

HOUSE FINANCE COMMITTEE
SECOND SPECIAL SESSION
July 19, 2019
1:02 p.m.

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CALL TO ORDER

Co-Chair Johnston called the House Finance Committee meeting to order at 1:02 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Jennifer Johnston, Co-Chair
Representative Dan Ortiz, Vice-Chair
Representative Andy Josephson
Representative Gary Knopp
Representative Bart LeBon
Representative Kelly Merrick
Representative Colleen Sullivan-Leonard
Representative Cathy Tilton
Representative Adam Wool

MEMBERS ABSENT

Representative Ben Carpenter

ALSO PRESENT

Representative Tammie Wilson; Representative Louise Stutes; Representative Steve Thompson, Paloma Harbour, Budget Director, Office of Management and Budget; Donna Arduin, Director, Office of Management and Budget.

SUMMARY

HB2002 APPROP: CAPITAL; SUPP; OTHER APPROP

HB2002 was HEARD and HELD in committee for further consideration.

Co-Chair Johnston recognized Co-Chair Wilson in the room. She discussed housekeeping.

#hb2002
HOUSE BILL NO. 2002

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

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PALOMA HARBOUR, BUDGET DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, introduced herself as the new budget director for the Office of Management and Budget (OMB). She provided a PowerPoint presentation, "HB 2002 Capital Budget Overview", July 19, 2019 (copy on file). She shared that the presentation would be quick and that questions could be considered afterward.

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Ms. Harbour began with slide 3, "HB2002 FY2020 Capital Budget (\$ Thousands):

HB 2002 Project Requests Will:

- Meet Federal matching requirements
- Maximize Federal funding for project grants
- Provide funding for projects where Constitutional Budget Reserve funding was not approved in SB 19

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Ms. Harbour indicated that Slide 4 provided a summary of the Capital and Operating funding in the bill, by agency.

Ms. Harbour turned to Slide 5:

- **Department of Commerce, Community, and Economic Development**
 - Community Block Grants \$60.0 UGF (matching \$6,000.0 Fed)
 - Alaska Travel Industry Association \$7,420.0 UGF
 - Hope Community Resources, Inc. \$85.0 UGF
- **Department of Corrections**

- Mental Health: \$2,540.0 UGF for Renovations Required to Accommodate the Women's Mental Health Unit at Hiland Mountain
- This will match funds provided by the Alaska Mental Health Trust appropriated in SB 19 of \$1,145.0 (Mental Health Trust Authority Receipts)
- **Department of Environmental Conservation**
 - Village Safe Water and Wastewater Infrastructure Projects \$12,080.0 (matching \$52,250.0 Fed)

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Ms. Harbour reviewed Slide 6:

- **Department of Fish and Game**
 - Cook Inlet Stock Assessment \$1,000.0 UGF
- **Office of the Governor**
 - Capital Costs Related to Executive Branch Office Buildings, Facilities, and IT Systems \$2,500.0 UGF
- **Department of Natural Resources**
 - Critical Minerals Mapping \$600.0 UGF (matching \$3,000.0 Fed)
 - Geological Mapping for Energy Development \$300.0 UGF (matching \$300.0 Fed)
 - Arctic Strategic Transportation and Resources (ASTAR) \$2,500.0 UGF

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Ms. Harbour reviewed Slide 7:

- **Department of Public Safety**
 - Reappropriation of \$1,059.0 for Maintenance/Renovation of Rural Trooper Housing
- **Department of Revenue - Alaska Housing Finance Corporation (AHFC)**
 - AHFC Competitive Grants for Public Housing \$350.0 UGF (matching \$750.0 Fed)

- AHFC Federal and Other Competitive Grants \$1,500.0 UGF (matching \$6,000.0 Fed)
- AHFC Housing and Urban Development Federal HOME Grant \$750.0 UGF (matching \$4,000.0 Fed)
- AHFC Rental Assistance for Victims - Empowering Choice Housing Program (ECHP) \$1,500.0 UGF
- AHFC Senior Citizens Housing Development Program \$1,750.0 UGF
- AHFC Supplemental Housing Development Program \$3,000.0 UGF

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Ms. Harbour turned to Slide 8:

- **Department of Transportation and Public Facilities**
 - Decommissioning and Remediation of Class V Injection Wells \$2,200.0 UGF
 - Alaska Marine Highway System Vessel Overhaul, Annual Certification and Shoreside Facilities Rehabilitation \$13,500.0 UGF
 - Other Federal Program Match \$1,300.0 UGF (matching \$10,000.0 Fed)
 - Federal-Aid Highway State Match \$60,000.0 UGF (matching \$690,000.0 Fed)
 - Federal-Aid Aviation State Match \$12,000.0 UGF (matching \$187,200.0 Fed)
 - Highway Safety Grants Program \$238.3 UGF (matching \$8,000.0 Fed)
- **Judiciary**
 - Cyber Security Courts \$973.0 UGF
 - Statewide Deferred Maintenance \$1,500.0 UGF
- **Legislature**
 - Capital Costs Related to Legislature, Legislative Council, Council and Subcommittees for Renovation of Legislative Buildings and Facilities \$4,195.0 UGF

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Ms. Harbour turned to Slide 9, "HB 2002 FY2020 Capital Budget - Operating Budget Items (\$ Thousands)":

Operating Fund Source Changes \$14,132.8 (From Power Cost Equalization to UGF)

- **Department of Administration**
 - Legal and Advocacy Services \$1,995.6
 - Division of Motor Vehicles \$20.0

- **Department of Corrections**
 - Population Management \$4,241.5 (includes \$524.5 fiscal note for HB 14)
 - Health and Rehabilitation Services \$4,045.3
 - Administration and Support \$175.0
 - 24 Hour Facilities \$438.4

- **Department of Health and Social Services**
 - Children's Services \$73.3

Ms. Harbour noted that the Operating fund source change was the result of the PCE being unavailable due to the Constitutional Budget Reserve (CBR) sweep.

Ms. Harbour turned to Slide 10:

Operating Fund Source Changes \$14,132.8 (continued)

- **Judiciary**
 - Alaska Court System \$1,198.5 (Includes \$62.0 fiscal note for SB 41)

- **Department of Law**
 - Criminal Division \$1,602.7

- **Department of Public Safety**
 - Statewide Support \$342.5

Ms. Harbour continued to Slide 11:

Fiscal Notes (HB 49 - Crimes; Sentencing; Drugs; Theft; Reports)

- **Department of Corrections**
 - Population Management, Palmer Correctional Center \$16,669.1 UGF
 - 24 Hour Institutional Utilities \$438.4 UGF
 - Health and Rehabilitation Services, Physical Health Care \$4,584.3 UGF

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Ms. Harbour reviewed slide 12, "HB 2002 FY 2020 Capital Budget - Section 8 - Fund Transfers":

An amount equal to deposits in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) for fiscal year 2019 from subfunds and accounts in the general fund including the power cost equalization endowment fund (AS 42.45.070) by operation of article IX, sec. 17(d), Constitution of the State of Alaska, not to exceed the amount necessary after appropriations and deposits to the subfunds and accounts from fiscal year 2020 revenues, to fund appropriations from those subfunds and accounts made in ch. 1 -3, FSSLA 2019, and any other appropriation bills effective in fiscal year 2020, the general fund to the subfunds and accounts from which those funds were deposited into the budget reserve fund.

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Co-Chair Foster asked Ms. Harbour to explain what was happening with the funds for Power Cost Equalization (PCE). He understood that payments would still go out under the program and the fund would also be used for other expenses.

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Ms. Harbour informed that with the passage of SB 19 the previous session fund sources had been changed from unrestricted general funds to PCE funds. Additionally, Capital appropriations had been made with PCE funds; these changes had been made at the last minute. She lamented that because the legislature failed to pass a three-quarter vote to reverse the fund sweep, the funds within the PCE account would be swept into the CBR and would not be available for appropriation.

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Co-Chair Foster returned to her statement regarding the PCE. He noted that the money generated from the earnings of the PCE fund was approximately \$60 million, \$32 million of which should have been distributed through the program to communities in rural areas of the state. He suggested that the remaining \$30 million would have gone to Community

Assistance. He said that Community Assistance had been replaced by the fiscal notes for the crime bill and expressed concern that some of the \$1 billion was being used to pay for other things in the Capital budget.

Ms. Harbour clarified that the bill would replace where PCE funds were previously being used with general fund dollars.

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Representative Knopp recalled that the original Capital Budget contained a \$17 million request from DOC for population management, contingent on the reopening of the Palmer Correctional Facility. That item had been vetoed by the governor. He saw that the \$17 million was back in the new budget. He asked what the plan was regarding the reopening of the Palmer Correctional Center.

Ms. Harbour responded that the funding would be going to the Palmer Correctional Center; however, the language related to contingency had been repealed.

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Representative Josephson referred to Slide 9. He wondered whether PCE had traditionally been used to fund the items proposed on the slide.

Ms. Harbour responded no. She added that it had been a last-minute change.

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Representative Josephson asked whether the administration wanted to fund the items with UGF rather than from the PCE funds.

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DONNA ARDUIN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, responded that the administration had originally proposed funding the items with UGF dollars.

Representative Josephson asked about the deadline for receiving the federal grant monies.

Ms. Arduin responded that there was not hard and fast deadline; however, the Department of Transportation and Public Works would like to get the match soon to be able to continue projects on schedule.

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Representative Josephson asked why the Alaska delegation in Washington D.C. was anxious about the issue if there was not hard and fast deadline.

Ms. Arduin thought that the federal match would ensure that construction stayed on schedule.

Representative Josephson asked why it was the policy of the administration to put all these sweepable funds into the CBR.

Ms. Arduin indicated that the issues being addressed in the bill had been created by the committee. The legislature funded the items through the PCE at the last minute and then failed to get a three-quarter vote to access the funds. The administration was following the law and the constitution to fix the accounts.

Representative Josephson commented that the PCE funds were not sweep able under Hickel v. Cowper. He wondered whether the administration was concerned with possible litigation.

Ms. Arduin responded that the administration had a presentation that it was happy to provide to the committee.

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Co-Chair Foster disagreed that the legislature was responsible for the lack of a reverse sweep. He noted that governors, going back nearly 40 years when the PCE program was first created, had not jeopardized the use of the funds.

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Vice-Chair Ortiz asked whether the administration was prepared to speak on what was not included in the current bill that was included in the original budget the legislature had sent to the governor.

Ms. Harbour responded that certain items from the Legislatures bill might not be included in the current bill. She stated that the legislation was intended to meet critical holes and appropriations.

Vice-Chair Ortiz asked whether she was prepared to review the items included or not included.

Ms. Harbour replied in the negative. She added that a comparison of the two bills would need to be done.

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Vice-Chair Ortiz asked about the \$1 million addition to the Department of Fish and Game. He wondered whether the addition was considered a direct add to the Capital Budget that had not been reflected in any prior submission from the legislature.

Ms. Harbour responded that the governor did submit the request in his original Capital Budget. The legislature had not included it in their version of the bill. She added that the department felt that the item was critical.

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Representative LeBon mentioned the University Capital Maintenance piece equal to \$5 million, which was not currently included in the bill.

Ms. Harbour believed that the funding for deferred maintenance was included but not at the original level.

Representative LeBon whether the interior energy project, proposed to be funded through Alaska Industrial Development and Export Authority (AIDEA) receipts for \$4 million, was included.

Ms. Harbour indicated that the project was not included.

Representative LeBon asked if it had been discussed.

Ms. Harbour said that she had not been privy to that conversation but that the reason for the veto was that cuts needed to be made.

Ms. Arduin interjected that none of the governor's vetoes had been included in the bill and that the administration did not intend to put them back in the budget.

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Representative Knopp asked about the Alaska Court System and the original \$1.2 million for salary adjustments for court employees. He wondered about the expected increased costs for the recent crime bill.

Co-Chair Johnston clarified that he was talking about the operating budget.

Representative Knopp maintained his concern and requested further explanation.

Ms. Arduin preferred to focus on the topic of the capital budget.

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Representative Josephson asked what SB 19, as written by the legislature, drew from the various funding sources.

Ms. Harbour asked Representative Josephson to clarify his question.

Representative Josephson wondered if the CBR had been realized and passed what would have been spent from the CBR and, other sources, on capital expenses.

Ms. Harbour would come back with an answer to Representative Josephson's question.

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Representative Knopp commented that the title of the bill included "other appropriations" and felt that his previous question was relevant.

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Representative Josephson asked whether the legislature could decide about the capital budget in fall 2019 and still receive federal match.

Ms. Arduin responded that it was important that the cash flow needed to be available through construction season in order to continue projects. She said that it was possible that if the projects were not completed the state would relinquish the federal match.

Vice-Chair Ortiz asked about Alaska Marine Highway System (AMHS) and the approximately \$13 million for vessel maintenance and replacement. He noted that the budget submitted by the legislature had included proceeds from vessel sales to be added to the replacement fund. He asked whether the administration had considered including the funds.

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Ms. Harbour reiterated that vetoed items had not been added back to the legislation.

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Vice-Chair Ortiz understood that the monies that he was referring to had been a part of the capital budget sent to the governor by the legislature.

Ms. Harbour responded that the funds he was referring had been vetoed.

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Representative LeBon asked whether the administration would consider using AIDEA receipts for Capital Budget items.

Ms. Arduin offered that the monies had been suggested for one-time use for oil tax credits.

Representative LeBon asked if the amount was over \$100 million.

Ms. Arduin replied that the legislature chose to use the fund for a prospective bonding program for the credits.

Representative LeBon asked how statutory budget reserves (SBR) might be used for Capital Budget appropriations.

Ms. Arduin responded that the money had been swept.

Representative Knopp asked whether there was money to fund the capital budget.

Ms. Harbour replied that there was approximately \$200 million for the budget. She would get a final amount to the committee.

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Representative Wool asked about major transportation projects and wondered how many current projects were already funded.

Ms. Harbour thought the department would be better suited to answer the question.

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Co-Chair Johnston repeated Representative Wool question.

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Representative Wool clarified that he was wondering about projects that had secured funding in previous years.

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Representative LeBon referred to the list on Slide 8. He asked whether the state was leaving any federal matching funds on the table.

Ms. Harbour indicated that the state was capturing all the federal funding for the listed projects.

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Representative Josephson asked whether the administration prioritized capturing all the federal revenue for Capital Budgets.

Ms. Arduin replied that the administration proposed to capture all the federal transportation dollars allocated for Alaska.

Representative Josephson had heard earlier in the day that from David Teal, Director, Legislative Finance Division, that the current bill could not be funded.

Ms. Harbour confirmed that Director Teal's numbers showed a shortfall.

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Co-Chair Johnston wondered about federal matching funds. She understood that in the past the state had received lapsed federal funds from other states. She wondered whether there was a date when the current federal match would no longer be available to the state.

Ms. Harbour did not have an answer to her question.

Co-Chair Johnston thought it was an important question to be answered. She believed that knowing the timeline was imperative.

Ms. Harbour considered that regarding labor grants, the federal government would review what had been spent to date, and if a certain target had not been met the funds would be put out to other agencies to be spent by September 30th. She was unaware of DOT's timeline.

HB 2002 was HEARD and HELD in committee for further consideration.

Co-Chair Johnston discussed housekeeping.

#

ADJOURNMENT

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The meeting was adjourned at 1:36 p.m.