

HOUSE FINANCE COMMITTEE
SECOND SPECIAL SESSION
July 9, 2019
1:01 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:01 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 Andy Josephson
Representative Gary Knopp
Representative Bart LeBon

MEMBERS ABSENT

Representative Ben Carpenter
Representative Kelly Merrick
Representative Colleen Sullivan-Leonard
Representative Cathy Tilton

ALSO PRESENT

Nils Andreassen, Executive Director, Alaska Municipal League, Juneau; Representative Sara Hannan; Representative Grier Hopkins, Representative Andi Story; Representative Harriet Drummond; Representative Louise Stutes; Representative Adam Wool.

PRESENT VIA TELECONFERENCE

Jim Johnsen, President, University of Alaska, Anchorage; Marissa Sharrah, President, Fairbanks Chamber of Commerce, Fairbanks; Laurie Wolf, President, Foraker Group, Anchorage; Diane Kaplan, President and Chief Executive Officer, Rasmuson Foundation, Anchorage; Steve Lundgren, Member, Alaska Banker's Association, Fairbanks; Jeff Twait, Alaska State Homebuilding Association, Kenai; Becky Hultberg, President, Alaska State Hospital and Nursing Home

Association, Anchorage; Jim Roberts, Senior Executive Liason, Alaska Native Tribal Health Consortium, Anchorage; Ken Helander, Advocacy Director, AARP, Anchorage; Melanie Bahnke, President and CEO, Kawerak Inc., Nome; Dave Landis, Mayor, Ketchikan Gateway Borough, Kenai; Benjamin Mallott, Vice President, Alaska Federation of Natives, Anchorage;

SUMMARY

IMPACT OF VETO OVERRIDE

Co-Chair Foster indicated that the committee would be taking invited testimony from fourteen organizations.

^IMPACT OF VETO OVERRIDE

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JIM JOHNSEN, PRESIDENT, UNIVERSITY OF ALASKA, ANCHORAGE (via teleconference), spoke to the negative effects of the potential vetoes. He referred to the document, "Impacts of Budget Vetoes on University of Alaska" (copy on file):

- Historically Unprecedented Divestment in Higher Education
- Veto resulted in a \$135 million GF cut - the largest reduction in UA's history
 - Unprecedented within higher education and historically unparalleled in magnitude amongst public universities nationally
 - UA represented 32 percent of the total \$\$ Governor vetoed
 - 41 percent reduction to the state portion of UA's budget
 - Single action - sudden, untenable and devastating reduction - implemented 3 days before start of fiscal year
 - When combined with \$51 million in prior year cuts, cumulative reduction of \$186 million (49 percent) over the last 6 years:
 - o State funding has dropped from \$378 million to \$192 million
 - Over 1,200 faculty and staff already gone
 - Over 50 academic and degree programs already gone

Key Points

- Vetoes strike an institutional and reputational blow from which UA may likely never recover
- Cripples one of Alaska's most important tools for economic growth and diversity - just when we need both.
- Impacts the ability of employers to hire skilled graduates - harming Alaska's economic potential
- Every university and campus will be impacted, and will likely result in the need to shutter some community campuses outright
- Impacts every student and program in the state and calls into question UA's ability to fulfill its constitutional mission
- State's annual investment is critical - allows UA to go get the other 60 percent of its budget
- A \$135 million UGF cut will actually create a \$200 million revenue hole when the impacts on all non-state revenue sources are factored in: i.e. enrollment declines, tuition and fee revenue losses, research, federal and private giving
 - o UA estimates a related loss of \$45 million (-37 percent) in federal funds

Immediate Impacts

- Immediate hiring, travel and contract freeze have been instituted
- 60 day furlough notices have already been issued to university staff system wide
- Moody's placed UA ratings under review for downgrade on July 2nd
 - o The review will focus on the Special Session outcome and the magnitude of the final budget reduction
- Board of Regents directed management to prepare a declaration of Financial Exigency to be considered at the emergency Board meeting next Monday July 15th
- What is Financial Exigency?
 - o Rarely used procedure which permits the rapid downsizing and/or discontinue of units, programs, services, and personnel
 - o Permits unilateral decisions to reduce salaries or modify terms of employment, to include termination

- o Permits the unprecedented removal of tenured faculty (whose tenure normally provides lifetime guarantee of employment)
- Financial Exigency is a drastic action, due to the potential for creating severe reputational harm with students, alumni, faculty, employers, donors, and investors

If veto is not overturned?

- An additional 1,300-2,000 staff and faculty will lose their jobs o UAA alone is estimating the loss of 700 jobs and 40 degree programs o 2,000+ total loss, when direct and indirect employment impacts are combined (ISER)
- According to ISER, UA direct losses alone, will offset gains from other sector of Alaska's economy
- Further consolidation of programs and academic options across the system; reduce or discontinue programs outside core
- Current students will see academic disruptions, program closures and possible need to transfer to other campuses within the UA System or universities outside of Alaska
- Potential closure of some community campuses
 - o Community campuses receive significant administrative and overhead support from UAF, UAA and Statewide - against which the entire veto was levied
- Significant accreditation risk due to the speed and urgency with which programs and campuses will have to be reorganized
- University athletics possibly eliminated in entirety
- Continued increase in tuition and student fees - in the face of already declining enrollment - making post-secondary education in Alaska less accessible and affordable
 - o UA's fall 2019 semester shows a systemwide (-5.9 percent) decline in applications
 - UA Anchorage (-5.1 percent);
 - UA Fairbanks (-8.1 percent);
 - UA Southeast (-0.7 percent)
- Immediate damage to UA's standing as the world's leading Arctic research institution offering international expertise in physical, biological and social sciences

- o Leader in studying the changing Arctic - impacts on our people, culture, environment and economic livelihood
- o Loss of faculty and graduate students, and accompanying funding
- o Diminishes success of receiving federal grants - agencies uncertain about UA's future
- Impacts go far beyond Alaska's borders; UA's world class research institutions like the International Arctic Research Center (IARC), the Institute of Arctic Biology (IAB), Institute of Northern Engineering (INE) and Geophysical Institute (GI) and are players on the world stage addressing international scientific issues, defense and homeland security
- May require merging or elimination of major research institutes - which are solving important real-world problems - and in many cases bringing in significant third-party investment to our state.
- Jeopardizes retention of major research assets such R/V Sikuliaq and the Toolik Field Station operated on behalf of the National Science Foundation

Order of Magnitude Operating Amounts (UGF)

- Current annual tuition revenue: \$135 million
- Fairbanks campus total state operating: \$126 million
- Anchorage campus total state operating: \$104 million
- Facilities Maintenance: \$45 million
- All community campuses: \$36 million
- UAS total state operating: \$21 million
- Statewide: \$18 million
- UA athletics programs: \$13 million

UA has already discontinued or suspended over 50 degree and certificate programs in the last four year:

Discontinued

- GC Clinical Social Work Practice (UAA)
- MS Applied Environmental Science and Technology (UAA)
- MS Engineering Management (UAA)
- MS Science Management (UAA)

- AAS Computer Information and Office Systems (UAA)
- PhD Clinical-Community Psychology (UAF)
- BA and BBA Economics (UAF)
- AAS Apprenticeship Technology (UAS)
- Certificate Automotive Technology (UAS)
- Assoc. of Business (UAS)

Suspended

- MS Arctic Engineering (UAA)
- OEC Sustainable Energy (UAA)
- AAS Small Business Administration (UAA)
- MS Resource Economics (UAF)
- BA and BS Sociology (UAF)
- BS General Science (UAF)
- BA Chemistry (UAF)
- Educational Technology (UAS)
- AAS Law Enforcement (UAS)

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Co-Chair Wilson thanked the University president for his testimony. She queried the state and federal funding levels from three years prior; the cost of tuition; and compare those numbers to the current year.

President Johnsen agreed to provide that information. He stated that the numbers had declined over that period of time. He stated that he had the UGF numbers, but did not have the DGF or other fund numbers.

Co-Chair Wilson wondered whether President Johnson had the state funding numbers from three years prior and the current funding.

President Johnsen replied that there was \$378 million in UGF in FY 14; \$375 million in FY 15; \$350 million in FY 16; \$325 million in FY 17; \$317 million in FY 18; and \$327 million in the current year.

Co-Chair Wilson encouraged him to provide the numbers to the committee.

President Johnsen noted that the rate had increased, but the revenue had declined along with enrollment.

Co-Chair Wilson asked whether scholarship recipients were included in the numbers.

President Johnsen responded that they were included. He clarified that a tuition dollar was a tuition dollar.

Representative Josephson asked if the actual cut was because of the failure to exceed money for grants.

President Johnsen thought Representative Josephson was correct.

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Representative Josephson wondered whether President Johnson could wait until early August to give a last chance to provide aide to the University.

President Johnsen replied that the University needed to take action as soon as possible. He remarked that furlough notices had been sent to 2500 staff members. He remarked that the notice could be withdrawn, but there needed to be action taken in the event of there being no options.

Representative Josephson surmised that the extreme scenario that may be considered could not be shared with the committee, because there was an attempt to not cause further anxiety.

President Johnsen agreed. He explained that there was an attempt to lead a critically important Alaskan institution, which required the faculty, students, and staff to stay and be positive. He furthered that they were the fiduciaries, so it would be irresponsible to not plan for all possibilities.

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MARISSA SHARRAH, PRESIDENT, FAIRBANKS CHAMBER OF COMMERCE, FAIRBANKS (via teleconference), read from a prepared statement:

My name is Marisa Sharrah and I'm the president and CEO of the Greater Fairbanks Chamber of Commerce.

The Fairbanks Chamber is a business advocacy organization that represents 700 businesses mostly in the Interior but also scattered throughout Alaska.

The Fairbanks Chamber has advocated for a Long-Term Fiscal Plan for Alaska for 6 straight years. We want government to be more efficient and reduce spending. We want policies that encourage resource development and business friendly practices that communication Alaska in "Open For Business". In 2017, we added language to our legislative priority to call for an appropriate and timely capital budget annually.

The Fairbanks Chamber also has a long history of advocating for the University of Alaska. We recognizing the Fairbanks campus is an integral part of our community that produces highly trained talent that our businesses rely on to fill jobs and remain competitive and successful. UAF is a vibrant university that is crucial not only for the training of our community's workplace professionals, but also the research and development endeavors necessary to address our state's crucial challenges. I cannot count the number of times I've listened to a presentation or been in a conversation with one of our business members where they've been talking about the innovative work and research that their company has partnered with the University of Alaska Fairbanks onto tackle industry challenges that turn into economic wins for their companies, our communities and the state.

Back in February, when the Governor dropped the revised budget, a sense of urgency started to grow from across the business community here in Fairbanks. Many businesses began to imagine what UAF might look like after such a drastic cut to their budget. As imagery of a smaller, less responsive, and less productive University began to take shape, the ripple effects that would be felt in our community could not be ignored. UAF is known for producing our engineers, accountants, scientists, bankers, medical professionals, teachers, social workers, firefighters, business professionals, construction managers, paralegals, process technicians, early childhood educators, pilots, biologists, counselors, artists, conservationists, special education teachers, and

community leaders of all types. Jeopardizing UAF is jeopardizing our future professionals and the future of much our business.

The vetoes are staggering and are not at all in-line with the Fairbanks Chamber's position that we need a soft-landing approach. While it's true the Fairbanks Chamber supports downward pressure on government spending, we also realize that if these cuts aren't methodical and strategic, we stand to lose more than we gain. There is real concern that tremendous and immediate job losses created by the vetoes will spur a series of continued job losses induced by the slowdown of our economy. There is also real concern of an influx of people leaving Fairbanks and the state in search of abundant opportunities in other parts of our country. That would put our job market in distress. These drastic cuts will create measurable negative consequences for businesses.

We urge our legislature to keep Alaska Open for business. We need and expect our legislature to work collaboratively to find compromises that get Alaskans a reasonable dividend, a balanced budget with responsible cuts, and a capital budget that doesn't leave hundreds of millions of dollars in federal match money on the table. These vetoes need to be overridden for the benefit of all Alaskans.

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LAURIE WOLF, PRESIDENT, FORAKER GROUP, ANCHORAGE (via teleconference), provided information about the Foraker Group and its mission. She talked about working in strong partnership with the State of Alaska. She stressed that the vetoes would have a broad and deep detrimental impact on the people of Alaska. She stated that the non-profit sector represented a wide variety of organizations that provided public service. She remarked that every Alaskan family was the beneficiary of a non-profit, because non-profits were woven into the fabric of the communities. She shared that non-profits played a critical role in the state's economy, both as major employers and as revenue generators. She stated that nationwide non-profits employed 10 percent of the workforce, and made up an average 17 percent of all employment in Alaska. She stated that over one-quarter of the non-government employment in the state was tied to non-

profits in both indirect and direct effect. She stressed that no industry in Alaska could prosper without the strength of the non-profit sector. The non-profit sector provided a return on investment by leveraging public and private resources.

Co-Chair Foster indicated Representative Wool had joined the meeting.

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DIANE KAPLAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, RASMUSON FOUNDATION, ANCHORAGE (via teleconference), gave a brief background of the Rasmuson Foundation. She stressed that the Rasmuson Foundation had never tried to impose its agenda on the legislature or on any administration. She stressed that there was always work to find common ground and areas of alignment to work on together. She shared that, currently there were many areas in which Rasmuson and the state work in collaboration. She announced that in the most recent years, both the state and Rasmuson Foundation donors combined forces to generate \$6 million for renovations for every domestic violence shelter in the state, for which they did a dollar for dollar match to the state. She shared that, over the last several years, Rasmuson Foundation had provided \$5 million in matching money to the Alaska Housing Finance Corporation (AHFC) in grants for teacher, health professional, and public safety housing; and the Senior Citizen Housing Development fund. She shared that the Rasmuson Foundation was poised to give another \$5 million to AHFC for matching funds for all of its programs, elderly funding, disability funding, public safety, and health profession funding in January; but were waiting for a signal from the administration for a desire to continue the partnership with the Rasmuson Foundation. She shared that the State Council on the Arts currently had a budget of \$1.6 million, and Rasmuson Foundation provided one-third of that total, which was more than the state contributed. She shared that she was surprised to find that the Rasmuson dollars were also vetoed, which would result in no more arts in education. She stated that all of the Rasmuson funding in the council was for education and artists in schools. She shared that there was a partnership with the state to work on reducing the harm caused by alcohol. She stated that Rasmuson Foundation provided 100 percent of the start up costs for Pick.Click.Give, and it has continued to operate without state financial support,

but with state cooperation generating approximately \$3 million per year for non-profits. She shared that Rasmuson had matched the state dollar for dollar for the Alaska comprehensive health care blueprint transformation initiative.

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Representative Josephson surmised that one-third of \$1.6 million was from Rasmuson for the arts grant. He also noted the testimony that asserted that, along with the veto of the state's portion, the Rasmuson money was also vetoed. He wondered whether the money was contingent on the state's match.

Ms. Kaplan responded that he was correct.

Representative Josephson surmised that Rasmuson, no strings attached, said that they would give one-third of \$1.6 million, and the governor responded, "we don't want it."

Ms. Kaplan responded that the Rasmuson Foundation had not had that conversation. She stated that there was a hope to meet with the administration since December, so she did not know the intention of that veto. She explained that the programs were not created by the Rasmuson Foundation, rather were programs created by the state where the foundation added additional money for the served communities operated by the State Arts Council.

Representative Josephson extrapolated that from Ms. Kaplan's testimony about organizations such as Claire House, there was an indication that some people would die as a consequence of the descriptions. He surmised that some people would not get the shelter and needed protections.

Ms. Kaplan indicated that no one wanted to be at Claire House, because the residents only ended up there out of desperation. She wondered where those people would go, if they were told that they could only be there in limited hours. She did not know the answer to the problem created with the vetoes.

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STEVE LUNDGREN, MEMBER, ALASKA BANKER'S ASSOCIATION, FAIRBANKS (via teleconference), read from a prepared statement:

My name is Steve Lundgren, I'm president and CEO of Denali State Bank in Fairbanks, Alaska.

I appreciate the opportunity to address you today on behalf of the Alaska Bankers Association.

The Alaska Bankers Association represents all 7 banks that have physical offices in Alaska.

Combined, we hold over \$12 billion in deposits, and employ more than 2,500 banking professionals across 127 branch offices statewide.

We compete head-to-head with each other for deposits, loans, and customers, however we come together thru the Alaska Bankers Association to monitor and weigh-in on issues that impact the Alaska economy and our banking industry as a whole.

We rally to support issues we believe are good for Alaska, and we rally against issues we believe will harm Alaska, Alaska residents, the Alaska economy, and our customers.

We travel as an association to Juneau every year, and we've met with many of you. Our primary speaking point over the last several years is to advocate for a stable budget climate and a long term fiscal plan, I emphasize "long term", that includes withdrawals from the permanent fund, and that results in in soft landing for our economy.

My purpose for speaking to you today is to tell you that all 7 banks in Alaska are aligned in our request that the Legislature override the governor's vetoes.

At our nature, we're fiscal conservatives and we support right-sized government. We believe the legislature has moved in this direction in recent years, and we support the legislature's budget.

We believe that a "long term" plan that allows time to absorb budget reductions with a planned approach is

better than an immediate budget shock to the state that we believe will result in immediate and enduring economic harm.

We're concerned about the extreme consequences to our local and state economies if no action is taken to override the governor's vetoes. The impact of these vetoes to our university, public health system and local communities is too much too soon. Fewer employees and students means fewer residents and fewer dollars circulating through our economy, and reduced business activity. There will be downstream effects, prolonging uncertainty and increasing risk, leading to higher costs for Alaska's businesses and families and a lower level of economic opportunity in the future.

Private capital investment needs a stable state budget climate utilizing a combination of spending less, a rules based framework for withdrawals from the Permanent Fund, and securing new revenues.

We support a comprehensive, stable and sustainable approach employing these options over a more measured time frame to avoid erosion of our education and public assistance institutions, and business and consumer confidence.

Our future depends on our leaders reaching consensus on a stable, sustainable budget solution amid wildly diverse and passionate opinions. The legislature took the bold step of reducing the budget by \$190 million in one year, an additional \$379 million in vetoes goes too far.

We have heard that private spending will migrate to the state to offset the decrease in public spending. We don't believe private spending will be available to offset the loss of funding to the university and to other programs either cut or lost through the vetoes.

Our member banks have many individual concerns that may impact one bank differently than other banks, however we all come together to support a full veto override.

As an example, I'll share 2 individual concerns of my bank.

Of our 77 employees, 21 have either graduated from or have attended University of Alaska Fairbanks. The budget vetoes put the future of UAF at risk. I don't know where my bank will find the local educated talent I need to run Denali State Bank without UAF. Many of my bank business customers have the same concern.

Secondly, all banks have a significant investment portfolio of many millions of dollars. Our portfolio includes government bonds issued in Alaska, as does all our member banks. I received this unsettling communication Monday from one of our outside investment advisors.

"Denali State Bank owns a University of Alaska Bond. Last week, the governor vetoed \$135mm in state funding dollars due to the university for FY2020. This would be a 41 percent YoY decrease in state funding and will have an enormous impact on the university and will lead to various downgrades if the state legislation approves of this veto. Both S and P and Moody's have already put the underlying rating on reviews for downgrade. No precedent stands for a YoY funding cut such as this, especially for a state's flagship university. The only somewhat similar situation happened in Illinois during their budget impasse, when various colleges and community colleges experienced multi-notch downgrades after their state funding dollars were cut. We wouldn't be surprised to see the University carrying a BBB rating if this is their new normal."

So you can see that people are watching, and this is a current example of the potential far reaching negative impacts if the vetoes are not overridden.

In closing, I can't put into words how serious this is and how important it is to override the governor's veto package. Please vote for a full veto override.

Thank you for the opportunity to talk with you, and I'm happy to respond to questions if you have any.

Co-Chair Foster asked testifiers to submit their prepared statements to housefinance@akleg.gov.

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Vice-Chair Johnston felt that there was quite a bit of economic activity going on in Fairbanks with mining and the military bases. She wondered whether there was an increase in capital investment in Fairbanks over the year.

Mr. Lundgren replied in the affirmative. He said that the Banker's Association had experienced a soft and flat economy in Alaska over recent years. He stated that Fairbanks was a bright spot, because of the military base. He shared that tourism was also experiencing a strong year. He remarked that mining was looking favorable. He noted increased activity on the North Slope, which was positive for Fairbanks.

Vice-Chair Johnston wondered whether the budget would be rewritten with smaller portfolio of loans, if the vetoes were to remain.

Mr. Lundgren replied that he had concerns and the board would be meeting to discuss its options. He suggested that unless the vetoes were overridden, the bonds would be impacted.

Vice-Chair Johnston asked if Mr. Lundgren had heard anything regarding municipal bonds.

Mr. Lundgren responded that the rating agencies and investment advisors were likely just finding out what was happening in Alaska.

Vice-Chair Johnston wondered about breaking the Permanent Fund unstructured draw. She wondered if it would affect the banking industry.

Mr. Lundgren suspected that it would not have a full negative impact.

Vice-Chair Johnston expressed her appreciation for Mr. Lundgren's testimony.

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Co-Chair Wilson asked whether Alaska's bond rating would be affected if the state kept having a deficit and filling its deficit.

Mr. Lundgren suspected that the rating agencies would have a problem.

Co-Chair Wilson asked if Mr. Lundgren was advocating a step-down approach.

Mr. Lundgren indicated his organization would support a step-down approach.

Representative LeBon asked if the Alaska Banking Association had taken a position on a way to fill budget gaps.

Mr. Lundgren responded that he supported a rules-based approach in order to support state government.

Representative Josephson asked if Mr. Lundgren had stated that Mr. Lundgren supports the operating budget as written.

Mr. Lundgren replied that the association supported the budget approved by the legislature.

Representative Josephson surmised that the association supported a budget without a deficit, with a \$600 million surplus.

Mr. Lundgren responded, "That's correct."

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JEFF TWAIT, ALASKA STATE HOMEBUILDING ASSOCIATION, KENAI (via teleconference), read a letter submitted to members on the prior day:

As I stated at the beginning of this letter, we met last week as a legislative committee to discuss these vetoes. For those that aren't familiar with our association, we are a trade association made up of builders, remodelers, suppliers, lending institutes, title companies and other support businesses that involve housing. We have 6 local associations from across the state including, The Kenai Peninsula, Anchorage, The Matsu Valley, Fairbanks, Juneau and Ketchikan. Our legislative committee is made up of members from each of these local associations. As you can see we are made up of areas with diverse industry

that affects each local economy, so, to have met last week and voted almost unanimously to weigh in opposing these veto's is somewhat telling. Now that housing isn't directly targeted in these cuts is also worth noting. "you might ask why are we so opposed then since we aren't a special interest group with a dog in the direct fight and are typically thought of as a more right leaning organization. I think that can be summed up best this way. When we go out to DC or come to Juneau to talk about housing issues we are neither R's or D's or I's we are simply H's We are for housing, for shelter for our friends and fellow Alaskans. This economic recovery that we are starting to realize in Alaska is at best fragile in its beginning. Several things are needed to sustain a recovery and yet one significant event can send it back the other way or extend the bobbing along the bottom. I will tout the housing industry as being the best indicator as to economic recovery. Enticing new people into the state can easily be broken down to a few simple categories, ones I think we would all look at if we were a business or a family looking to make a move here. 1.) Job Opportunities, 2) The cost of living, 3) Public Safety, 4) the quality of education, and 5) the quality of health care. These deep cuts will affect each of these categories negatively. The governor has stated that the private sector will lead the recovery after these cuts go into effect. I believe what he isn't taking into account is one very important factor that we all need to be cognizant of, it is Consumer Confidence. Consumer confidence is a very hard to quantify aspect of an economy, yet one that our industry keeps its finger on the pulse of all the time. People will buy groceries, clothes and essential necessities without consumer confidence, but they will not buy automobiles, remodel, buy or build a house and probably not even keep up on the maintenance of their properties if their confidence is not present. I saw this first hand when the Governor rolled out his proposed budget at the beginning of this session when Wildwood Prison in Kenai was in the crosshairs. The immediate reaction was one of panic and fear by the people personally impacted followed by tightening by those people that were looking to invest in a new home or remodeling their existing house. As it was stated in the earlier letter, every dollar spent on housing is circulated into the local economy

7 times before that dollar leaves the area, those dollars are spent on going out to dinner, going to a movie, signing your child up for dance classes or youth hockey. All things that stimulate a local economy. And finally I hesitate to dip my toe in the PFD water, and I do so from my own beliefs not necessarily from the Builders Association. I feel there are 2 types of people regarding the PFD, either you want your dividend or you need it. For those that truly need it, I believe they will feel more than \$1,400.00 in diminished services if they receive a full dividend and services are cut. Now I am in almost every way are right wing republican, but I am also aware that services in in which the government is here to provide must be funded. Can these services be tasked with running more efficiently? Absolutely, and they need to be. But this deficit wasn't created overnight and the fix should not and cannot be done overnight as well. You all have a heavy lift ahead of you and appreciate the job you do for the good people of this state. And I thank you for inviting the Alaska State Homebuilding Association to testify today.

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Representative LeBon noted that homebuilders in Alaska were in their construction season. He wondered how the potential client list was viewing the future, with potential home building starting in 2020.

Mr. Twait replied that the positive environment had been withdrawn slightly. He shared that low interest rates had propped up the environment, so there was still momentum. He shared that Kenai was doing fairly well, but had talked to some communities that were still struggling.

Representative LeBon wondered whether the number of homes that were started on a spec-basis would go to near zero as builders would not want to take the financial risk to build a home in the hope that a builder would materialize in the next six to nine months.

Mr. Twait Responded replied that there was minimal speculative building in the state, especially in the smaller communities.

Representative Knopp asked about members that were not in agreement. He wondered what they thought about the potential impacts. He asked the reasoning behind the non-support of the letter.

Mr. Twiat responded that there was one vote that was not in support of the letter, but felt that the reason was probably due to location.

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BECKY HULTBERG, PRESIDENT, ALASKA STATE HOSPITAL AND NURSING HOME ASSOCIATION, ANCHORAGE (via teleconference), read from a prepared statement:

For the record, my name is Becky Hultberg. I am the President/CEO of the Alaska State Hospital and Nursing Home Association. I am also a lifelong Alaskan born in Anchorage and raised in Kenai.

A recent letter to the editor in the Washington Post written in response to Alaska's budget situation was entitled "Memo to Alaskans: Things Cost Money. " It went on to talk about how you can't expect to have services without paying for them. I want to talk from an economic and health care perspective about what it will mean if we stop paying for these public "things that cost money."

It's hard to have this conversation without addressing the narrative that government spending is 'out of control'. For context, in a March 24 presentation to the Alaska council of school administrators, Legislative Finance Director David Teal provided a graphic showing that Alaska's per capita inflation-adjusted spending today is at about the same level it was in 1980. We are spending more in total today than we were in 1980, because of inflation and because more people live here. But on a per person, inflation-adjusted basis we are spending about the same. In the late 1970's, oil fields were coming online. It was a new era for Alaska, but the boom years were still ahead of us. Today, the boom is behind us, but we still have good years ahead if we're smart. So what can we learn from that chart? Can government be more efficient? Yes. Can we manage costs better? Most definitely. By historical standards, do we have an

out-of-control budget? Data simply does not support that conclusion.

We've managed general fund cost growth in Medicaid through collaboration with the Legislature, DHSS and the provider community. From FY 2015 - FY 2018, general fund spending in Medicaid was relatively flat, while we provided coverage for tens of thousands of additional Alaskans. The Medicaid cost growth curve also flattened. These are successes that the governor's cuts put in jeopardy. Let's talk about a few of those cuts.

First, the governor has cut an additional \$50 million in Medicaid general funds above the \$70 million reduced by the legislature. This does not account for lost federal funds, which roughly doubles that amount. DHSS presented a plan to the Legislature for reductions of about \$100 million, but much of that plan is unattainable. There is no plan for the balance of the reduction, except for vague promises of "CMS waivers." First, the Medicaid program is in statute, so benefits must be provided to eligible individuals. Second, CMS does not have a magic wand to waive that will allow the state to massively reduce costs without significant changes to eligibility, utilization or rates.

We don't know what the impacts of these cuts will be, because there is no plan, but given the dollar amount, they could be extreme. They will affect vulnerable Alaskans, because children, the elderly and the disabled are the populations driving Medicaid costs.

Yesterday, DHSS put out an RFP for an advisor to help them achieve these cost savings. That makes it apparent that they do not have a plan. Let me be very clear, a cut of this magnitude without a plan or analysis of the impact on people is the height of irresponsibility. It is likely that Medicaid will need a significant supplemental next year or that the governor will make unwise and arbitrary administrative reductions.

We are concerned about other cuts affecting the safety net. First, cuts to homelessness assistance, while a relatively small amount of money will have huge

impacts. According to Catholic Social Services, these cuts will cause a 48 percent increase in homelessness in Anchorage. Some people will lose access to permanent housing, and shelter beds will close. An increase in homelessness will also mean an increase in crime and emergency department costs.

It is widely acknowledged that we already have behavioral health system in crisis. Demand has increased, while state services, such as capacity at API, have decreased. As we work to improve the system and transform care, cuts in behavioral health grants will further strain a system already at the breaking point. These, combined with other state administrative reductions, will not only set back much of the good work that has occurred, but will result in fewer Alaskans getting treatment. The consequences? Increases in substance abuse, homelessness and crime as well as emergency departments at capacity.

Cuts to the university will also have consequences on health care. Our industry relies on the university to provide a trained workforce. Given the magnitude of the budget reduction, it is hard to see how these programs are held harmless. Health care is a labor-intensive business. If staffing and recruitment costs go up, health care costs for all will increase.

Finally, the elimination of adult preventive dental demonstrates the governor's willingness to take a penny-wise but pound-foolish approach. How does it make sense to pay for dental care in the emergency department, but not for preventive services?

For those who believe government is too big, there is another path. You can believe in the need for budget cuts AND believe that the governor's chosen methods will wreak havoc on the state. If the goal is to reduce costs strategically AND maintain a livable place, responsible reductions are achievable on a glidepath, giving organizations, the economy and people time to adjust.

This body has endorsed that approach. The Legislature has worked with stakeholders and industry to reduce the size of state government, while helping our economy emerge from a recession. I want to thank every

legislator sitting here today and some who are not in the room. You have reduced the size of government responsibly and thoughtfully, without destroying our economy and the state we love. We can continue that work together, with industry, stakeholders and government working collectively for the good of the state. Or we can choose the governor's blunt approach, which will bring recession and pain. The governor's vetoes put that choice in stark relief.

It's misleading to talk about these cuts in isolation, as if they exist in silos. In fact, the complexity of health care means that there are interacting and compounding effects.

Our economy is like a pond. When you drop a large boulder in a small pond, it creates a wave that affects the entire shoreline. The ripple effects of disruption will mark everything in their path. Those who will believe their lives and their quality of life will be unaffected by the governor's cuts are naïve at best. We are all impacted by homelessness and crime. We all count on open emergency departments in our community to provide lifesaving care. Businesses rely on a functioning public infrastructure so that their employees have access to health care, education and livable communities. The governor's cuts put these things, which we take for granted, in jeopardy.

I want to thank this body, other legislators and all Alaskans who have weighed in during this critical time. You have charted a responsible course. You have reduced the state budget in a responsible way. This is not a time for soundbites, but a time to reflect on real impacts on people and on our community. This is about our economy, our livelihoods, our communities and the future of our state.

Thank you for your time and for the opportunity to testify.

[2:25:32 PM](#)

Vice-Chair Johnston wondered whether the state was responsible for the bill until there was a different relationship established if a provider gave treatment to a Medicaid patient.

Ms. Hultberg replied in the affirmative. She explained that, in an environment where the department was reducing the budget for the department, and the department runs out of funding, the providers would still provide services and the state must pay the bill. She explained that there would be a situation where the state would need a supplemental appropriation to enable the program to continue to pay providers, or the state would stop paying providers. She stressed that the money would still be owed.

Vice-Chair Johnston noted the billing program from a couple of years prior. She wondered if the billing problem affected the larger or smaller providers. She asked if any provider business closed due to a lack of the state's payments.

Ms. Hultberg replied that thought that there were providers that had to shut their doors as a result of a lack of prompt payment.

[2:28:40 PM](#)

JIM ROBERTS, SENIOR EXECUTIVE LIASON, ALASKA NATIVE TRIBAL HEALTH CONSORTIUM, ANCHORAGE (via teleconference), read from a prepared statement:

Members of the Committee, my name is Jim Roberts, I serve as Senior Executive Liaison, in the Intergovernmental Affairs Department for the Alaska Native Tribal Health Consortium (ANTHC).

ANTHC and Southcentral Foundation co-manage the Alaska Native Medical Center, the tertiary care hospital for over 173,000 AN/AI people in Alaska. ANTHC also provides a wide range of statewide public, community and environmental health programs and services throughout the state. ANTHC directly employs over 3,000 employees and contributes indirectly to the employment of many other people throughout the health and other economic sectors of our State.

It is important to note that Congress has established a special statutory framework for the participation of the Tribal health system in Medicaid. Congress created a unique financing arrangement in Medicaid to allow states to claim 100 percent Federal Medical Assistance Percentage (FMAP) for services provided

through tribal facilities in recognition of the federal government's obligation to fund tribal health care.

The important point here is that Congress established this framework to not burden the States with the cost of health care delivered through the Tribal health system. The result of this policy is that Medicaid services delivered through the ATHS are budget neutral to the State; and any type of Medicaid reductions will have an adverse impact on tribal providers as Congress intended Medicaid collections to supplement appropriations provided to the Tribal health system.

After extensive legislative hearings, debate and public input, the Legislature arrived at a painful \$70.2 million cut in Medicaid funding for FY 2020. We are concerned that rather than working with the Legislature to achieve additional cost savings, the Governor has unilaterally cut the Medicaid program by \$50 million and eliminated Adult Dental. The financial impact will be greater when the lost federal matching funds are considered. The \$50 million cut by the Governor, on top of the \$70 million reduction by the Legislature, will have a harmful impact on the ATHS and the rural communities we serve. These reductions will result in less services being provided by the ATHS and result in higher emergency room utilization, more emergency travel being required, the elimination of behavioral health services will result in other costs presenting in law enforcement and court costs.

Tribal health providers have utilized Medicaid resources to increase the capacity to deliver care and provide additional services previously available only through non-tribal providers at reduced FMAP to the State. This increased capacity to deliver care within the tribal health system provides ongoing savings to the State's general fund and will be diminished by the current reductions.

In addition, the increased capacity provides savings to the State for non-Native Medicaid beneficiaries residing in rural areas where few non-tribal providers are available, thereby decreasing costs associated with travel and higher-acuity care that might result

due to the lack of locally-available care. This will have a significant impact on the economy of our State. It will result in less employment opportunities and it will reduce the level of goods and services that ANTHC purchases from the private sector when providing health care. Important to note is that the governor's \$50 million veto does not come with any type of implementation plan on how these reductions would be achieved. It is irresponsible to put forward such significant cuts without a plan or consideration of the consequences of these reductions. A vote to override the governor's vetoes does not signal disagreement with the goal to provide an efficient and cost-effective Medicaid program. On the contrary, a vote to override the \$50 million unallocated Medicaid cut and elimination of adult preventive dental services recognizes the rightful role of the Legislature in the Medicaid program design and structure, restoring its ability to continue working toward sustainable and sensible program improvements.

On behalf of ANTHC, I strongly urge you to consider the negative impact this will have on the health of Alaskans and the overall economy of the State and override the governor's Medicaid vetoes.

Mr. Roberts strongly urged members to override the governor's vetoes regarding Medicaid funding.

[2:34:03 PM](#)

KEN HELANDER, ADVOCACY DIRECTOR, AARP, ANCHORAGE (via teleconference), read from a prepared statement:

Thank you, Co-Chairs Wilson and Foster, and Vice Chair Johnston, for inviting AARP to testify this afternoon regarding the governor's vetoes. I am Ken Helander, Advocacy Director for AARP Alaska, our state's largest membership organization with 85,000 members over the age of 50. Although we are concerned with all of the governor's line item vetoes, I am focusing my remarks on his zeroing out of funding for the Senior Benefits Program.

The Senior Benefits Program was created in 2007 as something of a reiteration of the old Longevity Bonus Program that was completely phased out under Gov.

Murkowski. The old program paid a monthly cash benefit to Alaskans 65 and older regardless of their need for it. Senior Benefits came into being with the recognition that though not all older Alaskans needed this money, there are some who do. These are often single or widowed older women who may have lost their economic security caring for a dependent spouse or child. Or it might have been a low wage worker who never had a chance to save and whose Social Security amount is very small. It also includes many who lived and worked by subsistence, not building a retirement savings or substantial Social Security.

In any case, these are older Alaskans who are economically poor. How poor? Those who qualify for the largest Senior Benefit amount (\$250/mo) can have no more (often less) than \$949/month income! The middle benefit amount is \$175/mo for persons who have incomes below the 100 percent Federal Poverty Level (\$1265/mo), and for the current lowest benefit (\$76/mo) the income limit is 175 percent FPL at no more than \$2214/mo. It is difficult to imagine living on such an income in Alaska, especially when the average Senior Beneficiary is 75 years old, likely has chronic health problems and must regard every expense as a choice between a necessity and a necessity.

When older Alaskans who qualify lose this income supplement from the Senior Benefits program, it will be gone and irreplaceable. They are not going to go out and get a job or ask for a raise. They are not going to ask for help from mom and dad. They will simply have permanently lost a significant amount of their monthly income, and therefore their financial security. Unquestionably the loss of this income will increase the risk of losing their independence and hasten their move to a much costlier track of dependent care.

The Senior Benefits Program is not a bricks and mortar program for the state. In fact, it functions in much the same way as the Permanent Fund Dividend, though on a smaller scale. The monthly allowance from the state goes directly to the senior beneficiary who then spends it on necessary expenditures in this state. They certainly are not going to fancy restaurants, buying a smart TV or taking a trip to Hawaii. It is a

modest financial stimulus to Alaska's economy and can rightly be regarded as a state investment rather than an expense.

Being old and poor in Alaska is not a circumstance for more insecurity. Yet, when Gov. Dunleavy announced his line item vetoes on Friday, June 28th, he gave only three days' notice to beneficiaries that they should not expect any more checks.

This is the current notice on the state's DHSS website: "July 1, 2019 - Under the FY 2020 budget signed by Governor Dunleavy, the Alaska Senior Benefits Payment Program will end July 1 and payments for FY2020 will not occur. With the state facing the challenge of aligning current state revenues with state expenditures, this program is being eliminated to contain costs and reduce dependence of individuals on state funds. Repealing the Senior Benefits Payment program will reduce the administrative and financial burden on state resources."

Aside from the obvious disregard of proper notice that some poor elders will immediately and permanently lose up to 25 percent of their monthly income, this website notice reiterates the governor's byline that it is to "reduce dependence of individuals on state funds." The individuals in question ARE dependent, not because of state funds, but because age has a tendency to do this to all who live long enough. Anyone who owns stock and watches the exchanges or Dow Jones, seeing a drop of 20-25 percent in the value of their portfolio would be stunned and reeling, and would quickly set about figuring out how to make this up. Low income seniors who are dependent will never be less dependent than they are today, and certainly not by abruptly cutting off a crucial source of financial security...without notice.

The governor says it will be a wash because they will get a larger PFD, and so it should not be a problem for these low income, vulnerable older Alaskans. However, there are some things to consider:

- Being cut off from the monthly benefit as of July 1, means these seniors must go through July, August, September, perhaps part of October, before

they ever see any PFD money. While they live month to month counting every penny, we apparently now expect them to sustain the impact of losing up to \$1000 before ever seeing a PFD.

- Many forgo a PFD altogether, knowing it could render them ineligible for other means-tested supports they need, like many food assistance or heating assistance programs.

- Having this significant portion of monthly income taken away can be seen as a penalty or tax targeted specifically at the poorest and oldest of Alaskans, a tax that is not levied on other Alaskans. No one else is being asked or required to give up a chunk of their income in order to receive a PFD. Why penalize or tax these, our elders who have the least to give up?

- Repealing the SBP will "reduce administrative and financial burden on state resources." When people lose the ability to be independent in their homes and community, the next step is increasing dependence on state funds (Medicaid long term care) and/or family. The dependency will not go away, and thus it will increase administrative and financial burden, likely on the state, but also on Alaskan families who will have to take time off from or quit work, subsidize finances, and perhaps have their own health and well-being compromised as well.

- The most any SBP beneficiary receives is \$250/month. If that beneficiary should lose their independence and have to move out of their home and into assisted living, the cost would be somewhere between \$4000-\$9000/month. Skilled nursing care (nursing home) costs close to \$25,000/month in Alaska. Most often this cost is assumed by the state Medicaid program. No reduction of administrative and financial burden here.

In all of this, there is an apparent contempt for the oldest members of our community. Some call them "the aged" or "the aging." But Governor Dunleavy is aging; the OMB director is aging; commissioners are aging; all the legislators are aging; Republicans and Democrats and unaffiliated are all aging; liberals and conservatives are all aging; people of every color and gender are aging; children are aging; the wealthy and the needy are aging; workers and business owners are aging; neighbors and friends are aging; petroleum

workers and farmers are aging; doctors and mechanics are aging. In fact, nobody is not aging. All of us, every Alaskan, is aging just as fast as the other. And someday that senior who could have sustained themselves independently for a little longer with the Senior Benefit income help, that person will be you or me.

We should not turn our heads away from our elders. We should not treat them as burdensome. We should look beyond the dependencies and pay very close attention to them. We should learn everything we possibly can from them. We should take care of the old person we're going to become.

Thank you for the opportunity to give comment today on behalf of older Alaskans.

[2:43:56 PM](#)

Representative LeBon asked if AARP had taken a position on the PFD.

Mr. Helander indicated that, because the PFD was very Alaska-specific and AARP was a national organization, there was no policy to address the program. He shared that it was believed that taxes should be primarily progressive, and levied equitably.

Representative LeBon asked if the organization had thought about taking a position.

Mr. Helander responded that he did not think the organization would take a position because of it being a national organization. He reported that the organization supported an income taxes and would likely support an account such as the Permanent Fund.

Co-Chair Wilson asked if there was data that showed how many seniors declined the PFD.

Mr. Helander responded that he did not have any numbers.

[2:47:37 PM](#)

MELANIE BAHNKE, PRESIDENT AND CEO, KAWERAK INC., NOME (via teleconference), read from a prepared statement:

For the record, I am Melanie Bahnke, President and CEO of Kawerak, Inc., the regional non-profit in the Bering Strait Region.

Co-Chairs Representative Foster and Representative Wilson, and Members of the House Finance Committee, I want to express to you my appreciation to you for allowing me to testify at this historic point in our state's history. I also want to thank the legislature for having developed a compromise budget and uniting for Alaska. Unfortunately, the vetoes have had the effect of dividing your body yet again. Ironically, this issue of the vetoes has actually brought Alaskans from all different kinds of walks of life together, as we unite in an unprecedented way to call for the legislature to override the vetoes.

By way of information, Kawerak employs over 200 people in our region and we are a partner with the State in providing services. We operate a Head Start program, which serves over 220 children. The veto to the Head Start budget will result of a loss of over half a million dollars in funding for Kawerak. This funding provides a match for our federal Head Start grant. It brings in, for every State dollar that we use in our Head Start program, 4 additional dollars from the federal government. Our Village Public Safety Officer Program is currently - we have 3 applicants in the process that we've been told to freeze the process of hiring them. We do have 5 VPSOs employed, so this means, in a region with 15 villages, that if we stay at 5 VPSOs, two-thirds of our villages will have no public safety. We also, among the other services that we partner with the State for, we have a Child Advocacy Center, where we provide services to children who have been sexually abused, we provide family services, we provide Adult Basic Education, and we also put people who are on welfare to work. So we have a big interest in these vetoes.

Indirect cuts that are not necessarily affecting Kawerak but will affect our region's community members are the closure of the Nome Youth Facility, which is a detention center for youth have been incarcerated. This facility is slated to close on July 14th if you do not act to override the vetoes. The adult dental

Medicaid program is impacting people already. I heard just the other day about a special needs adult who was going to have his wisdom teeth removed who was told by his provider that dental Medicaid is no longer an option for that. The University of Alaska system cuts - we have currently 76 higher education scholarship recipients in the University of Alaska system statewide. 25 attend UAF, 20 attend UAA, 14 attend the Northwest campus, 6 attend the University of Alaska Southeast, and 11 are attending higher education in the University of Alaska, Juneau. We are making progress in terms of people from our region seeking higher education and obtaining degrees and becoming employable productive citizens for the state. Our homeless shelter, the Nome Emergency Shelter Team - I heard, I believe it was a representative from Anchorage who asked Diane Kaplan, "Will these vetoes actually cause people to die?", and she wasn't able to answer that directly. For our region, that's an answer that I can provide. The answer is yes. We did have people freezing on our streets, up until we were able to open an emergency shelter, especially in the winter time. It averages about 20-30 people, it's only open during the winter when people are at their most vulnerable and at risk of freezing to death. And since the emergency shelter has opened, we have had zero instances of people freezing to death on the streets. I'm concerned that if their funding is cut, we will see people dying, or maybe committing crimes on purpose so that they can go to jail so that they have a roof over their heads.

I could go on and on, but you've been presented with the data. The data is out there. You've also been presented with useful information. There have been rallies. I think though, more than anything, what I offer you is to encourage you to act, to let you know that Alaskans are paying attention to what is going on. I'm not sure what motivated each of you individually to seek political office. I'm grateful for your service. If it was to leave your mark in history, that is happening now. This situation has made national news. This moment, and this legislature shall be remembered as historic as Alaska faces a fork in the road. Budgets passed by various legislatures don't go down in history as memorable. However, human rights issues are always remembered. This is a human

rights issue. Segregation legislators were historic too. When Alaska legislators considered the Civil Rights law, which Elizabeth Peratrovich bravely testified in favor of, the nay votes, are remembered. This is a human rights issue and human rights issues are always remembered. We are at a fork in the road for our state. We must protect our most vulnerable people. You need to override the Governor's vetoes.

When the Governor was in Nome, I was very hesitant to speak up. I thought who am I to stand up to the Governor? And yet, I did because I care about our region and our State, and our people. You, of all people, in this state, can use your voice too, and you actually wield a much more powerful weapon than just a voice, you have a vote. You can change the tide, or you can go down in history as having stood by as Alaska drowned. Be on the right side of history. Override the vetoes. Thank you.

[2:55:09 PM](#)

NILS ANDREASSEN, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL LEAGUE, JUNEAU, read from a prepared statement:

The Alaska Municipal League and Alaska Conference of Mayors (ACoM) have been clear in our communications throughout the legislative session - the budget as proposed by Governor Dunleavy and expressed most recently in the form of vetoes is detrimental to Alaska's local governments, residents and the economy. In releasing his vetoes, the Governor referred to cuts as a two-year process. The scale and scope of the vetoes dismantles the good work that this body undertook during the legislative session, and there's more to come. AML participated actively through the legislative process. It was your care and consideration that mitigated the negative impacts to communities, and your action now that is asked for. We encourage your continued partnership with local leaders in strengthening Alaska, and working on solutions, together.

Local Government Activities

As we speak, it is local governments whose budgets support first responders fighting forest fires on the Kenai, in the Mat Su, and around Fairbanks. Local

government spending on law enforcement is \$75 million more than the entire budget of the State's Department of Public Safety. Local governments provide 50 percent of the State's education funding, as well as own and maintain the majority of schools in the state. Local governments maintain and operate Alaska's entire coastal infrastructure system, ensuring ports and harbors continue to support an active fishing industry - the largest private employer in the state. Local governments operate 37 public power utilities, a handful of hospitals, and 47 public libraries. Local governments are busy in road construction and maintenance during these summer months, responsible for more than 5,500 road miles, about equal to DOT's responsibilities. Local governments in Alaska provide these services to an area of 252,000 square miles, 100,000 more than State land ownership.

It is worth understanding the roles and responsibilities of local governments not just because they are significant, and in many ways are fulfilling State obligations, but because reductions in State support force trade-offs at the local level that potentially negatively impact each of these services. When the State cost-shifts to local governments, decision-making centers on reallocating already scant resources between competing priorities - debt obligations, especially, compete directly with education and public safety, or insurance for that matter.

Municipal budgets were finalized more than a month ago. Budgets were negotiated at the local level between taxpayers and their assembly or council. Tax rates were set based on those discussions, to ensure revenue commensurate with local needs, taking into account the assumption that the Legislature's work on the budget would stand. A pre-veto polling of municipalities indicated the majority were keeping tax rates stable, consistent with taxpayer interests. These factors enter into municipal conversations with credit rating agencies, as well, which are now affected by the Governor's vetoes.

For those local governments with property taxes, mill rates are set annually. The opportunity to change the mill rate will be next year, at which point residents

could potentially see two years' worth of increases, if these vetoes stand and the State continues its divestment of obligations. For those without a property tax, new or increased taxes could take anywhere from 3 to 9 months to be proposed and pass through local processes. And there are some local governments whose revenue is in place through PILT agreements with resource development companies, and these can't just be renegotiated.

The circumstance of every local government is different. For some, in the short term they can make do. For all, the long-term consequences of vetoes and continued budget cuts will negatively impact their capacity to deliver essential public services, increase quality of life for residents, and fulfill their responsibilities as political subdivisions of the State.

Direct Impacts to Local Governments

The total direct budgetary impact to local governments is approximately \$55,647,565, mainly from School Bond Debt Reimbursement but also including

- OWL Broadband
- Municipal Capital Project Reimbursement
- Local Emergency Planning Committee
- Human Services Community Matching Grants

Additionally, the veto of \$30 million in Community Assistance Fund recapitalization will directly impact local governments in the years to come.

A 50 percent reduction to school bond debt reimbursement breaks the State's promise to communities; roughly speaking it means that local governments will pick up the majority of school construction costs in support of the State's Constitutional obligation. Similarly, vetoing the debt reimbursement for municipal capital projects that improved ports and harbors across Alaska will negatively impact those communities and the fishing industry. Some local governments will be better able to manage this than others, but cost-shifting will be directly felt by local taxpayers.

AML is concerned that the Governor chose to veto capitalizing the Community Assistance Fund, which essentially reduces Community Assistance in FY21 by a

third. This, coming off reductions just a few years back of 50 percent, presents an undue burden on local governments. The long-term viability of many smaller local governments will be at risk - we know that local taxes increase when Community Assistance is decreased. This program has seen not only significant reductions over the years - from \$140 million in 1985 to its current \$30 million - but also not kept pace with inflation. Many of those receiving Community Assistance are truly dependent on this dwindling revenue to perform the duties required of them by the State.

Economic Impacts

To make up for the reduction to school bond debt reimbursement, this will mean as much as 15 percent of some local governments' annual tax revenue. While you may have seen media reports of increases in residential property, commercial property tax increases threaten a company's bottom line.

This Governor's veto of school bond debt reimbursement increases Fairbanks property taxes on Alyeska Pipeline, Fort Knox, Doyon Utilities, ACS, Petro Star, GCI, and Flint Hills - among the top 10 - by more than \$900,000.

In Anchorage, the Governor's veto of school bond debt reimbursement will increase property taxes for the largest property-owners - including GCI, ACS, Alaska Regional, Providence, Fred Meyer, Enstar, Hickel Investment, Alaska Airlines, BP, Dimond Center, and JL Properties - by more than \$1,000,000.

Businesses depend on a local government's ability to provide infrastructure maintenance and upgrades, and stable fees.

Businesses depend on a local government's ability to support and sustain schools where the families of employees can learn and grow. Similarly, those employees evaluate the quality of life in a community to determine how a locality fits into their long-term commitment to a company.

Finally, businesses depend on a local government's fiscal health. In 2017, local government budgets

planned for \$2.5 billion in expenditures, which further enhanced local economic activity.

Impacts to Partners

Vetoes of this scope and scale very definitely have the potential to disrupt the lives and livelihoods of community residents, the business decisions of investors, and the capacity of our local governments to support those organizational partners who depend on State funding.

We're struck by the intersection of so many of these vetoes with Article 7 of the Constitution - public education, the university, public health, and public welfare. These are Constitutional obligations of the State that provide the fundamental building blocks of a resilient society and a successful economy.

The outcry from those impacted is warranted. From the nonprofit sector, local governments recognize the importance of community partners, many of whom collaborate with a borough or city to provide services that would otherwise be borne by the State or local government. Again, vetoes were justified with the hope that the philanthropic and nonprofit sector would simply "pick up" the State's responsibilities. At the local level, we know that this sector is one built on collaboration and partnership, and that the capacity of these partners depends on the ability to leverage federal, state and local funds.

While the direct impact to municipalities may be only \$55 million, the indirect impact is much greater. Local governments and their partners depend on the State providing many of the services that were just cut. As political subdivisions, the interconnectedness and interdependence between state and local governance is of critical importance. We have heard from members who are especially concerned about the loss of public media, housing and public assistance, Medicaid, early education and VPSO funding.

AML members with University campuses are concerned about vetoes to that institution. University campuses across the state are often the center of the community, and the veto of 40 percent of State aid threatens quality of life, workforce development, and

the opportunity for residents to pursue career pathways. Alaska's University system reflects its communities' interests and priorities, is responsive to economic development, and is one of the basic investments necessary in today's globally competitive environment.

Closing

I don't have time to comment on each of the vetoes, but I also know how familiar you are with the priorities you included in the budget. AML was pleased to be included in your deliberations earlier in the year, and we hope to continue this partnership by contributing our understanding of municipal impacts to your decision-making. The Governor has said that this is a multi-year process.

AML stands ready to work with the Legislature in the years to come in support of the State's Constitutional and statutory obligations, and in the best interests of Alaska's local governments, residents and businesses. We stand ready to collaborate on solutions, including a step-down approach. And we stand ready to work with you on a fiscal policy that goes beyond cuts, and focuses on revenues that match the needs and goals of Alaskans.

Co-Chair Wilson asked if none of the communities had changed their mil rate in anticipation of the governor's budget.

Mr. Andreassen responded that some communities had changed their mil rates.

Co-Chair Wilson indicated that Fairbanks had increased its mil rate by 1.5 mills.

Representative Josephson commented that he took the co-chair's point, and he thought it pitted the communities against each other. He was deeply concerned about it.

[3:07:53 PM](#)

DAVE LANDIS, MAYOR, KETCHIKAN GATEWAY BOROUGH, KENAI (via teleconference), read from a prepared statement:

Good afternoon Mr. Chairman and members of the committee. My name is David Landis, Mayor of the Ketchikan Gateway Borough, the largest municipality in District 36.

As you've heard from others this afternoon, there are wide-ranging impacts from these vetoes, if they stand, and they would deeply affect all Alaskans no matter what their party or political philosophies, and no matter whether they realize it yet are not. I won't repeat all of what has been said by those before me as it applies to our municipality but will note that we have a large University of Alaska footprint here, we have an ever-increasing Medicaid eligible population, and our population receiving senior benefits is also growing. Like Mr. Andreassen before me, I would emphasize that in large part these vetoes are simply cost shifts to municipalities around the state, and that they also disproportionately impact programs that bring additional revenue, economic activity and jobs to the state. Why on earth would programs that bring in multiple times the amount of funding from non-state sources be targeted ?

Moving to specific impacts to the Ketchikan Gateway Borough, the broken promise of state partnership in school bond debt reimbursement hits us the hardest. This is close to a \$1.2 million hit to the taxpayers of this community, and again this is NOT A CUT! It's a cost shift to this community. Fortunately, this year, the entire program was not eliminated but we expect that this will happen in future years unless something is done to protect it. This community has also been responsible enough where this shift won't break us this year. But in future years can we count on these promises being kept? The fact is that education is squarely named in the constitution as a State responsibility, and it can't be carried out without functioning facilities. The Borough has been responsible in planning on projects such as the needed replacement of a school roof and another school which needs mechanical work. These are in the CIP pipeline now, but now we can't do those projects without drastic revisions of some type. Please remember that other communities in Alaska will be hurt far worse than Ketchikan will be with this particular veto.

The elimination of community assistance, or revenue sharing, will also be a substantial blow to this community but make no mistake, in smaller communities it will be absolutely devastating, and functioning municipal governments will cease to exist.

I'll be honest - I've had serious discussions with citizens here who have raised the issue of dissolving the Borough so that the State can't keep pushing more responsibilities down to local taxpayers and residents. I feel that there's a tipping point that we're rapidly approaching where Alaska residents will make a calculation whether their quality of life in terms of health, education, welfare, the arts, senior benefits, public radio, management of fish and game, the Marine Highway, and many other basic services are degraded to the point of them leaving the state for good. These are the questions that I'm hearing from our local residents. Quite frankly, I don't know how to answer them. Do you? Please override these vetoes in their entirety. You, the legislature, did the hard work of appropriating, and your work should stand.

Thank you again to the committee for your time and attention. If you have any questions, I would be happy to answer.

Co-Chair Foster asked for more detail about community assistance. He inquired about community assistance and the overrides devastating certain smaller communities. He asked Mr. Landis to comment.

Mr. Landis responded that the smaller communities were charged with compliance which they might opt to not comply in the future.

Co-Chair Foster asked testifiers to support their written testimonies.

[3:14:38 PM](#)

BENJAMIN MALLOTT, VICE PRESIDENT, ALASKA FEDERATION OF NATIVES, ANCHORAGE (via teleconference), read from a prepared statement. He stated that his organization was to enhance the Native community.

Co-Chair Foster thanked all of the testifiers for their participation. He indicated that the next meeting was t 1:00 PM the following day.

#

ADJOURNMENT

3:18:21 PM

The meeting was adjourned at 3:18 p.m.