

ALASKA STATE LEGISLATURE
SENATE STATE AFFAIRS STANDING COMMITTEE

February 13, 2018

3:32 p.m.

MEMBERS PRESENT

Senator Kevin Meyer, Chair
Senator David Wilson
Senator Cathy Giessel
Senator John Coghill
Senator Dennis Egan

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SENATE BILL NO. 141

"An Act relating to a biennial budget; relating to the salary and per diem of members of the legislature and the governor; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 141

SHORT TITLE: BIENNIAL BUDGET

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/16/18	(S)	READ THE FIRST TIME - REFERRALS
01/16/18	(S)	STA, FIN
02/13/18	(S)	STA AT 3:30 PM BUTROVICH 205

WITNESS REGISTER

PAT PITTNEY, Director
Office of Management and Budget
Office of the Governor
Juneau, Alaska

POSITION STATEMENT: Provided an overview of SB 141.

GUY BELL, Policy Specialist

Office of Management and Budget
Office of the Governor
Juneau, Alaska

POSITION STATEMENT: Addressed questions regarding SB 141.

ACTION NARRATIVE

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CHAIR KEVIN MEYER called the Senate State Affairs Standing Committee meeting to order at 3:32 p.m. Present at the call to order were Senators Wilson, Giessel, Coghill, Egan, and Chair Meyer.

SB 141-BIENNIAL BUDGET

[3:33:00 PM](#)

CHAIR MEYER announced the consideration of SB 141.

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PAT PITTNEY, Director, Office of Management and Budget, Office of the Governor, Juneau, Alaska, explained the impetus of SB 141 as follows:

After watching the last several years of the turmoil of the late budget and also after examining some solution to that, we came up with the impetus of the bill and we also wanted to assure that we don't go through the exercises that we've gone through for the last three years and the year-end; it's very disruptive and creates uncertainty not just for state employees, but for the fishing industry and the processors and tourists trying to get on the ferry, all of that created more uncertainty than are already economic uncertainty.

She noted that additional testifiers were available for the committee to question. She added that Deputy Director Fred Parady has been invited to testify as well. She disclosed that Mr. Parady has a unique experience from his time in Wyoming where he served as Speaker of the House in the Wyoming Legislature, a state which uses the biennial process.

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CHAIR MEYER asked Ms. Pittney which other states have gone to a biennial budgeting process. He said he would tend to agree that biennial budgeting may be more efficient, but Alaska is tied to

a volatile, single commodity source for its revenue that requires annual supplemental budgets. He opined that a biennial budget in Alaska will lead to huge supplemental budgets. He asked Ms. Pittney if Alaska's unique revenue situation was taken into consideration.

MS. PITTNEY replied yes. She emphasized that the administration's plan includes a more stable revenue picture, a scenario where a biennial budget runs best under. She agreed that Alaska's revenue is the most volatile of any state by a "magnitude of seven." She pointed out that even in the state's fiscal strife, 80 percent of the operating budget does not move year-to-year and in some cases 90 to 95 percent does not move in a given year. She emphasized that certainty can be created for 90 percent of the budget items in the Legislature's first year with a supplemental adjustment made in the second session. She set forth that a biennial approach separates the budget discussion and allows more time for policy discussion, an advantage that should not be undervalued.

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GUY BELL, Policy Specialist, Office of Management and Budget, Office of the Governor, Juneau, Alaska, explained the governor's intent based on his remarks from the 2018 State of the State Address as follows:

I am filing legislation that would move us to a more efficient, effective biennial budget process.

It also would mandate that if the governor does not produce the next fiscal year's budget by the statutory deadline of December 15, the governor's pay stops. If the Legislature doesn't pass a budget by the 90th day of the legislative session, their pay stops.

He summarized the governor's intent into two components: the first is to shift Alaska to a biennial budget process and the second is to set budget completion deadlines with set financial consequences if the deadlines are not met. He disclosed that SB 141 has 35 sections, but only 5 are substantive in nature and his presentation only focuses on those sections.

He addressed slide 3: Biennial Budget Proposal, and referenced as follows:

- Section 17: legislator responsibilities.
- Section 18: governor responsibilities.

- Two single-year appropriations measures adopted the first session of each legislature would apply to each of the operating, mental health and capital budgets.
- Second legislative session would be focused on non-budget matters but will include an interim appropriation bill or bills authorizing unanticipated operating and capital expenditures for the second year of the biennium.

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SENATOR WILSON referenced a letter submitted by Ronald Snell from the National Conference of State Legislatures (NCSL) regarding a biennial budget, specifically the supplemental appropriations process. He pointed out that the NCSL letter explained that forecasting is likely to be more accurate in an annual budget and possibly lessen the need for supplemental appropriations and special legislative sessions. He noted that the Legislature's recent supplemental appropriation was \$200 million and asked if the administration anticipated the supplemental to be higher or lower.

MS. PITTNEY replied that there are many factors that impact a supplemental appropriation. She noted during the current administration's first year that a buyout for the TransCanada partnership occurred in addition to a large, special session and supplemental appropriation in the same component. She conceded that there will be different reasons for supplemental appropriations, some due to a revenue issue; however, the state has managed its finances, even in a deficit situation, by using its savings to cover its deficit. She explained that even though Alaska is a revenue volatile state, forecasts are already anticipated to be wrong. She opined that neither an annual or biennial budget will impact revenue volatility or the need for supplemental appropriations. She summarized that supplemental appropriations could be more than or less than \$200 million.

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MR. BELL addressed slide 4: Biennial Budget: The Benefits, and referenced as follows:

- Longer planning horizon.
- Greater funding predictability for the general public, state and local service providers—school districts; marine highways; fish and game, etc.
- Shift allocation of state agency energy from budget development and presentation to improvements to program efficiency and effectiveness to better serve the public.

- For the Legislature, it provides more time for oversight activities and policy priorities.

MR. BELL disclosed that the noted benefits for a biennial budget were paraphrased from a letter submitted by Timothy Keen, director for the Ohio Office of Budget and Management.

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He addressed slide 5: States Using Biennial Budgeting, and detailed as follows:

- 21 of 50 states use biennial budgeting:
 - Connecticut,
 - Hawaii,
 - Indiana,
 - Kentucky,
 - Maine,
 - Minnesota,
 - Montana,
 - Nebraska,
 - Nevada
 - New Hampshire,
 - North Carolina,
 - North Dakota
 - Ohio,
 - Oregon,
 - Texas,
 - Virginia,
 - Washington,
 - Wisconsin,
 - Wyoming,
 - (Mixed): Arizona-16 annual budget units,
 - (Mixed): Kansas-biennial for all state agencies.

He pointed out that the states that use the biennial budgeting process represent small and large states, "red and blue states," resource and non-resource states, and a wide geographic area as well.

CHAIR MEYER pointed out that most states use annual budgeting.

MR. BELL answered correct.

He addressed setting deadlines in slides 6 and 7: "Consequences for Missing Budget Deadlines," and "Appropriations Deadlines Proposal." He noted that sections 6 and 7 pertain to the Legislature and section 20 the governor. He detailed as follows:

- Require the Legislature to pass a budget by the deadline set by the Alaska public in 2006, the 90th day of a session.
- The consequence for not doing so: Beginning on day 91 of the legislative session, legislators would forfeit per diem and their salaries would be withheld until a budget is passed.
- The governor's salary and per diem would be withheld for as long as he or she is late in submitting the budget bill to the legislature and the public after the December 15 statutory deadline.

SENATOR WILSON addressed the governor's December 15 deadline and asked if the governor's office would be amenable to moving the deadline up for a two-year budget because the Legislature will need more time, especially with legislators that are less familiar with the budget process. He pointed out that the biennial budget means that House members will be doing the budget once and Senate members twice.

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MS. PITTNEY explained that moving the deadline forward would be difficult for the first year of the biennial budget but moving the date forward for the second year is realistic.

SENATOR WILSON called attention to the deadline consequences and opined that the budget process has many moving parts where the two houses and the governor's office are dependent on one another. He inquired if deadline consequences could include the administration's commissioners and deputy commissioners taking a loss of pay if the governor did not present a budget on time.

MR. BELL replied that could be considered by the Legislature, but the Executive Budget Act makes it the governor's responsibility to submit the budget on time.

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CHAIR MEYER commented as follows about the budget process inherently not being on a level playing field:

It does not appear to me that it is a "level playing field" because you all work for the governor, so if he says, "I want the budget by December 1," you are going to do it; unfortunately, we can say that to the House, but they don't have to oblige us and they typically don't. The dilemma is that we can do the budget in 45

days, we've done it in 45 days before, but getting the other body to agree and sometimes even the governor intervenes and delays it. Another consideration is if the governor intervenes and says, "I don't like that budget, don't pass it," then why should we suffer the consequences.

MR. BELL replied that the next two slides address what Chair Meyer commented about; however, in terms of what would happen if the governor vetoed the budget, then that is the governor's choice. He explained that if the budget has passed both bodies, the Legislature has done its work and, "The clock stops ticking."

SENATOR COGHILL said he will look at the constitutional issue regarding SB 141. He recalled that there have been times where there was a bad working relationship between the governor and the Legislature where the governor did not entertain amendments to the budget and that made it difficult for department heads to get information to the Legislature. He said the governor potentially could "slow roll" the Legislature to not be able to pass a budget without the working pieces that ultimately leads to the Legislature passing a budget for its own self-interest that does not serve Alaskans.

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MS. PITTNEY explained that SB 141 assumes a good faith discipline.

SENATOR COGHILL asserted that the balance-of-power structure needs to be addressed. He emphasized that he does not disrespect the idea of a biennial budget but questioned the use of penalties to achieve the goal.

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MR. BELL addressed slide 8: Recent Alaska History Budget Bills, and referenced as follows:

- 2017:
 - Deadline (90th Day): 4/16/2017;
 - Operating Budget Passage Date: 6/22/2017;
 - Difference: 67;
 - Capital Budget Passage Date: 7/27/2017;
 - Difference: 103.
- 2016:
 - Deadline (90th Day): 4/17/2016;
 - Operating Budget Passage Date: 5/31/2016;

- o Difference: 44;
 - o Capital Budget Passage Date: 5/31/2016;
 - o Difference: 44.
- 2015:
 - o Deadline (90th Day): 4/19/2015;
 - o Operating Budget Passage Date: 4/27/2015;
 - o Difference: 8;
 - o Capital Budget Passage Date: 4/27/2015;
 - o Difference: 8.
- 2014:
 - o Deadline (90th Day): 4/20/2014;
 - o Operating Budget Passage Date: 4/20/2014;
 - o Difference: 0;
 - o Capital Budget Passage Date: 4/25/2014;
 - o Difference: 5.
- 2013:
 - o Deadline (90th Day): 4/14/2013;
 - o Operating Budget Passage Date: 4/14/2013;
 - o Difference: 0;
 - o Capital Budget Passage Date: 4/14/2013;
 - o Difference: 0.
- 2012:
 - o Deadline (90th Day): 4/15/2012;
 - o Operating Budget Passage Date: 4/15/2012;
 - o Difference: 0;
 - o Capital Budget Passage Date: 4/15/2012;
 - o Difference: 0.
- 2011:
 - o Deadline (90th Day): 4/17/2011;
 - o Operating Budget Passage Date: 5/6/2011;
 - o Difference: 19;
 - o Capital Budget Passage Date: 5/14/2011;
 - o Difference: 27.

SENATOR WILSON noted that slide 8 supports Senator Coghill's previous statement that the past 2 years were impacted by the varied make up of the different legislative bodies.

MR. BELL opined that the incentives and consequences in SB 141 may drive consensus on the budget.

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SENATOR WILSON noted that slide 9 referenced California's budget proposition and asked him to verify that California is not a biennial state.

MR. BELL answered correct.

SENATOR WILSON pointed out that the proposition in California was strictly consequence driven whereas SB 141 addresses both a biennial budget and consequences. He asked why the administration did not consider focusing on one concept rather than two. He remarked that he did not know if either a biennial budget or consequences for not passing a budget is more important.

MS. PITTNEY replied that the concepts address two separate issues and both concepts are important.

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MR. BELL addressed slide 9: California Example, and referenced as follows:

- State of California Proposition 25, passed in 2010:
 - Constitutional amendment requiring its legislature to pass a budget on time or forfeit pay for each day the budget is delayed.
 - 1980 to 2010: 25 budgets passed late.
 - 2008: the budget was 100 days late.
 - 2011: the first year under Proposition 25, after legislator pay was cut off the budget was passed 12 days late.
 - Since 2012 the California legislature has passed the budget on time each year.

He revealed that only California has a constitutional amendment that requires its legislature to pass a budget by a deadline. He opined that Proposition 25 has been effective in California.

CHAIR MEYER asked if the proposed legislation has ever been considered on the federal level.

MR. BELL disclosed that U.S. Congressman Paul Ryan is a strong advocate of biennial budgeting. He said there have been some initiatives at the federal level, "But nothing has gotten a lot of traction."

CHAIR MEYER asked if Congressman Ryan supports the consequences of cutting pay and per diem.

MR. BELL replied that he would have to find out.

SENATOR COGHILL noted that the president brought up biennial budgeting, but the concept was probably not well received.

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CHAIR MEYER opened and closed public testimony.

SENATOR COGHILL suggested that SB 141 should continue to be reviewed by the committee. He said there are some legitimate questions that must be answered by the committee regarding the constitution and state statutes. He pointed out that there are principles in the constitution that need to be watched regarding separation and balance of powers. He said the biennial budget would change the dynamics but questioned whether the process would change outcomes.

CHAIR MEYER pointed out that in 1940, 44 states had a biennial budget and now 21 states have a biennial budget.

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SENATOR GIESSEL stated that she shared Senator Coghill's question regarding the separation of powers. She remarked that the legislation sounds like it gives the executive branch "dictatorial powers" and control over the legislative branch. She emphasized that the Legislature is "the people's body."

CHAIR MEYER said he shared the same concerns that Senator Giessel has. He remarked that getting the budget done by December 15 is much easier for the governor. He agreed with Senator Wilson to move the budget completion date up to provide more time for the Legislature to work on the budget before session started. He pointed out that the budget director works for the governor and that person will make sure the budget is done by December 15. He reiterated that the finance chairman in the House does not work for the Senate and completing the budget is out of the Senate's control. He noted that Senator Giessel mentioned that the Legislature is "the people's body" and opined that some people maybe do not want the budget as proposed and want the Legislature to make changes. He said he does not think anyone in the Legislature wants to be in session longer than 90 days to collect a salary or per diem and questioned whether the proposed consequences would provide an incentive. He asserted that legislators are at the capitol to do their jobs.

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SENATOR COGHILL remarked that he is not unsympathetic with the continual budget cycle and is open to the discussion. He reiterated that he questioned what changes would occur in a

biennial budget because modifications would have to occur every year. He said he doubted that the Legislature would impose penalties upon itself if deadlines were not met. He opined that a budget deadline should be 120 days rather than 90 days because 120 days is a hard deadline. He opined that the governor should face consequences for calling back the Legislature when there is dissatisfaction with a policy. He reiterated that the balance of power as well as authority must be addressed.

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CHAIR MEYER said Senator Coghill brought up good points. He pointed out that sometimes a policy question gets leveraged against the budget and delays the budget process. He concurred that a number of people are impacted by uncertainty of the budget process and that uncertainly as to whether people will have a job weighs on the Legislature as well. He said fortunately the budget has been done before the new fiscal year starts, but the Legislature has come back the last several years for special sessions for non-budgetary issues where penalties should be considered as well.

He thanked the administration for bringing the biennial budget concept forward. He noted that the concept has been brought up in the past. He opined that looking at the biennial concept "minus other items" should be considered.

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CHAIR MEYER [held SB 141 in committee.]

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There being no further business to come before the committee, Chair Meyer adjourned the Senate State Affairs Committee at 4:11 p.m.