

HOUSE FINANCE COMMITTEE  
February 21, 2019  
1:32 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:32 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair  
Representative Tammie Wilson, Co-Chair  
Representative Jennifer Johnston, Vice-Chair  
Representative Dan Ortiz, Vice-Chair  
Representative Ben Carpenter  
Representative Andy Josephson  
Representative Gary Knopp  
Representative Bart LeBon (via teleconference)  
Representative Kelly Merrick  
Representative Colleen Sullivan-Leonard  
Representative Cathy Tilton

MEMBERS ABSENT

None

ALSO PRESENT

Helen Phillips, Committee Assistant, House Finance Committee, Legislative Finance Division; Donna Arduin, Director, Office of Management and Budget; Lacey Sanders, Budget Director, Office of Management and Budget; Sana Efird, Administrative Services Director, Department of Health and Social Services, Office of Management and Budget; Mike Barnhill, Policy Director, Office of Management and Budget; Representative Steve Thompson.

PRESENT VIA TELECONFERENCE

Representative Bart LeBon

SUMMARY

HOUSE FINANCE COMMITTEE ORIENTATION

OVERVIEW: GOVERNOR'S AMENDED FY 20 BUDGET

Co-Chair Foster reviewed the meeting agenda.

^HOUSE FINANCE COMMITTEE ORIENTATION

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Co-Chair Wilson provided information about committee procedures. She highlighted that electronics including iPads and cellphones were allowed at the committee table for business purposes. She pointed out a hearing request procedure memorandum dated February 19, 2019 (copy on file) and a House Finance Committee rules memorandum (copy on file) in members' files.

Co-Chair Foster recognized Representative Steve Thompson in the audience. He asked members to review the documents in the packets.

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HELEN PHILLIPS, COMMITTEE ASSISTANT, HOUSE FINANCE COMMITTEE, LEGISLATIVE FINANCE DIVISION, introduced staff and provided information about support provided to the committee including hearing preparation, bill files, minutes, supplies, and other. She noted that all policy issues went through the co-chairs' offices. She addressed committee protocol regarding approaching the committee table. She asked members to speak directly into the microphones for recording purposes and noted the mute button on the microphones. She pointed to resources in the committee room including statutes, governor's detail books, and administrative codes. She relayed there were governor subcommittee books in the 5th floor copy room. She pointed out members' file drawers. She communicated that the use of the room would be coordinated through Co-Chair Foster's office.

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Co-Chair Foster reviewed the agenda for the meeting.

^OVERVIEW: GOVERNOR'S AMENDED FY 20 BUDGET

[1:39:43 PM](#)

DONNA ARDUIN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, provided a PowerPoint presentation titled "State of Alaska Office of Management and Budget: FY2020 Governor's Amended Budget" dated February 21, 2019 (copy on file). She reported the governor's budget had been compiled beginning with his core programs. For example, public safety was a priority of the governor's and was one of the only areas where additional money had been requested. She highlighted management of the state's natural resources as another high priority and noted reductions had not been made to those core programs. The proposed budget also focused on preserving maintenance of the state's transportation infrastructure as opposed to providing transportation services.

Co-Chair Foster noted the committee would hold questions until after the presentation.

Ms. Arduin appreciated holding questions during the overview portion of the presentation until later. She addressed slide 3 and relayed the budget had been structured on the governor's guiding principles starting with: expenditures could not exceed existing revenues. She reported that the budget was balanced. She pointed to the third bullet point showing the budget aimed to maintain and protect the state's reserves. She stated that the budget did not request a draw from the Constitutional Budget Reserve (CBR). She continued that the budget was built on core functions and did not take additional taxes from Alaskans or through Permanent Fund Dividends (PFD). Additionally, budget had to be sustainable, predictable, and affordable. She remarked on the necessity of getting the state's fiscal house in order, which the governor was determined to do at present instead of pushing the problem off into the future.

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Ms. Arduin moved to a historical lookback chart on slide 4. The blue line represented revenues over the past 10 years and the orange line represented expenditures. She drew attention to the left side of the chart and noted that normally the expectation was for revenues to exceed or equal expenditures as in FY 13; however, for many years [FY 14 through FY 19] expenditures had exceeded revenues.

Ms. Arduin moved to a chart on slide 5 and highlighted that the gulf between revenues and expenditures since FY 13 exceeded \$16 billion. She explained that consequently the state's reserves had been spent down. The bars reflected the state's budget reserves, which had been drained by about \$16 billion as revenues and expenditures had been mismatched. The governor's proposed budget would show a balanced budget for the first time since FY 13.

Ms. Arduin moved to a chart on slide 6 and detailed that the mismatch in revenues and expenditures had led to economic consequences. The line chart illustrated that the state's gross domestic product (GDP) had been exceeding the rest of the country but had dropped below the national GDP. She remarked that even as the nation had seen a recovery, Alaska's GDP had been dropping.

Ms. Arduin advanced to a bar chart on slide 7 and reported that since the state's budget had stopped being balanced, Alaska had started losing people to other states. The bar chart showed domestic migration from 2007 to 2016. She highlighted that the number of people who had left Alaska for other states exceeded the number of people coming to Alaska.

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Ms. Arduin turned to a line chart on slide 8 and relayed that employment numbers had continued to drop since the state stopped balancing its budget beginning in FY 13. She detailed that the state's employment numbers had dropped below the national rate and had continued to fall even while the country had recovered.

Ms. Arduin turned to slide 9 titled "Building the Budget: Defining the Problem." She reported that when the governor had submitted his required budget on December 15 [2018], his office had put out a budget showing an updated revenue schedule from the previous administration, a full PFD payment, and the expenditures proposed by the outgoing administration on November 30. When the amounts were added together, the Dunleavy Administration had identified the deficit as \$1.6 billion - a deficit the administration had resolved to fix.

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LACEY SANDERS, BUDGET DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, addressed slide 10 showing a high level fiscal summary prepared by OMB. The left portion of the table showed the FY 19 management plan, which included supplemental requests put forward to the legislature; therefore, numbers may differ slightly from the original fiscal summary. Revenues at the top encompassed General Fund revenues as well as fund withdrawals including the percent of market value (POMV) draw from the Permanent Fund Earnings Reserve Account (ERA), as well as a proposal to use \$172 million from the Statutory Budget Reserve (SBR) as a supplemental item in the operating budget for the Department of Health and Social Services (DHSS). The bottom of the table included appropriations reflecting agency operations and statewide operations such as debt service and retirement that had passed [the legislature] the previous session as well as supplementals proposed in the current year. She added capital, including supplementals were also included in the table.

Ms. Sanders reported that the total deficit for FY 19 was \$282,600,000. The deficit draw amount would currently come from the CBR. The right side of the table showed the governor's proposed amended budget for FY 20. The proposed budget resulted in a surplus of \$20.4 million. The slide included an overview of the entire budget. She noted the intent to focus primarily on operating budget items during the meeting.

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Ms. Sanders addressed two bar charts on slide 11 showing a statewide picture of the FY 20 operating budget. The left chart showed the total FY 19 management plan plus supplementals totaling \$10.3 billion when accounting for all funds. She detailed that the amount included \$2.8 million in federal funding, \$750 million in other funds (including corporate receipts or funding with federal or contractual restrictions), and \$6.7 million GF (UGF and DGF combined). She offered to provide a breakdown if members were interested.

Ms. Sanders moved to the right bar in the chart on the left showing a total proposed operating budget of \$7.9 billion including \$2.2 billion in federal funds, \$1.2 billion in other funds, and \$4.4 billion in GF. She addressed the

budget position comparison chart on the right. She noted an error in the number of permanent part-time positions shown in the FY 19 management plan bar and corrected that the number should read 1,871,000 [1,871] instead of \$2,871,000 [2,871]. She stressed that the number of part-time positions had not declined by 1,000. The total number of positions in the FY 19 management plan was 22,711 compared to 22,337 in the governor's FY 20 amended budget.

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Co-Chair Foster recognized Representative LeBon online.

Ms. Sanders moved to slide 12 showing a comparison between the FY 19 management plan and the governor's FY 20 amended budget by department (UGF and DGF). The bar chart provided a visualization of where the reductions were proposed in the agencies' budgets. She highlighted that the Department of Education and Early Development (DEED) and the Department of Health and Social Services (DHSS) had the majority of funding. She planned to highlight proposed reductions. She turned to slide 13 to provide a high level overview of proposed changes for several agencies.

Vice-Chair Johnston did not disagree that an unstable government tended to have unstable economies. She looked at slides 6 through 8 pertaining to GDP and absolute domestic migration and observed the changes were also a result of a severe drop in the price in oil. She remarked that the state had been a one-revenue state and postulated that the drop probably significantly impacted the numbers.

Ms. Sanders turned to slide 13 and addressed significant budget changes and legislative proposals. She began with the state's public protection agencies, starting with the Department of Corrections (DOC). She first item was related to a fiscal note for the crime bill repeal [SB 91 passed the legislature in 2016]. The department estimated that based on the governor's proposed legislation an additional \$37.6 million would be needed if adopted. She pointed out that the associated fiscal notes were not included in the operating appropriations bill and were attached to the crime legislation. She elaborated that if the crime legislation was adopted, the fiscal note would be incorporated into an appropriations bill.

Ms. Sanders continued that the DOC budget proposed transferring 500 inmates to an out-of-state facility with a savings of \$12.8 million GF. The transfer had been proposed in conjunction with the proposed closure of the sentenced wing of the Wildwood Correctional Center with a proposed savings of \$6 million GF. The Department of Law (DOL) had one significant item related to the proposed crime bill repeal with a fiscal note of \$1.1 million [GF]. She added that the increment was not included in the appropriations bill but was reflected as part of the governor's total package. The fiscal summary included a line pertaining to fiscal notes, which were accounted for in the total budget.

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Co-Chair Wilson referenced the proposed crime bill repeal and noted several other crime bills had passed. She asked for verification the bill did not propose to repeal all of SB 91.

Ms. Arduin answered that the information [on slide 13] was reflective of the governor's anti-crime legislation package and associated fiscal notes.

Co-Chair Wilson asked for verification that the numbers were not based on a repeal of SB 91, but on new legislation proposed by the governor.

Ms. Arduin replied in the affirmative.

Ms. Sanders reported that the Judiciary budget included a \$3.1 million increment with 15 new positions to reopen the courts on Friday afternoons. She highlighted two requests in the Department of Public Safety (DPS) budget for \$9 million in federal receipt authority relating to the Council on Domestic Violence and Sexual Assault (CDVSA) and the High Intensity Drug Trafficking Areas Program.

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Representative Josephson noted that slide 13 indicated that the sums were contingent on the repeal of SB 91. He asked what would change on the PowerPoint pertaining to the DOC and DOL budgets if the governor's bills SB 32 through 36 [35] were not passed [SB 32 through SB 35 were various crime bills proposed by the governor during 2019 legislative session].

Ms. Sanders answered that DOC would not receive the \$37 million in additional funding, it would continue moving forward to transfer 500 inmates out of state and closing the sentencing wing of the Wildwood Correctional Center. She elaborated that DOL would not receive additional funding (the funding was conditional on the passage of the bill).

Representative Carpenter referenced a net gain to the state of \$6 million resulting from the proposed closure of the [sentencing wing of] the Wildwood Correctional Center. He asked if any analysis had been done on how the change would impact the local economy.

Ms. Arduin replied the analysis done had been based on the fiscal situation and vacancies in the entire [correctional] system. She explained that having vacancies spread around the system was inefficient. In order to gain savings, it was necessary to close a building. She explained the sentenced wing of the Wildwood Correctional Center was an entire building that could be closed.

Co-Chair Wilson asked for detail on the addition of 15 positions to trial courts versus other positions where hours had been cut back to a regular work week.

Ms. Sanders responded there were two pieces to the request. First, the trial courts would need added support for opening back up on Friday afternoons. Second, additional pay had been required for the existing positions that had been working extra hours. She noted the court system could provide more details.

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Ms. Sanders turned to slide 14 and continued to address significant budget changes and legislative proposals for various departments. She began with the DEED budget and highlighted a \$270 million GF reduction to K-12 foundation formula funding. She detailed it was a reduction to the amount that would be allocated to school districts. The budget included a proposal to repeal \$30 million that had been appropriated the past session outside of the foundation formula. The budget would also repeal a \$19.5 million appropriation for the establishment of the Curriculum Fund with a FY 20 effective date.

Representative Josephson remarked that increments had forward funded education in May of the previous year. He asked if the proposed changes reflected a reappropriation.

Ms. Sanders answered that the proposal reflected a repeal of an appropriation - the funding had not yet left the treasury because of the FY 20 effective date.

Representative Josephson referenced litigation against the state in the past decade for not supporting public education as it should. He asked if OMB was concerned about potential litigation if the substantial cuts were made.

Ms. Arduin believed the decision in the past had been based on a directive by the governor not to fund something. Whereas, the proposed budget asked the legislature to appropriate the funds in the specified way. Therefore, she did not believe there would be the same legal issue.

Representative Josephson asked Ms. Arduin to expound on her answer.

Ms. Arduin replied that the governor's budget was a proposal for the legislature to pass in some form. She clarified that the administration was not directing anyone to fund or not fund anything, it was only making proposals to the legislature.

Vice-Chair Ortiz referenced Representative Carpenter's earlier question about DOC. He asked if an analysis had been done on the economic impact to communities on the loss of teachers and other.

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Ms. Arduin answered that the governor's office was in the middle of conducting an economic impact statewide for the governor's proposals. She relayed OMB's chief economist would present the analysis to the committee when completed.

Representative Knopp wondered how the proposed reductions of \$270 million to K-12 and \$154 million to the University had been selected. He asked if the numbers were arbitrary.

Ms. Arduin answered that the analysis for the University was based on the per student expenditure. In some cases,

the amount spent per student was \$17,000, while the national average was slightly over \$7,000 per student. The proposed budget was based on about \$11,000 per student. Regarding K-12 education formula, OMB had looked at the formula a number of ways and had determined ways they thought perhaps districts could save money and how much. She noted that the governor's office did not direct the districts.

Representative Knopp remarked that the committee had not received a number per student including the BSA, foundation formula, and area differential. He was concerned about the education numbers and noted the broad difference between districts throughout the state. His district had 45 schools, some only accessible by plane, boat, or four-wheelers. He asked if the administration's decision making process had considered the issue or had been based on the national per student average.

Ms. Arduin replied there was an equivalent BSA number - the reduction was a little over \$1,000 per student. She noted that the DEED administrative services director could provide a breakout showing how the BSA equivalent would be distributed by district.

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Co-Chair Wilson asked if the \$1,000 less took into consideration smaller rural schools with high costs versus larger schools in Fairbanks or Anchorage.

Ms. Arduin answered the governor was proposing a straight reduction to the foundation formula, but not a change in the formula.

Co-Chair Wilson stated that there was not really a straight amount that could be taken out because there were numerous multipliers in the BSA. She explained that taking \$1,000 [per student] out of Fairbanks or Anchorage was not good but more factors went into the \$1,000 for smaller communities, which had more costs. She asked if OMB had looked at other states that may have similar obstacles to Alaska when it had decided on the [reduction] of \$1,000 per student.

Ms. Arduin replied that OMB had looked at other states and Alaska still exceeded other states significantly in costs

and travel. She detailed that OMB was concerned by the low percentage of funding spent on instruction compared to other states. She elaborated that about 54 percent of the funding was spent on instruction. When OMB had looked at ways districts could reduce expenditures, reductions were in the administrative cost areas.

Co-Chair Wilson remarked that her following question may be more appropriate for the budget subcommittee when the commissioner may be present. She asked if anyone was looking at taking regulation and things that the legislature had put in the way that cost districts more money. She wondered if the governor was considering making changes to any of the items to release money to go towards instruction.

Ms. Arduin replied the governor's office would welcome the conversations. The DEED commissioner and administrative services director were continuing to have the conversations with myriad stakeholders. She referenced her recent testimony to the Senate [Finance Committee] that the administration saw the discussion as the beginning of a process to get the state's fiscal house in order. There were numerous things the administration believed could be done to reform the state's education system.

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Vice-Chair Ortiz spoke to the proposed \$1,000 per student reduction. He asked for the total BSA amount prior to the proposed reductions.

Ms. Arduin replied the current BSA was about \$5,900 per student. The proposal would reduce the number to \$4,880.

Vice-Chair Ortiz asked if the cut included the proposed \$30 million reduction [shown on slide 14].

Ms. Sanders replied that the \$30 million outside the foundation formula was a separate reduction.

Vice-Chair Ortiz asked for verification that the \$1,000 per student reduction did not include the additional \$30 million reduction.

Ms. Sanders answered in the affirmative.

Vice-Chair Ortiz asked if OMB and the administration's educational experts had considered how the reduction would potentially impact students when it had devised the number.

Ms. Arduin stated that the conversation was straying a bit from the budget. She relayed that looking at the budget and the metrics compared to other states, the administration was very concerned about the outcomes seen in Alaska. She added that the amount of money the state had been spending had not improved the situation.

Vice-Chair Ortiz asked if the assessment included the concern and OMB thought the educational outcomes would be improved by the reductions.

Ms. Arduin replied in the negative. She remarked that OMB was responsible for developing a budget and was not the policy team. With regard to the metrics OMB reviewed, the outcomes in Alaska were not favorable compared to other states or where the governor's office believed the state should be.

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Ms. Sanders continued with slide 14 and reported that the University of Alaska's budget reflected a reduction of \$155 million and a fund source change of equal amount to DGF. She moved to the DHSS budget and relayed the governor would propose legislation along with the reduction of \$271 million for Medicaid cost containment measures and reform. There would be legislation proposing to repeal the Senior Benefits Program - the associated reduction of \$19.9 million was reflected in the governor's proposed budget. She highlighted a \$14.7 million reduction to Adult Public Assistance and a \$16.9 million reduction to Temporary Assistance for Needy Families (TANF) maintenance of effort.

Co-Chair Foster referenced the proposed reduction to the University and asked what the vision was in terms of how the cuts would be allocated. He had heard the president of the University say the reductions could result in the closure of some satellite campuses. Additionally, he had heard talk that the Fairbanks campus would be the research hub and the Anchorage campus would be the educational hub.

Ms. Arduin replied that some of the satellite campuses were the least expensive campuses and their closure would not be

the administration's first suggestion. The administration saw significant opportunity to provide quality education and access to quality education. She furthered that with the amount of money the University had been able to spend, it may have numerous campuses trying to provide all degrees to all people. She thought the University may want to make some reforms and consolidations to change what degrees were offered in different places and to keep the lower cost campuses open in order to be accessible to people all over Alaska.

Representative Sullivan-Leonard remarked that the Washington, Wyoming, Alaska, Montana, and Idaho (WWAMI) program had been removed from the budget. She referenced the significant shortage of physicians in Alaska and asked if the administration was considering another program or avenue for recruiting and retaining doctors. She highlighted the important role the WWAMI program had played. She asked whether there had been consideration given to train Alaskans to be doctors in Alaska.

Ms. Arduin replied that there had not been great successes seen the WWAMI program. She detailed that the retention the program set out to accomplish had not been obtained.

Representative Sullivan-Leonard asked for the data to be provided.

Ms. Arduin agreed. She noted OMB welcomed an opportunity to work with the legislature on the issue. She added that when programs were failing it did not mean it was impossible to come up with an idea for improvement.

Co-Chair Foster asked OMB to provide the data to his office for distribution.

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Representative Josephson returned to the University discussion. He thought he heard Ms. Arduin say that perhaps some of the students in the larger campuses should go to the satellite campuses. He spoke to the difficulty of that concept and explained that urban campuses had tens of thousands of students who were not likely to relocate to areas that could not house or teach them. He asked whether it was something the administration had considered.

Ms. Arduin replied it was her understanding there were satellite campuses available. She highlighted a campus in Fairbanks as an example. She furthered that satellite and community campuses seemed to exist in a geographically dispersed manner. She stated the University had an opportunity to rethink what it could be and should be to best serve Alaskans because the state could not afford what it had been doing. She added that the University metrics did not show that the University had obtained its goals. The proposal was a conversation starter. She explained that OMB was not suggesting the closure of campuses.

Representative Josephson noted that in the past four fiscal years the University's grant had been cut \$200 million due to a drop in oil prices. He added that under strategic pathways the University was constantly looking at reform.

Representative Sullivan-Leonard asked for the breakdown of cost per student at UAA [University of Alaska-Anchorage], UAF [University of Alaska-Fairbanks], and UAS [University of Alaska-Southeast].

Ms. Arduin agreed to provide the information.

Co-Chair Foster recognized Representative Josh Revak in the audience.

Vice-Chair Ortiz addressed proposed reductions to the University. He asked if the UA Scholars Program introduced several years earlier under the Parnell Administration had been removed from the budget.

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Ms. Sanders answered the increment was included in the budget under DEED. She noted there had been a funding source change to UGF.

Co-Chair Wilson referenced the proposed reduction of \$16 million to Temporary Assistance for Needy Families (TANF) maintenance of effort under DHSS. She asked if the state was required to put the money forward in anticipation there was a bigger need than the state actually had. She was trying to determine whether the \$16 million represented real dollars or something the state would have to go to Centers for Medicare and Medicaid Services (CMS) to get changed.

Ms. Sanders deferred the question to the department.

Co-Chair Wilson noted she did not intend to get into a full discussion on the maintenance of effort. She wanted to know whether the reduction would be a real dollar cut to TANF. Alternatively, she wondered if the reduction represented a cleanup of money CMS required the state to give that Alaska was not necessarily utilizing.

SANA EFIRD, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, OFFICE OF MANAGEMENT and BUDGET, answered that the \$16 million was GF money used in the TANF program that the state had to match for its maintenance of effort to receive federal TANF funds. The department had to receive permission to change the amount the state was currently required to spend in maintenance of effort to realize the savings.

Co-Chair Wilson noted that the funds were UGF and asked if the state was currently utilizing the \$16 million in the TANF program.

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Ms. Efird answered in the affirmative. The funds went out to tribal organizations that administered their TANF programs.

Co-Chair Foster asked for verification that the maintenance of effort increment leveraged federal funds. Ms. Efird replied in the affirmative.

Co-Chair Foster asked how much federal funding the state would lose if it did not maintain its maintenance of effort.

Ms. Efird replied that if the state did not meet the total maintenance of effort requirement it would be fined the amount it failed to meet. If the state did not receive permission to change its spending requirement, it would still have to pay the \$16 million in a fine to the federal government in order to receive its federal funding.

Vice-Chair Johnston asked for verification that the funds were used for tribal partners. Ms. Efird replied in the affirmative.

Vice-Chair Johnston surmised that if tribal partners discontinued payments, the state would have a responsibility to pay or would be subject to a fine by the federal government. She asked if the state would have to service the funds differently than tribal entities.

Ms. Efird answered that currently tribes received their own federal TANF funds. She confirmed that if a tribe decided against administering the program, the state would receive the federal dollars and would be responsible for the administration of the program for eligible recipients.

Vice-Chair Johnston asked if the department had analyzed the difference in the state's treatment of the program versus tribal entities' treatment of the program. Additionally, she asked about the difference in cost between the two. She noted that tribal entities received federal matching funds and had a broader scope to their services. She continued that the state's scope would be more limited and asked if there would be a cost the state had to assume.

Ms. Efird responded that she would follow up with the committee.

Vice-Chair Johnston stated that in the past the DHSS budget had varying degrees of federal funding for most of its PCNs [position control number] ranging from 20 to 100 percent. She asked how the reforms would impact PCNs and the agency as a whole. She was interested in the cost to the state.

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Ms. Efird replied that DHSS was the public assistance cost allocation department. Many of the department's PCNs were impacted by federal dollars because it had a large percentage of incoming federal monies that were spread across all of its programs.

Vice-Chair Johnston asked about [Medicaid] containment measures and reform and wondered how much of the \$270 million [proposed reduction] required changes in the state's relationship with the federal government.

Ms. Efird replied that the department was working on a full Medicaid plan to present during the subcommittee process

outlining initiatives it was looking at. The department had reached out to CMS and was looking at other demonstration projects and at all cost containment measures and initiatives it believed could be attainable in the next year. She relayed the department would have a more thorough plan to present to the committee.

Vice-Chair Johnston asked if the committee may see a revision to the proposed budget as far as what was attainable and what may be attainable in future years.

Ms. Efird replied that the goal was to fulfill the current budget. She relayed it was a policy decision and the department's goal was to fulfill the budget as closely as possible, while continuing to provide healthcare coverage for low income Alaskans.

Ms. Sanders referenced a supplemental appropriation of \$172 million from the SBR. The intent behind the appropriation was to allow the department additional funding if there were any delays in implementing the waivers or state amendment plans with CMS as the department transitioned to the full reform.

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Representative Knopp spoke to cost containment measures of \$271 million. He questioned what would not be provided and whether reimbursement rates would be shortened. He wondered if the information would be provided in the subcommittee process.

Ms. Efird replied in the affirmative.

Representative Knopp asked what percentage \$271 million represented of the money currently paid out by the state. Ms. Efird replied around 37 percent.

Representative Josephson spoke about the previous administration's draw of \$172 million from the SBR and the current administration's willingness to use SBR if necessary. He asked if it reflected some flexibility within the administration to spend from reserves.

Ms. Arduin replied that the Dunleavy Administration proposed to use the SBR as a backup for timing of implementation of plans with CMS. The administration had no

plans or proposal to request a draw on the CBR, which was down to a balance of about \$2 billion. The administration believed the current balance was needed as a cushion for cashflow purposes and potential disasters.

Representative Josephson referenced a presentation earlier in the day by Alaska's U.S. Senator Dan Sullivan where the senator had been asked about the Federal Medical Assistance Percentage (FMAP). He reported that Senator Sullivan had relayed he was working incredibly hard to increase the state's FMAP. He reasoned that although the senator's efforts were still wanted, perhaps the senator would not have to work as hard if the state would not try to maximize the FMAP by leveraging the state's GF. He asked for comment.

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Ms. Arduin replied that the department's commissioner was having those ongoing discussions with CMS. She stated it would be a wonderful result if the department could get it done. The administration was not reliant on it as the only outcome, but they would welcome it.

Ms. Sanders moved to the first bullet point on slide 15 pertaining to the Department of Transportation and Public Facilities (DOT). She highlighted a funding reduction of \$78 million [\$97.9 million] to the Alaska Marine Highway System (AMHS), which would allow AMHS to operate from July to the end of September [2019]. She referenced a directive by the governor asking DOT to bring on a marine consultant to work through the process to determine what the future of AMHS would look like.

Vice-Chair Ortiz asked how the reduction meshed with the intent to preserve maintenance of the state's transportation infrastructure (slide 2). He asked if the administration did not believe AMHS was part of the state's infrastructure.

Ms. Arduin replied that all of the department's went through a prioritization process, starting with their core programs. She reported that transportation infrastructure had been at the top of the department's list, while running transportation systems was not. She elaborated that maintaining highways fell in a higher priority category than running the ferry system. The governor had directed

the department to procure a marine consultant to determine what could be done with the ferries - if they could be operated without losing the money they were losing at present. She mentioned the potential for a private operator to run the system. She continued there were changes that could be made and the administration was waiting to see what the results were. The administration had proposed having the money to run some of the ferries through the summer and had asked the department to present a plan by August in order to determine what the future of the ferries may be.

Vice-Chair Ortiz asked about the hiring of a consultant to see what may transpire and replace AMHS. He wondered if the administration was consulting current studies that had been done in relationship to AMHS by the McDowell Group and other.

Ms. Arduin replied the administration was aware and familiar with the studies. She believed the direction to the consultant would be "no more studying, let's figure out what a plan of action is."

Vice-Chair Ortiz asked for verification that the governor's proposal would shut down AMHS at the end of September. He emphasized that AMHS was a highway system.

Ms. Arduin replied that the administration would work with a consultant to determine the best possible outcome. She reported that the state could not afford to run the system in its current form. The administration had hope that the system could be operated in a better, cheaper, more efficient way. She stated it would be necessary to wait and see.

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Co-Chair Foster remarked that the budget considered the possible closure of some rural airports. He asked if the administration had identified any specific rural airports for closure.

Ms. Arduin replied that the department had identified rural airports maintained by the state that had a very small population of planes (some with five or less and one with one plane). She explained that the designations would be

changed so the state would not maintain those airports with very few people.

Co-Chair Foster remarked there were airports in numerous villages where no one owned an airplane. He asked if an airport would be more likely to be closed if there was not an airplane based there.

Ms. Sanders clarified that she did not believe that was what Ms. Arduin was indicating. She explained that DOT was looking at airport maintenance costs associated with maintaining runways where there were one or two people being serviced. The department was considering whether or not it could turn the facility maintenance costs over to the community to maintain.

Co-Chair Foster asked if Ms. Sanders was referring to the population of a community. Ms. Sanders replied in the affirmative.

Co-Chair Foster could not imagine there were many of those airports in the state. He asked if DOT was present to answer the question. Ms. Sanders replied that OMB would ask DOT to follow up with the information.

Co-Chair Wilson asked if the proposed budget used zero-based budgeting.

Ms. Arduin replied that the budget used core-based budgeting. She explained that OMB had considered core programs that needed to be maintained - in some instances core programs could be done more efficiently. The items on the reduction list included things outside a department's core programs that could be distracting, time consuming, and/or a lower priority.

Co-Chair Wilson stated that the legislature had tried the method many times, with little success. She gathered the administration had asked the departments to prioritize and also had a matrix to measure whether a program was meeting the needs spoken about earlier.

Ms. Arduin agreed and relayed the administration had also looked at program metrics to determine whether they were meeting their goals.

[2:39:37 PM](#)

Co-Chair Wilson thought it was great. She had listened to the budget meetings in the other body and thought how OMB had arrived that the numbers had been missing from the conversation. She wanted to better understand how something did or did not make the grade. She asked OMB to share its priorities for the departments. She wanted to better understand government's role in some of the work the state was doing. She believed numerous things had been started because the state had received federal funds and not because they followed a department's mission. She thought it would be helpful to explain to constituents where the numbers came from.

Ms. Arduin replied that OMB would provide the prioritizations to the committee.

Representative Sullivan-Leonard remarked that earlier in the week the Legislative Finance Division had mentioned it had never seen real success with zero-based budgeting. She knew it had been worked on from the local government side and in other areas. She asked for an example of other states that had found success with the budget method, especially in light of limited revenue coming into Alaska and mismatched expenditures and revenues. She believed the method looked at a rebuilding of the departments. She asked for an example highlighting the success of zero-based budgeting.

[2:41:31 PM](#)

Ms. Arduin clarified that OMB was referring to the budget method as core-based budgeting. She reported there were states that had great success with core-based budgeting by looking at their core programs and tying them to their metrics. She highlighted Utah as an example.

Vice-Chair Johnston agreed with other members that the information would be helpful. She stated that any changes in performance measures in core areas would be helpful to know. She requested information about how the changes incorporated into the administration's modeling of its 10-year fiscal plan.

Ms. Arduin responded that OMB was planning to put out a 10-year fiscal plan to accompany the governor's amended budget. She believed they would wait to submit the plan

until the [Department of Revenue] spring revenue forecast had been published. The information would be available through LFD once the forecast had changed.

Vice-Chair Ortiz returned to AMHS. He referenced Ms. Arduin's testimony that the administration planned to hire a consultant. He asked how much the consultant would be paid and if a request for proposal (RFP) had gone out.

Ms. Arduin replied that an RFP had not yet gone out. She relayed the department could provide more information regarding the potential timing.

Representative Josephson asked if the department had directed AMHS not to collect revenue or schedule ferries for the coming fall. He asked if it was currently possible for a person to book and pay for a ferry ticket for November 1.

Ms. Arduin believed the department was not scheduling ferries past the end of September of next year, when proposed funding for the ferry would end.

Representative Josephson thought the proposed suspension of AMHS would occur in 2019.

Ms. Sanders clarified that it [the suspension of the ferry system] would take place in FY 20, October 1, 2019. Through work with a consultant, the department would determine the best way to move forward and whether there may be a change after the October date.

[2:45:04 PM](#)

Vice-Chair Ortiz remarked that ultimately the conversation was about policy. He asked if there had been an economic analysis conducted on how the closure of AMHS would impact coastal Alaska economies.

Ms. Arduin answered that the administration was proposing to bring in a consultant to determine the various options that could happen with AMHS. The administration would ask for an economic analysis of the plan once it had been received.

Vice-Chair Ortiz asked if there had been no economic analysis on the impact of ending AMHS operations at the end of September.

Ms. Arduin replied that the administration had directed DOT to hire a consultant to determine what could or could not be done with the system. The proposed funding went through the fall. The administration expected to have the consultant's results by August and would know where to plan to go from there.

Vice-Chair Johnston asked if the economic analysis would include the cost of not having the legislature in Juneau in 2020 because of the ferry closure. She considered that perhaps the legislature would move fewer things.

[2:47:21 PM](#)

MIKE BARNHILL, POLICY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, addressed statewide reductions on slide 15. He highlighted an executive branch 50 percent travel reduction of approximately \$4.5 million GF. He reported that all departments had come forward indicating there was certain travel that was essential. He elaborated that OMB had spent the past month working with each department to tailor the reduction to accommodate the essential travel.

Mr. Barnhill spoke to the proposed repeal of the local petroleum property tax, which was accompanied by SB 57. He characterized the tax as coordinated and detailed it had been enacted in 1973 and authorized municipalities with petroleum property within their jurisdictions to assess a tax. He explained that the state assessed the same tax of 20 mills or 2 percent. The local municipalities assessed the tax and when petroleum property owners filed their state tax returns, they received a credit for local tax paid. The tax currently collected approximately \$563 million total between the municipalities and the state - the municipalities collected \$440 million of the total, leaving \$123 million for the state. The bill proposed to eliminate the municipalities' authority to collect the tax, meaning the entire amount would go to the state.

Co-Chair Foster asked which communities would be affected. He thought the North Slope Borough would lose \$370 million or more. He mentioned Fairbanks and Valdez and asked for the complete list.

Mr. Barnhill answered that the North Slope Borough collected the most tax and would lose \$370 million. He expounded that Valdez would lose \$48 million and Kenai, Fairbanks, and Anchorage also received money from the tax.

Representative Sullivan-Leonard asked where the [local petroleum property] tax appeared in statute. She wondered if there was a cap the state had related to how it could change the tax structure.

Mr. Barnhill replied that the municipal component of the coordinated tax was under AS 29.45 and the state component was under AS 43.56. He noted that SB 57 could be viewed online to see exactly how the bill would adjust the two components. Statutes provided for a tax cap that limited the amount, in certain situations, that local boroughs could collect under the tax. The total cap was 2 percent or 20 mills (each of the municipalities receiving the tax collected different amounts). He offered to read the amounts if desired.

Representative Sullivan-Leonard asked Mr. Barnhill to follow up with her at a later time to discuss details. Mr. Barnhill agreed.

Representative Carpenter asked if there was information showing [the repeal of the local petroleum property tax was] a net positive for the state. He reasoned that the tax would have to be made up by the boroughs. He understood the change benefitted the state but not municipalities.

[2:51:55 PM](#)

Mr. Barnhill answered that the fiscal notes accompanying SB 57 showed a net benefit of revenues to the state of \$398 million. The municipalities currently collected \$440 million. He explained the delta between the two was an offset because the tax was built into the foundation formula. He elaborated that the state's contribution to municipalities for schools under the foundation formula would increase because their [municipalities'] contribution would come down. He addressed the impact to municipalities and explained in the case of the North Slope Borough, the impact would be substantial and very disruptive.

Representative Carpenter spoke to options from Kenai's perspective and explained there would be a loss of \$15 million to the community. He wondered how the change would be a net gain to the state if boroughs had to increase taxes as a result. He thought companies would have to be double taxed to make up for the loss to communities. He wanted to see an analysis showing the proposal was positive for the state as a whole.

Mr. Barnhill answered that the policy parameters around the budget were the payment of full PFDs and having revenues meet expenditures with no new revenues assessed by the state. There were impacts to every governmental entity, department, and Alaskan. There was no way to do the proposed budget exercise without everyone being impacted.

[2:54:14 PM](#)

Representative Knopp asked if the oil and gas properties were also known as the [AS] 43.56 properties. Mr. Barnhill replied in the affirmative.

Representative Knopp asked for verification that the tax was a flat 20 mills and local jurisdictions were reimbursed a percent of the mill rate.

Mr. Barnhill clarified that it was not a reimbursement. He explained that municipalities (under AS 29.45) assessed the tax directly up to their cap and petroleum property owners filed a report with the Department of Revenue and took a credit against what they paid to local municipalities.

Representative Knopp discussed that local municipalities were charged with assessing property at fair market value. He thought it seemed ironic that the budget proposal indicated that taxing the properties would be out of the municipalities' jurisdiction. He asked if that was the policy direction the administration really wanted to go.

[2:55:50 PM](#)

Mr. Barnhill responded there were some tremendously difficult questions and choices posed by the budget. He explained that OMB's goal had been to achieve a \$1.6 billion reduction. He elaborated that to achieve the goal entirely through cuts to existing state programs was difficult. He addressed weighing the proposal [to repeal

local petroleum property tax] against a combination of additional proposals such as a \$400 million reduction in Medicaid (which would functionally exit Medicaid in its entirety), an additional \$400 million reduction in foundation formula funding, or eliminating all of the UGF from 11 departments. All of the choices were incredibly difficult. The administration had determined that no matter what it did, the component of property taxes would be on the table for discussion in terms of how the revenue was collected, the history of the revenue, and whether it was an optimal way of assessing, collecting, and allocating the petroleum property tax in Alaska. The administration did not see any way to have the discussion about \$1.6 billion without including the property taxes. He stated the legislation was within the discretion and purview of the legislature to determine if enacting the legislation made policy sense.

Representative Josephson highlighted the \$398 million the state was projected to receive [from the repeal of the local petroleum property tax]. He asked for verification that Mr. Barnhill had testified the state would not receive the full amount because it would pay more to make up for lost taxation in local contribution to public schools.

Mr. Barnhill clarified that when committee members viewed the fiscal notes, they would see the projection for FY 20 revenue was \$421 million with an offset for the foundation formula that reduced the number to \$398 million.

Vice-Chair Ortiz agreed that the \$1.6 billion reduction was problematic no matter how it was viewed. He asked how much of filling the \$1.6 billion deficit was a result of paying out a full PFD as opposed to the \$1,600 PFD received last year.

Mr. Barnhill replied that a full PFD would be a total payout of \$1.9 billion. He noted he could not do the math quickly enough to come up with the amount when using a \$1,600 PFD.

[2:59:36 PM](#)

Vice-Chair Ortiz considered it would be a nice thing for individuals to receive \$3,000 PFDs, but he asked if an assessment had determined the overall greater good would be

achieved by paying out a full PFD, which would require massive cuts to education, AMHS, and other items.

Ms. Arduin replied that it was the governor's belief that payment of the PFD was not optional and should not be part of the budget, which was the reason he had proposed a constitutional amendment to pay a full PFD annually. She detailed that OMB's chief economist was doing an analysis of the overall budget and would include dividends.

Co-Chair Wilson asked if the actual reduction was about \$1.2 billion because the proposals [on slide 15] reflected additional revenue.

Mr. Barnhill replied in the affirmative.

Co-Chair Wilson asked for verification that the \$1.2 billion was from the December 15 FY 20 budget, which included increases that had not yet been approved by the current legislature.

Mr. Barnhill replied in the affirmative.

Co-Chair Wilson commented it would be helpful to have better figures based on the FY 19 budget approved by the legislature versus a budget that was never really on the table. She remarked they were throwing big numbers out there and some of the numbers were not true numbers based on the last budget.

[3:01:44 PM](#)

Ms. Arduin replied that the governor had released his [initial] budget in December and OMB believed it was necessary to give the legislature the information on it. The reduction from the FY 19 management plan was about \$1.1 billion.

Mr. Barnhill continued to address slide 15 beginning with reductions to two statutory debt reimbursement programs including with school debt reimbursement and capital project debt reimbursement (a series of three statutes applied to the latter program). The school debt reimbursement program had been in statute for decades and had provided for various levels of debt reimbursement when municipalities engage in construction of school facilities. Currently under state law there was a moratorium on debt

reimbursement for new projects, which was scheduled to end in FY 20. He elaborated that new projects under current statute could be submitted for reimbursement on a 50/50 percentage basis starting in FY 21. Legislation put forward by the governor proposed to eliminate all debt reimbursement for schools and removed the \$100 million for school debt reimbursement from the FY 20 budget. The repeal would mean a shift in cost responsibility back to municipalities that issued the debt to commence construction of school facilities.

Vice-Chair Johnston asked if there could be a legal challenge to the proposal.

Mr. Barnhill replied that legal challenges could be filed for any or no reason. There was always a possibility of litigation. His understanding that in every one of the debt issuances by municipalities, it was a general obligation (GO) bond issued on the basis of the credit of the municipality, with a statement to voters that reimbursement by the state under the school debt reimbursement program was subject to appropriation. He furthered that in order to issue bonds, the voters had to be apprised of the impact if the appropriation was not made. He believed there had been multiple instances in the past when the legislature or the governor had not funded 100 percent of the school debt reimbursement under the statute. However, the current budget was the first time a proposal had been made to eliminate 100 percent of the funds.

[3:04:51 PM](#)

Representative Josephson had been told that Anchorage Mayor Ethan Berkowitz believed to compensate for the reduction in the BSA, property taxes on an average home may rise by \$1,600. He observed the amount was slightly more than half a PFD. He believed at some point there would be a tipping point where people would start to view a PFD less favorably than otherwise. He asked if the administration would provide a global look at the changes to the culture of Alaska based on the need to adhere to the payment of a full PFD.

Ms. Arduin asked to stick to budgetary questions.

Representative Josephson thought the question was budgetary. He understood they would discuss the issue at another time and looked forward to talking about it.

Mr. Barnhill could not comment on cultural impacts at present or later. He reported that OMB had spreadsheet data on each of the GO bond issuances showing the numerics and impacts of shifted debt service to each of the 19 communities in the program. He was happy to provide the information.

Representative Carpenter pointed out that policy and budget questions were intertwined and impossible to separate. He wondered about the destination the budget was aiming for and did not see a big picture showing that information. He wondered whether policy was driving the budget discussion or whether the budget discussion was driving policy. He wanted to believe there was a goal envisioned that could be articulated to the public. He stated that it did not seem appropriate to not contemplate how a budget change would impact culture. He considered that perhaps the committee would have a picture of where the budget was going, but he believed Representative Josephson's question was fair.

[3:07:53 PM](#)

Ms. Arduin referenced slide 5 and replied that the fiscal goal was to balance the budget and increase reserves. She stated that at that point they could work to diversify the economy. She highlighted bringing stability to businesses as an example. She elaborated that stability meant that businesses would not have to worry about a tax change every year. She detailed that a stable government and financial system would mean the ability to attract outside capital. Additionally, stability would allow legislators and the governor to focus on bringing in jobs and opportunities from other states instead of having people continuing to leave due to uncertainty. She did not want to comment on a question of culture.

Representative Carpenter remarked that slide 5 showed the state budget but was missing any information about how the boroughs would be impacted. He asked whether the proposed budget had a net positive impact on the state as a whole, which included local boroughs and governments. He underscored that the analysis was not represented in the slide. He reasoned that if the proposed budget negatively

impacted local governments and communities, perhaps it was not the best thing to do. He stressed that the analysis was not represented on slide 5.

Ms. Arduin replied that the OMB chief economist would present an analysis of the overall economic impact [at a later date].

Mr. Barnhill returned to slide 15 and addressed the proposal to repeal debt reimbursement for capital projects. He explained the program had been removed from the proposed budget. Additionally, the governor had proposed legislation to eliminate the three statutes providing for the program. He detailed there were three types of projects and a total of nine projects. The first category was two projects for the University of Alaska; the second category was six port projects through DOT for port communities; and the third category was two utility projects through the Alaska Energy Authority. Debt service shifted back to each of the entities was a total of \$4.5 million. He elaborated that the debt service was fairly far along for most of the projects. The remaining debt services extended between one and nine years for a total of \$32 million.

[3:11:50 PM](#)

Co-Chair Wilson asked if the state was currently paying for the projects. She asked for verification that repealing the program would mean municipalities would pay for the projects.

Mr. Barnhill replied in the affirmative. He corrected his previous statement and detailed that the remaining debt service extended between one and twelve years for the nine projects.

Mr. Barnhill addressed oil and gas tax credits on slide 15. He referenced extensive conversation the previous year in the context of HB 331 [legislation passed in 2018 establishing an Alaska Tax Credit Certificate Bond Corporation]. He detailed that over a period of decades, the state had offered cashable oil and gas tax credits in an effort to incent new exploration for gas in Cook Inlet and oil in the Middle Earth and North Slope regions. At the beginning of 2018 the cashable credits totaled approximately \$900 million. Prior to the commodity crash in 2014 there was a practice by the legislature of

appropriating the full amount (of what had been presented in the previous fiscal year) to companies that earned the oil and gas tax credits. The practice had ended with the crash of oil prices in 2014. He elaborated that initially former Governor Bill Walker had vetoed the full amount presented the previous year down to the statutory amount. Since that time, the credits had been funded to the statutory amount. He noted there was an asterisk on "statutory amount," which he could elaborate on if committee members were interested.

Mr. Barnhill continued that in the previous session [2018] the former Walker Administration had proposed HB 331, in recognition the state did not have general funds to pay off the entire \$900 million, to authorize the creation of public corporation to issue subject to appropriation debt. The proposal was to take out the entire [\$900 million] balance of cashable tax credits and the state would pay off the debt service over a period of years. Immediately following the enactment of HB 331 (at the end of the legislative session), litigation had been brought against the state challenging the constitutionality of the legislation; therefore, bonds had not been issued and the litigation was continuing. He detailed that the superior court had ruled in favor of the state and an appeal to the state supreme court was expected. The earliest the administration anticipated debt could be issued was in one or more years from present (assuming the state was successful in the supreme court).

Mr. Barnhill explained the governor's proposed budget would continue paying down the balance of cashable oil and gas tax credits with Alaska Industrial Development and Export Authority (AIDEA) receipts instead of general funds. He expounded that DOR calculated the statutory amount annually and published the information in its Revenue Sources Book. The amount was \$184 million for FY 19 and the legislature had appropriated \$100 million in the event debt was not issued. The \$100 million had been distributed, leaving a residual \$84 million [owed for FY 19]. The statutory amount for FY 20 was \$170 million, which was the amount included in the governor's proposed budget.

[3:15:50 PM](#)

Vice-Chair Johnston asked how the proposal would impact AIDEA's fund balances and bond rating.

Mr. Barnhill answered that DOR had done an analysis to examine AIDEA's excess liquidity and had determined there was \$391 million available. Taking the proposed amount of over \$200 million [\$254 million] out of AIDEA would impact its ability to continue to fund new projects. He addressed the bond rating and shared his understanding that AIDEA housed around \$50 million in outstanding bonds that were completely secured by money the budget proposal did not seek to appropriate. He could not comment on the impact.

Vice-Chair Johnston asked if the proposal had been brought to the AIDEA board and approved.

Mr. Barnhill responded that he had discussed the proposal with the new AIDEA director and the chair. He had not discussed the proposal with AIDEA board members.

Vice-Chair Johnston was interested in an analysis on what the change would do to AIDEA funding in terms of a 10-year fiscal plan. She pointed out that the proposal meant taking funds away for reinvestment. She was interested in a report from the board.

[3:18:07 PM](#)

Mr. Barnhill was more than happy to provide an analysis to the budget subcommittee. He shared the concern about the need to continue to provide resources in order for the state to continue to grow its economy, which was important. He underscored that paying the credits owed was also important. The proposal would complete the state's investment in new oil and gas exploration, which was of critical importance, to secure the state's financial future. He acknowledged the goals were in tension with each other and the administration was trying to accomplish both.

Co-Chair Wilson had learned the previous day that AIDEA receipts were GF and could be used for any reason because the state did not have dedicated funds. She remarked that most legislators had not known the funds existed, but they did now, which she surmised may be a "sad thing." She spoke to the proposal to use \$84 million and \$170 million in AIDEA receipts to pay off the oil and gas tax credits. She wondered why the state would not consider some of the concepts from the bond package where AIDEA could be the holder of the money versus the banks. She suggested

requiring the money to be reinvested in the state. She observed the proposal [on slide 15] would give companies a payout they could use anywhere (e.g. Europe, Texas, and North Dakota); however, if a structure was put in place, AIDEA could go forward with capital projects and use the money as collateral instead. She thought it would help grow the state's economy more than giving money out that could be utilized somewhere else.

Mr. Barnhill acknowledged the ideas had merit, but stated that from an OMB policy perspective, the state had an obligation to pay the money owed from a program it had created in the past and ended. He spoke to the importance of paying off the debt owed to companies, which had been the point of HB 331, which had not come to fruition due to litigation. He was happy to explore any way to "clearing the decks" by concluding the state's investment in the new exploration effort.

Co-Chair Wilson agreed the state should pay its debt, but she noted that companies had told the legislature the previous year that they could not utilize paper no one would give them any money for. She referenced the governor's objective to live within the state's means. She stressed that raiding a savings account did not reflect living within the state's means. She reasoned if the state could utilize a program where companies would invest the money back into oil on the North Slope or gas in Cook Inlet, it would be an opportunity for the state to pay its debt and benefit with jobs in Alaska.

[3:21:46 PM](#)

Mr. Barnhill addressed the proposal to begin to eliminate quasi-dedicated funds (last item on slide 15), which were sometimes called designated funds. He detailed that over a series of decades the legislature had enacted a variety of quasi-dedicated fund structures for a specific purpose. He estimated there were currently dozens of quasi-dedicated funds on the state's books. The concern from an OMB budget and policy perspective was that quasi-dedicated funds decreased the legislature's flexibility to manage state funds, particularly in times where revenues did not equal proposed expenditures. The governor had proposed legislation to eliminate the funds established in statute. The proposal would start with the largest funds including the Power Cost Equalization (PCE) Fund, Community

Assistance Fund, and the Higher Education Investment Fund. He emphasized the proposal did not change the funding for programs with quasi-dedicated funds; the fund source was changed to general funds. He emphasized that the fund source for PCE, the Alaska Performance Scholarship, and Community Assistance would change to GF.

Co-Chair Foster understood the concept would be to sweep the \$1.1 billion from PCE to GF and still make payments to the communities for PCE from the GF. He was concerned about PCE having to compete against other programs in the future for funds, meaning there was potential for payments to become less predictable. He discussed the origin of PCE and detailed different parts of the state had received funds for energy projects to help keep energy costs down. He reviewed past energy projects including the Four-Dam Pool, Bradley Lake hydroelectric, the electric intertie from the Kenai Peninsula through Anchorage to Fairbanks, and over \$1 billion in Cook Inlet tax credits (he noted the state barely taxed Cook Inlet natural gas). He supported all of the projects because they helped to reduce energy costs for huge swaths of the state's population. He stated that dismantling the PCE program would effectively take down the energy reduction projects in rural Alaska.

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Vice-Chair Johnston asked if the change [moving PCE to GF] would change how DOR managed the funds.

Mr. Barnhill answered that DOR managed the General Fund. He noted that DOR could speak to the specifics on its management of the fund. He detailed that DOR pooled GF and other GeFONSI [General Fund and Other Non-Segregated Investments] together (there were dozens of funds). There was a GeFONSI I and GeFONSI II pool. He explained that GeFONSI II had equity exposure. He elaborated that DOR would decide how to allocate the General Fund as it got bigger assuming the governor's proposal to eliminate the [quasi-dedicated] funds took place. He added that DOR also managed the CBR - any funds available for appropriation were swept from GF to the CBR per the constitution. The CBR had a main account and subaccount; currently there was nothing in the subaccount, but it was available for longer-term investments.

Vice-Chair Johnston speculated that as funds were currently managed, liquidity may not be necessary, which may not be the case if the funds became part of the General Fund. She intended to ask about the issue during the subcommittee process.

[3:26:32 PM](#)

Co-Chair Wilson stated, "I appreciate that you think we can manage our funds on our own because we don't have a very good track record of that." She asked which funds Mr. Barnhill was referring to. She asked if Mr. Barnhill was talking about several funds or the myriad funds the state had.

Mr. Barnhill replied that the state had dozens of funds. The administration was looking at making the change over a multiyear period and had identified a handful [of quasi-dedicated funds] to start with. He added that depending on the reception to the idea, it could be revisited in the future with other funds.

Co-Chair Wilson wondered why they were testing it out. She reasoned that someone either believed all of the funding should be in one fund (e.g. CBR or ERA) or they were amenable to having thousands of small funds of various sizes. She stated it was not possible to have it both ways.

Mr. Barnhill replied that it was more of a logistical issue in terms of jamming up the legislature with dozens of fiscal notes.

Ms. Sanders added that OMB intended to work with LFD on the project over the interim regarding how funds should be categorized and where they should be placed.

Co-Chair Wilson was trying to understand whether the administration believed the state should not have all of the small funds and that it would be necessary to compete for the available funds. She wondered if the administration's philosophy was to eventually have all of the money in one place. She reasoned they would not be able to say whether PCE or the higher education scholarship program would still be funded because there would be a matrix or priority list developed by the administration.

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Mr. Barnhill replied that the intent of the policy was to put all stakeholders on a level playing field. He detailed that the subject had been discussed in 1955 at the state's constitutional convention. The framers intended the state's financing and budgeting process to be structured in that way. He elaborated that framers had been concerned about the dozens of states that did not have a prohibition against dedicated funds; states had created pots of money all over the place and there had been no appropriation flexibility, which had been of concern to the framers. The proposal was to return back to the framer's intent with respect to budgeting and appropriation flexibility.

Co-Chair Wilson stated that PCE had established for a very different reason than many of the other funds. The purpose was to provide a way to equalize energy throughout the state. She believed it would get lost with the [loss of the] fund. The Railbelt was supposed to have more affordable energy via various hydro projects. She asked if certain funds fell under a different guideline and perhaps certain things could not be equal throughout the state and [quasi-dedicated] funds were the method of solving the issue versus all funds being up for grabs.

Mr. Barnhill answered that ultimately, the administration wanted to evaluate all of the [quasi-dedicated] funds. He clarified that the budget proposal was limited to PCE, higher education, community assistance, and one or two more.

Co-Chair Wilson asked why the particular five funds had been selected. Mr. Barnhill replied that they were the biggest [of the quasi-dedicated funds].

Representative LeBon followed up on Vice-Chair Johnston's comments on AIDEA. He agreed there needed to be concern about stripping too much capital from AIDEA and impairing the agency's ability to act as an effective lending partner to the state's commercial banking community. He addressed school debt reimbursement. He detailed that organized boroughs and municipalities would obtain permission from voters to sell bonds for school construction. Conversely, when unorganized portions of the state needed a new school, the state built the school; the local community did not

contribute 30 percent of the cost and some type of general obligation bond. He asked if his statements were accurate.

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Mr. Barnhill explained there were 19 Regional Educational Attendance Areas (REAA) in the state. There was an REAA school grant construction fund and a formula designed to deliver a percentage (to the fund) of the amount the state reimbursed school districts under the school bond debt reimbursement program. The budget proposal did not attempt to restructure the REAA grants fund - those funds would remain in place.

Representative LeBon spoke about the operating cost per student per University of Alaska campus. He assumed the administration was going to do a comparison between all of the campuses, given the difference between them. For example, the University of Alaska Fairbanks had a number of dormitory buildings, a research facility, and a statewide administration facility. He asked for an apples-to-apples comparison and reasoned the cost of educating a student at each campus would differ due to a difference in facilities, overhead, and fixed cost.

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Mr. Barnhill replied that the University had the data and had provided it to the state. He believed the University would be willing to provide the data on a per campus basis to the committee. He understood the data provided by the University to the administration did not fully allocate out the administration costs to each of the campuses. He thought it may be better to wait for the University to adjust its numbers so the administration costs were fully allocated out. The data the administration received showed a fairly stark difference between campuses.

Representative LeBon asked for verification that the administration based its proposed cut to K-12 education on the belief that the cost per student was too high and the outcome was too low.

Ms. Arduin replied that the observations were separate. She noted that the administration had not specified the spending was too high. She clarified they had specified the state had been spending more than other states and

receiving less. The administration believed it was the beginning of a process and reforming education would be a longer-term process. The observation was the state was not getting what it should for the money.

[3:36:21 PM](#)

Representative Sullivan-Leonard asked about AIDEA receipts. She noted that the agency already provided an annual stipend to the state. She speculated the amount was around \$20 million or so. She asked if it had been factored into the FY 19 and FY 20 conclusions by the administration. She asked if the calculation factored in that AIDEA already provided the state a portion of its reserves. If so, she wondered if it was something the administration could look at stretching out farther with regard to paying down oil and gas tax credits.

Mr. Barnhill characterized the discussions with AIDEA as ongoing. He believed it was fair to say appropriating the proposed amount from AIDEA would have an impact on the dividend. He relayed that the departments and AIDEA could address the details in the budget subcommittee process.

Vice-Chair Ortiz referenced earlier comments by Representative Carpenter, Vice-Chair Johnston, and Representative Josephson regarding the proposed budget and the administration's vision going forward. He believed that ultimately for the administration to sell the budget, the administration needed to address its vision and how the budget would impact the state as a whole. He referenced Ms. Arduin's comments about the need to create stability. He agreed the state could not continue the deficit spend because it lacked sufficient savings. However, he believed there had to be a recognition there were other ways to get to a balanced budget - methods that did not continue deficit spend but did not create the havoc the proposed budget would create.

Vice-Chair Ortiz asked what stability there would be if the proposed 23 percent reduction in the BSA were enacted, requiring his district to lay off potentially 70 of its 170 teachers. He countered there was not a lot of stability there. He reasoned there would not be significant stability for businesses either. He questioned whether businesses would want to invest in a town where schools were no longer supported. He requested that going forward the

administration begin to address its vision and the budget's overall impacts on the economy.

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Ms. Arduin replied that the goal was to be sustainable, predictable, and affordable. She stated that the most instability the state could give to its school districts would be to continue deficit spending and to drain its reserves completely. She underscored that the scenario would drive complete instability. The administration was proposing sustainability by spending within the state's means and showing school districts there would be money available in the future, which is what was meant by sustainable and predictable. The administration was producing an economic analysis and believed the impacts to the economy would be positive if the state stopped sending signals to investors that it did not know what it was doing with its budget (e.g. where it would tax in the future, where the money would come from, and how the education system would be funded). She reiterated the administration's goal of sustainable, predictable, and affordable budgets in order to turn the economy around.

Representative Josephson stated that his primary concern was the use of the word predictable on slide 16. The previous administration had welcomed and encouraged oil development but had aimed to divorce the state from its codependent relationship with the oil industry. He was concerned that the proposed budget wedded the state to the industry. He referenced slide 9 reflecting changes in the last four or five months due to declining oil [prices]. He wondered how any of the proposed budget was predictable. He reasoned that if oil prices dropped to \$29 per barrel, it would likely be necessary to cut another \$500 million [from the budget]. He referenced Ms. Arduin's comment on the reliance on the greater world, i.e., school districts, businesses, investment. He asked how any of the budget was predictable, given that it would double down on a marriage to a single funding source.

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Ms. Arduin answered that OMB had talked about beginning to diversify the economy. She detailed that the way to diversify the economy was to attract outside investment and to attract investors who would bring jobs and growth to the

state. She reasoned that the goal was not possible as long as deficit spending continued, and the state could not tell potential investors where they may or may not be taxed in the future. In order for the state budget to be predictable, the governor was proposing a spending limit based on an amount of money that would likely be an average of where oil revenues came in. The budget would continue to spend 2 percent more per year, which would be predictable, sustainable, and affordable. The administration was also talking about building the CBR back up to make it available when revenues dipped.

Representative Carpenter asked if the administration's economic analysis would provide a timeline on what the positive impact to the private sector would look like.

Ms. Arduin replied in the affirmative. The analysis by OMB would look at the impacts on the private and government sectors.

Co-Chair Foster thanked the presenters. He provided detail regarding the schedule for the following week.

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ADJOURNMENT

[3:46:08 PM](#)

The meeting was adjourned at 3:46 p.m.