

SENATE FINANCE COMMITTEE  
January 18, 2017  
9:03 a.m.

[9:03:53 AM](#)

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:03 a.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair  
Senator Lyman Hoffman, Co-Chair  
Senator Natasha von Imhof  
Senator Click Bishop, Vice-Chair  
Senator Mike Dunleavy  
Senator Peter Micciche  
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Pat Pitney, Director, Office of Management and Budget,  
Office of the Governor.

SUMMARY

^PRESENTATION: OVERVIEW FY 18 OPERATING BUDGET

Co-Chair MacKinnon introduced the committee members.

[9:05:07 AM](#)

Co-Chair Hoffman recounted that the state had gone through its' savings accounts in the previous four years and spent in excess of \$13 billion. Four years previously, the state started with a balance of \$16 billion, and he considered that the legislature was in the final hours to make monumental changes in order that Alaskans could continue to enjoy state services. He thought it would be challenging and felt confident that the Senate, organized under Senate President Pete Kelly, had the capability to address the

state's financial concerns. He spoke to the extensive finance background of the members. He thought the people of Alaska should continue to put pressure on the legislature to take action. He looked forward to working with the committee, the other legislative body, and the administration.

Senator Dunleavy commented on the short time remaining to balance the budget, and hoped that the legislature would coalesce around a multi-component approach. He thought that the Senate had come up with a good start for looking at the budget. He remarked that it was not possible to get out of the fiscal crisis without budget cuts. He emphasized that the state could not support the size of the current government. He looked forward to more discussion on the concept of a revised appropriation limit. He thought it would require a multi-faceted approach to solve the fiscal crisis.

Vice-Chair Bishop emphasized that new revenue was necessary to solve the fiscal gap. He mentioned the over \$2 billion in deferred maintenance costs and an industry starting to go into recession. He reiterated the importance of deferred maintenance. He looked forward to working with the committee to keep the state moving forward.

[9:08:30 AM](#)

Co-Chair MacKinnon discussed the agenda. She discussed the work of the support staff to the Senate Finance Committee.

Co-Chair MacKinnon noted that each member's office had a team to assist with the work of the committee. She introduced members of her staff.

Co-Chair Hoffman introduced his staff.

Senator Micciche introduced his staff.

Senator Olson introduced his staff.

Senator Dunleavy introduced his staff.

Senator von Imhof introduced her staff.

Vice-Chair Bishop introduced his staff.

9:11:53 AM

AT EASE

9:13:30 AM

RECONVENED

Co-Chair MacKinnon thanked groups including Gavel to Gavel, and Legislative Information Office. She thanked the Legislative Finance Division.

PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced herself and her staff. She thanked the committee for putting her presentation on the agenda of the first meeting. She looked forward to working with the committee throughout the legislative session. She speculated that serious conversations would be necessary to solve the fiscal crisis.

Ms. Pitney discussed the presentation "FY2018 Budget Overview" (copy on file). She showed slide 2, "Alaska's Budget in Household Terms":

Income has dropped more than 80%

- Your annual income dropped from \$80,000 to \$16,000

Spending has been reduced 44%

- You have been able to reduce your rent or mortgage, heat, food, every day travel, and vacations. You stopped building your cabin, stopped remodeling, and you'll keep your old car.
- Expenses have been cut from \$80,000 to \$45,000

Savings has one year remaining

- You had \$130,000 in the bank, but now only \$25,000

Investment accounts have been growing steadily

- You have \$500,000 in an IRA and you need to decide whether to use it and how much you can prudently use

Ms. Pitney discussed the analogy described on the slide. She stated that the analogy was a translation of the state's revenue and expenses to a smaller scale.

9:17:38 AM

Ms. Pitney displayed slide 3, "Governor Walker's FY2018 Fiscal Plan":

To foster safer communities, resource development, and economic security requires sustainable and balanced budgets long term, and to that end the Governor's FY2018 budget is comprised of three necessary elements:

1. Continue to reduce state spending
2. Draw from Permanent Fund earnings to support vital state services and protect the dividend
3. Generate more revenue

Ms. Pitney observed that the three components on the slide were very similar to the budget introduction from the previous year. She noted that while the administration had included one revenue measure (a motor fuels tax), it would take more revenue measures to close the fiscal gap.

Ms. Pitney turned to slide 4, "FY2018 Budget by All Fund Sources," which showed a pie chart labelled with fund sources that she thought would set the context for the total budget. She noted that the Unrestricted General Fund (UGF) category was most frequently discussed, however there were other fund sources.

Ms. Pitney reviewed the funding categories on the pie chart. She specified that 30 percent of the overall state budget came from federal funds; which were almost equally split between the Department of Transportation and Public Facilities (DOT), Medicaid financing, and all other federal programs. She stated that 7 percent of the budget was from Other State Funds such as Permanent Fund Corporation management fees, Retirement Board management fees, the Alaska Housing Finance Corporation (AHFC), International Airport funds, and other funds. Another 10 percent of the overall state budget came from Designated General Funds (DGF), which included tuition and fees, Alaska Marine Highway fees, and quasi-endowments from things such as the Power Cost Equalization Fund and the Higher Education Fund. The Permanent Fund Dividend (PFD) accounted for 7 percent of the total, and UGF accounted for 42 percent of the total budget.

Ms. Pitney showed slide 5, "FY2018 Unrestricted General Fund Spending Without Dividends": \$4.3 Billion," which showed a bar graph depicting the years 2013 through 2018. She explained that the graph showed the trend of the state's UGF spending, which went from \$7.6 billion in 2013

down to \$4.33 billion in 2018. The graph showed both operating and capital expenditures, and revealed a \$27 million decrease in UGF from the previous year.

[9:20:25 AM](#)

Ms. Pitney discussed slide 6, "FY2018 Governor's Budget - Changes From FY2017 Management Plan," which showed a spreadsheet with a summary of where reductions had been taken from FY 17 to FY 18. She noted that she would not go into great detail on the slide, as the end of the presentation would address the figures in the summary. She drew attention to the UGF column, and specified that the major reduction was \$127 million in the non-formula area of agency operating expenditures. She pointed out that the increases were largely in the statewide components; including debt, retirement, and oil and gas tax credits. She continued that that the \$127 reduction to agency operating was reduced to a \$46 million operating reduction and a \$27 million total. She pointed out that it was possible to see on the slide where other reductions and additions were placed.

Senator Micciche asked Ms. Pitney to return to slide 4. He observed that the UGF spend was \$4.3 billion, the total with the PFD was \$10.2 billion, and there was a \$5.8 billion difference. He looked at slide 5, and wondered if the proportion would be about the same (60 percent 'Other Spend' and 40 percent UGF). He wondered about the total spend represented on slide 5 being overlaid on slide 4.

Ms. Pitney answered in the negative, and drew attention to the categories of Federal Funds, other state funds, and DGF as listed on slide 4. She explained that the funds had been increasing slightly. She pointed out that in the years 2013 and 2014, the GF fund proportion would be closer to 60 percent rather than 40 percent.

Senator Micciche indicated he would like to view a slide of what he described as a combination of slides 4 and 5. He commented on budget reductions made by the committee over the years since 2013. He thought there had been significant reductions for three years. He thought spending should continue to be curtailed. He thought the proposed slide would help elucidate the proportion of federal funds and other funds were coming in to the budget.

9:24:09 AM

Ms. Pitney turned to slide 7, "FY2018 Governor's Budget - Changes From FY2017 Management Plan," which showed a spreadsheet. She described the slide as a slightly different view of the budgetary change between FY 17 and FY 18. She explained that there had been agency reductions in spending, agency additions, higher cost pressures, and fund source changes. She pointed out the Agency Operating Subtotal; as well as the \$76 million increase to the Oil and Gas Tax Credits, Debt Service, and Regional Educational Attendance Area (REAA). The Operating Budget Subtotal was reduced by approximately \$50 million, with a \$20 million increase in Capital Additions. She added that there was a \$27 million net change in the UGF budget from FY 17 to FY 18.

Ms. Pitney thanked the Senate and House for work on Medicaid reform and criminal justice reform, which had resulted in some of the largest proposed budget reductions. She gave examples of agency reductions through negotiated furloughs as well as a "pay freeze" bill. She mentioned a reduction in the Alaska Marine Highway System.

Ms. Pitney continued discussing slide 7, specifying that budget additions were due to an increase in the employee healthcare rate, as well as some justice reform reinvestment items. She explained that \$69 million of the fund source change was from the introduction of a motor fuels tax which was directed at DOT highway maintenance, the Marine Highway system, and the state airport system. She noted that shifts to federal funds (as part of Medicaid reform) and fee increases (in the Department of Fish and Game and the Department of Natural Resources) comprised the remaining fund source change. She summarized that all the cost reductions in the proposed agency operating budget were largely offset by the statewide items that were formula-driven.

9:27:06 AM

Ms. Pitney reviewed slide 8, "Spending on Major Items FY2013 Compared to FY2018," which showed a bar graph that demonstrated change over time. The graph compared FY 13, which represented a spending peak; FY 15, which showed when the current administration came into office; and the FY 18 proposed budget. She pointed out that the 'Agencies Without

K-12' category had reduced spending from over \$3 billion to under \$2.5 billion. She noted that K-12 spending in FY 18 was only slightly higher than it was in FY 13, and below where it was in FY 15.

Ms. Pitney continued discussing slide 8, noting that the retirement and debt service component on the graph reflected a decrease in the retirement contribution. The deposit into the retirement account had reduced the state's on-behalf payments for the Public Employees' Retirement System (PERS) and the Teachers Retirement System (TRS). She noted that the payments were increasing. She noted that the capital budget had been as low as it could go in order to be able to meet the federal matching funds. She agreed with Vice-Chair Bishop's previous comments regarding the inevitability of funding deferred maintenance.

Ms. Pitney spoke to the graph on slide 8, noting that the FY 18 spending of \$74 million shown for oil and gas tax credits represented the minimum requirement. The Permanent Fund Dividend (PFD) spending for FY 18 was shown to be above the FY 13 amount, but lower than in FY 15.

Co-Chair Hoffman inquired about the anticipated payout for individual PFDs under the proposed FY 18 budget.

Ms. Pitney informed that individual dividends were budgeted to be \$1000.

[9:29:38 AM](#)

Senator Micciche considered that the proposed budget included a couple of categories of revenue that may or may not occur. He referred to SB 128 [a bill that passed the previous session and related to the Alaska Permanent Fund Corporation (APFC) and the earnings from the Permanent Fund], and assumed that if a similar bill did not pass both bodies in the current session that the governor would plan a similar veto as the previous year. He discussed the motor fuel tax increase, and asked if the Department of Revenue (DOR) had produced two budgets to reflect either the substantial increase in revenue or the lack thereof.

Ms. Pitney stated that the administration would make decisions based on what happened with the budget, and hoped that there would not be a financial crisis to consider at the end of the session. She shared that the administration

had produced one budget with the assumption that the revenue measures would both pass. If the measures did not pass, it would almost deplete the state's remaining savings, with the exception of approximately \$1 billion. She stated that \$1 billion in the Constitutional Budget Reserve (CBR) was not a prudent level of savings for the state. She mentioned best practices as advised by professional finance organizations, which would recommend (given the volatility of the state's revenue) that the state keep one year's reserves of \$5 billion in the CBR, with a minimum balance of \$2 billion.

Senator Micciche did not disagree with Ms. Pitney, and pointed out that if the two additional revenue measures did not pass the legislature, it would constitute an approximately \$770 million additional gap in the proposed budget.

[9:32:56 AM](#)

Senator Dunleavy asked how the budget being presented would help private economy. He thought it was clear how the administration's budget would help the government sector. He thought that some could argue that the proposed budget was light on reductions; and suggested that the state would be asking more of individuals, businesses, and corporations of the state to support the size of government. He mentioned the high unemployment rate in the state.

Ms. Pitney stated that the administration was using state resources in the budget as much as possible to match federal funds. She emphasized that federal funds in transportation served the design and construction community, which equated to jobs in the private economy. She discussed matching Medicaid funding for health services and the jobs created in the medical professions throughout the state. She discussed maintaining the PFD, which had a positive impact on retail. She mentioned community revenue sharing, which had a benefit to the overall economy. She asserted that 46 percent of the operating budget was distributed to organizations, individuals, and communities. She was encouraged by recent Senate Labor & Commerce Committee meetings that pertained to the economics of the state, and looked forward to revisiting the discussions.

[9:36:01 AM](#)

Senator Dunleavy referred to the governor's veto of part of the funding for the PFD, which had removed close to \$700 million from the private economy. He wondered how the transaction had supported the economy of Alaska, as many lower income Alaskans spent the dividends within the state.

Ms. Pitney stated that the \$700 million in question would pay for future programs that individuals throughout Alaska depended upon; such as healthcare, education, and roads. In doing so, the administration had preserved the ability to provide necessary state services.

Co-Chair Hoffman mentioned community revenue assistance, and referenced language on slide 3 that referred to fostering safer communities. He recounted that the previous year the Senate had proposed to reduce the Community Revenue Sharing program, and the governor had supported a payout of \$60 million. The Senate had considered that the state could not afford the program while considering the state's finances. He recalled that the governor had not included funding for continuation of the program, and the Senate had changed the program from revenue sharing to a Community Assistance Program. He expressed that the concept behind the change would give communities a commitment that they would be receiving funds for three years.

Co-Chair Hoffman pointed out that the governor's newly proposed budget did not contain a provision to keep the funding at the \$90 million level required for the continuation of the program. He wondered about the administration's policy with regard to the funding level of the Community Assistance Program. He asked if it was the administration's intent to phase out the fund, or if it planned to add \$60 million to the program the following year to assure the communities would be funded for the subsequent three years.

[9:40:29 AM](#)

Ms. Pitney indicated that the intent of the administration was to put forth \$60 million to fund the program the following year with the assumption that the funds would be available. She commented that without significant steps towards a balanced long-term budget, the program would not fit within the administration's overall approach to state spending.

Co-Chair Hoffman asked about Ms. Pitney's definition of "stable footing," when she had described future state budgets. He asked if a re-writing of the PFD program would put the state budget on what she termed to be stable footing.

Ms. Pitney asserted that it would take at least the measures that had been proposed in the governor's budget, but perhaps even more, as there was a remaining \$900 million gap. She reiterated that the administration wanted to see a long-term, stable, and balanced budget.

Co-Chair Hoffman responded that the Senate Finance Committee, more so than any other committee or administration, had taken the task of developing a long-term stable budget very seriously. He took issue with the administration's assertion that it would foster safer communities and maintain community assistance payments; as the proposed budget did not include the \$30 million to maintain the community assistance program. He thought the proposed budget would warn communities that there would be a 33.3 percent reduction in the program. He thought the proposal seemed to be a complete reversal of what had been previously communicated. He thought it would be very difficult to put the state on stable footing. He noted that any department that faced a same-sized reduction would cause a significant out-cry. He did not think the proposal maintained the commitment to the communities that had been made by the state. The Senate had envisioned giving communities a three-year commitment, while the proposed budget only gave a two-year commitment.

[9:44:27 AM](#)

Co-Chair MacKinnon thought the proposed budget prioritized the replacement of a ferry over stabilizing funding to smaller communities. She thought the budget fell short in other areas. She recognized that that the proposed budget was a work in progress and an opportunity to collaborate. She mentioned long hours spent in the previous session to prioritize security for local communities while working toward stabilizing the state's economy. She mentioned tax credits.

Senator Dunleavy asked if the governor supported capping the size of government through a revised appropriation limit that was currently in the constitution.

Ms. Pitney stated that the topic of capping the size of government had not been discussed. She thought there could be an active discussion on the topic during the current legislative session.

Senator Dunleavy discussed the reduction of the PFD, and wondered if it was the philosophy of the administration that it knew how to spend the people's money better.

Ms. Pitney expressed that the philosophy of the administration was to find stability for all of Alaska. She stated that the administration anticipated a long-term average of \$1000 for dividends. She emphasized an overarching theme of stability for the state.

[9:46:59 AM](#)

Senator Micciche noted that the legislature had passed a bill pertaining to the Community Assistance Program the previous year. He reiterated his view that the proposed budget had approximately \$770 million in "phantom" revenue that had not yet passed the legislature, while also eliminating \$30 million in spending for the program. He did not disagree that the other associated major pieces of legislation needed to pass. He opined that there were inconsistencies in the proposed budget that would be difficult for the legislature to deal with. He had supported the bill that reduced expenditures to the Community Assistance Program. He thought that if a piece of legislation had gone through both bodies and been signed by the governor, it should be in the budget.

Ms. Pitney understood the points expressed by Co-Chair Hoffman and Senator Micciche. She informed that there had been a long discussion regarding the Community Assistance Program. She described a forward-funding mechanism for funding the Community Assistance Program. She expressed that the matter was open for discussion, and relayed that the governor was supportive of the program.

[9:50:58 AM](#)

Co-Chair MacKinnon suggested that if the governor supported the program, it would be funded in the proposed budget.

Co-Chair Hoffman reiterated that the previous year the governor had supported \$60 million for the program, and the Senate had taken a conservative approach and only funded \$30 million. He furthered that the governor had signed a bill with a three-year commitment to the program. He thought it seemed as though the program was being used as a carrot in order to get legislation passed.

Co-Chair MacKinnon stated that the Senate was ready to work with the administration. She thought that community revenue sharing should have been included in the proposed budget, and thought there were additional items missing from the budget that might be being used for political advantage. She asserted that the Senate would take up the things that would benefit the people of the state. She shared that the Senate was trying to set politics aside, and focus on completing the work of the session.

[9:54:05 AM](#)

Ms. Pitney displayed slide 9, "FY2018 Unrestricted General Fund Operating Spending Without Dividends: \$4.2 Billion," which showed a bar graph. She noted that the graph showed the peak spending year of FY 14 with \$6.1 billion in expenditures, which dropped to \$4.2 billion in agency operating expenditures for FY 18.

Ms. Pitney discussed slide 10, "Unrestricted General Fund Agency Operating Budgets FY2002 - FY2018 in Nominal Dollars," which showed a bar graph depicting agency operating budgets not including statewide items such as debt service and tax credits.

Ms. Pitney reviewed slide 11, "Budget Guidance to Agencies":

Among the issues that departments were asked to consider as they evaluated their budgets:

- Is it required by a constitutional mandate?
- Is it required by a legislative mandate?
- Does it leverage other resources?
- Does it pay for itself or make money for the state?
- How utilized is the service?
- What is the impact on the statewide economy?
- How effective would it be to privatize or be absorbed by another agency? Would it be less expensive if privatized?

Ms. Pitney asked members to feel free to discuss the points on slide 11 with commissioners during the upcoming finance subcommittee process.

Ms. Pitney displayed slide 12, "All Agencies Are Making Reductions," which showed a bar graph entitled, "Unrestricted General Fund Reduction by Agency - FY15 Management Plan to FY18 Governor." She noted that all agencies had seen reductions. She drew attention to the Department of Commerce, Community and Economic Development (DCCED) and DOT; the agencies that had been reduced the most. She specified that tourism marketing was absent from the graph's data. She noted that there were only a few agencies that had not been reduced by at least 20 percent. She elaborated that the Department of Health and Social Services (DHSS) had a 15 percent reduction, which constituted the largest monetary reduction over the time frame represented on the graph.

Ms. Pitney continued on slide 12, and noted that the reduction to the Department of Education and Early Development (DEED) reduction was largely due to the removal of a one-time funding addition from FY 15.

Co-Chair MacKinnon noticed that Ms. Pitney had stated that tourism marketing funding was not addressed on the slide. She wondered if the excluded data would result in a higher or lower reduction total. She noted that the proposed budget for the current year moved the tourism funding to the capital budget.

Ms. Pitney discussed the change in spending for DCCED and directed attention to the FY 15 and the FY 17 figures. She explained that without normalizing the tourism budget, there would be an over 70 percent reduction. She stated that the tourism budget was an in-house operation until the previous year, at which time it transitioned to a named recipient grant to the Alaska Travel Industry Association.

Co-Chair MacKinnon informed that the documents being considered could be found online.

[9:58:06 AM](#)

Ms. Pitney looked at slide 13, "FY2018 Unrestricted General Fund Agency Operating Budget Reflecting Priorities," which

showed a pie chart representing the agency operating budget. She directed attention to the blue portion of the pie, which included K-12 education payments to communicates, the University, and the Alaska Vocational Technical Center (AVTEC). She specified that there had been a 9 percent decrease from FY 15. She pointed out that the category of 'Health, Life, Safety, Justice' was reduced by 13 percent and comprised 44 percent. The category included Alaska State Troopers, DOC, Courts, public defenders; and reflected recent justice reform efforts. All other agencies were shown as being reduced by 41 percent. She felt that the graph showed where the majority of reductions were being taken.

Co-Chair MacKinnon explained that the reason the Senate had mentioned cost drivers in the press conference the previous day, was because the administration had made cuts to all areas except those considered "major cost drivers." She discussed the cost of K-12 education, Medicaid, and DOC. She wanted the general public to know that Medicaid reform and criminal justice reform were undertaken because the Senate believed that lives would be saved. She expressed concern about opioid abuse and incarceration. She asserted that the Senate was trying to deploy resources in a manner to save lives versus saving money. She relayed that the issues would be brought up for discussion during the upcoming legislative session.

Ms. Pitney agreed with Co-Chair MacKinnon's statement regarding saving lives, and stated that the administration was trying to achieve cost containment.

Ms. Pitney discussed slide 14, "Ongoing Cost Containment Efforts Continue to Reduce Spending":

- 2500 fewer state employees since FY2015
- State employee savings through eliminated pay increases, furloughs, and healthcare cost passed to employees
- Executive branch travel reductions
- Reduced and consolidated leases

Ms. Pitney specified that the proposed budget showed a travel reduction of \$17 million since FY 15. Leases had been reduced by \$3 million, and the state had reduced its footprint by 100,000 square feet.

10:02:18 AM

Vice-Chair Bishop stated that the previous year the committee had discussed the reduction in state employees, and inquired if the 2,500 fewer employees mentioned on the slide had been vacant positions.

Co-Chair MacKinnon added that there was a perspective of positions with associated funds.

Ms. Pitney indicated that the reduction represented paychecks and real bodies in seats. She furthered that the Department of Labor and Workforce Development provided a monthly report with the relevant data.

Ms. Pitney displayed slide 16, "Position Reductions," and noted that the table on the slide listed 2,259 position reductions - 795 of which were in the current budget proposal. She referred to Co-Chair MacKinnon's comments about positions with funding. She commented that the administration had a list of position control numbers (PCNs), only some of which were funded.

Ms. Pitney showed slide 15, "FY2002 - FY2017 State Employees," and calculated that the state employment level was the same as 2002.

Senator Dunleavy considered that the committee had been discussing the issue of position reductions for the past few years. He asked for further detail relating to the "2,500 fewer state employees" listed on slide 14. He wondered if there was a way to observe true realized savings from the elimination of the positions and inquired if any of the savings had been shifted to funding contractors.

Ms. Pitney detailed that the savings from the eliminated positions was roughly \$250 million.

10:06:09 AM

Ms. Pitney went back to slide 16. She referred to Senator Dunleavy's question about position deletions and contractors. She noted that more detailed information on the executive branch level was available, but information on other areas was not available at the same level of detail.

Senator Dunleavy asked if the 2,500 positions had been full-time, year-round positions with an average of \$100,000 attached to each position.

Ms. Pitney indicated that \$100,000 per employee was an average and not all the positions in question were full-time or year-round.

Senator von Imhof asked how many actual pink slips had been given. She recalled that Ms. Pitney had reviewed the same presentation with Commonwealth North, and at that time had stated that there had only been 40 to 50 people that had been laid off.

Ms. Pitney specified that in the first budget year, there had been 37 individuals given pink slips; and in the next budget year there had been 40. She detailed that 80 pink slips had been delivered. Some individuals had chosen retirement prior to the execution of the layoff, and others chose to resign. She furthered that the administration worked very hard to manage reductions through attrition. She discussed hiring practices. She discussed the timing of the budget and listing of positions earmarked for deletion. More positions would be added to the list when the legislature began discussing budget reductions. She discussed the process of attrition, and the cost of layoff of employees.

[10:10:53 AM](#)

Senator von Imhof had researched the number of position reductions and had estimated it to be 1,200 less than was presented.

Co-Chair MacKinnon asked for Ms. Pitney to return with refined numbers. She discussed development of PCNs. She expressed concern with the numbers being presented, and discussed practices in the private sector. She discussed the need for standardized numbers, and asked for Ms. Pitney to provide a detailed description of employee types. She discussed increased spending on unemployment insurance and Medicaid spending, and the importance of jobs. She asked for a detailed overview of slide 14, with supporting documentation and dollar amounts.

[10:15:16 AM](#)

Senator Micciche commented that the committee had engaged in the same discussion multiple times. He thought that it was in the administration's best interest to provide more detail. He discussed the oil and gas industry, and commented that companies in the industry did the best not to hand out pink slips. He expressed the importance of understanding how agency reductions would translate into cutting employees. He thought information in greater detail would help all parties engaged in the budget process.

Co-Chair MacKinnon asked members to provide written comments or questions to her office for submission to the Office of Management and Budget (OMB).

[10:18:17 AM](#)

Ms. Pitney turned to slide 17, "Ongoing Cost Containment Efforts Complex State Policy Considerations":

- Justice Reform
- Health Care
  - Medicaid expansion
  - Medicaid reform
  - Employee health plans
  - Healthcare authority feasibility
  - Private health insurance market
- Education
  - System reform process

Ms. Pitney expressed her appreciation for the previous mention of saving lives and containing future costs. She discussed changes to the DOC budget that included both reductions and additional costs, and working towards keeping long-term costs down. She thanked the body for Medicaid reform. She commented that healthcare was a pervasive cost driver in the state, and mentioned a healthcare authority feasibility study that the administration was working on. She hoped there would be further dialogue pertaining to healthcare in which multiple viewpoints were examined.

[10:22:03 AM](#)

Ms. Pitney continued discussing slide 17, and relayed that DEED Commissioner Michael Johnson was preparing to begin a reform process looking at innovation and quality education

for every student. She furthered that the legislature would be invited to participate in the process. She added that education was also a major cost driver in the state, and better quality was desired.

Senator Dunleavy noted that the title of the slide had included the words "ongoing cost containment" and assumed that the education system reform process would constitute a reduction in the cost of education.

Ms. Pitney stated that there were additional cost pressures, and the administration wanted to extract the highest quality for the money spent. She was not sure it was possible to spend less on education, but thought it was possible to receive education of a higher quality. She summarized that cost containment and increased quality were the overarching expectations of the system reform.

Senator Dunleavy thought that the title of the slide indicated that the system reform process was in fact an ongoing cost containment effort. He suggested that the bullet be moved to a different slide.

Ms. Pitney presented slide 18, "Ongoing Cost Containment Efforts: K-12 Education":

K-12 UGF formula is 29% the UGF budget

K-12 UGF formula \$1.26 B

Base student allocation, in AS 14.17.470,

FY15 \$5,830

FY16 \$5,880

FY17 \$5,930

FY18 \$5,930

- From FY2017, \$6.2 million increase due to increased student counts and decrease in the Public School Trust Fund

- Education Commissioner Johnson is beginning an education system reform process

Ms. Pitney pointed out that the Base Student Allocation (BSA) had not changed, however there was an expected increase in student population as well as the number of students with special needs. The previous year the state had utilized the Public School Trust Fund at a rate that was higher than reasonable, which accounted for the decrease in the fund.

[10:25:27 AM](#)

Ms. Pitney discussed slide 19, "Ongoing Cost Containment Efforts Reorganizations":

- Shared Services
- Information Technology (IT) Consolidation
- Department of Transportation Optimize Project Delivery

Ms. Pitney explained that all departments had engaged in reorganization efforts to deal with constrained budgets. She mentioned the shared services approach to back-office functions, which was reflected for the first time in the proposed budget. She noted that 70 positions were being moved from other agencies into the Department of Administration (DOA) for new shared services, which would also include some existing DOA personnel. The shared services organization in the budget would show 140 positions.

Ms. Pitney continued discussing shared services. She explained that while the positions were transferred from the agencies, the agencies would retain the associated funds and buy services from the shared services organization. She expected a 10 percent decrease in cost to departments, which was reflected in the budget. The following year the decrease was expected to be 30 percent. The shared services organization was starting with five functions. She looked forward to more detailed discussion on the topic, and noted that mature shared services organizations could often save as much as 50 percent of operating costs.

Vice-Chair Bishop relayed that he would contact Co-Chair MacKinnon after the meeting to discuss the possibility of the committee engaging in a deeper dialogue pertaining to shared services.

Ms. Pitney continued discussing slide 19, noting that information technology (IT) consolidation was similar to that of shared services, and promoted having IT as a more strategic part of state operations. She relayed that DOT was contracting out more design functions with the goal of getting more for the money that was spent.

[10:28:40 AM](#)

Vice-Chair Bishop communicated that he was not in favor of contracting out DOT's functions and wanted to have a deeper discussion on the matter.

Co-Chair MacKinnon inquired about the economics of contracting out DOT's functions and wondered about outcomes in other states. She understood that 55 to 60 percent of the existing design team was already by contract. After communicating with individuals from DOT, she had understood that there may be a morale issue with some of the changes that had been implemented. She hoped that the administration would reach out to DOT to gain further understanding on the matter, and looked forward to a detailed analysis of the economics of the new policy.

Ms. Pitney acknowledged Co-Chair MacKinnon's request.

Ms. Pitney reviewed slide 20, "Statewide Obligations":

- Oil and gas: Statutorily required amount increased to \$74 million
- School debt reimbursement and REAA funding: Restored veto, FY2018 increase \$40 million
- Retirement payments on behalf of municipalities and school districts: Amount is based on an actuarial rate which is predicted to grow significantly in coming years
  
- Community assistance: Per legislation, payout has been reduced by 50% since FY2015, will continue to require a \$30 million annual appropriation to maintain current payout level
- Maintaining private insurance viability: Keeps insurance costs low for individuals purchasing insurance through private market and enables current insurer to remain in Alaska, \$55 million

Ms. Pitney summarized that slide 20 reflected areas in which the administration felt cost pressures rising. She noted that some of the funding for retirement payments came from the Higher Education Fund. She informed that the current budget cycle was the last opportunity to use the fund for any items other than the scholarship program so as to maintain the program in perpetuity.

[10:31:31 AM](#)

Co-Chair MacKinnon asked Ms. Pitney to remind the committee how much vetoed tax credit obligation was on the books. She wanted a summation of the amount that the governor had vetoed over the previous two years, as well as any new receipts for tax credits resulting in unpaid bills.

Ms. Pitney stated that based on statute, there were no unpaid bills; however there were companies that had tax credits in hand.

Co-Chair MacKinnon interjected that the legislature had authorized spending which the governor had vetoed. She reiterated her request for a summation of the numbers.

Ms. Pitney stated that the veto in FY 16 had been for \$200 million, and the veto the previous year was down to the statutory minimum and was for \$480 million.

Co-Chair MacKinnon asked if the committee could have confidence that the governor would not veto the funding for the statutorily required payment.

Ms. Pitney stated that the governor had not vetoed the statutorily required payment the previous year.

Co-Chair MacKinnon asked Ms. Pitney to provide the number of what was remaining to be paid in tax credits.

Ms. Pitney estimated that there was an outstanding amount of \$700 million owed in tax credits. She expected \$1.1 billion by the end of FY 18.

Co-Chair MacKinnon asked if the number was based on the statutory payment calculation.

Ms. Pitney replied that the amount was a sum of the accrued cashable credits, and did not count credits that offset tax obligation.

Co-Chair MacKinnon asked about school debt reimbursement, and referred to the "restored veto" listed on the slide. She wondered if the proposed budget included the \$40 million that was previously vetoed, or if a veto was undone.

Ms. Pitney stated that the administration had not restored the funds vetoed in FY 17, but had included the state obligation for debt reimbursement and the Regional Education Attendance Area (REAA) funding in FY 18. The FY 18 budget was \$40 million higher than FY 17, because of the veto.

[10:34:26 AM](#)

Senator Dunleavy referred to the bottom of slide 20, and to a \$55 million bill the legislature received in the waning days of the previous session. He wondered if the administration would be requesting funds to continue to subsidize insurance.

Ms. Pitney specified that the FY 17 budget and the FY 18 budget had each included \$55 million for private insurance viability. She characterized the funding as a "two-year experiment." She thought there was federal activity present, and that there were many moving parts to consider such as federal waivers. She relayed that the topic was part of an ongoing discussion, and was not able to surmise what would happen in FY 19.

Senator Dunleavy could not recall if the discussion the previous year was for the funding to be year to year.

Co-Chair MacKinnon recollected that the legislature had received the request for \$55 million in funding, and she had considered that the \$55 million was for two years. She recalled that when she had checked the spending status of the \$55 million, she that there was savings. She expressed a need to see an accounting of the expenditure of the funds. She recounted that the committee had requested the administration to provide a plan. She discussed the Affordable Care Act, which had ceased to provide grants for individuals. She recounted that during the third special session the legislature had discussed 500 high-risk individuals and the difficulties of obtaining insurance. She would look to Commissioner Sheldon Fisher and DCCED to hear more details on the matter.

[10:37:51 AM](#)

Senator Dunleavy asked if there had been guarantees made on the part of the insurance companies when the appropriation was made to stabilize insurance. He wondered if the

companies could have received the funds and then later exit the state, or were bound to stay in the state and provide insurance.

Ms. Pitney informed that the state was down to one insurance carrier in the private insurance market. She clarified that the insurance stabilization was not for only the 500 high-risk individuals, but was also for any person that did not have employer-covered healthcare. She noted that the group included some who had a federal subsidy based on income (that did not qualify for Medicaid). She estimated that there was 25,000 individuals who purchased insurance through a private company. The funding allowed for insurance premiums not to go up by 40 percent, but rather only by 7 percent. She emphasized that the state needed to look at the issue holistically, and thought maybe the healthcare authority study would assist in finding the right balance and direction.

Senator Dunleavy wondered about the nature of the agreement with insurance companies. He asked if there was a guarantee that an insurance company would stay in the state, or if it was a year-by-year agreement.

Ms. Pitney indicated that DCCED Commissioner Chris Hladick and Deputy Commissioner Fred Parady could provide an in-depth view of the contracts and expectations. She was certain there had been several layers of due diligence.

Ms. Pitney showed slide 21, "Examples of Direct State Funding," which showed a data table. She had previously mentioned that 40 percent of state funding was grants that went to communities rather than staying at the state level. She detailed that the table gave a community view of some of the various larger programs that were included in the 40 percent.

[10:40:57 AM](#)

Ms. Pitney looked at slide 22, "Revenue Measures":

- FY2018 Governors Proposal
  - Permanent Fund Protection Act
  - Motor Fuels Tax Increase
- Office

Ms. Pitney noted that the two revenue measures were in the proposed budget. She added that the Permanent Fund Protection Act (PFPA) mirrored a bill that had passed the Senate, and thanked the members for their part in the process. She explained that the motor fuels tax was a multi-phased increase. She estimated that the PFPA would solve between 70 percent and 75 percent of the budget gap. The motor fuels tax increase would bring an additional \$40 million in revenue for FY 18, and another increase of \$40 million in FY 19. At the end of the implementation, the fuel tax would generate approximately \$120 million. With the two revenue measures, there would be just short of a \$900 million revenue gap. She hoped to work with the legislature on additional revenue measures, to include a broad-based tax and bridge the fiscal gap.

Senator Dunleavy thought it seemed as though there had been a reversal of philosophy. The previous year there had been money moved into the Permanent Fund and discussion of endowments, and in the current year money was being moved out of the Permanent Fund and into the CBR. He thought it would take more discussion to understand what the administration was trying to accomplish.

Co-Chair MacKinnon reminded that the presentation was a budget overview, and that the committee would engage in topics at a deeper level at a later time.

[10:43:22 AM](#)

Ms. Pitney showed slide 23, "FY2015-2018 Funding by Type," which was an illustration of DGF and UGF. She pointed out that the draw from the Permanent Fund Earnings Reserve Account (ERA) would begin in 2017, and continue into 2018. The graph indicated that in FY 16 there was not a draw from the ERA.

Co-Chair MacKinnon asked if the administration was repurposing the funds into the CBR, and if the CBR would grow if the legislature approved the administration's proposed budget.

Ms. Pitney explained that the CBR would go to \$5 billion in FY 17, and assuming spending stayed relatively steady, would grow over time. She thought that the CBR balance could address some capital budget needs in later years. She

asserted that the CBR would be healthy, and would increase along with the ERA.

Ms. Pitney showed slide 24, "Future Reserve Balances" which showed what the CBR balance would be under the administration's proposed plan. She explained that the graph depicted estimates considering an inflation-only growth model in the agency budgets and retirement. She made note of stability in the ERA balance, and slight increases in the CBR balance. She reiterated that the figures assumed a very constrained capital budget, so it was difficult to say what the CBR balance would be - however, at the proposed spending level, the investment earnings would allow the funds to grow. She thought the proposed plan would preserve the overall value of the Permanent Fund, while the status quo could threaten the value.

Ms. Pitney turned to slide 25, "Additional Materials":

Additional Materials

- Condensed Budget Comparison FY2015, FY2017, FY2018
- FY2018 Fiscal Summary
- OMB Home Page
  - <https://www.omb.alaska.gov//>

Ms. Pitney directed attention to two documents: "Condensed Budget Comparison FY2015, FY2017, FY2018;" and "State of Alaska - Fiscal Year 2018 Governor Fiscal Summary" (copies on file).

Co-Chair MacKinnon discussed the agenda for the following day.

#

ADJOURNMENT

[10:46:49 AM](#)

The meeting was adjourned at 10:46 a.m.