

SENATE FINANCE COMMITTEE
March 15, 2018
9:00 a.m.

9:00:08 AM

CALL TO ORDER

Co-Chair Hoffman called the Senate Finance Committee meeting to order at 9:00 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Anna MacKinnon, Co-Chair
Senator Click Bishop, Vice-Chair
Senator Peter Micciche
Senator Gary Stevens
Senator Natasha von Imhof

MEMBERS ABSENT

Senator Donny Olson

ALSO PRESENT

Pete Ecklund, Staff, Senator Lyman Hoffman; Laura Cramer, Staff, Senator Anna MacKinnon; Michelle Hale, Self, Juneau.

SUMMARY

SB 196 APPROPRIATION LIMIT

SB 196 was HEARD and HELD in committee for further consideration.

CSHB 321 APPROP:SUPP OPS;CAPITAL;FUNDS;AMENDING

CSHB 321(FIN)am was REPORTED out of committee with a "do pass" recommendation.

Co-Chair Hoffman discussed housekeeping.

#hb321

CS FOR HOUSE BILL NO. 321(FIN) am

"An Act making supplemental appropriations, capital appropriations, and other appropriations; making appropriations to capitalize funds; amending appropriations; and providing for an effective date."

[9:00:53 AM](#)

Co-Chair Hoffman noted that the committee had heard the companion bill to HB 321 and that the version before the committee had been amended in the House.

PETE ECKLUND, STAFF, SENATOR LYMAN HOFFMAN, relayed that there were 2 changes in the current House bill that differed from the Senate version previously heard in committee. He said that a reduction of \$2.5 million had been made in the allocation for Population Management within the Department of Corrections, leaving \$7.947 million. He related that an additional allocation of \$45 million for Healthcare Medicaid Services had been made to the Department of Health and Social Services. He noted that without the additional funds the program would have run out of fund in mid-April 2018, the allocation would fund Medicaid Services until the end of May 2018. He relayed that the last change was the change in the effective date from April 16, 2018 to March 16, 2018. He stated that the total, all funds dollar amount in the bill was \$110,239.0. He furthered that this reflected \$91.9 million undesignated general funds; \$5.1 million designated general funds; \$13.1 million in other state funds.

[9:03:28 AM](#)

Co-Chair Hoffman OPENED public testimony.

Co-Chair Hoffman CLOSED public testimony.

Co-Chair MacKinnon MOVED to report CSHB 321(FIN)am out of Committee with individual recommendations.

Co-Chair Hoffman OBJECTED for discussion.

Co-Chair MacKinnon asked about Community Revenue Assistance and wondered about the total fund balance would be after the supplemental was passed.

[9:05:13 AM](#)

AT EASE

[9:07:02 AM](#)

RECONVENED

Senator Micciche recapped that the bill before the committee was a fast-track supplemental, from which things were removed that the committee did not think were necessary. He said that some of the costs for Medicaid that the committee agreed were important, would be covered in the bill.

Co-Chair Hoffman WITHDREW his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Stevens, Von Imhof, Bishop, Micciche, MacKinnon, Hoffman

OPPOSED:

The MOTION PASSED (6/0).

CSHB 321(FIN)am was REPORTED out of committee with a "do pass" recommendation.

Co-Chair Hoffman handed the gavel to Co-Chair MacKinnon.

[9:08:26 AM](#)

AT EASE

[9:11:03 AM](#)

RECONVENED

#sb196

SENATE BILL NO. 196

"An Act relating to an appropriation limit; and providing for an effective date."

[9:11:03 AM](#)

Co-Chair MacKinnon invited Senator Micciche and Senator von Imhof to present SB 196.

Senator Micciche shared a quote by Thomas Tusser related to fools quickly being separated from their money. He read from a Sponsor Statement:

The State of Alaska relies on a single commodity to fund more than 85% of our government services. Today, with declining production and lower prices, Alaska continues to face a significant budget deficit. The Legislature has cut the operating and capital budgets by over \$3 billion in the last four fiscal years but has continued to draw from our savings accounts to fill the gap between revenue and expenditures.

Senate Bill 196 sets a \$4.1 billion statutory limit on how much the legislature can appropriate every year with regard to agency operating budget expenses. The limit would be adjusted annually for inflation. The appropriation limit does not apply to appropriations for the payment of permanent fund dividends, capital projects, state debt obligations, and receipt supported services such as receipts of the Alaska Marine Highway System.

Alaska must control its spending in order to refill our savings accounts and sustain the programs Alaskans rely on in their everyday lives. Senate Bill 196 is the needed framework to help guide the Governor and the Legislature through the budget making process.

Now is the time to pass an effective statutory appropriation limit.

Senator Micciche pointed to the document, "SB 196 Appropriation Limit vs. Appropriations -" (copy on file). He explained that the blue line represented the deflation of today's spend back, while the green line inflated spending, using Anchorage CPI, from FY 1999 spending levels. He declared that if the bill had been in place in the past the state would have \$15 billion in savings and be in a better financial position.

[9:14:56 AM](#)

Senator von Imhof said that one of the questions that the bill raised was, "What is the best way to calculate moving forward, inflation or population?" She said that other states sometimes combined the two, while adding a broad-based tax for their spending cap. She said that Alaska had a stabilized population and the CPI was relatively stable. She said that the CPI, extrapolated to 2030, reflected a

predictably growing and stable spending cap. She felt that the cap would allow for people to budget with confidence.

Senator Micciche added that the key reason for a spending cap was to keep the state from creating spending habits at the height of revenue. He believed that the bill would preserve savings for the long term.

[9:17:18 AM](#)

Co-Chair Hoffman queried why the sponsor believed that the proposal would work.

Senator Micciche believed that the spending limit in the State Constitution was too lenient and the proposal, had it been introduced in the past, would have meant there would have been money in savings today.

Co-Chair Hoffman believed it was necessary to keep expenditures under control. He referenced the constitutional limit of a 120-day session, and the statutory change to a 90-day session; which he thought was not working. He wondered why the proposal would work when there was an existing constitutional limit.

Senator von Imhof opined that the current limit had a growth rate that was connected to 100 percent change of population, plus 100 percent change of CPI, which did not match actual state revenues. She said that recalculating using only 100 percent CPI change worked.

[9:20:21 AM](#)

Senator Micciche addressed the question as to why the legislature would not ignore the statutory change. He did not support the level that was suggested earlier. He thought much of the spending was due to demands of communities. He thought a spending limit would allow members to bring a framework to constituents.

Vice-Chair Bishop referenced the graph and asked if it was strictly operating expenses across agencies and did not include capital expenditures.

Senator Micciche answered in the affirmative.

Co-Chair MacKinnon commented that the bill was sponsored by the committee and noted that the Senate had previously passed a spending limit inside other legislation. Since other legislation was currently stalled, she thought that the public deserved a fair vetting of a spending limit and how spending limits would work or not work.

[9:23:03 AM](#)

Senator Micciche addressed the Sectional Analysis (copy on file):

*Section 1: Removes the reference to the current statutory appropriation limit

*Section 2: Statutory Appropriation limit:

- Unrestricted General Fund appropriations may not exceed \$4.1 billion
- Adjusts for inflation using known inflation data
- Inflation adjustment is based on the Consumer Price Index for Anchorage prepared by the United States Bureau of Labor Statistics

Appropriation Limit excludes appropriations:

- To the Alaska Permanent Fund;
- For Permanent Fund Dividend payments;
- For payment of Debt obligations of the state (e.g. - General Obligation Bonds and Certificates of Participation); and
- Capital projects

Defines:

- Capital project;
- Program Receipts; and
- Unrestricted general fund

*Section 3: Repeals current statutory appropriation limit language

*Section 4: Effective date of July 1, 2018

Co-Chair MacKinnon referenced the exceptions that were addressed in the Sectional Analysis. She asked Senator von Imhof to explain why the items had been excluded.

Senator von Imhof stated that inside SB 26, which was a Percent of Market Value (POMV) bill, the dividend was addressed by taking a structured draw on the permanent fund earnings, separate from the spending cap. She said that there was agency spending and then there was the dividend, which was addressed in a different bill. She stressed that the bill addressed agency spending only.

Co-Chair MacKinnon asked Senator Micciche whether debt service was not included in the bill because it would need to be approved by the public and was beyond the reach of the legislature.

Senator Micciche relayed that the bill was a statutory guideline for areas that were most difficult to control. He reiterated that the bill was statutory language for operating budget discipline. He said that excluded from the bill was the public's ability to demand a larger Capital Budget through general obligation bonds.

[9:26:48 AM](#)

Co-Chair MacKinnon asked whether Public Employees' Retirement System (PERS) and Teacher's Retirement System (TRS) were debts of the state.

Senator Micciche replied in the affirmative.

Co-Chair MacKinnon understood that tax credits were a debt to the state.

Senator Micciche responded that under the bill, tax credits were a debt of the state.

Co-Chair MacKinnon understood that the tax credits were a debt of the state by both legislative finance and the administration.

Senator Micciche agreed.

Vice-Chair Bishop asked about Section 3 of the bill, which pertained to the governor's ability to execute disaster funds.

Senator Micciche felt that the governor already had the authority for emergency spending, which was why it had been

left outside of the appropriation limit. He said that the authority would come in the form of a supplemental.

[9:28:24 AM](#)

AT EASE

[9:30:06 AM](#)

RECONVENED

LAURA CRAMER, STAFF, SENATOR ANNA MACKINNON, clarified that the repeal section of the bill repealed the current statutory appropriation limit. She relayed that an exemption of emergency or disaster declaration could easily be incorporated into the bill.

Co-Chair MacKinnon stated that the language would be incorporated by amendment. She noted that amendments for the bill were due by 5 PM.

Ms. Cramer pointed out that there would be clarification of the effective date of the bill, as the intent was to apply the bill to the FY 20 budget proposal.

Senator Micciche appreciated the clarification on the emergency spending.

Ms. Cramer clarified that a supplemental budget could be subject to the appropriation limit; if there were capital items in the supplemental, they would not be subject to the limit.

Co-Chair MacKinnon lamented the growth in governmental agency spending. She said that the bill was intended to hold the administration accountable in general fund spending a to limit growth.

Co-Chair MacKinnon OPENED public testimony.

[9:33:50 AM](#)

MICHELLE HALE, SELF, JUNEAU, testified in opposition to the bill. She related that she was a third generation Alaskan and spent her whole life in the state. She pondered the meaning of defining the state; what sets Alaska apart. She offered that we were a very large state with a huge land area and a small population. She asserted that the needs across the state were not bet in the same was as needs in

other areas of the country. She had observed that there had been a descent into a hatred of government that was not in accordance with the functions of government. She stressed that the savings account could not be filled by only making cuts - new revenues needed to be brought in to the state. She argued that spending caps and arbitrary cuts were blind and blunt tools. She felt that when the legislature forced agencies to cut an additional \$100 million from their budgets it was unloading its responsibility to the state and the people of the State of Alaska. She stated that there was not basis for the cap. She said the legislature made the laws and the agencies implemented the laws; if the legislature did not want agencies to do something specifically - it needed to tell agencies those specifics. She felt that the state was immature and failed to take care of its people while limiting spending when necessary. She did not think that the legislature was doing a good job handling the current fiscal crisis.

[9:38:30 AM](#)

Co-Chair MacKinnon CLOSED public testimony.

Co-Chair MacKinnon discussed housekeeping.

Co-Chair MacKinnon commented that there were many perspectives and frustrations surrounding the current fiscal climate in the state. She said that certain advocacy groups heavily affected the operations of the state and sometimes made it impossible, through statutory changes, to reduce the budget. She believed that the appropriation limit provided a balance between supporting agencies and controlling spending. She understood that inflation was an erosion to the baseline of the budget and noted that the proposal tried to inflation proof budget going forward, while capping spending.

SB 196 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

[9:42:43 AM](#)

The meeting was adjourned at 9:42 a.m.

