

SENATE FINANCE COMMITTEE
February 7, 2017
9:01 a.m.

[9:01:14 AM](#)

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

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

SUMMARY

SB 43 APPROP:SUPP; CAP; REAPPROP; AMEND; REPEAL

SB 43 was HEARD and HELD in committee for further consideration.

#sb43

SENATE BILL NO. 43

"An Act making supplemental appropriations, capital appropriations, and other appropriations; making reappropriations; amending appropriations; repealing appropriations; and providing for an effective date."

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PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, thought that the supplemental bill was fairly straightforward and informed that it included four significant items.

Ms. Pitney discussed the presentation "FY2017 Supplemental Bill - Senate Finance Committee" (copy on file). She turned to slide 2, which showed a table entitled 'FY2017 Supplemental Summary.' She pointed out that the summary included an Unrestricted General Fund (UGF) increment request of \$51.7 million. After adding the Designated General Funds (DGF), federal funds, and other funds; the total was \$113.5 million.

Ms. Pitney showed slide 3, "UGF/DGF/Other/Fed Summary by Department (1088)."

Ms. Pitney showed slide 4, "Statewide Department Summary - Capital Budget (1183)."

Ms. Pitney addressed a 10-page FY 17 Supplemental Bill Summary (paged 1 - 10) that was included within the presentation. She pointed out line 2 on page 1 of the summary, which showed a rate increase for Alaska Care from \$1,346 to \$1,555 per month, per employee. She referred to an amendment late in the previous session that had requested a \$15 million increase for the healthcare rate, as the state was drawing down on reserves at a faster rate than previously. The previous year there had been a \$7.5 million deposit in to the Health Reserve Fund, which enabled the state to get through the first half of the year.

Ms. Pitney continued discussing the supplemental request for healthcare, noting that there had been a mid-year healthcare rate increase. The current request was for the General Fund (GF) requirement for the rate increase. Most of the non-GF components had been added in the budget.

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Co-Chair MacKinnon inquired about \$853,000 being taken from the Alaska Marine Highway Fund. She wondered if the funds were intended to help cover the individuals in the union.

Ms. Pitney explained that the mid-year rate increase had increased the cost, and she took care for the cost of the

healthcare rate increase for that group of employees. She offered to give a complete breakdown by fund source for each group listed in the supplemental item description.

Senator Micciche thought he might want to review the Marine Highway Fund. He knew that many budget cuts had been directed toward the use of the fund, and wondered if there was a robust enough balance in the fund to cover the supplemental item as well as the other DGF uses that had been directed.

Ms. Pitney relayed that the administration felt comfortable that the fund was healthy enough to fund the request.

Senator Micciche wondered if the administration had looked at the health insurance increases and was devising a plan for the future. He acknowledged that most of the groups were bargaining units and did not know when the contracts reopened. He thought it was time that the employees shared the costs.

Ms. Pitney stated that the administration had the topic on its radar, and furthered that Department of Revenue Commissioner Sheldon Fisher was working with all the unions (especially considering the healthcare authority feasibility study) and looking at the various healthcare strategies that unions were using. She mentioned that there were some unions with healthcare trusts. She stated that some of the negotiations had the amount paid for healthcare for the unions aligned with the Alaska Care payment. Other unions were looking at the healthcare trust and considering what should be paid to cover healthcare needs.

Ms. Pitney continued that to limit the rate increase, the administration was considering pharmacy cost-saving efforts, provider contracting, as well as pushing more costs to employees to pay part of the premium. She informed that all employees in Alaska Care paid premiums, which were increasing again on December 1, 2018.

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Co-Chair Hoffman asked how much of the healthcare increase was included in the FY 18 budget. He asked how much of the cost increases had the employee seen, or if all the increased costs were falling on the employer.

Ms. Pitney stated that the Alaska Care increase was \$12 million total (of which \$6 million was UGF), of which approximately \$3 million had been passed on to employees.

Ms. Pitney stated that if the administration had not increased the employee premium, the employer contribution would have been \$3 million more.

Ms. Pitney addressed line 3 on page 1 of the summary. She explained that at the end of the summer, the supervisory union contract was finalized. Part of the contract negotiation had included a mandatory 15-hour furlough, which resulted in savings of \$900,000; \$358,000 of which was GF.

Co-Chair MacKinnon asked if the state had investigated the long-term effects of furloughs, and how it affected future contract negotiations. She wondered how it worked for a salaried employee.

Ms. Pitney clarified that furlough was unpaid time off, and it was mandated that employees take unpaid leave. If the state wanted to avoid furloughs in the future, it would be an increment to avoid forced furloughs.

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Co-Chair MacKinnon asked if there had been any study of other organizations that had used furloughs to understand possible consequences.

Ms. Pitney agreed to check with Commissioner Fisher to ascertain an answer to Co-Chair MacKinnon's question.

Senator Micciche wondered how many members were in the supervisory unit.

Ms. Pitney specified there were 2,300 members.

Senator Micciche wondered about possible savings through taking the furlough program through all the ranks at the state.

Ms. Pitney explained that the administration had negotiated furloughs in most all of the contracts. The General Government Unit (GGU) contract had also negotiated a furlough that was included in the original 2017 budget.

Many of the exempt and non-exempt employees were forced to take furloughs starting in 2016 to adjust to the budget levels. Furlough days ranged from a minimum of 2 days (15 hours) for GGU, with some units (Department of Law, Department of Natural Resources) using up to 5 days of furlough to meet budgets.

Senator Micciche asked Ms. Pitney to provide the committee with the furlough figures to examine overall effectiveness towards savings. He wondered if the furlough days were pushing work toward contractors.

Ms. Pitney agreed to provide the information.

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Co-Chair MacKinnon noted that the legislature had implemented a similar furlough policy. She wondered, since it was possible to negotiate 15-hour furloughs, what effort had been made to negotiate across the board for pay freezes.

Senator Micciche discussed unallocated cuts and the concept of effective management in the agencies.

Senator von Imhof referenced Senator Micciche's comments, and thought having uniform furloughs or pay freezes could prohibit flexibility that managers could employ to creatively manage to a dollar figure. She suggested that tailored decision-making for each department would be effective to get through lean fiscal times. She worried that having one tool uniformly applied to all agencies might not be the most effective way of managing. She wondered if managers could be given more flexibility.

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Ms. Pitney addressed line 4 and line 5 on page 1 of the supplemental summary, which were technical in nature. Line 4 referred to a Vendor Administrative Fee. She detailed that part of shared services reorganization and process streamlining included implementation of a cooperative contract. If the state paid within ten days, the vendor would return part of a small fee which would cover the cost of the shared services procurement organization. She detailed that the process was implemented after the FY 17 budget had been put together.

Co-Chair MacKinnon asked why the funds were being designated as DGF rather than just dropping it in the GF.

Ms. Pitney stated that it had been assigned as a GF program receipt.

Co-Chair MacKinnon asked if Ms. Pitney knew of estimated cost savings for the statewide program.

Ms. Pitney referred to shared services reorganization in the FY 18 budget, which would realize savings of \$600,000. The savings was anticipated to double in the following year.

Co-Chair MacKinnon asked if the \$600,000 in FY 18 savings would be doubled, or if there would be an additional \$1.2 million in savings.

Ms. Pitney clarified that there would be \$1.2 million additional savings.

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Vice-Chair Bishop referred to the fund source switch for the Vendor Administrator Fee, and wondered if the savings was realized through timely payment.

Ms. Pitney answered in the affirmative.

Vice-Chair Bishop referred to the oil and gas industry, and negotiations.

Ms. Pitney recalled a reduction that the administration took in FY 16, after negotiating down all the contracts. She stated that Commissioner Fisher could show results of the negotiation.

Co-Chair MacKinnon referred to Line 5, which appeared to be a repurposing of funds. She wondered if there was a new \$1.4 million for the Alaska Land Mobile Radio (ALMR) system.

Ms. Pitney answered in the negative. She elaborated that the United States Department of Defense (DOD) had paid a contract directly to the vendor; and the state had paid for its share of the contract directly to the vendor. She

continued that DOD had new rules and could not pay directly to the vendor, but rather must pay through the state.

[9:24:52 AM](#)

AT EASE

[9:25:32 AM](#)

RECONVENED

Ms. Pitney turned to page 2 of the summary, and addressed line 6. The item was an increment request of \$453,000 for the Public Defender Agency. She explained that part of the agency's revenue stream was collections; a large portion of which was from the Permanent Fund Dividend (PFD). The collections had fallen short of the original estimate, and the increment would replace the lost revenue.

Ms. Pitney addressed line 7, which pertained to a federal grant that would help the Division of Motor Vehicles monitor the entities that did training and testing for a commercial driver's license. The monitoring was a result of an audit finding, and the federal government was providing a grant to help support the monitoring.

Ms. Pitney addressed line 8, a \$130,000 DGF increase which was a result of a reclassification for occupational licensing examiners. There was a reclassification for the employees from range 13 to range 14. There was a corresponding amount in the governor's proposed budget.

[9:27:22 AM](#)

Senator Dunleavy asked if the increase on line 8 was a result of a decision to increase salary.

Ms. Pitney answered in the affirmative.

Co-Chair MacKinnon asked if there was a board that managed the licensing structure that had requested the change, or if it had been an administrative request.

Ms. Pitney was not aware if the request was from the board or from the administration. She detailed that there was a statute that provided for classification studies.

Senator Dunleavy commented that he did not understand why there were salary increases being discussed when the state

had a \$3 billion deficit. He did not understand why the administration was not trying to reduce its budget by the same amount that was being requested in the supplemental. He did not think the state would get out of its fiscal challenge by doing things as it had always done.

Co-Chair MacKinnon agreed with the premise of Senator Dunleavy's comments, and thought it might be helpful to examine a salary study. She wondered about the salary of a range 13 versus a range 14.

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Ms. Pitney stated that the salary in question was \$45,000 per year, and the average impact was about \$4,000. She qualified that the increase was based on the complexity of work and the analysis of the classification study. She referenced Department of Labor and Workforce Development laws and the concept of equal pay for equal work.

Ms. Pitney turned to page 3 of the summary, and noted it was full of technical changes. She specified that one item was a fund source clean-up based on better accounting information. The next item was associated with the health insurance rate increase. There were two components involved, and the original budget only had the appropriate item in one.

Ms. Pitney turned to page 4 of the summary, and addressed lines 11, 12, and 13; as well as line 14 on the following page. The items pertained to increases in funding to the Medicaid program, and totaled \$26.7 million between the 4 components. She recalled that FY 16 payments from the previous year were delayed and pushed in to FY 17, because the FY 16 funding level had not been sufficient.

[9:33:36 AM](#)

AT EASE

[9:37:48 AM](#)

RECONVENED

Co-Chair MacKinnon referred to the Medicaid increases, some of which had to do with normal healthcare increases over time.

Ms. Pitney concurred.

Co-Chair MacKinnon asked Ms. Pitney to provide more information on the reimbursement of the advance the state had paid to Medicaid service delivery providers. She thought the advance had started in FY 16. She recalled a report from the previous year that suggested there was an outstanding \$80 million from vendors that had been advance-paid in 2016. The committee had not been updated on the vendor repayment, and wondered how it pertained to lines 11, 12, 13, and 14.

Ms. Pitney explained that an issue with Xerox at the end of FY 16 had complicated budget resolution, so it was not possible to accurately predict how much would be needed for a supplemental at the same time last year. The administration had made the decision to work to get the reimbursements. She offered to provide a report with exact figures as soon as possible, and stated that the situation was being monitored consistently. She anticipated at least \$40 million of reimbursements in FY 17. She relayed that Medicaid services was working diligently to get all the bills processed (from the complication with Xerox), and to get the reimbursements.

[9:40:46 AM](#)

Senator Micciche clarified that the committee was discussing provider payments in lines 11 through 14, that amounted to \$27 million.

Co-Chair MacKinnon noted that the committee was looking at an approximately \$25 million UGF request for implementation of Medicaid. The matter had been complicated by a lawsuit with Xerox, pre-payment to vendors, a 9 percent increase to the cost of healthcare, and an administrative order to expand Medicaid. She asked Ms. Pitney to provide more clarity on the requests. She thought it would be helpful to have an update from Department of Health and Social Services (DHSS) Commissioner of Valerie Davidson to discuss the remaining problems.

Senator Micciche wanted greater detail, and noted that through the executive order on expansion of Medicaid there had been millions of dollars of expected savings. He wanted to see the information compiled into one document, to include expectations and reality. He wanted to see how Medicaid expansion had affected the bottom line.

9:43:13 AM

Co-Chair Hoffman noted that each component being considered included the text "As a result of reprocessing these claims at the close of FY2016, the Department had to limit the number of claims that were to process for Medicaid providers." He wondered if it was possible to get a list by component to determine which claims were limited. He wanted to examine the claims in each category. He wondered what type of guidelines were used to determine what would be paid and what wouldn't.

Ms. Pitney agreed to provide the information.

Co-Chair Hoffman asked if he could review the claims listed by vendor in order to help consider the supplemental requests.

Co-Chair MacKinnon asked Ms. Pitney to work with Commissioner Davidson to compile a short presentation for the committee in order to discuss the components at a later time.

Vice-Chair Bishop echoed Co-Chair Hoffman's comments about the items being a one-time increment. He recalled the previous year that there was approximately \$27 million in Medicaid savings. He thought if the request was a one-time increment for \$27 million, there should be no further request, less normal customary increases.

Ms. Pitney stated that there was a one-time increment because the items were a one-time cost pushed from FY 16 to FY 17. Before the increase, the amount was \$580 million, which was \$90 million below the FY 15 Medicaid cost. With the increment, the cost was \$60 million below the FY 15 Medicaid program cost. In conjunction with the savings from cost shifting to federal dollars through Medicaid expansion, the state was seeing significant increases in the number of eligible individuals. She thought the economy would drive the costs up as well.

Vice-Chair Bishop asked for any forthcoming information to include a report on the savings from the previous year's budget, and whether it was from the same area of expense as the request.

[9:47:46 AM](#)

Senator von Imhof understood that prior to Medicaid expansion, Indian Health Service (IHS) funding had covered much of the healthcare for the population that now qualified under Medicaid expansion. She thought since Medicaid expansion, there had been a shift to Medicaid funds; yet since IHS was population-based, healthcare providers around the state were still receiving funds from IHS. She wondered how IHS funds were presently being allocated, and if they were a potential source of funds to help offset some of the one-time fees.

Ms. Pitney agreed to provide more information on Senator von Imhof's question. She referred the question to Commissioner Davidson.

Co-Chair MacKinnon asked if the FY 18 operating budget bill had the cost increases from lines 11-14 built into it. She wondered if the FY 18 budget was constructed so there would be no anticipated supplemental request.

Ms. Pitney answered that the FY 18 budget was at the original FY 17 rate.

Co-Chair MacKinnon asked if the FY 18 budget would then be short by \$25 million.

Ms. Pitney stated that the administration was in discussions as to how additional savings might be garnered, but the FY 18 amount was at the FY 17 level of \$580 million.

Co-Chair MacKinnon asked for clarification that the FY 18 budget did not reflect the increase to the budget, and would be short \$25 million.

Co-Chair Hoffman thought the department was on record saying the FY 18 budget was one that could be administered. He noted that the items all stated they were a one-time increment, which did not expect an increment the following year.

Co-Chair MacKinnon concurred with the language, but was not sure if the budget reality would match.

Co-Chair Hoffman thought if administration did not believe the explanation to be true, it should not have been written.

9:51:05 AM

Senator Olson wondered how much, if any, of the GF dollars that were allocated in FY 16 had lapsed as a result of the delay from pushing FY 16 costs into FY 17.

Ms. Pitney stated there was no lapse, and the only reason the payments were pushed into FY 17 was due to insufficient funding in FY 16.

Co-Chair MacKinnon asked if there was a vote to access the Constitutional Budget Reserve (CBR) in FY 16 that could have accessed the funds.

Ms. Pitney stated that there might have been enough flexibility within the CBR vote, but because of the complications with the Xerox system and the implementation of the IRIS system, the administration had been unclear as to the amount of the payments. She asked the committee to recall the prior year's supplemental request that had overshot the mark.

Co-Chair MacKinnon asked Ms. Pitney if there was a CBR vote in 2017, and if the administration needed access authority for the spend.

Ms. Pitney stated that there was a CBR vote, that had a \$100 million UGF limit. The supplemental request was for \$51 million UGF.

Ms. Pitney informed that lines 15, 16, and 17 on page 5 were all grant related items, to receive receipt authority to execute on grant programs.

Ms. Pitney relayed that lines 18, 19, 20, and 21 on page 6 were grants and technical changes.

Ms. Pitney spoke to line 24, related to the fact that Whale Pass recently voted to become a Second Class City. The organizational grant came with a \$75,000 UGF grant from the state.

Ms. Pitney moved to page 7, where lines 25 and 26 pertained to Department of Fish and Game (DFG). The first item provided funding for two organizations to continue studies that had begun in 2013. The second item requested \$3 million of DFG funds to match (and thereby utilize) \$9 million of Pittman-Roberts federal funds.

Ms. Pitney spoke to line 30, which was a request to allow the Labor Relations group to carry forward a capital grant to augment its union negotiating issues. The grant was started in FY 15, and there was approximately \$250,000 remaining.

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Ms. Pitney spoke to line 31, which was a reappropriation from the Department of Public Safety. There had been a driving range proposed for the Sitka Police Academy, and it had been considered a more prudent use of funds to pay for maintenance and upgrade of the ALMR system. The item needed \$4.5 million for the immediate upgrade and maintenance issues. She thought there would be a forthcoming amendment for the remaining amount of funds.

Co-Chair MacKinnon recalled language in the previous year's operating budget that had requested replacement or dissolution of the system.

Ms. Pitney confirmed that there had been intent language to find an alternative to the ALMR system, and there had been two or three past studies and a recent report on the matter. The study findings had been that ALMR was the best alternative for the present time. She offered to provide the report to the committee.

Co-Chair Hoffman referred to line 26, and asked Ms. Pitney to provide the committee with the targeted use of the \$12 million for wildlife management mapping, hunter access improvements, and the locations with specific items for each project.

Ms. Pitney agreed to provide the information.

Vice-Chair Bishop asked about Ms. Pitney's reference to a driving range.

Ms. Pitney explained that the reappropriation for ALMR on line 31 was from an older appropriation for a driving range at the Sitka Police Academy. She added that the Alaska State Troopers heavily depended upon ALMR, and accepted that the communications system was a higher priority given the fiscal environment.

Vice-Chair Bishop noted that if the police academy still needed a driving range, it could reach out to Fort Greely where there was a racetrack for testing automobiles.

Co-Chair MacKinnon thought the academy was currently using a school parking lot for driving training.

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Ms. Pitney addressed line 32 on page 8 of the supplemental table; which pertained to a federal grant for health insurance enforcement and consumer protection.

Ms. Pitney shared that line 33 was a significant supplemental request for Department of Corrections (DOC) healthcare components. She detailed that through Medicaid expansion, the department had been able to move prisoners who spent more than 24 hours in hospitals on to Medicaid. The administration had anticipated that there would have been more savings, and were able to start the program in FY 16. The DOC healthcare component was reduced by \$6 million in FY 17 through the fiscal notes for the Medicaid reform effort. The department was still receiving benefits through Medicaid expansion (and would have more participants in the expansion group), but the general healthcare for DOC was surpassing the amount appropriated by \$11 million.

Ms. Pitney continued, explaining that the supplemental request was for up to \$8 million in GF, and permission to allow DOC to use any savings it could find in other areas to offset the cost increase. She detailed that the department was seeing significant cost increases for items such as dialysis, Hepatitis-C medications. Additionally, there were problems with nursing recruitment, and the department was using overtime as well as temporary nursing contracts. She reiterated that the department was not seeing the savings it had anticipated. She emphasized that the administration was working regularly with DOC to monitor the situation, and would be working in the framework of the healthcare authority to negotiate rates.

She noted that the item was the most significant supplemental item.

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Senator Micciche referred to the \$8 million appropriation FY 14 for the PFD Criminal Fund, and wondered if it occurred every year to go towards DOC healthcare for the incarcerated population.

Ms. Pitney answered in the affirmative.

Senator Micciche asked if the supplemental request was over and above the \$8 million appropriation.

Ms. Pitney stated that the funds had been allocated, but the mechanism was a year delayed. For FY 17, the amount of money was based on the previous year's dividend checks. The amount would be smaller the following year, and would have to be made up with another fund source.

Co-Chair MacKinnon asked if the Governor's veto of half of the PFD related to the cost expenditure. She wondered if there was an unintended consequence of the veto.

Ms. Pitney specified that in FY 18, the amount of the fund would be diminished as a result of reduced dividends.

Co-Chair MacKinnon asked if the consequence was unanticipated.

Ms. Pitney relayed that the reduction of funds was a known consequence of the veto.

Vice-Chair Bishop thought it might be helpful to have DOC work with Ms. Pitney. He had chaired the Senate Finance Budget Subcommittee for DOC for several years, and recalled that the previous year there had been savings due to Medicaid expansion, resulting in a lower GF spend. He was interested in knowing what happened to the estimated savings.

Co-Chair MacKinnon stated that some cost-drivers had been raised in the health system, and referred to a new treatment for Hepatitis-C. She understood that the treatment was very costly, and wondered if Ms. Pitney had referred to the new cure.

Ms. Pitney answered in the affirmative, and relayed that the DOC healthcare treatment for Hepatitis-C was \$74,000 per patient. She elaborated that the state had been able to use a buying consortium in order to receive a relatively low price. She noted that the occurrence of Hepatitis-C in prisons was upwards of 20 percent.

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AT EASE

10:09:19 AM

RECONVENED

Co-Chair MacKinnon relayed that she had been inquiring about the cost increase for Hepatitis-C treatment, and whether the state was seeing a cost increase over time.

Co-Chair MacKinnon asked if Ms. Pitney had recommended back-filling inmate funds with the Alaska Capital Income Fund.

Ms. Pitney answered in the affirmative, for FY 18.

Co-Chair MacKinnon asked if there were dollars in the fund that Ms. Pitney hoped to use for a recurring cost. She stated that the Capital Income Fund was typically used for one-time increments for capital projects.

Ms. Pitney stated that in the past, the Capital Income Fund had been used for one-time increments; but it was a recurring annual revenue stream.

Ms. Pitney moved to page 9, line 34 of the supplemental summary, which was a reappropriation for the Alaska Vocational Technical Center. The funds would allow rescoping of a deferred maintenance appropriation of the past to meet the center's most urgent need.

Ms. Pitney communicated that lines 35 and 36 addressed the most recent judgements and settlements.

Ms. Pitney noted that line 37 pertained to a settlement between the Department of Transportation and Public Facilities (DOT) and the U.S. Environmental Protection Agency (EPA). There had been a consent decree and final

order, involving \$8 million to address the Class V injection wells.

Ms. Pitney noted line 38 was a reduction in the state's debt service cost due to the refinancing of the Goose Creek Correctional Center, which resulted in \$655,000 in savings.

Co-Chair MacKinnon referred to line 34, and asked if there was a reason that the funds were not requested in FY 18, or if the funds were FY 17 money that was expiring.

Ms. Pitney believed that some of the items had FY 17 expirations, while others had a lapse date of FY 18 or FY 19. She thought the line addressed urgent needs.

Co-Chair MacKinnon asked about line 37, and thought that there had been a one-time request for funds for disposition of the Class V Injection Wells. She wondered if there was a new well, or if there had been increased costs or expenditures. She asked if Ms. Pitney could provide further clarification.

Ms. Pitney agreed to provide more detailed information at a later date. She thought earlier funds had been used to address the first one or two wells in order to demonstrate progress. Fulfilling the consent decree would satisfy the EPA's complaint with the state.

Co-Chair MacKinnon had a complaint with the federal government about the wells that it had left. She asked if there was a consent decree for the wells that the federal government had abandoned on federal land.

Ms. Pitney did not track the wells left by the federal government.

[10:13:53 AM](#)

Ms. Pitney looked at line 39 on page 10, which requested \$3 million to maintain a balance in the Disaster Relief Fund.

Ms. Pitney noted that there was an item that should have been included on the sheet - a \$15 million supplemental request for wildfires. She explained that there had been an oversight within her office, and it would be brought in as an amendment.

Co-Chair MacKinnon asked if the addition would bring the overall supplemental request to \$130 million.

Ms. Pitney answered in the affirmative.

Co-Chair Hoffman asked if the \$15 million was for anticipated wildfires between the present and June 30th, 2017.

Ms. Pitney answered in the affirmative.

Co-Chair Hoffman asked if it was normal to have wildfires to that extent between the months of February and June.

Ms. Pitney detailed that only \$5 million of the \$15 million was associated with anticipated fires.

Co-Chair Hoffman asked if the difference in funds was to cover wildfires that occurred prior to the present.

Ms. Pitney stated she would provide documentation of the costs associated with each associated fire.

Vice-Chair Bishop asked about the omission of the \$15 million item.

Ms. Pitney reiterated that the omission had been an oversight.

Vice-Chair Bishop thought there could be some opportunity for federal funds for reimbursement for fires.

Ms. Pitney stated that the amount of the request had accounted for federal funds. The request was for the state funding portion. She agreed to provide details on the amount of federal and state funds.

Co-Chair MacKinnon asked if the previous year's request for fire suppression had been \$47 million.

Ms. Pitney responded in the affirmative, and said the funds were largely lapsed. She stated that the administration was being much more conservative in its current request.

[10:17:34 AM](#)

Senator Micciche referred to line 37, and mentioned the 53 Class V injection wells. He wondered if the Department of Environmental Conservation (DEC) worked with DOT to make sure there was compliance with the Safe Drinking Water Act.

Ms. Pitney stated that DOT and DEC would have a much deeper understanding of the consent decree and linkages.

Senator Micciche thought that \$8 million was not insignificant, and thought perhaps there was a larger problem.

Co-Chair MacKinnon referenced "travesty" wells on Bureau of Land Management land, which the federal government had started to clean up.

Co-Chair MacKinnon asked if Ms. Pitney had covered the administration's capital request as well as its operating request.

Ms. Pitney specified that the capital requests were detailed on page 6, line 24; and page 8, line 25 and line 26.

Co-Chair MacKinnon asked if the capital requests were the White Pass organizational grant and the Wild Hatcheries Salmon Management tool.

Ms. Pitney added that the Pittman-Roberts funding was also included.

Co-Chair MacKinnon thought Co-Chair Hoffman had asked for detailed follow-up concerning what regions would be affected by individual projects.

[10:20:13 AM](#)

Senator Micciche pointed out his support for the "outside-of-the-box" thinking on the capital budget. He mentioned the \$75,000 item for the Local Boundary Commission (as required by state law). He highlighted the Wild/Hatchery Salmon Management Tools item, which was simply receipt authority for \$5.9 million, and had committed funding from Pacific Seafood Processors and the Northern Southeast Regional Aquaculture Association. He wanted to see more instances where those directly benefitting were willing to invest in state processes.

Senator Dunleavy commented that he considered Ms. Pitney and the administration to be going in an opposite direction as the legislature. He asserted that the Senate was hoping to reduce the budget by \$750 million over seven years. He requested that the administration go through an exercise to identify areas in which funds could be shifted to avoid increases. He emphasized the need for concurrence on the budget.

Senator Micciche wondered if it would signify an unallocated cut if Senate support was denied for some increments in the supplemental bill. He asked Ms. Pitney to explain how reductions would be managed if increments were reduced by 50 percent.

Ms. Pitney referred to the DOC healthcare item, in which the agency had asked for over \$11 million. She reported that the governor's office had pushed back and asked the department how it could manage it to be less than \$11 million within the department organization. She believed that if the expense could be reduced to \$8 million in DOC as a whole, it would be well-managed. She thought that if the amount was short-funded, it would require a ratification in the next year.

[10:24:37 AM](#)

Senator Micciche asked if the administration was submitting a supplemental budget that had already been substantially scrubbed and reduced where possible. He pondered that if it was the will of the legislature to push additional scrubbing and more heavy-handed management of the increments, the administration would have to absorb the costs elsewhere.

Ms. Pitney answered in the affirmative.

Co-Chair MacKinnon thanked Ms. Pitney for her presentation. She discussed the challenging fiscal climate, and referred to spending from savings accounts. She thought there were state services that were valued in different ways across the state. She acknowledged that Ms. Pitney was managing a difficult position and expressed appreciation for her efforts. She wondered about the cost of overall personnel.

Ms. Pitney estimated that just over \$2 billion of the \$10 billion total state budget was personnel. She noted that there were different proportions of personnel per department; and the legislature had very high personnel, while DOT had a fairly low percentage of personnel and a higher percentage of contractual services. She stated that as a rule of thumb, nearly 50 percent of the state budget was sent out directly to providers, communities, or individuals.

10:27:47 AM

Co-Chair Hoffman referred to the governor's State of the State and State of the Budget public addresses, in which he had classified the budget as a potential crisis. In considering the supplemental budget request, he thought that the Senate had been pushing for larger cuts than the governor and House for the previous four years. He thought it was because of the continued pressure by the Senate that the state was able to see a diminished operating budget. He thought many committee members felt that the supplemental budget being presented was not treating the budget as a crisis.

Co-Chair Hoffman continued, and shared concerns that there was an over \$60 million request at a time when the state was in the last stages of using its budget reserves. He knew the Senate had passed PFD reform, but did not know what would happen with other revenue measures. He thought the state needed to look at additional ways to address its fiscal issues. He emphasized the need for tighter control of spending, but thought it was not the prevailing position of the House or the administration. He emphasized that the state could not continue to have a status quo budget. He knew that the state needed to continue to provide the services that Alaskans had enjoyed, but did not know if the financial means were available to fund the same level of services.

Co-Chair Hoffman discussed the operating budget and the 5/4/3 plan, which seemed to be extreme at first glance and included a reduction of \$300 million. He mentioned looking at overall reductions on a percentage basis, and referenced the previous year's cut to the municipal assistance program that was 50 cents on the dollar. He suggested that it was possible to come up with reductions of 5 cents on a dollar. He thought great strides had been made with reductions, but

thought further cuts were needed. He reiterated that the budget being presented was a status quo budget, and the state needed to look at things differently.

10:32:56 AM

Senator Micciche pointed out that DHSS was one of the four categories of greatest state expenditures, and asked if the administration had a team charged to evaluate the increase in healthcare costs. He thought the legislature was accepting the increases, without aggressively planning for a reversal. He asked Ms. Pitney to explain the administration's priority in addressing the healthcare increase issue.

Ms. Pitney discussed increment requests that were health cost related. She thought that the state must address healthcare costs. She informed that the administration had several teams addressing the issue; including the Division of Insurance, which was working on the private market area. She had just returned from a relevant meeting in Washington D.C. She expected federal relief related to a private market subsidy of \$55 million. Department of Administration Commissioner Sheldon Fisher was working on the matter with his team. The area of employee and retiree healthcare negotiations was being addressed.

Ms. Pitney continued to address Senator Micciche's question. She discussed the Healthcare Authority feasibility study, and pondered buying power and the efficacy of a more combined risk pool. She reported tremendous work in the area of Medicaid, and thought there had been 17 different initiatives addressing healthcare costs and containment. She added that there were school district healthcare costs, local government healthcare costs, and private employer healthcare costs. She thought the only way the state could keep the costs of state government at bay was through significant healthcare reform. She relayed that Commissioner Davidson; Commissioner Fisher; and Department of Commerce, Community, and Economic Development Commissioner Chris Hladick; and herself were working together to address the issue at large. The group wanted to view healthcare in totality rather than separated in disparate subjects such as Medicaid, private insurance, and school district insurance.

10:38:10 AM

Senator Micciche referenced the DOC request for \$34 million of UGF, which was 75 percent related to healthcare costs. He referred to the possibility of a white paper summarizing the list of efforts happening concurrently. He was in support of a spending limit. He thought if the state did not get control of the healthcare costs it would be challenging in the future.

Senator von Imhof asked why the state should be responsible for absorbing the lion's share of healthcare cost increases each year.

Ms. Pitney was not sure.

Senator von Imhof asked about stakeholders in the healthcare industry in the state, and thought it seemed as if the state seemed to be absorbing the majority of healthcare cost increases for teachers and public employees.

Ms. Pitney stated that there was more of the cost being passed to employees in the current year, as well as a forthcoming increase the subsequent year. She pondered to what degree it would be possible to pass on the costs of the premium, including to the provider community.

Senator Olson referred to comments by Senator Micciche and thought the legislature seemed to have a resistance to increased revenues. He wondered how different the administration's requests would be if there was an income tax or similar revenue measure in place.

Ms. Pitney stated that the administration was very committed to reducing costs and cost containment. She considered that the revenue strategies put forward by the administration just filled the fiscal gap to meet the current level of budget. She thought there needed to be a plan to address the lack of capital spending in the state. She recalled that the governor's proposed budget reduced agencies by \$127 million, with a net \$60 million counting fund source changes. The changes were offset by increase in oil and gas tax credits, the minimum capital budget requirements, and paying the full community debt reimbursement amount.

Ms. Pitney continued that the administration was committed to additional reductions, which were needed just to stay even in any given year. Additionally, the administration was committed to filling the \$3 billion structural deficit with revenue.

[10:43:38 AM](#)

Senator Olson discussed cost containment, and thought there were detrimental effects associated with cuts to programs like Head Start, and public safety. He mentioned problems in his district associated with diminished funding airports and police response time. He mentioned community revenue sharing, which was important to small villages. He wanted to ensure that such items were not cut too deeply so as to impact necessary services.

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

SB 43 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

[10:45:49 AM](#)

The meeting was adjourned at 10:45 a.m.