

HOUSE FINANCE COMMITTEE
February 1, 2018
1:35 p.m.

1:35:46 PM

CALL TO ORDER

Co-Chair Seaton called the House Finance Committee meeting to order at 1:35 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Tammie Wilson

ALSO PRESENT

Neil Steininger, Chief Budget Analyst, Office of Management and Budget, Office of the Governor; Brian Fechter, Policy Analyst, Office of Management and Budget, Office of the Governor; Mark Miller, Superintendent, Juneau School District, Juneau.

PRESENT VIA TELECONFERENCE

David Boyle, Alaska Policy Forum, Anchorage; Starr Marsett, Vice-President, Anchorage School Board, Anchorage; Jennifer McNichol, President Sitka School Board, Sitka; Mayor Bert Cottle, City of Wasilla, Wasilla; John Ringstad, Fairbanks North Star Borough School District, Fairbanks.

SUMMARY

HB 287 APPROP: EDUCATION/STUDENT TRANSPORTATION

HB 287 was REPORTED out of committee with a "do pass" recommendation.

HB 321 APPROP: SUPPLEMENTAL OP.; FUND; AMENDING

HB 321 was HEARD and HELD in committee for further consideration.

Co-Chair Seaton reviewed the agenda for the day.

#hb321

HOUSE BILL NO. 321

"An Act making supplemental appropriations and other appropriations; making an appropriation to capitalize a fund; amending appropriations; and providing for an effective date."

[1:36:37 PM](#)

NEIL STEININGER, CHIEF BUDGET ANALYST, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced himself. He referred to two documents distributed to committee members: "FY2018 Supplemental Summary" and "FY2018 Supplemental Bill Spreadsheet" (copy on file). He remarked that the total Supplemental request was \$7,895.7 million in Undesignated General Funds (UGF) and the all funds total was negative \$5.5 million.

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Mr. Steininger moved to the document; "FY 2018 Supplemental Spreadsheet" and explained the items in the bill. He began with page 1, the Operating Numbers Section, line 2:

Line 2

Department of Commerce, Community, and Economic Development

Banking and Securities Component

Financial Examiner I/II for Alaska Native Claims Settlement Act Filings and Support

The division must timely process ANCSA corporate filings and respond to complaints within 10 business days. Without this position, the division would be forced to reduce resources tasked with examinations and enforcement activities for other programs.

UGF \$0.0 DGF \$103.4

Other Funds \$0.0 Federal Funds \$0.0

Representative Guttenberg asked about the difference between the current supplemental budget request and the similar item in the FY 19 operating budget request. Mr. Steininger stated that the supplemental request allowed the Department of Commerce, Community and Economic Development (DCCED) to hire the position in FY 18. He reported that the volume of filings had dramatically increased, and the position was necessary as soon as possible.

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Mr. Steininger reviewed lines 3 and 4.

Line 3

Department of Environmental Conservation

Solid Waste Management

Increase Program Receipt Authority

The Solid Waste Management program conducted a fee study in FY2017. Revised fee regulations have gone through public notice, review, and comment, and were enacted effective October 27, 2017. The Department anticipates revenue from the new fees will exceed general fund program receipt authority in FY2018.

UGF \$0.0 DGF \$35.

Line 4

Department of Environmental Conservation

Air Quality

Decrease Program Receipt Authority

The Division of Air Quality expects to under collect general fund program receipt authority in FY2018 due to fluctuations in the amount of Title I permit work from year to year.

UGF \$0.0 DGF (\$35.0)

Other Funds \$0.0 Federal Funds \$0.0

Mr. Steininger turned to Line5.

Line 5

Department of Health and Social Services

Front Line Social Workers

A recent amendment to the section of the Public Assistance Cost Allocation Plan (PACAP) covering the

Office of Children's Services (OCS) changes the allocation methodology for the Front Line Social Workers component, the largest personal services component within the Office of Children's Services budget. The estimated increase is associated primarily with the claiming for the Title IV-E foster care, adoption, and guardianship programs.

UGF \$0.0 DGF \$0.0
Other Funds \$0.0 Federal Funds \$6,500.0

Vice-Chair Gara asked whether the transaction assumed state match money was available. Mr. Steininger wanted to refer to the Department of Health and Social Services (DHSS). He understood that the transaction reflected an attempt to increase the amount of federal dollars or the "percent of the expenditures that were attributable to federal money by the division." Vice-Chair Gara did not understand the link between PACAP and the OCS. Mr. Steininger believed the PACAP covered more than just the Division of Public Assistance. He deferred to DHSS for details.

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Mr. Steininger moved to Line 6.

Line 6
Department of Health and Social Services
Foster Care Base Rate
Decline in Child Support Payment Collections
The Office of Children's Services expects significant reductions in collections of child support and social security payments.

UGF \$1,000.0 DGF \$0.0
Other Funds \$0.0 Federal Funds \$0.0

Mr. Steininger elaborated that OCS received child support collected by the Department of Revenue (DOR) for children in state custody. In recent years there had been a significant decline in child support collections that impacted the division. He noted that OCS was experiencing a decrease in Social Security benefits from children in its care.

Co-Chair Seaton recognized that Representative Ortiz joined the meeting.

Representative Pruitt asked why child support collections were declining. Mr. Steininger replied that through discussions with the division and DOR he discovered that many factors lead to the decline. He elucidated that economic factors, unemployment, and the inability to collect from Permanent Fund Dividend (PFD) garnishments were issues related to the decrease.

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Mr. Steininger addressed Line 7.

Line 7
Department of Health and Social Services
Foster Care Special Need
FY2017 Special Need Payments Made in FY2018
At the close of FY2017 the Office of Children's Services pushed payments for FY2017 obligations into FY2018 in the amount of \$2,895.7.

UGF \$2,895.7 DGF \$0.0
Other Funds \$0.0 Federal Funds \$0.0

Mr. Steininger reported that at the end of FY 17 OCS had to defer some payments to FY 18 due to a lack of funds. The item would cover the payments that were pushed into FY 18 and prevent a "domino effect" of pushing payments into FY 19.

Representative Ortiz asked Mr. Steininger to define "special needs." Mr. Steininger responded that special needs for foster children would be clothing, medical care, etc., and were above and beyond the base foster care payments.

Vice-Chair Gara clarified that Mr. Steininger was not talking about youth with special needs but foster children needing things that were not included in the base rate. Mr. Steininger responded affirmatively.

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Mr. Steininger continued to Page 2, line 8.

Line 8
Health and Social Services
Alaska Temporary Assistance Program

Temporary Assistance for Needy Families Maintenance of Effort

The maintenance of effort (MOE) for the Temporary Assistance for Needy Families (TANF) program, mandated by the Federal Government, is primarily met by the expenditures within ATAP. The state received notification of penalty for failure to meet the MOE obligation for federal fiscal year 2017.

UGF \$2,000.0 DGF \$0.0

Other Funds \$0.0 Federal Funds \$0.0

Mr. Steininger reported that the item reflected a notice from the federal government that certain criteria had not been met for TANF (maintenance of effort).

Representative Guttenberg was under the impression that the maintenance of effort was not specific to a single program but applied across the board to other programs. He asked for further clarification. Mr. Steininger replied that there were several areas where the state could meet the maintenance of effort but TANF was the primary program. He explained that the department was attempting to find alternative sources to meet the maintenance of effort and some were not successful. He offered to provide detailed information regarding the alternate sources. The alternate sources needed to be approved through the Center for Medicaid Services (CMS). Representative Guttenberg commented that he suspected that a program cut of approximately \$2 million created the problem and wanted to explore the issue.

Vice-Chair Gara asked whether the state was incurring a \$2 million penalty to the federal government for not meeting the maintenance of effort. Mr. Steininger knew that the transaction avoided further penalty and would provide further detail regarding the penalty later. Vice-Chair Gara indicated that the department had warned the legislature in 2016 that the scenario could happen. He noted that the "committee decided not to believe the department."

Mr. Steininger reviewed Line 9.

Line 9

Department of Revenue

APFC Investment Management Fees

Investment and Custody Fees

Unanticipated market performance or manager changes could cause the actual amount of fees paid to exceed projections. As a prudent course of action, \$5,000.0 supplemental authority for the Investment Management Fee allocation will ensure that APFC has sufficient funds to meet our contractual obligations.

UGF \$0.0 DGF \$0.0
Other Funds \$5,000.0 Federal Funds \$0.

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Mr. Steininger moved to the Language Section of the bill beginning on line 18.

Line 18
Special Appropriations
Comprehensive Insurance Program
Payment from Premera to the Reinsurance Program
Adjustment to the state contribution to the calendar year 2017 reinsurance program to reflect reimbursement from Premera Blue Cross Blue Shield.

UGF \$0.0 DGF (\$25,000.0)
Other Funds \$0.0 Federal Funds \$0.0

Mr. Steininger elaborated that in late November or early December 2018, Premera refunded the state \$25 million for the Alaska Comprehensive Health Insurance (ACHIA). The \$25 million reduction left a total balance of \$30 million in the program. He highlighted line 19:

Line 19
Fund Capitalization
Disaster Relief Fund
Disaster Relief Funding
This increase is needed due to the low balance of the disaster relief fund and the estimated amount needed for spring 2018 disasters. Sufficient general fund authority of \$2,000,000 currently exists in the FY2019 budget.

UGF \$2,000.0 DGF \$0.0
Other Funds \$0.0 Federal Funds \$0.0

Mr. Steininger relayed that the spreadsheet inadvertently omitted two bargaining agreements included in the bill that

had been completed with no impact to the budget for the University of Alaska system.

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Mr. Steininger discussed the ratification section beginning on page 3, line 23. He reminded committee members that the transactions were ratifications of prior year expenditures.

Ratifications

Line 23
Department of Health and Social Services
Pioneer Homes

FY2016, AR H001 Alaska Pioneer Homes
UGF \$467,693.27

Mr. Steininger reported that the item represented a shortfall in revenue. He moved to line 24.

Line 24
Department of Health and Social Services
Public Health
FY2016, AR H007 Public Health

UGF \$1,350,310.26

Mr. Steininger indicated there had been a shortfall in revenues. He turned to item 25.

Line 25
Department of Health and Social Services
Medicaid Services
FY2016, AR H012 Medicaid Services

UGF \$8,715,670.72

Mr. Steininger indicated that while there was a shortfall in receipts in 2016 the department had recouped the revenue, but it was posted in FY 17.

Mr. Steininger moved to Line 26 and Line 27, which were Capital Budget items.

Line 26
Department of Health and Social Services

Capital
FY2010, AR H264 Mental Health Housing

UGF \$8,824.49

Line 27
Department of Health and Social Services
Capital
FY2011, AR H260 Mental Health Home Modification and
Upgrades to Retain Housing

UGF \$7,355.06

[1:53:01 PM](#)

Mr. Steininger presented line 28, which was a capital item.

Line 28
Department of Health and Social Services
Capital
FY2016, AR HUBC Unbudgeted Capital RSA's

UGF \$300,310.83

Mr. Steininger reported that the item represented a shortfall in revenues.

Representative Thompson asked what RSA meant. Mr. Steininger answered that RSAs were Reimbursable Services Agreements that were contracts between state agencies for providing services.

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Mr. Steininger concluded with line 29.

Line 29
Department of Public Safety
Bureau of Highway Patrol
AR 47863-13 Bureau of Highway Patrol - Special Project

UGF \$4,304,930.00

Representative Pruitt asked what the initial appropriation was for line 29. He requested additional detail.

[1:54:26 PM](#)

BRIAN FECHTER, POLICY ANALYST, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, explained that the federal government denied certain expenditures for a grant that was passed through the Department of Transportation and Public Facilities (DOT) to the Department of Public Safety (DPS). The money was only to be used for alcohol enforcement and was used for other things.

Representative Pruitt asked if the department was aware of the grant requirements and "knowingly jeopardized the federal funding." Mr. Fechter responded that it was a matter of interpreting the original grant agreement. He deferred to the department for further detail. Representative Pruitt requested an answer from the department regarding a \$4 million misinterpretation.

Co-Chair Seaton asked the chairman of the DPS subcommittee to flush the details out during subcommittee meetings.

HB 321 was HEARD and HELD in committee for further consideration.

[1:56:53 PM](#)

AT EASE

[1:57:46 PM](#)

RECONVENED

#hb287

HOUSE BILL NO. 287

"An Act making appropriations for public education and transportation of students; 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."

[1:57:59 PM](#)

Co-Chair Foster indicated that the committee heard the bill twice previously and the prior meeting was held on January 30, 2018. He intended to move the bill out of committee.

Co-Chair Foster OPENED public testimony.

^PUBLIC TESTIMONY

[1:58:32 PM](#)

MARK MILLER, SUPERINTENDENT, JUNEAU SCHOOL DISTRICT, JUNEAU, spoke in support of HB 287. He explained the process of budgeting for the school district. He indicated that the school district built its budget for the following school year from January through March each year. If he did not know the number for the budget, he had to guess, and the guess must be conservative, or it could result in a "catastrophic" situation. He believed that the situation could be averted if a sustainable budget was adopted. He related that the previous budgets were not completed in time to work with the school district's budgeting cycle. He was not sure the bill solved the overarching problem but felt the bill was the right thing to do.

[2:02:00 PM](#)

DAVID BOYLE, ALASKA POLICY FORUM, ANCHORAGE, (via tele-conference), spoke in opposition to HB 287. He argued that the education budget should be included within the rest of the operating budget. He argued that other departments like the Department of Public Safety, Department of Transportation and Public Facilities (DOT), and the University of Alaska might "demand" that its budgets were forward funded. He characterized the bill as "incentivizing bad behavior." He understood that the budget had been passed very late but felt that the district's budgets could be managed. He stated that the education system was "not a jobs program." He opined that the education system had been funded with very "little accountability for increased student achievement."

[2:04:00 PM](#)

AT EASE

[2:04:50 PM](#)

RECONVENED

Mr. Boyle continued that the Anchorage School District transported 15,000 students but received funding for 47,000 thousand students. He suggested prioritizing transportation costs. He noted that when the school district in Anchorage distributed pink slips they were only given to teachers and not to support staff. He argued for privatization of some support services.

[2:07:06 PM](#)

STARR MARSETT, VICE-PRESIDENT, ANCHORAGE SCHOOL BOARD, ANCHORAGE (via teleconference), spoke in favor of HB 287. She indicated that the school district had issued approximately 220 pink slips. She explained the time consuming process of issuing pink slips. She spoke to the difficulties of managing health insurance once pink slips were issued and the many costs associated with issuing pink slips. Teachers were at risk of losing their health insurance if they were not reinstated by June 30th each year. She also noted the loss of new hires and the difficulty of recruitment because of the state's budget process and how it impacted education spending. The school district hired approximately 260 teachers each year due to turnover and retirements. She indicated that reliable funding would help avoid unintended costs and the stated issues while also boosting student and teacher morale.

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JENNIFER MCNICHOL, PRESIDENT, SITKA SCHOOL BOARD, SITKA (via teleconference), spoke in support of HB 287. She thought that the legislation helped to solve the budgeting issue for school districts. The budget was done "far too late for district budgeting requirements." The bill would assist in teacher retention, which was crucial. The school district was in the process of initiating the Alaska Education Challenge, Every Student Succeeds Act (ESSA) and other projects and did not need budget uncertainty. She suggested a default to flat funding education if the budget deadline was missed. However, she hoped flat funding meant hold harmless because flat funding would equal a decrease in funding due to the rising costs of health care and utilities. She remarked that the district's health insurance increased 13 to 25 percent each year. She spoke to Mr. Boyles testimony and countered that teachers made up most of the districts staff and layoffs primarily affected teachers. Many of the district's support staff worked under long term contracts that were not able to be changed when a budget passed. She did not think passing a timely budget was "throwing money at a problem" as Mr. Boyle suggested. The board's number one goal was to close achievement gaps. She thanked the committee.

[2:13:51 PM](#)

MAYOR BERT COTTLE, CITY OF WASILLA, WASILLA (via teleconference), spoke in support of HB 287. He noted that he did not have a direct impact on the district's budget but observed through experience that late funding affected morale and retention. He believed that early funding helped school districts and communities know what their budgets would be. He asked the legislature to take care of the education budget early in the session.

Co-Chair Seaton asked when the school district was required to submit its budget to the municipality or if the budget was submitted directly to the borough. Mr. Cottle responded that the district's budget went directly to the borough.

[2:15:40 PM](#)

JOHN RINGSTAD, FAIRBANKS NORTH STAR BOROUGH SCHOOL DISTRICT, FAIRBANKS (via teleconference), spoke in favor of the legislation. He related that the prior late funding was problematic for all school districts. He thought that early funding focused the process on educating children. He talked about the process that was required when funding was in question each year. He thought more focus on the classroom was the goal instead of developing contingency budgets, which increased administrative costs instead of leaving more money for the classroom. He stated that anything to move the budgeting process efficiently forward would be helpful. He thanked the committee.

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Co-Chair Foster CLOSED Public Testimony.

Representative Pruitt reported that every year he had been in the legislature he heard concerns about properly funding education even when it was forward funded. He argued that the bill was unnecessary, and it implied that the legislature would not get its job done in 90 days. He thought that most members of the legislature and the governor were aligned with the numbers in the education budget. He contended that the bill was overcapitalizing and withdrawing \$800 million out of the Constitutional Budget Reserve (CBR) was needless. However, he would support moving the bill from committee even though he objected to the budgetary process in the bill. He felt that a vote against the bill would be portrayed as though he was against children and teachers. He relayed his wholehearted

support of teachers. He reiterated that the real discussion was about a budgetary process. He contended that children and teachers were being "weaponized" in an argument over a budgetary process. The bill did not fully fund education for the following year; only key pieces were being funded as they related to education in the bill. He opined that the issue was about a process and how the legislature pieced things together.

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Vice-Chair Gara spoke to the point of why early funding mattered. He indicated that when pink slips were issued teachers and parents took it seriously. The result was the loss of great teachers. He hoped that bipartisan support existed for early funding education to avoid sending out pink slips. He noted that the prior few year's late budgeting threatened troopers, teachers, and other vital state professionals' jobs, which contributed to retention issues.

Co-Chair Seaton clarified that the purpose of the bill was to make the education system more efficient. He reiterated the testimony he heard of the effects of late budgeting on the school districts. He thought the bill needed a cooperative effort. He deemed it was much more efficient to take money from the CBR because it earned significantly less than the Earnings Reserve Account (ERA). He offered that there would be no point to draw from the ERA instead of a fund that earned less. He thought the bill was promoting efficiency on several levels, would help with the retention of teachers, and morale issues. He hoped the legislators would agree to fund education early. He encouraged members to vote the bill out of committee.

[2:26:45 PM](#)

Vice-Chair Gara MOVED to report HB 287 out of Committee with individual recommendations.

[2:27:18 PM](#)

AT EASE

[2:27:48 PM](#)

RECONVENED

Vice-Chair Gara WITHDREW his motion.

Vice-Chair Gara MOVED to report HB 287 out of Committee with individual recommendations. There being NO OBJECTION, it was so ordered.

HB 287 was REPORTED out of committee with a "do pass" recommendation.

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

ADJOURNMENT

2:29:31 PM

The meeting was adjourned at 2:29 p.m.