He was uncertain how the state would ever get away from supplementals. He did not know how other states dealt with it in a different way. He believed it was how the legislature trusted the supplementals and projections and how it was dealt with in charts. He questioned whether there was a superior way of dealing with it in the budget documents that would provide more confidence. He wondered if the situation had evolved to a place where it was the best it could be.

Mr. Teal answered that the system had not evolved to the best it could be. He referenced the \$170 million the governor had submitted. It was not the governor's problem, most of the issue was about things the legislature had done in 2017. He elaborated that \$100 million of the total was Medicaid, which the legislature had known was underfunded. He continued that \$24 million was AMHS, which had resulted from shuffling between years that did not work out as planned. There had been other uses of one-time money. He recalled presenting to the committee in October [2017] about the holes that had been left. He stated that the holes had not been left by the governor but were a result of legislative action. Community assistance and more had not been funded. The bulk of the \$170 million resulted from holes left in the 2017 legislative process.

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Co-Chair Seaton shared that in 2017 the legislature had received all reports as UGF and as GF to help get at some of the one-time money or GF used to supplement UGF in order to know what was spent in full. He noted that it did not compensate for inaccurate projections and cuts or underfunding statutorily required services. He stated that if a cut was made to a statutorily required service, the administration was required to follow statute and provide the service, meaning it would come back for funding the next year [as a supplemental]. The issues were things the legislature needed to watch out for. He hoped the legislature would look at all GF again in the current year and make sure it was not using DGF to pay or make it appear they were lowering the UGF deficit. He reasoned it was all state money. The goal was transparency on what was paid for. He was not claiming anything was perfect. He stated it had been the way the budget had been created in 2017 - the

same thing for AMHS funds being used for Medicaid - it had been allowed in the budgetary process but had not been anticipated. He asked members to understand the impact of the legislature's actions.

Representative Pruitt was fine with the total GF conversation. He thought it was a challenge the way the governor had presented the budget - he anticipated a focus on UGF. He stated there was a lack of ability for comparison - there were different numbers provided by different individuals, which was challenging when talking to the public about the total budget. He believed it was important to decide what method to use as a baseline.

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Co-Chair Seaton clarified that there were categories of funds available including DGF. When considering total spending it was necessary to talk about total GF. He explained that a person could focus on UGF, but he wanted to avoid trying to lower UGF by spending DGF for unapproved sources. The legislature could spend something outside of its designated purpose, but it was problematic to use that method to make it appear the legislature had spent less GF. He did not intend to have a philosophical debate but wanted to ensure that moving forward in the budget process the legislature identified any holes.

Representative Wilson spoke to truth in budgeting and transparency. She thought it would make more sense if they did not have numerous designated funds. She thought it would make more sense to take money from one pot in order to understand the available revenue. She added it would avoid the battle of funding things that were outside the intended purpose of a specific fund.

Mr. Teal answered that Representative Wilson would have fit in at the constitutional convention. He detailed that constitutional drafters had intended for all revenue to go into the GF and all appropriations to fight on equal ground for funding. The whole purpose of prohibiting dedicated funds, which had been avoided by the creation of designated funds, was to keep from diverting funds to specific causes. He continued that the thought was that items should fight for funding with other programs. He agreed that it would be easier to eliminate many of the designated funds. However, every year, ideas for additional designated funds arose. He

stated there would not be designated funds unless they were created by the legislature. The legislature could choose to get rid of the designated funds, but they worked for the purpose of ensuring that some programs were competing a bit more equally than others for funding.

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Representative Wilson believed it was a discussion the committee needed to have. She detailed that some of the funds had been set up with specific parameters. She used the Power Cost Equalization (PCE) fund as an example and explained that some money was supposed to be put into energy projects to help lower costs so at some point the state would no longer need something like PCE. The idea was to put communities on a more level playing field. She stated there were numerous designated funds and she believed it was necessary to consider whether they had met their goals and whether they were needed at their current levels. She thought it was important especially if the legislature was going to consider a payroll tax or other taxes. She stated that communities were not on the same level playing field. She used the Higher Education Fund as an example, where funding had been used for other purposes such as retirement.

Vice-Chair Gara spoke to truth in budgeting. He discussed that it was possible to make it appear that UGF spending had decreased by funding education with a designated fund (e.g. the Higher Education Fund). He recalled that one year retirement had been funded partially with the Higher Education Fund. He believed the public only cared about how much was spent. He spoke against making one category smaller by making another category bigger. He agreed that they should look at GF and CBR spending, otherwise it was confusing to the public. He tended to agree with Co-Chair Seaton and Representative Wilson about the subject. He added that without using all of the funds it was not possible to compare year-over-year spending.

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Mr. Teal referenced page 16 from the LFD Overview book that contained a discussion of designated funds being used for non-designated purposes. He advised that a person could begin there to start considering whether designated funds were useful. He added that it helped to know the history on

some of the things. He used PCE as an example and detailed that many urban communities received hydro projects, which meant cheap electricity for urban locations. He considered how rural residents could also benefit from the state's large investment in energy when projects could not be built in rural locations because it was not economically feasible. Instead, the rural population shared in the hydro investments by getting their energy subsidized. He stated that one could argue the rural communities should receive subsidization for as long as the hydro projects lasted, which could be 100 years. An argument could be made that the PCE had been a good idea that allowed the whole state to benefit from investments that seemed to focus on urban areas only. He stated that the legislature could go through every fund to consider whether they were needed. However, every fund had a constituency; it was not easy to unwind history.

Representative Pruitt agreed that they did not want to unwind history, but he did not like trying to lower UGF. He recalled testimony by legislative staffer Pete Ecklund who had argued the reason UGF was used was because it was the place the deficit came from. He stated it was the driver to lower what the UGF looked like because it changed where the deficit was. He spoke to being truthful in budgeting and the point highlighted by Mr. Teal about using designated funds for non-designated items. The change would mean there would appear to be an initial growth in the state's budget, but he believed it would mean the legislature could finally get to the truth of what was being spent. He referenced the use of \$40 million from designated funds to cover AMHS, which now appeared as \$40 million in growth in the current budget. He asked if the legislature chose not to use designated funds to pay for undesignated items, what the growth in the budget would be. He wondered if it would be a good position to start in the current year to reset the clock and have a truthful conversation with the public.

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Mr. Teal stated it was a tough guess on the number, which he estimated at several hundred million dollars. He recalled that last year Co-Chair Seaton had stated they needed to unwind some of the things, but he had determined that it was not possible because then it appeared there were huge budget increases. It was the nature of the building that everybody was looking for reductions, not

increases. Trying to straighten things out was good in the long run, great in concept, but it did not change the amount being spent, just the accounting. He asked how the legislature would figure out how to make the change while making the public understand there had not been a budget increase of a couple hundred million dollars. He questioned how the public would understand that the budget had not grown and that the accounting had merely been straightened out.

Mr. Teal continued there were a number of things that could be done. He shared that LFD had been talking about designated funds not fulfilling their intent. Designated funds had been intended to be more like program receipts, such as AMHS money coming in from ticket sales that would be used by AMHS. Park receipts designated for parks was another example. He stated that those funding situations were all fine; it was when the legislature began diverting GF taxes for things like reinsurance, alcohol and drug treatment, and other, that things became blurry. It was possible to change the way the accounting was done, but it would take work by chairs and agreement.

Mr. Teal referred to supplementals and believed one way to reduce the distortion was to count supplementals in the current year. He explained that in 2017 the legislature got credit for reducing the budget, which it may have intentionally or unintentionally underfunded. He elaborated that if the legislature had to come back in the current year and say it was not counting FY 18 appropriations and was only counting by legislative session, the current legislative session would spend the FY 19 budget and the FY 18 supplementals. Under the scenario, there would be no advantage to under funding the budget. If the legislature took credit for cutting the budget the previous year and it had to increase it in the following year, what good would it do the legislature to get the credit for cutting.

Mr. Teal relayed that the idea was not new; LFD had produced reports like that six to eight years back and at the time no one had really looked at them. At the time, supplementals had been far less confusing than they were at present. Supplementals had been around \$50 million and LFD thought they were causing distortion and had tried to change the way it was reported, but it had not caught on.

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Co-Chair Seaton stated that although it did not solve the supplemental dilemma, following all GF fixed the distortion of DGF spent to lower UGF. The committee would be looking at reports with both sets of numbers so people could follow the total budgets and UGF.

Mr. Teal turned to slide 7 titled "Looking Ahead" and discussed what the deficit meant beyond FY 19. The revenue forecast kept pace with inflation and OMB's expenditure plan was basically inflation. When both revenue and expenditures were projected to grow at about the same pace, projected deficits would continue unless action was taken. He elaborated that the size of the deficit depended on revenue: increased revenue would reduce the deficit, reduced spending would reduce the deficit, and increased spending would increase the deficit. The larger the POMV payout, the lower the deficit. At the same time, the larger the share of the funds that went to dividends, the smaller the share that went to government, and larger the deficit. Unless some fairly large action was taken, the outlook was for continued deficits - after POMV - of \$600 million to \$800 million per year.

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Mr. Teal turned to slide 8 and addressed what was missing from the governor's budget. The item he had received the most calls about was community assistance. People had seen the appropriation for community assistance and asked for verification they were covered. He answered, "not really," and elaborated that community assistance was designed to be money that communities could count on. He reminded committee members that boroughs and other local governments were currently preparing their FY 19 budgets as well. Theoretically, the communities knew the FY 19 distribution would be \$30 million. He recalled that the governor had not requested a deposit the previous year and the legislature did not add it. Unless money was added prior to June 30, the payout would be \$20 million in FY 19. The governor had requested a supplemental, which would fund FY 19 at \$30 million. He questioned how much the increment would help local government at present. He believed communities were happy to see the money included, but until it passed, they could not be certain of the funding. He remarked that a budget may not be passed until June again. He stressed that

communities could not plan unless they knew in advance what was going into the community assistance program.

Mr. Teal continued that it was nice to catch up and know what the FY 19 funding was, but it was the year the governor had been expected to include a \$30 million deposit in FY 19, which meant the FY 20 allocation would also be \$30 million. He stated it was a question of planning. He stated it was certainly nothing illegal, the governor had used money from PCE earnings as outlined in statute. He elaborated that the governor had put the money in FY 18 leaving no money for FY 19. In the opinion of LFD, that was not how the structure was supposed to work. He reiterated there was nothing illegal, just inefficient.

Mr. Teal addressed retirement contributions on slide 8. He detailed that June 2016 valuations for retirement called for state assistance payments of \$299 million for Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS). The governor proposed appropriations of \$238 million, a shortage of \$61 million. He referenced Detroit, New Jersey, and Illinois and explained that underfunding retirement could put states on the brink of bankruptcy. He stated that it was perhaps not quite as bad as the numbers made it look because the legislature had included intent a couple of years back to try to eliminate the three-year lag in setting rates. He expounded that the Alaska Retirement Management Board (ARMB) now had an updated projection model for life expectancy and other variables and ARMB said the future looked better and that they could reduce payments by about \$35 million. The other \$25 million reduction was something he had already talked about - anticipated savings in Medicare costs (retiree medical costs).

Mr. Teal stated it was possible to argue whether the funding was \$61 million short, \$25 million short, or short at all. He looked at the valuation and explained that if adequate funding was being allocated, the funding ratio should be increasing. However, the funding ratio was falling and was anticipated to fall for the next five to six years before starting to increase. Retirement contributions had been hanging in the background for two or three years, but due to the overall fiscal situation they had never risen to the forefront. He hoped the legislature solved the fiscal situation in general and could turn its attention to retirement systems. He discussed that \$3

billion had been allocated to the retirement system in FY 15, which had reduced state assistance dramatically. Projections for the current year were \$300 million and were increasing to \$700 million or \$800 million per year, which was not something he thought the legislature would want to happen. He stated that it may be underfunded, but he believed more importantly, the legislature needed to take time to really look at the retirement funding issue.

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Vice-Chair Gara referenced former Governor Sean Parnell's proposal to take \$2 billion to \$3 billion out of the CBR [for retirement]. He recalled at one point there had been a promise that future retirement contributions would be about \$150 million per year. He understood that had changed, but he wondered what had changed so drastically that the number could increase to \$800 million per year.

Mr. Teal replied that he believed the topic deserved the legislature's attention to find out why the number was increasing and what the legislature could do about it.

Mr. Teal addressed "What is New?" on slides 9 through 11. He discussed the public safety action plan that would increase spending by about \$33 million, \$18 million was a proposed supplemental. He spoke to the economic recovery plan. A payroll tax would generate \$160 million in FY 19 and over its three-year lifespan it was supposed to bring in about \$800 million and spend about \$800 million. He found the change in the governor's attitude about the tax interesting. He reminded the committee that when the governor had proposed the tax it was because he believed the deficit had to be filled. Whereas, now there was a tax proposed that did nothing to fill the deficit. Every dollar generated from the tax would be spent on capital projects. He observed it was a very different philosophy than it had been in the past. He added he had already mentioned the impact on the capital budget if the tax did not pass.

Mr. Teal addressed other new things and highlighted the appropriation from the CBR. He believed it was conceptually a very interesting move. He elaborated that it was not necessarily to use the CBR, the intention was to speed the budget process. He explained it was done by saying there was enough money from oil revenue and the POMV payout to fund core services (i.e. schools and state agencies). The

idea was to fund those items on time or early, which would avoid layoffs in school districts, state agencies, and perhaps municipalities and accompanying inefficiencies. At that point the minimally disruptive items including debt service and retirement contributions. He did not believe the governor was claiming the items were not important. He believed the governor's philosophy was if the people were funded first, their time would not be wasted talking about the budget planning they needed to do and weather they had jobs. He explained that the method would set items that did not involve people up for a majority vote.

Mr. Teal thought the approach was interesting, but he saw some dangers. Once debt service and retirement were funded with the CBR supermajority vote, they were guaranteed funding; however, the core services funded with GF would be vulnerable to revenue failure. For example, the state had a balanced budget, but ended up \$200 million short on oil revenue; it would mean the budget would be short on money without authority to draw additional funds from the CBR. He elaborated it may mean the legislature would have to come back for a second supermajority vote, a round of budget cuts (as occurred in most states), or with money from the ERA. He reasoned if the legislature was going to pull money from the ERA on a POMV basis, it should be sustainable and not on an ad hoc basis. He believed the approach was interesting, but that it needed a little help to make it more workable.

Mr. Teal discussed the governor's proposal of biennial budgeting (slide 10). He stated that theoretically biennial budgeting was much more efficient and meant the legislature would spend its time on the budget every other year, leaving a year to focus on non-budget items. He met with his counterparts in other states with biennial budgeting and he did not see them having any gains; the states were back in their off years doing the same thing they did in their budget year. They spent their interims holding full finance committee meetings scrubbing the budget. He opined that advantages may be more theoretical than practical, but the concept was worth discussing. He speculated the legislature would receive legislation because the concept required it.

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Mr. Teal turned to slide 11 and continued to address "What is New?" He mentioned debt financing for purchases of oil and gas tax credits, but he did not know any detail. He moved on to supplemental appropriations. Supplemental appropriations were included in the bill. He remarked that in the past people wanted supplemental items out of the operating budget because they wanted to start with a clean bill. He stated there was no technical reason the appropriations could not be included; any appropriation could go in any bill - all the action required was a bill title change to incorporate it.

Vice-Chair Gara was concerned that biennial budgeting ignored the reality of inflation. For example, the legislature had flat funded education in seven of the last nine years. He mentioned that one year there had been a \$40 million increase that had ultimately been removed. Subsequently, \$30 million had been added back over the next two years. He surmised that [under biennial budgeting] in the second year, it would be necessary to re-budget due to inflation.

Co-Chair Seaton did not want to get too deep into the subject until there a bill before the committee.

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Mr. Teal agreed that the issues were a reality with biennial budgeting. The state's incremental budgeting process meant that 95 percent or more of the budget was the same every year. It would be possible to pass a budget for several to five years, but it would be missing the inflation component. He explained it was an easy thing to take care of in the process - the legislature would simply appropriate more for the second year. He agreed that until the committee had a bill and the legislature talked to other states using biennial budgeting, it was hard to determine what the changes would be.

Mr. Teal explained that the presentation was an overview only and it was not possible to talk about every detail. He recommended reading the subcommittee narratives in the written overview. He did not bring a model, but it was available. There were some massive changes in the model in terms of the revenue forecast and Permanent Fund earnings. He encouraged members to meet with LFD to review the model if they desired.

^PRESENTATION: PERSONAL SERVICES VACANCY FACTOR

3:03:11 PM

AMANDA RYDER, FISCAL ANALYST, LEGISLATIVE FINANCE DIVISION, provided a PowerPoint presentation titled "Vacancy Factors and Personal Services Costs" dated January 23, 2018 (copy on file). She began on slide 2 and addressed the goal of the presentation. She stated the committee had asked LFD to provide information on personal services costs, particularly the practice of underfunding positions to account for turnover. The presentation would also address how to find information on vacant positions, how to determine what funding was available for positions, and how deleting the wrong fund source may impact departments and their ability to perform their duties.

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Ms. Ryder moved to slide 3 and defined vacancy factor. She explained that a vacancy factor was the difference between the amount needed to fully fund all positions in a budget and the amount of personal services funding included in the budget.

Mr. Teal elaborated on slide 3. He pointed to an equation showing budgeted funding, which equaled the cost of filling all positions minus the vacancy factor. He noted the committee was familiar with OMB position detail reports that listed each position and the cost of filling that position. He remarked that Ms. Ryder would address two factors that cause an agency to have less money than the budget implied - the vacancy factor and another more complicated source. He continued that the budgeted funding equaled the cost of filling all positions minus the vacancy factor. He believed the equation made it clearer that the amount listed for each position in the personal services detail was not the amount the agency received. The amount the agency actually received was listed in the personal services detail minus the vacancy factor. He believed many people mistakenly saw a dollar amount associated with a position and thought that it was the amount the agency received. Therefore, he believed it helped others to restate the definition (the first equation on the slide). The second equation emphasized that the budget purposefully underfunded positions.

Ms. Ryder addressed why the budget purposefully underfunded positions. She detailed it was based on the assumption that newer vacated positions took time to fill. She explained that if positions were fully funded, they would be overfunding what an agency needed. She stated that it depended on the size of an agency. For example, if an agency had three employees, it probably needed 100 percent of its funding, whereas, an agency with 600 employees probably did not - it was unlikely to have all 600 positions filled at any one time.

[3:08:45 PM](#)

Ms. Ryder addressed who determined the appropriate vacancy factor (slide 4). She explained that OMB provided the minimum and maximum vacancy factor guidelines. Generally, the higher number of full-time positions equated to a higher vacancy factor. She underscored that the table on slide 4 showed guidelines only - the figures were not set in stone.

Ms. Ryder turned to slide 5 titled "FY 19 Executive Branch Personal Services Line Funding Summary (All Funds)." The slide provided a graphical illustration of the vacancy factor. She elaborated that OMB had sent over information on executive branch agencies - the numbers were not statewide and excluded the University, the legislature, and Judiciary. To fully fund all 16,228 positions represented in the graph would cost \$1.83 billion; however, the governor's budget request included \$1.745 billion. The positions were underfunded in the FY 19 budget by \$90 million, which was the equivalent of about 796 unfunded positions. She emphasized that of the \$1.745 billion, about half came from non-UGF funding sources. All personal services funding was based on the fact that it was possible to collect 100 percent of everything budgeted. With non-UGF funding sources, it was rarely the case that 100 percent of the budgeted funding was collected.

[3:10:40 PM](#)

Vice-Chair Gara asked Ms. Ryder to repeat her prior statements.

Ms. Ryder complied. She explained that the personal services line item was based on receiving 100 percent of

the funding that was budgeted for the position. She detailed that about half of the positions in the state were budgeted with non-UGF fund sources. She elaborated that UGF was counted as available for appropriation. She added it had been the case to date and should be into the future. However, non-UGF funding sources (i.e. program receipts, other funds, and federal funds) and many times there was more authorization in the budget than there was the ability to collect 100 percent of the funding. She intended to provide an example in several slides that would show issues that arose with the other fund sources.

Ms. Ryder addressed how to find vacancy factors for individual divisions on slide 6. She pointed to a table at the bottom of the chart showing an example of personal services expenditure detail for the Department of Health and Social Services (DHSS) from OMB. She intended to highlight two things on the slide. The first was the vacancy factor - to determine how much a division was short funded. She directed attention to an arrow to the right [shown in red] pointing to a total pre-vacancy amount of \$50,890,464, which was the amount needed to fund all 598 positions in the Division of Pioneer Homes at 100 percent. The table indicated the division was short funded by \$739,064, equating to approximately seven to eight positions the division would have to keep vacant to live within its budget; it was the vacancy adjustment of 1.45 percent.

Ms. Ryder addressed the total post-vacancy - the funding actually included in the division's budget - was \$50,151,400. Some other agencies may have lump sum payments and premium pay - costs not associated with specific positions. The bottom line in the table (slide 6) was the total amount allocated for personal services costs within a given allocation. She highlighted funding sources used (shown on the left side of the table), which were important when looking at the amount available for personal services costs. The Division of Pioneer Homes had multiple funding sources. She pointed to the pre-vacancy cost of funding 100 percent of positions and the post-vacancy of \$50,151,400, which was the amount appropriated for personal services costs in the division's budget. The slide detailed the percentage of each of the funding sources appropriated or requested for personal services costs.

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Ms. Ryder continued to address the lower left portion of the table on slide 6. The problem with the funding sources was that many of them were not 100 percent collectible. She detailed that if 100 percent of all of the fund sources were collected, the division would have \$50 million to pay its positions, but even then, the division would be underfunded by \$739,064.

Ms. Ryder discussed that LFD had heard rumors over the years there were \$300 million to \$400 million in slush funds available in the budget (slide 7). One of the issues from uncollectible fund sources was the perpetuation of the myth. She furthered that LFD did not know how the number had been derived and could not duplicate it, but if true, it would mean about 14 percent of total personal services funding would be diverted for other purposes.

Ms. Ryder moved to a pie chart illustrating the Pioneer Homes FY 17 total funding cost on slide 8. She detailed that 54 percent was UGF, which was collectible. She explained that GF program receipt authority in the Pioneer Homes was received from residents paying fees for room and board and other incidentals. Interagency receipts were primarily from Medicaid billing for Medicaid recipients who live in the Pioneer Homes. Statutory designated program receipts were received from pharmaceutical sales. Federal receipts of \$694,600 were for the Palmer Veterans Home received from per diem payments paid by the federal Veterans Administration. She addressed whether the funding was collectible. Based on an analysis between the FY 17 authorized budget and the actuals, about 20 percent of the money was uncollectible.

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Ms. Ryder turned to a chart on slide 9 titled "Pioneer Homes FY 17 Authorized Budget vs. Actual Expenditures - All Fund Sources." She reported that in FY 17, Pioneer Homes had to transfer \$171,000 UGF from other allocations in order to address the funding shortfall. She elaborated that \$1.6 million (9.2 percent) of the authorized spending was not collected or expended. She furthered that there had been \$2.9 million in interagency receipts, but the division had not been able to bill for Medicaid like it had wanted. Additionally, 28 percent of the \$3 million comprised of statutory designated program receipts had not been

collected. In total, \$5.3 million of non-UGF fund sources were not collected (approximately 19 percent of the division's budget).

Ms. Ryder advanced to slide 10 titled "The Impact of Unrealized Funding Sources on Vacancy." She explained it was an illustration of how the uncollectible fund sources could really impact a division's ability to hire positions. She reported that 81 percent of the Pioneer Home's budget was in personal services. She pointed to the first column "Pre-Vacancy" in a table on slide 10 totaling \$50.8 million, which reflected the total cost of filling all positions. The third column showed post-vacancy funding, which was the amount actually requested in the budget. She noted that a vacancy factor of 1.45 percent had been applied to the pre-vacancy number and each of the fund sources listed in the table were reduced to get to the post-vacancy money.

Ms. Ryder reported that Pioneer Homes had raised rates by 15 percent over the past few years to increase GF program receipts and had a big push to get all residents eligible for Medicaid on Medicaid. She reasoned it was not likely the division would receive another couple million dollars in Medicaid receipts. She did not see many changes in Pioneer Homes to make her believe the division could significantly increase other revenue sources. Therefore, LFD had plugged the received amount into the FY 19 request, which it believed was a reasonable amount. At the 1.45 percent vacancy factor, it would be necessary to keep 102 vacant months per year or eight positions.

Ms. Ryder stated that in reality, LFD believed the vacancy factor was closer to 8 percent per year, meaning it would be necessary to keep 47 positions vacant and 567 vacant months to live within the budget unless the division transferred money from other line items. She stated that this is what LFD would consider to be a more realistic vacancy factor. She explained that if the legislature decided to cut \$4.1 million out of the division's budget because it could not collect the funds, there would be a much more significant impact on Pioneer Home's budget - it would have to reduce another 47 positions if the funds were cut from UGF instead of the appropriate funding sources.

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Co-Chair Seaton asked for verification that reducing the UGF fund source increased the percentage theoretically coming from other sources.

Ms. Ryder replied that the federal government would only pay the per diem rate they were going to pay for veterans in the Pioneer Homes; it was not possible to get additional federal receipts unless additional veterans moved into the home. If UGF funds were cut, it meant cutting services to residents; it was not possible to merely increase federal receipts. The same went for other fund sources - unless revenue, the number of paying residents, and/or the rates were increased, or the state somehow was able to collect more Medicaid, cuts to UGF would cut services. She explained that UGF was the only real money the division was able to receive because there was significant excess authorization in the division's budget at present.

Mr. Teal returned to slide 9 and explained that the total \$5 million that was not collected could not be a slush fund diverted to other purposes. He detailed it was money that had not materialized; therefore, it could not be spent. He elaborated that it was sometimes referred to as hollow authority or uncollectible receipts; it was not real. He spoke about the uncollectible amount and noted that 59 percent of interagency receipts would be realized; of the \$4.8 million in the budget, about \$2 million was available. He continued that adding all of the unrealized receipts resulted in another \$3.4 million (slide 10), which was additional forced vacancy (last column on the right), making the total vacancy \$4 million in the budget that could not be spent.

Co-Chair Seaton recognized Representative Justin Parish in the audience.

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Vice-Chair Gara asked about slide 10. He understood the \$739,000 vacancy factor. He asked if the \$4.1 million that was unrealized meant the agency had to make internal cuts it did not plan on making.

Ms. Ryder replied that since FY 15 UGF had been reduced by \$3.4 million in Pioneer Homes, DGF had been increased by \$2 million, and other funds had increased by \$1.6 million. She explained that looking at total funds appeared that nothing

had happened in the budget and initiated the question of why Pioneer Homes would have increased waiting lists over the past few years, and why they were unable to hire positions. She explained the budget was actually about \$400,000 higher since FY 15; it was due to the fund sources. She elaborated it was one of the difficult aspects of using GF. She furthered that if she looked at GF she did not see a fund source change to collect more from the residents and provide less state subsidy. She stressed it was difficult to see what was happening in the budget when looking at all GF. It was much easier to see what was happening when looking at UGF. She added that in some other agencies it was best to look at all GF; therefore, it was crucial to know what comparisons to make. She emphasized that all comparisons were not equal. In Pioneer Homes, the best comparison was UGF to see what impacted its ability to hire positions.

[3:27:07 PM](#)

Co-Chair Seaton stated there was \$50,151,000 million of funded positions, but 10 percent of the funds were non-UGF and non-collectible. He surmised the Division of Pioneer Homes really only had \$45 million to operate on in order to run a \$50 million budget. He surmised the division was leaving positions vacant because it was the only way to run the \$50 million budget with \$45 million.

Ms. Ryder replied "yes, for the most part, except a lot of the non-UGF fund sources are available, they're just not available to the degree that is included in the budget." She explained it was the reason LFD had done the projected available funding based on FY 17. She had not spoken to the department about the situation and perhaps they were planning to increase their rates - she did not know. The legislature would not know until it asked departments if they were planning to expand their ability to collect non-UGF fund sources. She believed the example was probably a fairly good estimate of what they could collect.

Ms. Ryder believed the Division of Pioneer Homes probably needed to clean up its budget because there were some real disadvantages to the division of presenting its budget the way they did. One of the disadvantages was when salary adjustments and health insurance increases occurred, it was calculated on the fund sources used to pay personal services. When she had calculated FY 18 and FY 19, there

was \$582,000 of health insurance increases incorporated into the division's budget. She clarified it did not include additional services, only additional cost to pay increased health premiums for employees. She underscored that \$220,000 of the increased cost was not UGF - it was hollow authorization, meaning a couple of positions would need to be cut because it would be necessary to use UGF. She did not believe the division would have the ability to collect enough from the \$4 million to pay for the extra \$220,000 in the division's budget in FY 18 and FY 19 for health insurance. She recommended cleaning up the fund sources to get more UGF, which was a more accurate representation of the funding needed to fund the division's personal services.

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Co-Chair Seaton pointed to the fourth column in the table on slide 10 titled "Realized Revenue/Budgeted Funding Based on FY 17." He surmised that to achieve accurate projections and avoid underfunding the budget with uncollectible funds, the percentages in the column should be adjusted to 100 percent and the projected amount received should be reduced to true up what a division could actually collect from the total fund sources.

Ms. Ryder answered that she recommended trying to clean up some of the excess in hollow authorization in the division's budget. She highlighted the takeaway from the graph on slide 10. She explained that when a division had non-UGF fund sources, the true vacancy factor could be much higher than what appeared in the budget and funding that did not exist could not be spent. She advised to be very careful when decrementing funding in allocations with multiple fund sources. She would address another report shortly that showed when looking at Pioneer Homes positions, each position was allocated to about 60 percent UGF. She elaborated that if a position was being cut, someone may reason they could cut UGF. She countered that the division had spent all of its UGF, it was the other funding sources that were the problem; therefore, if UGF was cut with an associated position, it would require the division to cut even more positions. She recommended looking at positions as a pot of money and to understand the impacts of cutting UGF or any other fund source; it was also important to understand that when the legislature added \$3 million in DGF and other funds and reduced UGF,

the division had not been able to collect the funds. She clarified that if UGF was cut and other fund sources were added, it would mean additional positions would need to be cut. She advised the legislature to look at the total funding and funding sources when looking at any position information.

Representative Wilson referenced the governor's executive office and vacancy. She stated that in 2017 the office had a vacancy rate of 4.6 percent.

Co-Chair Seaton asked if Representative Wilson was looking at the presentation.

Representative Wilson replied that she was not looking at the presentation, she was looking at a budget book [the information was not included in members' packets]. The data showed approximately \$433,000 as the vacancy rate for the last year. For the current year, the office had 69 people instead of 66 people and the vacancy rate had been reduced to 0.74 percent or \$68,073. She asked if it meant the office could spend more money because the vacancy rate had decreased. She stated the funding was all UGF and all realized. She wondered if the reduction in the vacancy rate would enable the office to spend more money, but on paper it would look the same.

Ms. Ryder replied that she would have to look to determine if a vacant position had been deleted from the prior year.

Representative Wilson replied that positions had been increased from 66 to 69. She stated it was a substantial difference between \$433,000 the office could not use because it had to cover the vacancy rate and \$68,000. She reiterated that the funds were all UGF and all realized. She wondered about the takeaway.

Ms. Ryder answered that she would first ask whether funding had increased. She did not know - she was not familiar with the particular budget or allocation. She recommended asking the department for an explanation of the difference in vacancy rate.

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Representative Wilson spoke to trying to clean up hollow receipts such as federal authorization. She asked if they

also looked at GF match attached to the hollow receipts. Alternatively, she asked if the federal receipt funding would be removed but the GF would remain the same. She asked if a department may not ask for more GF because the federal funds may not come.

Ms. Ryder responded that she would look at whether the GF match was spent. She detailed that if the GF match had been expended and they had hollow authorization, she would know the division needed the funding in the budget. Removing hollow authorization should not impact the amount of GF match needed.

Co-Chair Seaton asked members to try to keep examples to the slides in the presentation.

Ms. Ryder moved to slide 13 and addressed an OMB personal services report showing filled versus vacant positions for Alaska Pioneer Homes. The report showed how many of the prior 12 months the budgeted positions had been vacant. She advised members to talk to the department about the reasons the positions were vacant.

[3:37:41 PM](#)

Mr. Teal provided background on the report referenced on slide 13. He recognized that vacancy position counts and personal services funding was a long-term, widespread problem that had frustrated LFD, OMB, legislators, and staff. The problem was particularly frustrating to LFD and OMB because they were unable to explain the issue in terms that the legislature and the public could understand. He elaborated it had been difficult to come up with a way to explain it was not just vacancy factors that mattered - when a position was filled, and fund sources also mattered. He explained that when a division had eight unfilled positions it did not typically mean the division had eight empty positions. He relayed that LFD had met with OMB during the interim to try to find a better way to present the information. He detailed that OMB had developed the report shown on slide 13, which LFD was very happy with. The report included boxes specifying whether a person had received a paycheck (in other words, whether a position was filled).

Mr. Teal explained that if a division's vacancy factor was \$739,000, which equated to eight positions, the division

did not have eight positions vacant, it had a couple of months vacant for various positions here and there that when added up was the equivalent of eight full-time positions. He expounded it was difficult to delete one position, because it was not one position that was vacant - it involved numerous positions with turnover. The report made it obvious that it was important to think about vacancy in terms of months of empty positions rather than positions that were filled.

Mr. Teal continued that the report also showed vacant positions, which provided the legislature with an opportunity to ask the department why the position was vacant and what the agency's intentions were. He reasoned a vacant position may be one an agency intended to transfer to Shared Services or perhaps the agency was having recruitment difficulties - it could be a number of things. The report was helpful, but it did not provide all of the needed information. He stressed it was critical to understand the fund sources as well as the vacancy factor. Information about what kind of funding was used to pay for positions was on the next slide.

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Vice-Chair Gara referenced slide 10. He stated that the Pioneer Home had received \$4.1 million less than he thought. He observed that many of the fund sources had not come through (except for GF). He asked if the situation had occurred in the prior year as well. He wondered if it had been a static \$46.8 million the agency had been receiving. Alternatively, he wondered if he should assume it was \$4 million worse than the prior year.

Ms. Ryder answered that LFD had looked at FY 17 actuals compared to the FY 17 budget and had applied the ratio of what an agency was able to collect to the FY 19 budget. She explained that LFD did not know if the amount was what the agency would actually receive in FY 19, but based on her knowledge of the Pioneer Homes budget, she believed the estimate was reasonable. She furthered that the division's budget looked very different than it had in FY 15 when it had \$3 million more in UGF and less in other fund sources. There had been a push in Pioneer Homes to find other revenue sources like there had been in many other departments. The impact had been that the division had to maintain a higher vacancy.

Mr. Teal referenced Vice-Chair Gara's statement about there being \$4 million less than he thought the Division of Pioneer Homes had. He explained the division had known about \$739,000 of the amount. The uncollectible receipts had caused the division to have an additional \$3.4 million. The total was \$4.1 million, it was not new. Uncollectible receipts added a vacancy factor that was not necessarily visible until the fund sources were reviewed. He noted the information [on slide 10] was based on FY 17 actuals. He reasoned that FY 18 and FY 19 would have about the same fund sources in about the same amounts. He stated if they were different, the analysis would need to be adjusted. He noted that as Ms. Ryder had testified, the changes occurred in FY 15 and there had not been changes since FY 17.

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Co-Chair Seaton stated there was a tremendous disadvantage to having a budget with uncollectible receipts. He added there had been requests numerous times for additional federal receipt authority. He asked if there was any advantage to an agency to have the hollow authority.

Ms. Ryder replied that there were some advantages. For example, if pharmaceutical sales increased, the division would have the ability to spend the money it had and would not have to go to Legislative Budget and Audit for a request. She explained that it reduced administrative costs of trying to request additional funding. She relayed it was not a bad thing to have some additional authority, the problem was that too much additional authority skewed the budget. Some additional authority could promote administrative efficiencies because the division did not have to ask for additional funding if it had another paying resident, but the division could not spend any more money. She continued there could be cases where a resident was willing to pay and the division thought it could hire another person because a bed was open and the division had the receipt authority. There was an advantage, but the division would still have a vacant bed if it could not collect the funds. Whereas, if the division could collect the funds, it could fill beds. She concluded there was an advantage, but the large discrepancies were problematic.

Co-Chair Seaton surmised that a differential between the vacancy factor, meaning a division had to leave positions

open, may mean it was not hiring nurses and could not fill beds because it did not have personnel to service them.

Mr. Teal agreed, but wanted to take a step back. He reminded committee members that with federal receipts, a division could go to Legislative Budget and Audit (LB&A). However, he questioned why an agency would cut federal receipts back at 98 percent [slide 10, fourth column pertaining to realized revenue/budgeted funding]; he stated it would be inefficient for an agency to have to go to LB&A annually and it did not involve a substantial amount of money. He furthered that an agency could go to LB&A to get more statutory designated program receipts if needed and interagency receipts could be unbudgeted if needed. The real problem was GF program receipts.

Mr. Teal explained it was not necessary for an agency to have 98 or 100 percent in each of the columns, but it was a problem for interagency receipts to be budgeted at \$2 million more than an agency could collect. He stated that even program receipts at \$1 million more than an agency could collect was distorting. He did not know that it was misleading the legislature into thinking Pioneer Homes had more than it did. He thought most people would look at the budget and think that it was \$50 million; most people would not understand it was really \$46 million. He continued that most people would not understand why a new resident could not be admitted if the Pioneer Home had empty beds.

Mr. Teal continued that a person could not get in because program receipts did not cover the full cost of the room and the division did not have any GF; it could not fill the bed even though the division had the program receipt authority and a person was willing to pay to be admitted. He continued that it still may be that if a person was paying \$50,000 and it required a GF subsidy of \$10,000 or \$15,000, the division could not admit the person because they did not have the GF match. The big disadvantage involved the healthcare cost. He explained that if he were managing the division he would significantly cut program receipt and interagency receipt authority because having them on the books cost the division one to two positions just because it was carrying hollow receipts. The division was hit with charges to health insurance from program receipts that it was not going to collect and had to pay with GF. He concluded it was a bad thing for the agency to do and misleading for the legislature and others.

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Ms. Ryder referred back to the slush fund myth of \$300 million to \$400 million [slide 7]. She provided a scenario where a budget subcommittee decided it was going to clean up the books in the current year and removed 100 percent of the uncollectible money with a reduction to Pioneer Homes of \$3.4 million. She stated that the next year, in the management plan, the department would probably come in and determine it would eliminate around 39 of the 47 unfunded positions that had been unfunded due to uncollectible receipts. She believed the following year people would ask why the UGF funding associated with the 39 positions had not been cut. She explained that the UGF funding had not been paying for the 47 positions - nothing had been paying for the positions. She furthered that if the legislature cut the UGF associated with the 39 vacant positions that could not be funded because currently the division had more than 500 vacant months, the division would end up with many more vacant positions. She elaborated it was necessary to look at the money as a pot funding the full myriad positions; it was not possible to tie each individual position to position.

Ms. Ryder explained that to find how much money was allocated, it was necessary to go to the personal services detail report [shown on slide 13]. The report was included in members' subcommittee books. She turned to a detailed report showing the governor's operating budget allocation totals on slide 15. She pointed to column 5 and explained that \$50 million of the Pioneer Homes' budget of \$61 million was spent on personal services. She observed that many people were paid by the division's budget. The first column showed FY 17 actual expenditures, which she compared to the governor's request. The FY 17 actuals was \$5.6 million higher than the governor's request. She stated it was not possible to cut back to FY 17 and not impact Pioneer Homes. She stated that Pioneer Homes was \$699,200 UGF [\$599,200 UGF shown on slide 15] below what was expended in FY 17 (1.8 percent below the FY 17 actuals). The other numbers gave a strong indication that there may be hollow authorization. In the case of Pioneer Homes, she knew there was hollow authorization, but when looking at the information for other divisions she would indicate "may be" hollow authorization. She would then look at the individual fund sources.

Ms. Ryder reported that she sometimes ignored the vacancy factor and considered the pot of money a division had to spend on operations. She pointed out that the division's budget was actually below FY 17 UGF and much of the other money was hollow. The division was \$600 million [thousand] below and had almost \$600,000 of additional healthcare costs in the FY 19 budget. She explained that when looking across the board, the division had \$1.2 million UGF less to spend in FY 19 compared to FY 17 - she believed it would be approximately 12 positions fewer.

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Mr. Teal stated that the \$5.6 million increase over FY 17 actuals was not UGF; it was money that did not exist or hollow authorization (slide 15). He explained that the legislature and the department would probably be better off if the hollow authorization was removed.

Co-Chair Seaton remarked that subcommittees would have substantial work to do.

Vice-Chair Gara referenced slide 10. He considered the \$51.151 million the Pioneer Homes needed to produce a given level of services after the vacancy factor. He stated that the division hoped it would receive numerous funds sources, which it had ultimately not received - equating to \$3.3 million. Ultimately, the division had only been able to provide \$46 million in services. He thought the \$50.151 million was the level of services (for housing, food, care, and other) the division wanted to provide. He stated there would be an argument over actuals and that the division's proposed budget was higher than its actuals (actuals had been lower because the division did not collect funds it had hoped to collect). He asked for verification that the division would itemize the level of services it could provide under the \$50.151 million.

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Mr. Teal pointed to slide 15 and pointed out that \$50 million had not been provided. He noted that slide 10 only considered personal services. Slide 15 showed that personal services were closer to the \$46 million. The division may want to provide \$50 million, but it was funded at \$46 million. He clarified the division was budgeted at \$50

million but funded at \$46 million. If the legislature wanted the agency to provide \$50 million in services it could allocate another \$3.5 million GF or make sure the other uncollectible fund sources (i.e. Medicaid or program receipts) got collected, which was more difficult to do. He concluded there were always several places in a budget to get to reach the desired goal, which made budgeting tough.

Ms. Ryder addressed slide 14: "So how am I supposed to find out what kind of money is used to pay for positions?" She recommended looking at allocation totals, then personal services detail to consider whether it was reasonable the positions were actually collectible, and then talking to LFD analysts and department staff. She referenced Representative Wilson's earlier question about the governor's office and relayed it was a good place to start.

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Mr. Teal acknowledged the approach under discussion took significant time and effort, but it would be a much more productive effort than merely asking the department for a list of vacant positions and then deleting the positions and associated funding. He turned it over to Ms. Ryder to address words of caution on the simple approach.

Ms. Ryder addressed words of caution on slide 16. She relayed that lists of vacant positions were a point in time. The legislature did not know whether the executive branch planned to fill the positions and if the legislature deleted the positions it may be deleting services it wanted the departments to provide. Second, it may take time to recruit the right individuals for a position. For example, she had been the director of Administrative Services for the Department of Commerce, Community and Economic Development in the past. She recalled that after the banking failure in 2009, Division of Banking and Securities had lost about 50 percent of its staff because the positions had been federally funded. She explained it had taken time to recruit additional banking examiners, but if the legislature had deleted the positions, the department had taken the position funding and had contracted out for the services. She continued that if the funding associated with the positions had been deleted, the division would no longer have been able to contract out. She noted that the Department of Transportation and Public Facilities did the same type of thing with engineers - the field was highly

specialized and while recruiting for a position it may contract out for the services with a private engineering firm. She cautioned against deleting funding when seeing a vacant position. She added that there was insufficient funding to pay for all of the vacant positions. She highlighted the Pioneer Homes as an example - deleting GF would create larger vacancies. She advised members to look at the total pot of funding when multiple fund sources were available to determine whether a deletion or addition made sense. She reminded the committee that positions may be vacant because they were funded with uncollectible fund sources.

[4:02:57 PM](#)

Mr. Teal provided wrap up on slide 17. He was not intending to tell the committee to stay away from addressing personal service costs, but to become well versed in the subject. He believed legislators could do that by keeping the points listed on the slide in mind:

- Avoid assumptions
- Use available resources
- Understand impacts
- Don't go down the position rabbit hole
- Available Funding = Cost of Filling All Positions - Vacancy Factor - Non-Existent Funding

[4:04:00 PM](#)

Ms. Ryder advised against making assumptions, particularly that cutting UGF associated with a vacant position would not have any impacts. She recommended using available resources (reports and people including the departments and LFD) and understanding the impacts. She cautioned against going down the position rabbit hole; if the agency did not have the funding to keep a position, keeping it on the books did not cost anything, but deleting the position actually may cost. She explained that recreating positions took time and could mean spending more money because of paying more to contract the work out. She stated that cutting positions to the bone may increase costs. She reminded the committee that money appearing in position detail reports was not necessarily real money.

HB 285 was HEARD and HELD in committee for further consideration.

HB 286 was HEARD and HELD in committee for further consideration.

Co-Chair Seaton thanked the presenters for the information.

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ADJOURNMENT

4:05:35 PM

The meeting was adjourned at 4:05 p.m.