

HOUSE FINANCE COMMITTEE
February 27, 2018
2:26 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 2:26 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; Ken Alper, Director, Tax Division, Department of Revenue; Lacey Sanders, Analyst, Legislative Finance Division. Sheldon Fisher, Commissioner, Department of Revenue.

PRESENT VIA TELECONFERENCE

None

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.

SPECIAL APPROPRIATIONS AMENDMENTS

Co-Chair Foster reviewed the agenda for the meeting.

#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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^SPECIAL APPROPRIATIONS AMENDMENTS

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

Language Amendments

L H SAP 1 - Restores the annual Legislative Intent language discouraging supplemental budget requests Offered by Representative Seaton See 30-GH2564D1

This amends section 4 to make it a Legislative Intent section, restores the annual language regarding supplemental budget requests, and moves the existing

language regarding the costs of job reclassifications to a new subsection (b).

Representative Wilson OBJECTED for discussion.

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

Representative Wilson made a comment about the department paying attention to the language of the amendment. She hoped the department took the language of the amendment to heart. She thought certain things could have been avoided and the department could have done a much better job.

Representative Wilson WITHDREW her OBJECTION.

There being NO OBJECTION, Amendment L H SAP 1 was ADOPTED.

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

Language Amendments

L H SAP 2 - Revert to the Alaska Industrial Development and Export Authority dividend language used in FY18

Offered by Representative Seaton

See 30-GH2564D20

This amendment reverts the wording of section 7, regarding the AIDEA dividend, back to the wording used in the FY18 budget that deposited the dividend into the general fund.

The AIDEA dividend spends as unrestricted general fund.

The Governor's budget did not spend any AIDEA dividend.

Representative Wilson OBJECTED for discussion.

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

Representative Wilson WITHDREW her OBJECTION.

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

Co-Chair Seaton WITHDREW Amendment L H SAP 3 (copy on file):

Language Amendments

L H SAP 3 - Reduce the ERA draw from 5.25 percent to 4.75 percent, transfer 67 percent to the GF and transfer 33 percent directly to the PFD Fund
Offered by Representative Seaton
See 30-GH2564D52

This amends sec. 8(c) by changing to a 4.75 percent ERA draw, a reduction from the Governor's 5.25 percent draw, and transferring 67 percent of the draw to the GF.

This is a GF revenue reduction of \$260,150.7 from the Governor's net transfer of \$1,910,711.9 to the GF, down to \$1,650,561.2.

In 8(d), the percentage of the transfer to the PFD Fund is changed from the Governor's 30 percent to 33 percent. The amount, however, decreases from the Governor's \$818,876.5 to \$812,963.0, a reduction of \$5,913.5. This amendment transfers the 33 percent directly from the ERA, instead of through the GF as the Governor proposed. The Governor's PFD estimate was \$1216, while this amendment results in a PFD estimate of \$1,270.

Amendment L H SAP 3 was WITHDRAWN.

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

Language Amendments

Replacement L H SAP 3 - Reduce the ERA draw from 5.25 percent to 4.75 percent, transfer 67 percent to the GF and transfer 33 percent directly to the PFD Fund
Offered by Representative Seaton
See 30-GH2564D52

This amends sec. 8(c) by changing to a 4.75 percent ERA draw, a reduction from the Governor's 5.25 percent draw, and transferring 67 percent of the draw to the GF.

This is a GF revenue reduction of \$260,150.7 from the Governor's net transfer of \$1,910,711.9 to the GF, down to \$1,650,561.2.

In 8(d), the percentage of the transfer to the PFD Fund is changed from the Governor's 30 percent to 33 percent. The amount, however, decreases from the Governor's \$818,876.5 to \$812,963.0, a reduction of \$5,913.5. This amendment transfers the 33 percent directly from the ERA, instead of through the GF as the Governor proposed. The Governor's PFD estimate was \$1216, while this amendment results in a PFD estimate of \$1,258.

Representative Wilson OBJECTED for discussion.

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At EASE

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RECONVENED

Representative Pruitt wondered about the difference between the original amendment and the new one. Chair Seaton explained that in the replacement amendment the PFD estimate was \$1258. In the original version the amount was \$1270. The newer version used reported data provided by the Alaska Permanent Fund Corporation (APFC) rather than an estimate. He read Amendment Replacement H SAP 3 (see above).

Vice-Chair Gara thought there would be additional discussions on all of the aspects of the amendment. He mentioned that the public had been clear that a dividend of \$1000 was not widely acceptable. He thought that \$1000 was the amount in the Senate's version of the bill. He believed public support was necessary. He thought a PFD amount of \$1250 was a good starting place for a discussion. The amount would not endanger the Permanent Fund (PF). He added that there had been testimony regarding the draw between 4.75 percent (really closer to 4.25 percent) and 5.25 percent (really closer to 4.75 percent). He thought either percentage would work for a couple of years but would have to be reduced in the long-term to be more conservative.

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Representative Pruitt thought the amendment would result in a long-term dialog because of its impacts. He understood the reduction in the amount of a draw from the ERA. He was concerned about the viability of the ERA into the future. He thought the reasonableness of a higher percentage like 5.25 percent or 5.5 percent was appropriate. He explained that it was possible the legislature would be taking larger, unstructured draws in the future which would have a long-term negative effect on the fund. He mentioned that a large disagreement remained within the legislature about instituting an income tax. He recognized that the \$260 million being discussed was about the equivalent to the governor's proposed payroll tax. He believed the governor wanted to use the tax revenues for other items. He asked a philosophical question about the use of funds from an income tax. It was a question he felt would have to be answered. He wondered what roll an income tax would play in Alaska's future. He realized the fund would not remain at the same level in the long run. However, he also believed that proper policy and engagement in Alaska's economy would place the state in a position of generating additional revenues in the future, at which point, the draw on the ERA could be reduced. He thought a higher draw was prudent in order to stave off an income tax. He would be opposing the amendment.

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Representative Wilson asked if the reduction of \$260,150,700 moved the draw from 5.25 percent down to 4.75 percent. She asked if she was correct. Co-Chair Seaton responded affirmatively.

Representative Wilson asked where the figure came from. She thought the conversation should have occurred first. She was unclear what the gap was at 4.75 percent or at 5.25 percent. She asked for further clarification about how the number was calculated and about the remaining revenue gap.

Co-Chair Seaton relayed that the amount of the draw was not based on the state's budget deficit. The amount of a Percent of Market Value (POMV) draw was based on the economics of an endowment. In the previous year, both bodies passed legislation containing a POMV draw of 5.25 for either 2 years or 3 years and reducing it down to 5 percent. A draw of 5.25 percent was not sustainable for a long period. The draw would be heftier at the start while

waiting for revenues to come online, then it would be reduced. The Alaska Permanent Fund Corporation (APFC) board of directors adopted new actuarial reports that were .5 percent less. The average value return used to be 6.95 percent for the following 10 years. More recently, it was 6.5 percent for the same period. In subtracting .5 percent, the percentage would equal 4.75 percent and considered slightly aggressive. He could distribute the Legislative Finance Division estimates, or he could bring Mr. Teal to the table to provide testimony.

Co-Chair Seaton continued that a sustainable draw was being discussed rather than overdrawing in the short-term in anticipation of doing something in the long-term. Since the legislature was not doing anything to address the long-term problem, he suggested making a sustainable draw at present. He was trying to determine whether the legislature should make a sustainable draw. The amendment indicated that 4.75 was a sustainable draw percentage that should keep up with inflation and should allow the PF to grow slowly. The basis for the ERA draw was the endowment model and letting the PF value grow with inflation. He wanted to ensure that the legislature was not drawing down the total value in relationship to inflation of the fund. He reported that 5.25 percent drew down the value of the Permanent Fund. He felt that the legislature should be discussing the best sustainable draw that would not reduce the inflation adjusted value of the fund. He concluded that the 4.75 percent maintained the inflation adjusted value of the fund.

Representative Wilson wondered what amount the state would glean with the draw and anticipated revenues. Co-Chair Seaton responded that if the legislature adopted the plan the House sent over to the Senate on early funding of education (including a draw from the Constitutional Budget Reserve), and this amendment was included, the budget would be fully balanced.

Representative Wilson asked about the bill Co-Chair Seaton mentioned and whether the \$1.2 billion was available. She asked for clarity around which funding would fill the state's fiscal gap. Co-Chair Seaton indicated that the bill that was approved did not include the particular draw and would require about \$1.2 billion to fully balance the budget and provide some headroom for future supplemental requests.

Representative Wilson wanted to understand that the \$1.1 billion included the \$200 million for headroom. Otherwise, the state's gap would be about \$900 million based on the draw from the earnings reserve. Co-Chair Seaton replied that the number was about \$1.1 billion which included an estimate of \$200 million from the CBR for headroom.

Representative Wilson would be maintaining her objection. She thought the legislature should have had the amendment at the beginning of the process rather than at the end. She thought the legislature could have had a more targeted amount. She understood the explanation between the 5.25 and 4.75 percentage and the Permanent Fund not making as much as anticipated. She also understood the draw was not sustainable for a long time. She thought it would have been better to know that with the suggested draw there would be a deficit of \$900 million that would have to come out of the CBR, about half of its value. She reiterated that she wished the amendment would have been addressed sooner.

Representative Pruitt thought it was important to clarify that the analysis presented to APFC indicated that there was a 48 percent chance that over 10 years the value in the ERA would dip a dollar or more below what it currently was, adjusted for inflation. It did not mean the state would see a devaluation, but there was a 48 percent chance it could. The presentation included looking back at the previous 10 years with a 30 percent correction after the second year. He thought to say that the 5.25 would automatically devalue the fund was not true based on the presentation to APFC. He wondered, if the legislature was so interested in protecting the inflation value of the fund, why there would be the following 2 amendments that remove the inflation-proofing language. He suggested that the legislature did not have to draw 5.25 percent for 10 years.

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Co-Chair Seaton responded that there was a 48 percent chance of devaluing somewhat. However, there was a 30 percent chance of the entire ERA dropping to zero which meant there would be no PFD and no POMV dollars to draw from. He was concerned with the 30 percent chance of the entire ERA disappearing.

Representative Pruitt suggested, then, that the legislature should not be increasing the budget. He argued that in every portion of the issue, there could be a 30 percent chance of the permanent fund failing altogether. He continued that the body had chosen not to reduce the budget. He thought the legislature had failed at its duties of controlling the size of government and failed at recognizing 5.25 percent did not work. He continued to argue that the legislature had not done its job. He believed the budget displayed a growth in government which would require more funds from the ERA or through taxes. He would rather adjust appropriately and manage than look at an income tax. He opined that the increase in the budget provided the opportunity to bust open the permanent fund.

Vice-Chair Gara understood the frustration around the table. He stated that the state had been rearranging the furniture on the Titanic. He spoke to the dwindling of savings over the previous 5 years. He thought balancing the budget would mean depleting the savings without a fiscal plan in place. He pointed out that the amendment did not reflect a sustainable course. He disagreed with the comment that there had not been reductions. There had been \$3.5 billion in cuts, 40 percent of the budget since 2013. The idea that cutting the budget would solve the deficit had not worked; it had extended the recession. He believed there were ways to shore up the economy and shore up the state's finances outside of an income tax. He admitted there was a vote the previous year to impose a small income tax on higher earners that did not get enough support. He believed there was an easier way. He advocated a simple 25 percent tax on all company profits (reflected in a bill the House passed) which would have raised \$550 million in the current year. It would have raised \$700 million that occurred in oil prices. As long as there was resistance from those with the greatest privilege chipping in, the circumstances were what people were left with. He hoped that by the end of the session the issue would not be the only one being discussed.

Representative Thompson agreed with Vice-Chair Gara that a few years back the state had \$17 billion in savings which included money from the CBR and the ERA added together. He thought he was correct.

Vice-Chair Gara corrected Representative Thompson, indicating the CBR and the Statutory Budget Reserve (SBR).

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Representative Pruitt reminded the committee that previously \$3 billion was placed in retirement to try to manage overall costs. He spoke to having tried to initiate reductions while being a member of the finance committee and argued that everyone who had sat in the finance rooms over the prior 10 years had played a role in where the state was at presently. He suggested that the state was moving in a different direction than where it had been previously. He added that pointing fingers for what had happened in the past was not constructive. The amendment was an attempt to address the issue. He did not have a problem with the disagreement on how to solve the issue.

Co-Chair Foster directed members to keep their comments specific to the topic.

Representative Wilson mentioned that public testimony would be heard on Thursday, Friday, and Saturday. The committee had not yet addressed the amount of the PFD and the splitting of funds. The amendment reflected a split of 66 percent going to the government and 33 percent going to dividends. Currently the dividend sat at \$1258. She thought that the changes to the PFD would hit closer to home. The governor's proposal included a 70/30 split. She wanted to make sure the information was correct for the sake of the public. She relayed that she was not frustrated. She ran a private business and before she spent money she had to know how much she was making. Before creating her budget at the beginning of the year, she had to know how much money she had. She thought the legislature had not looked at how much money the state had before being well into the budget process. She thought it would be better to know how much could be spent before designing a budget and addressing a fiscal gap. Co-Chair Seaton indicated that the question had to do with what would be a sustainable draw amount.

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DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, was unclear of what information he was to provide.

Co-Chair Seaton asked him to speak to the sustainability of the proposed draw in the amendment in comparison to other percentages.

Mr. Teal suggested looking at the numbers. By taking 6.5 percent of earnings and subtracting 2.25 percent for inflation, 4.25 percent would be left as a draw to be paid out. He did not believe he had to review the 5-year moving average concept. He continued that the rate at 4.25 percent was essentially less if looking at the 5-year average. He argued that a 5.5 percent nominal payout was still conservative, and the state should be gaining on inflation at a 4.5 percent payout. He suggested that a 4.75 percent payout was slightly aggressive. The real value of the fund should increase if the fund earned 6.5 percent. However, part of that increase would be attributable to the royalty money flowing into the fund. He conveyed that 5 percent was aggressive but not out of line. He thought the commissioner of revenue and Angela Rodell from APFC indicated a 5 percent payout would be okay - aggressive but doable. He added that as long as there were deficits there was a problem. It almost did not matter what payout rate the legislature defined. The state had deficits that would eliminate the CBR within 2 years (at a \$900 million deficit per year).

Mr. Teal continued to explain that if the state paid out 4.75 percent but left the state a \$900 million deficit without any other reserve account to draw from, the legislature would likely end up drawing from the ERA. Although the POMV payout might be 4.75, it would actually be much higher if 4.75 plus another \$1 billion was drawn from the ERA making the rate substantially higher and unsustainable. The real value of the Permanent Fund would fall, and the ERA would begin to dwindle. He emphasized that until the budget was balanced, whether through taxes or additional reductions, it would not be possible to determine a sustainable draw from the ERA. The deficit had to be filled first. Currently, the committee was looking at a 4.75 percent draw, which was sustainable and should keep pace with inflation for the Permanent Fund. However, in order to keep pace with inflation, the legislature could not draw more than 4.75 percent in the form of unscheduled draws.

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AT EASE

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RECONVENED

Representative Wilson MAINTAINED her OBJECTION.

A roll call vote was taken on the motion.

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

Representative Grenn was absent from the vote.

The MOTION PASSED (6/4). Amendment Replacement L H SAP 3 was ADOPTED.

Co-Chair Seaton MOVED to ADOPT Amendment L H SAP 4 and L H SAP 5 together.

Representative Wilson OBJECTED to bundling the amendments.

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

Language Amendments

L H SAP 4 - Delete FY16 - FY18 inflation-proofing of the Alaska permanent fund
Offered by Representative Seaton
See 30-GH2564D11

This amendment deletes section 8(e) which would have transferred an estimated \$1,450,000,000 from the earnings reserve account to the principal of the Alaska permanent fund to offset the effects of inflation on the principal of the fund during FY16 - FY18.

Representative Pruitt OBJECTED for discussion.

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

Representative Pruitt spoke to his objection. He believed the legislature needed to inflation-proof the corpus of the Permanent Fund. He had been arguing the point for 4 years. He elaborated that the pressure would be on the legislature to control the budget, and it was now seeking to use the ERA. The one thing the legislature could not do was devalue the corpus of the fund. The legislature had to protect it. He would be removing his objection, not because he agreed

with the decision, but because he recognized that the momentum, the decision, and the fight was in the past.

Representative Pruitt WITHDREW his OBJECTION.

Vice-Chair Gara OBJECTED for discussion.

Vice-Chair Gara spoke to his objection. He clarified that the estimated \$62 billion in the Permanent Fund was the combination of the principle and the ERA. The amount would remain the same whether or not the amendment passed. The amendment recognized that the state had done a poor job solving its fiscal gap. Without pointing any fingers there was a huge fiscal gap of \$27 billion or \$2.5 billion. He stated that with a real construction budget the deficit would be closer to \$3 billion. The legislature had to come up with a solution to the fiscal problem. Before he was in the House Majority there were 2 years of not inflation-proofing the Permanent Fund. Now that he was in the Majority the fiscal gap remained and would until the state figured it out. The money ultimately remained in the Permanent Fund in the ERA portion. He thought it would be smart to start putting money in the principle once the state figured out how to deal with the \$2.7 billion budget deficit which had not happened in 5 years.

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Representative Wilson wanted people to understand that it was counted the same. However, she thought it [inflation-proofing dollars] should be put back in as revenue grew. She suggested inserting intent language that the money should be paid back when the state had the money to do so. If the money was moved now, the money would move from the ERA into the Corpus of the fund. The corpus could not be touched without a vote of the people. Although the money was being utilized in terms of interest earnings, there was a major difference as to whether it was in the corpus or the ERA. She reminded members that the corpus was protected in the constitution.

Vice-Chair Gara WITHDREW his OBJECTION.

There being NO OBJECTION, Amendment L H SAP 4 was ADOPTED.

Co-Chair Seaton MOVED to ADOPT Amendment L H SAP 5 (copy on file):

Language Amendments

L H SAP 5 - Delete FY19 inflation-proofing of the Alaska permanent fund

Offered by Representative Seaton

See 30-GH2564D12

This deletes section 8(f) which would have transferred an estimated \$943 million from the earnings reserve account to the principal of the permanent fund to offset the effects of inflation in FY19.

Representative Pruitt OBJECTED for discussion.

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

Representative Pruitt spoke to his objection. He explained that there was an opportunity in the following year to inflation proof the fund. He disagreed with continuing the practice from the past three years of not putting inflation monies into the corpus. He wanted to ensure the value of the fund remained in the long-term. He reiterated his position on protecting the value of the fund.

Representative Pruitt MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

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

OPPOSED: Ortiz, Pruitt, Tilton, Wilson

The MOTION PASSED (7/4). Amendment L H SAP 5 was ADOPTED.

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

Language Amendments

L H SAP 6 - Amends sec. 9(f) and adds new sec. 9(g) for legislative costs of actuarial analysis on bills

Offered by Representative Seaton

See 30-GH2564D41

This amends sec. 9(f) by adding the not to exceed amount of \$500.0 for retirement plan sponsor costs instead of leaving an open-ended appropriation.

This also adds new sec. 9(g) restoring language used in FY18 to appropriate the amount necessary to the Department of Administration to cover actuarial costs associated with bills introduced by the legislature. This language should be considered standard, though it may not actually be used each and every year.

Representative Wilson OBJECTED for discussion.

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

Representative Wilson WITHDREW her OBJECTION.

There being NO OBJECTION, Amendment L H SAP 6 was ADOPTED.

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Co-Chair Seaton MOVED to ADOPT Amendment L H SAP 7 and Amendment L H SAP 8(copy on file):

Language Amendments

L H SAP 7 - Delete open-ended unrestricted general fund appropriation for Medicaid Services
Offered by Representative Seaton
See 30-GH2564D3

This amendment deletes sec. 14(a), the open-ended unrestricted general fund appropriation for Medicaid Services that was requested by the Governor. Given the budgetary implications of the Medicaid program, it would be unwise for the Legislature to grant unlimited UGF without program review.

Also see the related amendment to delete sec. 14(b), the open-ended appropriation of federal receipts for the Medicaid program.

Language Amendments

L H SAP 8 - Delete open-ended federal receipts appropriation for Medicaid Services
Offered by Representative Seaton
See 30-GH2564D4

This amendment deletes subsection 14(b), the open-ended federal receipts appropriation for Medicaid Services that was requested by the Governor. If additional federal receipts are anticipated, the

Department of Health and Social Services may request expenditure approval by submitting a revised program (RPL) to the Legislative Budget and Audit Committee during the interim. Any such RPL provides forewarning that a general fund supplemental will likely be forthcoming during the next legislative session.

Representative Wilson OBJECTED for discussion.

Co-Chair Seaton read both amendments (see above).

Vice-Chair Gara had some issues with the amendments but would be supporting them. He thought that until the state solved its budget crisis, which it had not, in a small way some of the hospitals and providers would have to chip in. He argued that when there was not enough Medicaid funding the state still had to pay its bills. If there was inadequate money at the end of the fiscal year, and the state did not pass a fast track supplemental during the session, hospitals and medical providers would have to wait for their payments. Alaska statute required the state to make their payments, the only question had to do with when they paid them. If the department ran out of money in April or May and a budget was not passed, payment would likely occur in July or August. He understood the aspect of accountability and why the amendment was being proposed.

Representative Wilson thought the amendments helped with the accountability aspect of the issue. She believed certain adjustments could be made by the department depending on the number of people and the costs. She maintained that the amendments offered some clarity. She appreciated the co-chair for the amendments.

Representative Wilson WITHDREW her OBJECTION.

There being NO OBJECTION, Amendment L H SAP 7 and Amendment L H SAP 8 were ADOPTED.

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Co-Chair Seaton MOVED to ADOPT Amendment L H SAP 9 (copy on file):

Language Amendments

L H SAP 9 - Relocate DOTPF debt, school construction debt and REAA School Fund from sec. 30 and change fund source

Offered by Representative Seaton

See 30-GH2564D5

This amendment makes several changes:

1) It amends sec. 22(e) by relocating and using general funds for DOTPF debt provisions that the Governor had funded from the Constitutional Budget Reserve Fund (CBR) in sec. 30(b) (Amendment page 1, line 5 -page 2, line 3).

2) It amends sec. 22(m) by relocating and using general funds for the school construction debt provision that the Governor had funded from the CBR in sec. 30(d) (Amendment page 2, lines 7 - 14).

3) It adds sec. 24(k) by relocating and using general funds for the capitalization of the REAA School Fund appropriation that the Governor had funded from the CBR in sec. 30(e) (Amendment page 2, lines 16 - 20).

4) Deletes sec. 30(b) DOTPF debt, (d) school construction debt and (e) REAA School Fund capitalization (Amendment page 3, lines 1 - 7).

All of the other items in the amendment are just updating section reference numbers.

Representative Wilson OBJECTED for discussion.

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

Representative Wilson spoke to her objection. She asked about funding if the amendment did not to pass. Co-Chair Seaton replied that if amendment did not pass, the funding would come from the CBR.

Representative Wilson believed the way the bill read [without the amendment] was the governor's way of showing that the state's unrestricted general funds had gone down, which they had not. The amendment would better reflect an accurate picture of the state's spending, especially since they were ongoing appropriations. Co-Chair Seaton responded, "That's correct."

Representative Wilson WITHDREW her OBJECTION.

There being NO OBJECTION, Amendment L H SAP 9 was ADOPTED.

Co-Chair Seaton MOVED to ADOPT Amendment L H SAP 10 (copy on file):

Language Amendments

L H SAP 10 - Capitalize the Oil and Gas Tax Credit Fund Offered by Representative Seaton
See 30-GH2564D33

This amends the Fund Capitalization section 24 by adding a new subsection (f) capitalizing the oil and gas tax credit fund with \$49 million.

Another amendment deletes the \$27 million appropriation the Governor submitted for the interest payment per the proposed bond financing legislation.

Representative Wilson OBJECTED for discussion.

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

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Representative Wilson spoke to her objection. She heard the \$206,000 figure. She wondered if the state was calculating the number differently than previously.

Co-Chair Seaton responded that the calculation was based on the money received, which was in the transmittal letter from Governor Parnell when he transmitted the bill to the legislature. It stated that money received 10 percent above a \$60 projected price or 15 percent below a \$60 price would go into the fund. The way it was calculated on 10 percent or 15 percent of the tax liability calculation before subtracting the credits. The state did not receive the money from the oil companies. The amount the state received was the tax from the oil companies minus their tax credits. The calculation was 15 percent of the money received by the state from production tax credits. He was referring to the tax calculation for \$49 million. He noted that the oil companies' tax calculation, before they subtracted their credits, was the \$206 million figure Representative Wilson had mentioned.

Representative Wilson remembered having a conversation with Mr. Alper from the Tax Division about one design of the calculation when there was significant discussion about the tax bill and whether Alaska could afford the tax credits. She mentioned a memo from the Department of Revenue (DOA) that stated they had been doing the calculation incorrectly. She was concerned about the oil companies having to wait because of the department knowing that after certain things were completed the companies would have to be paid. She thought the state was not calculating in the same way it had been a few years prior. She asked for clarification.

Co-Chair Seaton replied that Representative Pruitt had asked a question about a year prior regarding the meaning. He had responded to his question that there were 2 ways of interpreting the statute. One way would currently generate \$206 million and the other way would generate \$49 million. He had asked Legislative Legal Services to research the intention of the statute. There was no legislative history of intent other than the transmittal letter sent by the governor with his bill which stated, "Money received by the oil companies". The state did not receive what would make the \$206 million calculation. The state received the money that made the \$49 million calculation.

Representative Wilson understood Co-Chair Seaton's point. She reported that when she was speaking with oil companies about what to do with the backlog of tax credits, there was a significant amount of pressure about paying the companies in the same year. She had responded to them in the negative. The statute stated that the state made payments based on the formula. She was hearing Co-Chair Seaton say that recently after the discussions took place with the oil companies, someone decided the statute was not clear on how the number should be calculated. She thought the new decision regarding the calculation impeded trust. She was questioning the change.

Representative Pruitt wanted to hear from Commissioner Fisher. He asked Co-Chair Seaton which calculation was used for the previous year's budget. Co-Chair Seaton responded that in the prior year the calculation was reduced by 50 percent. [Inaudible section] They compromised at \$77 million.

Representative Pruitt noted that it was the minimum amount based on the statute as it had been read for several years prior. He asked if he was correct. Co-Chair Seaton responded, "That's correct."

Representative Pruitt asked Commissioner Fisher to comment on the desire of the administration. He asked how the legislature should handle the issue, recognizing that the legislature was removing language initially requested by DOR as a result of the bill not being passed. The state was acting under current law. He asked how the current law was defined and recognized by DOR.

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SHELDON FISHER, COMMISSIONER, DEPARTMENT OF REVENUE, responded that the department had issued a revenue sources book for the previous number of years. The revenue sources book issued in the Fall had \$206 million listed as the estimated minimum statutory tax credit liability under current statute. The administration's position was that there was a method before the legislature that had not passed to-date that they thought was prudent and appropriate. However, it was founded on the notion that it would be discounted based on a stream of payments that recognized the higher (gross) amount. The administration had communicated what they thought should be applied in the current year.

Representative Pruitt mentioned the governor having vetoed some tax credit funds. He asked what the amounts were after applying the veto. Commissioner Fisher responded that the state and the administration had always paid at an amount equivalent to the gross amount of the liability, the higher number being discussed presently. It was consistent with that formula.

Representative Pruitt noted that in the prior year the legislature, without the need of a veto pen, calculated the payout in the same manner. He asked if he was correct. Commissioner Fisher responded affirmatively. He thought the discussion described presently was accurate - a portion of it was in the operating budget and another portion was added in the capital budget. The sum of those two appropriations equated to the higher formula.

Representative Pruitt indicated that DOR had a fall and spring forecast. Numbers could be different from the fall forecast to the spring forecast. Over each of the previous 2 years, he wondered if the state had adjusted the initial amount proposed by the administration based on the fall forecast. He asked if the state concluded, after a veto pen or the previous year's agreements, its gross calculation based on the spring numbers. Commissioner Fisher differed to Mr. Alper from the tax division.

[3:31:21 PM](#)

KEN ALPER, DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, responded that in the prior year the Fall 2016 Revenue Sources Book number would have been \$74 million based on the gross calculation, the percentage of the tax calculation before the application of credits. It was based on the \$74 million that Co-Chair Seaton's earlier comment about the prior year's finance committee budget of \$37 million was half of that number. He continued that by the time the spring forecast came out the \$74 million was adjusted upward to \$77 million, ultimately the amount appropriated by the legislature between the operating budget bill and the capital budget bill. For fiscal year 17 the number discussed during the regular session in 2016 was about \$50 million. The number went down to \$30 million. That was the year there was an actual veto. The legislature passed a \$30 million appropriation in one place and a subsequent \$430 million in another place linked with the CBR, which was the portion Governor Walker vetoed. The result of that veto was a \$30 million appropriation. He indicated that the \$30 million would have been the larger number. The same calculation was used for FY 17 equaling \$30 million and for FY 19 totaling \$206 million.

Mr. Alper continued that for the FY 16 budget, although there was some discussion in session and a number of \$91 million was kicked around as a statutory language, \$500 million was ultimately appropriated. The governor did a partial veto. He relayed that what had been passed by the legislature had been open-ended language that stated the amount requested was appropriated and estimated to be \$700 million. The governor struck out that language and replaced it with \$500 million.

Representative Pruitt thought it was fair to say that over the previous 3 years the state had set a precedent of using

the gross numbers as its minimum tax for calculation from which the state paid. He asked if he was correct.

Mr. Alper replied that what he described had been the state's practice and analysis. He could not say the administration contemplated the alternative, but simply went forward on the assumption that that was the calculation. The issue of their possibly being another way of calculating it was not something the state was considering prior to the current year. He pointed out that the difference between the two numbers in previous years would have been relatively low, \$10 million to \$20 million. There were a couple of idiosyncrasies in the FY 19 revenue calculation in the relatively higher oil price/relatively lower oil company spending range. The delta between the two calculation methods was somewhat larger by about \$150 million.

[3:34:47 PM](#)

Representative Pruitt asked how a change in the interpretation of the statute would be construed by other parties including companies, investors, and lenders.

Commissioner Fisher responded regarding the impact on the industry. The tax credit being discussed went to the smaller producers rather than the larger ones in the industry. Part of the motivation of instituting the tax credits initially was to attract small producers in Alaska to provide additional competition for the development and exploration of oil, particularly on the North Slope. As smaller companies they did not necessarily have deep sources of capital. The major oil companies had more assets and could withstand variation and changes. The smaller companies struggled. He thought a financial hardship could occur for some of the smaller companies. They might have to curtail or shut down operations for a time without the issue being cleaned up.

Commissioner Fisher furthered that part of the issue was that they had borrowed money from other sources based on the assumption that the state would be paying on a certain schedule. The department had been in discussion with a couple of banks that had been very active in Alaska lending to the smaller companies. They indicated that because the debt instruments were in forbearance or in default, they were not currently in a position to continue lending. One

of the benefits of the bill the administration proposed was that it would clean the slate and allow the companies to be able to access capitol in a way they had before. He believed it would continue to be a financial hardship on the smaller companies and reduce their economic activities in the state.

Representative Pruitt asked the commissioner about how he saw redefining a statute after a precedent had been established. He suggested that trust had been broken for other groups the state might associate with.

Commissioner Fisher responded that there needed to be a concern about the issue. He had shared that the department went out and marketed aggressively to try to attract the small companies and made representations about how the state would behave in terms of paying these credits. He noted a somewhat famous picture of a moose holding a large wad of cash stating that if a person came to Alaska the state would make it available. He shared the sentiments of several legislators that the companies relied on the statements by the state. However, he argued that it was their responsibility to make sure they understood the statute and its framework. He thought making certain declarations about paying tax credits as they were issued and behaving in a certain way to attract companies then moving to making payments based on the statutory formula redefining how they were paid, created a credibility issue generally harmful to the state.

[3:40:39 PM](#)

Mr. Alper added that the fact that the topic was subject to debate from year-to-year was a source of uncertainty in the industry. It was an obligation the state would eventually have to clear, whether it paid \$200 million for a period of 5 years or \$50 million for a period of 20 years. The time factor made a significant difference to the people on the other side of the transaction. The administration's position did not favor one number over the other. He suggested getting past the current era by passing legislation that was not in the current committee and he noted he probably should not be speaking to it. Should the legislation happen, all of the issues being discussed could be set aside, the decks cleared at no loss to the state. The legislature would not have to worry about how much to appropriate other than interest payments in future years.

Representative Pruitt recognized that the bill Mr. Alper referred to had not passed yet. He suggested that what was currently before the committee was to try to get the credits paid off. He thought the point had been made that the debate could happen over the following 5 years or the next 20 years. Either way, the legislature was changing the interpretation of a statute of which a precedent had already been set. Both the governor and the legislature had decided on a settlement amount. The legislature did not just settle on the number that was estimated from the fall. The number was adjusted so that it fit the gross number. He believed that what had passed out of the legislature in the past year was essentially a sanctioning, a concurrence by the legislature agreeing with the way the governor had read the statute and defined it at the gross number. Hence, there was a concern with the \$49 million amount versus \$206 million. He was interested in continuing the conversation.

[3:42:52 PM](#)

AT EASE

[3:47:10 PM](#)

RECONVENED

Representative Pruitt moved conceptual amendment 1 to L H SAP 10.

Representative Pruitt relayed the amendment details. The amendment would change the amount of \$49 million to \$206 million.

Co-Chair Seaton OBJECTED.

Co-Chair Seaton spoke to his objection. He believed the committee should take the statute as it came to the legislature. As the legislature understood it, the state was paying either 10 percent or 15 percent of the money it received from the production tax into the tax credit fund. In the current calculation the state paid over 50 percent of what the state would receive in total production taxes in the tax credit fund. The state was supposed to receive, based on the minimum tax calculations, a minimum of about \$302 million and would pay out about \$206 million to the tax credit fund. He did not think anyone in the legislature anticipated that when the state had a provision to pay 10 percent to 15 percent, it would pay 60 to 70 percent of all

the money received in production taxes to the tax credit fund. He would be opposing the amendment.

Representative Wilson agreed with the conceptual amendment. She thought it was unfair that the interpretation was changed midstream because the legislature had already set a precedent. She was concerned it would kill the industry to change in midstream. She thought the state's word was important. She argued against changing the game.

[3:51:11 PM](#)

Vice-Chair Gara did not think the state had the money to pay 4 times the amount in oil company tax credits as proposed by the amendment. He argued that the state was 2 years away from running out of savings and being able to keep the state afloat. He did not see spending an extra \$150 million in oil tax credit payments as wise budgeting. In terms of staying consistent with the statute, the law had always been clear that, depending on the price of oil, the state collected either 10 percent or 15 percent of the production taxes. It was not 10 percent or 15 percent of the production taxes the state wished it collected. It was not 10 percent or 15 percent of a mythical 35 percent tax rate that did not apply. At \$60 per barrel of oil the tax rate was close to 10 percent. The state paid 10 percent or 15 percent of the money the state received in production taxes. The goal of the statute was to make sure the state did not have to pay money it did not have. He did not support the amendment to the amendment.

Representative Pruitt thought it was important to make a clarification about a gross or net amount. He thought it was important to discuss legislative history. He explained that in the discussion on HB 111 [Legislation passed in 2017 - Short Title: Oil and Gas Production Tax; Payments; Credits] there was a committee substitute brought up in the Senate Resources Committee. The committee removed the language in statute that maintained the oil and gas fund. An argument was made that the legislature should not remove the fund because in the statute there was a definition of the minimum that was to be paid. The reason the argument was made was because the legislature needed to ensure that the certainty of having the minimum tax remained for those that would be receiving. The legislative intent in discussions from the previous year in a different bill maintained wanting a minimum tax. In the same year the

legislature decided to set a precedent of utilizing the gross number for evaluation. He continued that in the previous year in two separate actions taken by the legislature, members re-affirmed using the gross numbers as had been done for several years. Although he did not like the idea of spending a significantly larger amount in the current year, the state had the debt which had to be paid. He argued that it was important to stick to the precedent that had already been set. He asked members for their support.

Co-Chair Seaton MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Pruitt, Thompson, Tilton, Wilson, Grenn
OPPOSED: GARA, Guttenberg, Kawasaki, Ortiz, Seaton, Foster

The MOTION FAILED (5/6). Conceptual Amendment 1 to amend Amendment L H SAP 10 FAILED.

Representative Wilson MAINTAINED her OBJECTION.

A roll call vote was taken on the motion to ADOPT L H SAP 10.

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

The MOTION PASSED (6/5). Amendment L H SAP 10 was ADOPTED.

[3:57:29 PM](#)

Representative Thompson asked for reconsideration of a vote on Amendment L H SAP 5.

There being NO OBJECTION, it was so ordered. The motion was RECINDED.

[3:57:56 PM](#)

AT EASE

[3:58:29 PM](#)

RECONVENED

Co-Chair Foster asked the committee secretary to call the roll for a reconsideration vote for L H SAP 5.

A roll call vote was taken on the motion.

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

The MOTION PASSED (6/5). Amendment 1 H SAP 5 was ADOPTED upon reconsideration.

[3:59:24 PM](#)

AT EASE

[4:08:14 PM](#)

RECONVENED

Co-Chair Foster called the meeting back to order. He asked Co-Chair Seaton to move the next amendment.

Co-Chair Seaton MOVED to ADOPT Amendment L H SAP 11 (copy on file):

Language Amendments

L H SAP 11 - Deposit into the Public Education Fund for state aid for K-12 Foundation and Student Transportation Offered by Representative Seaton
See 30-GH2564D28

This amendment does three things:

1) It consolidates sec. 24(g) and (h) into new (g) and adds contingency language so that state aid for K-12 education is not double funded if another education appropriation bill is passed.

2) It consolidates sec. 24(i) and (j) into new (h) for the appropriation of general funds into the Public Education Fund for student transportation and adds contingency language so that student transportation is not double funded if another education appropriation bill is passed.

3) It also adds a separate contingency provision for the three other education appropriations made in another education funding bill, so that if the other bill is passed, there is no double funding.

Representative Wilson OBJECTED for discussion.

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

Representative Wilson WITHDREW her OBJECTION.

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

Co-Chair Seaton MOVED to ADOPT Amendment L H SAP 12 (copy on file):

Language Amendments

L H SAP 12 - Add provision for the civil legal services fund

Offered by Representative Seaton

See 30-GH2564D27

Amend section 25, Fund Transfers, by adding a new subsection with the same language used in the FY18 budget for the civil legal services fund.

Representative Wilson OBJECTED for discussion.

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

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

Co-Chair Seaton MOVED to ADOPT Amendment L H SAP 13 (copy on file):

Language Amendments

L H SAP 13 - Fund source change of CBR to GF for retirement appropriations, delete savings, and add intent

Offered by Representative Seaton

See 30-GH2564D39

The Governor funded the state assistance to retirement program appropriations from the Constitutional Budget Reserve Fund in sec. 30 (f)-(l).

This amendment changes the fund source back to the unrestricted general fund and restores a separate bill section for these appropriations.

The amendment deletes the \$25.5 million savings appropriation, what had been sec. 30(h), as the Alaska Retirement Management Board did not approve the application of the anticipated savings to the PERS (-

\$22.15 million) and TRS (-\$3.35 million) state assistance deposits.

The amendment also adds intent language directing the ARM Board to consider the funding ratio of the Alaska National Guard and Alaska Naval Militia retirement system when recommending a retirement system deposit. This system has a funding ratio at 123 percent, but the ARM Board approved a resolution setting the deposit at \$851,686.

Representative Wilson OBJECTED for discussion.

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

Representative Wilson spoke to her objection. She understood that the Alaska Retirement Management (ARM) Board did not approve the \$25.5 million. She asked whether it was savings.

Co-Chair Seaton indicated that it was anticipated savings. He did not know whether the savings would occur because the timeframe in which they anticipated the savings might fall in the following year. It had to do with taking the savings at the anticipated time or when it actually occurred. It was unknown if it would perform as anticipated. The state generally looked at the actuarial and the retirement fund resolutions and what was adopted adopting those rather than generating them.

[4:13:28 PM](#)

Representative Wilson asked if the state was still behind on payments into the retirement fund. She was trying to understand how the state could have savings. She thought it would be better to leave any excess amount in savings. She asked if an amount normally came out. Co-Chair Seaton responded that it had to deal with determining the functionality of the program. He did not want to get into details of how the program was supposed to work. However, the state would not realize savings until the program had at least a year to demonstrate itself.

Representative Wilson understood why the money was back in place. She expressed concerns about the use of the term, savings since there were outstanding payments to the retirement fund. Co-Chair Seaton thought they were talking

about a calculated amount that was to be put in and a new program that was supposed to cost less.

Mr. Teal thought the confusion was around the word, savings. He suggested the governor meant he was reducing the contribution by \$25 million over what the actuaries had stated. The language removed the reduction and deposited \$25.5 million into the state's retirement fund.

Representative Wilson thought Mr. Teal's explanation made more sense. She wanted to clarify that the state was making a smaller payment. It would be another yearly payment on a retirement account that the state owed. Also, in the state's normal practice the state has used whatever was in the general fund. If the amount was not enough, it came out of the CBR. She asked if Co-Chair Seaton was putting payments back together that had been split up. She asked if she was accurate. Co-Chair Seaton responded, "That's correct."

Representative Ortiz asked if the impact of the amendment was to restore a deposit of \$25.5 million into the retirement system that the administration proposed not to make in its budget. Co-Chair Seaton concurred.

Representative Wilson WITHDREW her OBJECTION.

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

[4:18:11 PM](#)

Co-Chair Seaton MOVED to ADOPT Amendment L H SAP 14 (copy on file):

Language Amendments

L H SAP 14 - Delete use of Statutory Budget Reserve Fund Offered by Representative Seaton

See 30-GH2564D30

The amendment deletes sec. 29 which used the Statutory Budget Reserve Fund to help fill the deficit.

Representative Wilson OBJECTED for discussion.

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

Representative Wilson asked for the balance of the CBR.

Co-Chair Seaton responded \$170 million to \$172 million. He noted that the bill that was sent over to the other body included using \$78 million for pupil transportation. The balance would be \$68 million if the rest was funded from the CBR. It was only \$68 million that was used but it was the amount "not to exceed."

Representative Wilson asked if the number was \$78 million or \$68 million. Co-Chair Seaton responded that as it passed the House a set amount of \$1.2 billion would be withdrawn from the CBR, and the amount needed, \$67.8 million at the time, would come from the SBR. He furthered that of the \$1.2 billion, about \$10 million was appropriated to pupil transportation. He suggested that when the CBR vote failed and since it was the amount necessary for pupil transportation, it went up to the full amount of \$78 million.

Representative Wilson WITHDREW her OBJECTION.

There being NO OBJECTION, Amendment L H SAP 14 was ADOPTED.

Co-Chair Seaton MOVED to ADOPT Amendment L H SAP 15 (copy on file):

Language Amendments

L H SAP 15 - Delete the \$27 million for interest on a financing mechanism to retire oil and gas tax credits Offered by Representative Seaton
See 30-GH2564D14

This deletes section 30(c), the Governor's request for an estimated \$27 million appropriation from the CBR to pay interest on a financing mechanism to retire oil and gas tax credits. The appropriation should be made via a fiscal note to the legislation creating the financing mechanism.

There's another amendment that will capitalize the oil and gas tax credit fund at \$49 million.

Representative Wilson OBJECTED for discussion.

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

Representative Wilson WITHDREW her OBJECTION.

There being NO OBJECTION, Amendment L H SAP 15 was ADOPTED.

Co-Chair Seaton MOVED to ADOPT Amendment L H SAP 16 (copy on file):

Language Amendments

L H SAP 16 - Add the necessary CBR cash-flow borrowing language

Offered by Representative Seaton

See 30-GH2564D15

This amends section 30 by adding the necessary Constitutional Budget Reserve Fund cash-flow borrowing language.

Representative Wilson OBJECTED for discussion.

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

Representative Wilson WITHDREW her OBJECTION.

There being NO OBJECTION, Amendment L H SAP 16 was ADOPTED.

[4:22:07 PM](#)

Co-Chair Seaton MOVED to ADOPT Amendment L H SAP 17 (copy on file):

Language Amendments

L H SAP 17 - CBR used to balance budget and provide for \$200 million headroom for FY19 supplementals

Offered by Representative Seaton

See 30-GH2564D34

This amendment adds two subsections to section 30, the Constitutional Budget Reserve (CBR) Fund section.

New subsection (m) uses the CBR to balance the FY19 budget after the draw from the ERA.

New subsection (n) allows for \$200 million of CBR "headroom" for potential FY19 supplementals as was done for FY18 supplementals.

Representative Wilson OBJECTED for discussion.

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

Representative Pruitt asked how the \$200 million amount was derived. Co-Chair Seaton responded that the \$200 million was an approximate number used in the past. Last year the amount was placed in the budget in case of large fires or storms. The money would be used for supplementals.

Representative Pruitt asked what the number was prior to last year at \$200 million. He wondered if the number had been consistent. Co-Chair Seaton thought it had been as high as \$500 million and as low as \$100 million.

Representative Pruitt mentioned that the first amendment addressed by the committee outlined not having any supplementals. The current amendment would provide \$200 million for that purpose. He thought the issue was addressed in the meeting regarding intent language about avoiding supplemental budget requests. He wondered if \$200 million was still necessary. He suggested a lower number might be more appropriate. He asked for people's thoughts on the issue.

Vice-Chair Gara relayed that when he was in the minority he had had concerns because there was unlimited headroom, which he thought was a blank check. The legislature ended up putting a number of \$500 million to recognize that the CBR vote was a protection and required time out of the legislative session for a vote. He suggested that to allow headroom, he wanted to ensure that there was only one wrangling CBR battle during the year rather than multiple ones. He had caught the element of unlimited headroom and contested it. The legislature then settled on \$500 million. He thought \$200 million was within the range of conservative numbers.

Co-Chair Seaton noted that supplemental appropriations still had to be approved. The headroom provided a funding source through which funds were available.

Representative Wilson wondered if the committee wanted to send a true message. She had heard around the table that the state did not have the money or a plan. She believed that leaving \$200 million in place made it seem as though the legislature was not really serious about what had been stated in a previous amendment about not wanting a supplemental.

[4:27:54 PM](#)

Representative Thompson recalled that when the legislature allowed for \$500 million in headroom it was because the Alaska Gasline Development Corporation (AGDC) expected certain expenses in order to move forward with the gasline project. The corporation did not use all of the money.

Representative Pruitt appreciated Representative Thompson's comments. He suggested that it would be easier to get a supplemental through if it was within a preapproved range to be funded through the CBR. He remarked that when people budgeted, they liked to manage within that budget. A person might not focus on the intent language with a headroom of \$200 million. He wanted to offer a conceptual amendment.

Representative Pruitt MOVED to ADOPT Conceptual Amendment 1 to Amendment L H SAP 17. The amendment would delete \$200 million and insert \$100 million.

Co-Chair Seaton OBJECTED. He explained that in the past year there was \$200 million in headroom funding and \$170 million in supplemental requests. He remarked that the supplemental amounts were carefully considered for necessity and legitimacy. He thought \$200 million was a reasonable amount.

Representative Pruitt replied that the \$92 million in Medicaid was higher than expected because the goal was to try to clean up past years. The money was given to Medicaid to shore everything up. He reported that the \$92 million was part of the \$170 million. He thought the state was in a different situation going into the next year than in the current year.

Co-Chair Seaton MAINTAINED his OBJECTION.

A roll call vote was taken on the amendment to amend L H SAP 17.

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

The MOTION PASSED (6/5). Conceptual Amendment 1 to Amendment L H SAP 17 was ADOPTED.

Representative Wilson WITHDREW her OBJECTION.

There being NO OBJECTION, Amendment L H SAP 17 as amended was ADOPTED.

[4:33:24 PM](#)

Co-Chair Seaton MOVED to ADOPT Amendment L H SAP 18 (copy on file):

Language Amendments

L H SAP 18 - Delete the contingency language regarding the funding for the senior benefits program
Offered by Representative Seaton

The Governor's budget included \$20 million for the senior benefits program though legislation is required to extend the program into FY19 and added contingency language in section 33.

This amendment deletes section 33, the contingency provision regarding the senior benefits program funding as the Department of Health and Social Services budget subcommittee recommends that the funding be removed from section 1 of the bill. Funding for the extension of the senior benefits program should be reflected on a fiscal note, rather than retained in the budget bill.

Representative Wilson OBJECTED for discussion.

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

Representative Wilson WITHDREW her OBJECTION.

There being NO OBJECTION, Amendment L H SAP 18 was ADOPTED.

Co-Chair Seaton MOVED to ADOPT Amendment L H SAP 19 and L H SAP 20 (copies on file):

Language Amendments

L H SAP 19 - Technical wording correction in section 26 that changes "reduced" to "adjusted" as the Governor submitted.

Offered by Representative Seaton
See 30-GH2564D16

This is a technical correction to wording in section 26, Salary and Benefit Adjustments, changing the word "reduced" back to "adjusted" as the Governor submitted.

There is an identical amendment submitted for HB 285, the mental health budget bill.

Language Amendments

L H SAP 20 - MH: Technical wording correction in section 9 that changes "reduced" to "adjusted" as the Governor submitted.

Offered by Representative Seaton

See 30-GH2566J1

This is a technical correction to wording in section 9, Salary and Benefit Adjustments, changing the word "reduced" back to "adjusted" as the Governor submitted.

There is an identical amendment for HB 286.

Representative Wilson OBJECTED for discussion.

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

Representative Wilson WITHDREW her OBJECTION.

There being NO OBJECTION, Amendment L H SAP 19 and L H SAP 20 were ADOPTED.

[4:35:55 PM](#)

AT EASE

[4:36:09 PM](#)

RECONVENED

Co-Chair Seaton WITHDREW Amendment L H SAP 21 (copy on file).

L H SAP 21 - Cut supplemental requests and change eff dates for the Comm Assist, Renewable Energy Grant, and AKLNG Funds Offered by Representative Seaton

See 30-GH2564D46

This amendment deletes all supplemental items from HB 286. The supplementals will be considered in conjunction with other budget bills.

The line numbers refer to the line numbers of the amendment document:

Lines 1 and 2 make a conforming title change.

Lines 4 and 5 delete section 9(g), the Public Defender Agency supplemental.

Lines 7 and 8 delete section 11, the Department of Corrections supplementals and section 12, the Department of Education and Early Development supplementals.

Lines 12 - 14 update a section number reference.

Lines 16 and 17 deletes the Department of Health and Social Services supplementals in section 14(c)-(f).

Lines 19 and 20 delete section 16, the Department of Law supplementals.

Page 2 of the amendment:

Lines 1 - 5 delete the Department of Military and Veterans' Affairs supplementals in section 17(b) and (c). Lines 7 and 8 delete section 19, the Department of Transportation and Public Facilities supplemental.

Lines 12 - 13 delete section 24(l), the open-ended SDPR appropriation for FY18 and FY19 to the Alaska Gasline Development Corporation.

Lines 17 - 19 update a section reference number

Lines 21 - 23 update a section reference number

Lines 25 - 26 delete section 25(f), the supplemental for the Alaska marine highway system.

The remainder of the amendment updates section reference numbers.

There are, however, three substantive effective date changes from June 30, 2018 to July 1, 2018 (from FY18 to FY19) for the following appropriations:

1. the deposit of PCE Endowment Funds into the Community Assistance Fund (original section 24(f))
2. the deposit of PCE Endowment Funds into the Renewable Energy Grant Fund (original section 25(e))
3. the transfer of the balance of the in-state natural gas pipeline fund to the AK LNG project fund (original section 24(m))

Amendment L H SAP 21 was WITHDRAWN.

Co-Chair Seaton MOVED to ADOPT Amendment Replacement L H SAP 21 (copy on file):

Language Amendments

Replacement L H SAP 21 - Cut supplemental requests and change eff dates for the Comm Assist, Renewable Energy Grant, and AKLNG Funds

Offered by Representative Seaton

See 30-GH2564D56

This amendment deletes all supplemental items from HB 286 except the Alaska Gasline Development Corporation multi-year Statutory Designated Program Receipt authority request. The deleted supplementals will be considered in conjunction with other budget bills.

The line numbers refer to the line numbers of the amendment document:

Lines 1 and 2 make a conforming title change.

Lines 4 and 5 delete section 9(g), the Public Defender Agency supplemental.

Lines 7 and 8 delete section 11, the Department of Corrections supplementals and section 12, the Department of Education and Early Development supplementals.

Lines 12 - 14 deletes the Department of Health and Social Services supplementals in section 14(c)-(f).

Lines 15 and 16 delete section 16, the Department of Law supplementals.

Lines 20 - 23 delete the Department of Military and Veterans' Affairs supplementals in section 17(b) and (c).

Page 2 of the amendment

Lines 3 and 4 delete section 19, the Department of Transportation and Public Facilities supplemental.

Lines 8 - 10 update a section reference number.

Lines 12 - 13 delete section 25(f), the supplemental for the Alaska marine highway system.

The remainder of the amendment updates section reference numbers.

There are, however, three substantive effective date changes from June 30, 2018 to July 1, 2018 (from FY18 to FY19) for the following appropriations:

1. the deposit of PCE Endowment Funds into the Community Assistance Fund (original section 24(f))
2. the deposit of PCE Endowment Funds into the Renewable Energy Grant Fund (original section 25(e))
3. the transfer of the balance of the in-state natural gas pipeline fund to the AK LNG project fund (original section 24(m))

Representative Wilson OBJECTED for discussion.

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

Representative Wilson turned to page 2 of 2. She referred to number 3, the transfer of the balance of the in-state natural gas pipeline fund to the AKLNG project fund. She asked if the amount was currently in the fast-track supplemental or if it was something new.

[4:37:49 PM](#)

AT EASE

[4:38:47 PM](#)

RECONVENED

Co-Chair Seaton responded that the date changes would change them from FY 18 supplemental items to FY 19 operating budget items.

Representative Pruitt did not see the open-ended statutory designated program receipt appropriation for FY 18 - FY 19. He suggested that the legislature would be leaving the language as it was in the bill. Co-Chair Seaton responded affirmatively.

Representative Wilson WITHDREW her OBJECTION.

There being NO OBJECTION, Replacement Amendment L H SAP 21 was ADOPTED.

Co-Chair Seaton MOVED to ADOPT Amendment L H SAP 22 (copy on file):

Language Amendments

L H SAP 22 - Remove capital project for MH Essential Program Equipment

Offered by Representative Seaton

This deletes a mental health capital project in the Department of Health and Social Services. The project is "MH Essential Program Equipment" and it is funded with \$250.0 of AHFC Dividend Fund (UGF) and \$250.0 of MHTAAR.

The amendment shows zero, rather than -\$500.0, because the project appears in the capital budget system and reports track only operating budget amendments.

The House always deletes one mental health capital project and the other body deletes all other mental health capital projects, thus making all of the mental health capital projects subject to conference committee action.

Representative Wilson OBJECTED for discussion.

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

Representative Wilson asked why there was a distinction on the \$250,000 as the Alaska Housing Finance Corporation (AHFC) dividend fund if it was truly just UGF. She wondered if it was for accounting reasons. Co-Chair Seaton did not know. He deferred to Ms. Sanders.

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LACEY SANDERS, ANALYST, LEGISLATIVE FINANCE DIVISION, responded that it was a tracking code to be able to keep track of how much the state was spending of the dividend to make sure it was not being over-appropriated.

Representative Wilson asked if the legislature received a report on how the dividend was spent. Ms. Sanders offered that the Legislative Finance Division could run a report for the system using that specific fund code.

Representative Wilson WITHDREW her OBJECTION.

There being NO OBJECTION, Amendment L H SAP 22 was ADOPTED.

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AT EASE

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RECONVENED

Co-Chair Seaton reported that the committee had gone through all of the amendments. The Legislative Finance Division and Legislative Legal Services would develop new committee substitutes for HB 285 and HB 286.

Co-Chair Foster moved to give the Legislative Finance Division and Legislative Legal Services the ability to make technical and conforming changes when developing the new committee substitute for HB 285 (FIN).

There being NO OBJECTION, it was so ordered.

Co-Chair Foster moved to give the Legislative Finance Division and Legislative Legal Services the ability to make technical and conforming changes when developing the new committee substitute for HB 286 (FIN).

There being NO OBJECTION, it was so ordered.

Co-Chair Seaton reviewed the agenda for the following day. The committee would plan to adopt the new committee substitutes for HB 285 and HB 286 incorporating the amendments the committee had reviewed for the past few days. The bills would then be posted on basis and made available to the public for public testimony which would begin on Thursday afternoon [March 1, 2018].

ADJOURNMENT

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The meeting was adjourned at 4:44 p.m.