

HOUSE FINANCE COMMITTEE
SECOND SPECIAL SESSION

July 20, 2019

3:17 p.m.

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CALL TO ORDER

Co-Chair Johnston called the House Finance Committee meeting to order at 3:17 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 Steve Thompson; Representative Tammie Wilson; Representative Sara Hannan; Representative DeLena Johnson; Representative Zack Fields; Representative Sarah Vance; Representative David Eastman; Representative Louise Stutes; Representative Gabrielle LeDoux; Robert Irvine, Staff, Representative Jennifer Johnston; Paul Labolle, Staff, Representative Neal Foster; David Teal, Director, Legislative Finance Division.

PRESENT VIA TELECONFERENCE

Megan Wallace, Director, Legislative Legal Services.

SUMMARY

SB 2002 APPROP: CAPITAL; SUPP; OTHER APPROP

CSSB 2002(FIN) was REPORTED out of committee with with seven "do pass" recommendations, one "do not pass" recommendation, and two "amend" recommendations.

Co-Chair Johnston reviewed the agenda for the meeting.

#SB2002

CS FOR SENATE BILL NO. 2002(FIN)

"An Act making appropriations, including capital appropriations, supplemental appropriations, reappropriations, and other appropriations; amending appropriations; making appropriations to capitalize funds; making appropriations for the capital expenses of the state's integrated comprehensive mental health program; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

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Vice-Chair Johnston summarized the bill saying that it provided critical funding for safety, infrastructure, and maintenance projects across Alaska. It allowed the state to capture and leverage federal funds for airports and highways and funded HB 49, the omnibus crime bill [Legislation passed in 2019]. It also included the reverse sweep that would fund programs such as the Power Cost Equalization (PCE) and the Alaska Performance Scholarship. She counseled that if the legislature chose not to pass the bill before the end of July, programs would be shut down or would end, and the crime bill passed earlier in the year would be left unfunded. She further commented that if the priority of the legislature was to make Alaska's roads and communities safer, allow Alaskans to heat their homes, and give children an opportunity to seek an education, the legislature needed to pass the bill before July 31st.

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ROBERT IRVINE, STAFF, REPRESENTATIVE JENNIFER JOHNSTON, reviewed the bill noting that though the Capital Budget passed by a wide margin, many of the items were funded by the Constitutional Budget Reserve (CBR) requiring a three-quarter vote of the legislature which failed. As a result, a large portion of the bill was not funded including

critical appropriations seated for federal match for state highways and airports. He went on to say that other appropriations in the capital budget were vetoed by the governor including Alaska Housing Finance Corporation grants and funds for the Alaska Marine Highway System (AMHS).

Mr. Irvine continued that the bill before the committee was essentially the capital budget bill that both bodies passed in June without the items that were enacted, including federal funds. He meant that the bill included the items in the capital budget that passed but were lost by veto or not maintained due to the failure of the three-quarter CBR vote. The primary source of funding for the bill was the CBR. There were a few items funded by other sources which he would highlight. The bill also included language for the CBR reverse sweep. He noted that since items in the bill should be familiar to members, he would describe the sections briefly. He also mentioned that provisions in the bill were very similar to the capital appropriations section of HB 2001 [the House companion bill] heard the previous Monday.

Mr. Irvine provided a sectional analysis. He began with Section 1, page 2 which contained the agencies' capital projects passed in SB 19 [Capital budget legislation passed in 2019] minus enacted items including \$10 million for statewide addiction treatment facility matching grants and \$7.42 million for the Alaska Travel Industry Association.

Mr. Irvine continued to page 3, line 14 which contained the Marine Exchange of Alaska funding by the commercial passenger vessel excise tax. The funding source for the appropriation was different than the CBR.

Mr. Irvine moved to page 6, line 23 which showed an appropriation of \$73.3 million for the Department of Transportation and Public Facilities highways and airports to receive a federal match.

Mr. Irvine highlighted page 7, line 5 showing \$2.5 million for the University of Alaska deferred maintenance. He noted \$5 million had already been enacted.

Mr. Irvine advanced to Section 1 and Section 2 which encompassed the funding sources for the departments which totaled \$161,431,629 from the CBR. He reported that

Section 4, page 11 contained the supplemental appropriations for the Department of Corrections (DOC) and the Department of Health and Social Services.

Mr. Irvine relayed that Section 5 and Section 6 on page 12 outlined the funding sources for the supplemental agency funding which totaled \$3,220,200.

Mr. Irvine reported that Section 7, page 14 showed the Alaska Mental Health Trust capital appropriations. Section 8 and Section 9 defined the funding sources for the Alaska Mental health Trust capital appropriations totaling \$11,700,000 from the CBR.

Mr. Irvine continued to Section 10, page 17 which contained ratifications. It was a technical addition granting authority to the administration to true-up prior years' expenditures. Section 11(a) was an appropriation of \$200,000 of Exxon Valdez Oil Spill (EVOS) earnings to Prince William Sound for the Science Center.

Mr. Irvine moved to Section 11(b), page 17 showing an appropriation of \$2 million to the Northwest Artic Bureau for school construction major maintenance. The funding source was Alaska Industrial Development and Export Authority (AIDEA) receipts. Section 11(c), page 18 contained an appropriation of \$4 million for the construction and expansion of the liquified natural gas storage facility in North Pole, AK. The fund source was the AIDEA Sustainable Energy and Supply Development Fund. The language was originally in the number section of SB 19 but was moved to the language section to accommodate for the different fund source.

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Mr. Irvine advanced to Section 12, line 18 containing intent language for the Department of Education and Early Development relating to the proceeds of the sale of land. It specified that the proceeds went to Mt. Edgecumbe for school maintenance.

Mr. Irvine relayed that Section 13, page 18 contained a reappropriation of \$34,577 for the Flat Top Mountain Trail Cleanup Pilot Project. Section 14(a), page 18 was intent language for AMHS stating that proceeds of the sale of AMHS vessels needed to to go to the vessel replacement fund.

Mr. Irvine reported that Section 14(b), page 19 was a reappropriation of \$1.6 million to the harbor facility grant fund for harbor facility matching grants. Section 15, page contained a scope change for the Ketchikan Moorage Facility Project. In Section 16 on page 19 there were legislative reappropriations of past capital projects to the Alaska Housing Capital Corporation.

Mr. Irvine continued to Section 17(a) which contained the reverse sweep. Section 17(b), page 24 encompassed traditional deficit filling language. If revenues came in lower than projected for all the appropriation bills, the CBR would be used to balance the budget.

Mr. Irvine moved to Section 17(c), page 25 which provided headroom so that if there were budget supplementals, the legislature could use up to \$250 million from the CBR. It did not obligate the money without further legislative appropriation. Section 17(d) made the appropriations from the CBR.

Mr. Irvine advanced to Section 18 repealing the population triggers that were enacted for opening the Palmer Correctional Facility. Section 19, page 25 contained the lapsed provisions.

Mr. Irvine reported that Section 20, page 26 reflected the retroactivity of the bill. Section 21 contained the contingency language regarding the reverse sweep and Section 22 was the immediate effective date.

Representative Tilton asked Mr. Irvine to please explain what would be accomplished in Section 17(b) on page 24. She read a portion of the section:

"If the unrestricted state revenue available for appropriation in fiscal year 2020 is insufficient to cover the general fund appropriations that take effect in fiscal year 2020 that are made in this Act, as passed by the Thirty-First Alaska State Legislature in the Second Special Session and enacted into law, the general fund appropriations that take effect in fiscal year 2020 that are made in ch. 1, FSSLA 2019, as passed by the Thirty-First Alaska State Legislature in the First Special Session and enacted into law, the general fund appropriations that take effect in fiscal

year 2020 that are made in ch. 2, FSSLA 2019, as passed by the Thirty-First Alaska State Legislature in the First Special Session and enacted into law, the general fund appropriations that take effect in fiscal year 2020 that are made in ch. 3, FSSLA 2019, as passed by the Thirty-First Alaska State Legislature in the First Special Session and enacted into law, the general fund appropriations that take effect in fiscal year 2020 that are made in a version of HB 2001 or a similar bill, as passed by the Thirty-First Alaska State Legislature and enacted into law, and the general fund appropriations made in ch. 6, SLA 2018..."

Representative Tilton indicated that the section continued, and she would not read it in its entirety. She wanted to better understand the meaning of Section 17(b).

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PAUL LABOLLE, STAFF, REPRESENTATIVE NEAL FOSTER, responded that the section was deficit filling language that was used in almost every appropriations bill. The language needed to appear in one bill referencing every appropriations bill rather than being in multiple pieces of legislation. Otherwise, if there was a deficit and the associated appropriations bill was not listed, appropriations from the bill could not be filled with CBR funds.

Representative Tilton asked if the language would apply to any appropriation bill that was brought forward in any timeframe. Mr. Labolle responded that, based on conversations with Legislative Legal Services, the bill had to be substantively similar to the bill that passed or was introduced. He clarified he was speaking of the dividend bill that was introduced. By including the language, if a dividend bill passed and there was a deficit, money from the CBR could be used to pay part of the deficit that would go to fund the remaining portion of the dividend.

Representative Tilton asked if the language captured any similar appropriation bill in the future. She suggested the language would allow funds to be used from the CBR without the legislature necessarily knowing the bill. Mr. Labolle deferred to Legislative Legal Services but offered the reason for its inclusion. He stated the language was specifically included to capture the dividend legislation that was before the body in the current special session.

Representative Tilton asked why language would not be included in the dividend bill rather than the bill before the committee. Paul Labolle responded that the bill was created with standard structure which was to put all deficit filling language in one vehicle and reference all appropriation bills that would be affected.

Representative Tilton asked to here from Legislative Legal Services regarding the deficit language. Co-Chair Johnston stated that Mr. Teal could respond while the committee attempted to get someone from Legislative Legal Services online. Representative Tilton was fine with hearing from Mr. Teal but wanted to hear from Legislative Legal Services as well.

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DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, indicated there could be language that specified a date to narrow the application of the deficit language. He acknowledged the complexity of the section and provided a simpler explanation. He relayed that the language restated the name of each bill twice. It could just as easily read, "All bills passed by the 31st Legislature before August 1st are covered." He went on to explain that the reason for such a sideboard was to limit the possible scenario Representative Tilton referenced. If a supplemental bill passed in January 2020 and applied to 2020, the current language would capture the deficit language, and any deficits would be funded with CBR monies. He reiterated his suggestion to include a date which provided a protection. Specific bills had to be identified to avoid the problem of future bills creating much larger draws.

Representative Tilton referred to the headroom of \$250 million in Section 17(c). She thought the amount was larger than in previous bills. She wanted to better understand why headroom was needed as well as deficit fill.

Co-Chair Johnston responded that the amount was included for several reasons. The first reason had to do with the fire season Alaska experienced in the current year. The second reason was that it appeared the inventory of earthquake damage had not been completed. She also brought up the question of whether the state could obtain waivers from the federal government for Medicaid cuts. She wanted

to make sure that the funds were available in case the waivers could not be obtained. She detailed that holding up a supplemental placed many small businesses at risk of not getting paid. Therefore, the committee decided to make the amount larger in the current year.

Representative Tilton noted that both the headroom provision in Section 17(c) and the deficit fill in Section 17(b). She did not recall ever seeing both in one bill. She thought it was a policy call. She wanted to better understand the difference between them. Co-Chair Johnston replied that one had to do with cash management, and the other was to address the supplemental bill. She invited Mr. Labolle to comment.

Mr. Labolle concurred with Co-Chair Johnston's explanation. He added that the deficit filling language in Section 17(b) had to do with appropriations the legislature made. It was written tightly and referenced only appropriations bills that the section would affect. He continued that the headroom was for things the legislature was unaware of for future bills that would be passed by the legislature. He noted that the deficit filling language would take affect automatically. The headroom in Section 17(c) required an appropriation.

Co-Chair Johnston asked Representative Tilton to repeat her question for Legislative Legal Services, as someone was online to answer questions. She indicated Representative Gabrielle LeDoux had joined the meeting.

Representative Tilton indicated her question had to do with Section 17(b) on page 24. She wanted to understand the language and how it would affect future funding. It was her understanding from listening to Mr. Teal that the language would allow the funding of any future bills. She wanted Legislative Legal Services to weigh in on the issue.

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MEGAN MEGAN WALLACE, DIRECTOR, LEGISLATIVE LEGAL SERVICES, explained she was cut off and missed Mr. Teal's perspective. However, she heard Mr. Labolle's explanation regarding the deficit filling language and the headroom provision.

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Ms. Wallace explained that the deficit filling language would cover the appropriations already made by the Legislature in the operating, mental health, capital, and education funding bill passed in 2018 along with HB 2001 or a similar bill that was passed by the legislature presumably anytime before the 31st Legislature concluded. She offered that any other additional bills passed by the legislature that had appropriations that took effect in FY 20 would be funded through the headroom section, Section 17(c).

Representative Tilton noted the reference to HB 2001 or a similar bill. She wondered if a similar bill was a committee substitute of HB 2001 or whether it could be any appropriation bill throughout the 31st Legislative Session.

Ms. Wallace responded that the language stated it was a version of HB 2001 or a similar bill. The language would allow for any committee substitute that was introduced or a similar appropriation bill that was compatible or comparable to the appropriation in a version of HB 2001. She reported there being versions of HB 2001 that were general appropriation bills. A future appropriation bill would fit within the subject.

Representative Josephson understood that the headroom appropriation was as much as \$500 million in other years. He asked if the state had experienced headroom in such a large sum.

Mr. David Teal responded that the headroom was an estimate. It had been as low as \$100 million and as high as \$500 million depending on what leadership believed the risk of supplemental funding might be. Similarly, what was currently Section (b) did not list any bills. It stated that if there was a deficit, it would be filled. Section 17(b) referred to appropriations that had already passed or would pass soon (as in the case of HB 2001). It assumed that the budget was balanced at the time. It covered the possibility of revenue being less than expected putting the state into a deficit - it was the reason the language contained, "If revenue is less than appropriated". He was

aware that it used to apply when the bill was passed. Presently, it did not, and the deficit would automatically be filled from the CBR. The headroom was for unforeseen circumstances. The state expected to have supplemental needs, although it was difficult to know what the the amount would be.

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Representative Merrick stated she was confused, noting the co-chair's comments that the bill was essentially the same bill that was voted on in the prior month - a bill that failed to pass because the CBR vote did not pass. She asked why the legislature was reconvened to take up the same failed bill. Co-Chair Johnston responded that it was a policy call. Some legislators were concerned about the CBR sweep, public safety, education, highways, and airports.

Representative Merrick responded that she came to Juneau to work on a compromise, but she did not view offering the same piece of legislation as a compromise.

Sullivan Leonard echoed the sentiments of Representative Merrick. She also came to Juneau to work on a compromise. However, she did not see the current bill as a compromise. She responded to comments about the bill being critical legislation but noted there were pieces of the bill that funded carpet repair and swimming pools. She felt the legislature was going backwards. She echoed her colleague's comments regarding the deficit filling language in Section 17. She surmised the passing of the bill would bind a CBR vote in some future appropriation bill. She concluded that members were being forced to vote one way based on a bill that might come before the legislature. She was disgruntled with the bill.

Representative Knopp stated that no one was bound to any vote. He further clarified that what failed last time was a funding source vote, rather than the individual items in the bill. He indicated the governor's crime package was in the bill. If members chose not to support the bill, the crime package would not be funded. He referred to Section 18, line 27 on page 25. He asked if the section contained repeal language for the population trigger for the Palmer Correctional Facility. Mr. Irvine responded affirmatively.

Representative Knopp commented that the repeal language was in the original capital budget bill [SB 19]. However, the language was not in the governor's bill when he introduced the last version, SB 2002. He questioned why the repeal language was in the bill.

Paul Labolle stated there was a structural difference between the capital budget appropriations that were put out by the governor and the repealers from what passed in SB 19. The Governor repealed the sections of language that addressed the crime bill and reenacted them in the numbers section. The Senate left the structure intact from SB 19 that reopened the Palmer Correctional Facility limiting the funding to only its reopening. Also, only the population triggers were removed based on population at points of time.

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Co-Chair Foster responded to earlier comments about hearing the bill again. He stated that Alaskans had spoken loud and clear that they wanted to leverage federal funds for roads and highways. They did not want to leave \$1 billion dollars on the table for other states to access. He mentioned \$12 million for village safe water that would leverage \$52 million in federal funds. He also had a question regarding the reverse sweep. He specified that if the legislature were to achieve the reverse sweep, it would restore funding to the PCE Program and the Higher Education Fund. He continued that without the reverse sweep thousands of Alaskan students across the state would not receive their scholarships.

Co-Chair Foster also noted the PCE fund would not be recapitalized without the reverse sweep. He was aware of other options such as funding the program for 1 year through undesignated general funds (UGF). He was concerned that if the state did not recapitalize the fund it would not be available in the following year. The Power Cost Equalization Program was created to bring a level of equality to rural communities in terms of energy costs. Currently, the proposal being considered was to strip away the entire fund of \$1 billion. He asked what other funds would be affected by the lack of a reverse sweep that might compromise communities. He was aware of the AMHS being affected along with other items. He asked Mr. Labolle to comment.

Mr. Labolle responded that he recently learned the Division of Occupational Licensing carried a balance every year to keep their yearly fees at a flat rate rather than having to fluctuate them based on the number of cases in any given year. If the balance was not swept, fees would change yearly. He suggested that not only were there anticipated problems without the reverse sweep, there would be unanticipated problems which he thought should be cause for concern. The legislature would not know the dollar amounts or the demand and would not have the information until after FY 20.

Co-Chair Foster was looking for other examples of things that would be lost if the reverse sweep was not achieved. He mentioned the PCE Fund, the Higher Education Fund, the Marine Highway Fund, and the Vessel Replacement Fund. He noted that the PCE Fund had never been swept before. It would be a major policy change that would affect 84,000 rural Alaskans. He emphasized how important the bill was to him and the importance of taking another look at the bill.

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Representative Josephson thought there had been a significant amount of education provided in the prior 30 days regarding the reverse sweep issue. He heard from the Office of Management and Budget (OMB) one of the benefits of sweeping \$2 billion was that the state paid down the CBR debt. He reported never receiving a communication indicating any anxiety about the sweep. He thought it was a legal duty, but not an interest-bearing duty. He also saw that the concern over the loss of matching funds had changed. He wondered if someone could speak to the issue of population management. The prior language was designed to steer the administration towards refilling the Palmer Correctional Center and receiving money for that purpose. He reported some anxiety about sending Alaskan prisoners to other states to contract prisons. He asked someone to comment on potential obstacles.

Mr. Labolle stated that the funding was specifically delineated for opening the Palmer Correctional Center. The structure set forth in SB 21 [Legislation passed in 2018 regarding the mental health budget appropriation] was removed in the governor's original version of the bill [SB 2002]. He suggested the original version would have

allowed for the funds to be used for population management and provided full authority to send Alaskan prisoners out of state.

Representative Josephson asked how the absence of the language did the opposite and kept prisoners in Alaska. Mr. Labolle responded that it was because the language was in existing law with the passage of SB 18 [SB 19]. The portions containing the language were not vetoed. The only item remaining in question in SB 18 [SB 19] was the fund source since the funds came from the PCE Fund. However, the reverse sweep in the current bill would fix the issue from SB 19.

Representative Tilton referenced discussions regarding funding for the Higher Education Fund and Washington, Wyoming, Alaska, Montana, and Idaho (WWAMI). She thought the original version of SB 2002 had already addressed funding for both items. She asked if she was correct. Paul Labolle asked Representative Tilton to restate her question. Representative Tilton reported that the original version of SB 2002 was funded entirely with general funds. She believed the issue of paying out the Higher Education Fund, the WWAMI fund, and the PCE payments were taken care of in SB 2002 using general funds.

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Paul Labolle replied, "The answer to that is, kind of." The bill contained language stipulating that funds that would have been funded by fund sources that were swept would be replaced with general funds. However, the bill, as written, created a deficit of about \$100 million. Although it provided a paper payment of funds, the bill contained a budget hole.

Representative Tilton asked if there could have been an opportunity to amend SB 2002 to fill the hole with another account allowing the programs to be funded. Mr. Labolle replied that the bill reflected the amendments agreed to by the Senate to address the deficit.

Co-Chair Foster thought the issue was that the governor submitted the original version of SB 2002, although it paid for PCE for 1 year with UGF, without the reverse sweep. He explained that normally the PCE program was funded from the earnings of the \$1 billion PCE Fund. He was concerned that

if the fund was no longer there, there would be no funding for the program the following year and into the future. The Power Cost Equalization Fund had been in existence since the '80s. He was concerned for the future existence of the fund.

Representative LeBon asked Mr. Teal to discuss the concept of the reverse sweep and the time sensitivity of the legislature acting. He thought the issue was reason enough to be in Juneau. He mentioned hearing that 3 to 4 dozen accounts would be affected by not enacting the reverse sweep with an impact of about \$2 billion.

Mr. Teal thought it would be easiest to address Representative LeBon's question in the context of timing. He used the Vaccine Assessment Fund as an example. He suggested that although not doing the reverse sweep immediately might not be an issue currently, access to money would be imperative if there were a measles outbreak. Some of the funds that were swept might not become problems until the end of the fiscal year. He mentioned the Department of Labor and Workforce Development's Worker's Safety Fund which used the balance and was spending at an unsustainable rate. By sweeping away the balance in the current year, they would have to reduce expenditures. Some of the effects could be long-term, some were hypothetical, some were certain, and some could happen very early.

Mr. Teal continued that some people were deciding not to attend college because of the lack of a reverse sweep and the negative impact on the Higher Education Fund. He recommended acting quickly to reverse the sweep. He thought there could be retroactive payments for the PCE Fund unlike people immediately having to decide whether to go to college. There were several unanswered questions regarding the sweep. He thought the Higher Education Fund was the best example of a reason to reverse the sweep as quickly as possible due to the monetary impact, the number of people affected, and timing being critical.

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Representative Merrick asked if there were projects in the committee substitute that were funded from the CBR that were traditionally funded from the general fund. Mr. Irvine responded, "Yes."

Representative Merrick asked for a list of projects and their dollar amounts. Mr. Labolle responded that all the appropriations were funded with the CBR apart from the projects Mr. Irvine noted were funded otherwise. He suggested looking at the roll-up portion of each section of the bill. He pointed to the projects listed in Section 1, items which would be receiving legislative appropriations. He indicated the roll-up section began on Section 2, page 8. Section 2 listed the funding per department for the projects. Most of the projects would be funded via the CBR. Page 9 contained the second part of Section 2 which provided the total agency budget totaling about \$161 million.

Representative Merrick was trying to get an idea of what was traditionally funded through UGF that was presently being changed to CBR funding.

Representative Tilton wanted to ask about details regarding some of the projects. She referred to page 4, line 5 under DOC. She pointed to the Lemon Creek Correctional Center. The wording in the current bill was different from what was in the capital bill. She explained that the language in the capital bill made the appropriation contingent on the implementation of a prison industry laundry program. She queried the change. Mr. Labolle stated the Senate chose to remove the language and the targets.

Representative Tilton referred to page 7, line 5 under the University of Alaska. She noted a \$2.5 million appropriation for maintenance, renovation, and repair. She asked if the amount was in addition to the amount in SB 19. She asked for the total appropriation. Mr. Labolle replied that the amount in the CS for SB 2002 was an identical amount to the amount that was vetoed in SB 19. Representative Tilton appreciated the clarification.

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Representative Josephson had a comment on something Mr. Teal mentioned about hypothetical and actual harm that could be caused by the failure of a reverse sweep. He indicated that the State University of New York was advertising and directing a campaign to Alaskan students to attend school in New York. Alaskans could not use their Alaska Performance Scholarships because the monies had to be used in Alaska. He thought the dominos were falling and

the process was competitive. He opined that the legislature was trying to keep the dominos from falling, part of the importance of the reverse sweep.

Representative Knopp asked Mr. Teal about a discrepancy in the available funding when the governor's budget was rolled out. He recalled the Legislative Finance Division (LFD) reporting a discrepancy of about \$100 million. The Office of Management and Budget was still working on numbers. He asked about the amount of vetoes restored in the Senate's version of the budget. He referred to the total agency funding on page 8. He asked if the amount reflected the amount of the draw from the CBR. He asked for the total for the entire bill. Mr. Irvine responded that the total funding of the bill from the CBR was \$178,951,800.

Representative Wool asked for the non-CBR funding total. Mr. Irvine replied that it was \$4 million.

Representative Wool surmised the total was roughly \$180 million similar to HB 2002 which totaled approximately \$170 million. He spoke of discovering new funds daily that would be negatively impacted without a reverse sweep. He thought it was reflected in the large difference between current and previous discussions. He wondered about a figure related to the reverse sweep. He mentioned the Occupational Licensing Fund and other various funds. He also mentioned the PCE Fund which had a balance of close to \$1 billion. He asked Mr. Teal how he accounted for the unknowns. He requested an amount for the reverse sweep funds.

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Mr. Teal responded that LFD put some spreadsheets together on the topic Representative Wool was asking about. He reported that the number was not firm. He explained that when the number was put together there were various categories such as PCE funded by an endowment. The fund ran off earnings. He argued that if the PCE portfolio was taken away sweeping the balance of the fund, the earnings of the fund during FY 20 would be zero. There would be no money for PCE, and money could not be recovered. The same circumstance applied to the Higher Education Fund. There would be no interest earnings on a zero balance portfolio.

Mr. Teal continued that other funds collected money during the year such as Occupational Business Licensing, or Spill

Prevention and Response. Many could be affected by taking their balance. However, the funds including the Tobacco Fund, the Alcohol Fund, and the Marijuana Fund regenerated new money during the year. A fund might generate more money than it spent. In which case, there would be no harm in sweeping such a fund.

Mr. Teal continued that many of the funds spent more than they would take in. The real impact of the sweep would be in the last few months of a fiscal year when funds ran out of money. He was uncertain when the fund would run out and by how much. The Legislative Finance Division made some guesses and came up with just over \$120 million. The Office of Management and Budget went through a similar exercise and derived \$115 million as they testified in the Senate Finance Committee. He concluded, "Close enough." He remarked the [reverse sweep] amount was substantial. He reported that \$85 million of the impact was from the PCE Fund and the Higher Education Fund. He told of the Vaccine Fund being swept for \$21 million. It was difficult to know how much money might be needed for vaccines, and the amount was an educated guess. He was comfortable with an estimate of \$115 million since LFD and OMB calculated their numbers independently and were within \$5 million to \$10 million of each other.

Representative Wool referred to the endowment funds. He wondered about the effects of paying for PCE (\$30 million) out of the general fund. He suggested more pressure would be placed on the general fund because of the lack of an endowment income. He asked if he was accurate.

Mr. Teal responded that regarding the PCE Fund, as long as there was an endowment, there would be a certain funding stream. The Power Cost Equalization Program would be competing for general funds without an endowment. It would be difficult to know if the program would last being funded with UGF. He thought Co-Chair Foster could speak to the reason there was a PCE endowment. It had to do with urban and rural subsidies.

Representative Wool referenced the impact of jeopardizing the Higher Education Fund. He received a call earlier in the day from the local Fairbanks newspaper asking when he thought the issue would be resolved. The newspaper reported students wanting to go to school which was starting in a month. He spoke to the negative ripple effect of not

resolving the issue. He underlined the time sensitivity of resolving the reverse sweep question.

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Co-Chair Foster relayed that the prior governor's version of HB 2002, now SB 2002, proposed funding PCE with UGF. He did not believe the same was true for the higher education scholarships. He asked for clarification. He suggested that if it was not the case, it would negatively affect the WWAMI Program, the program that helped students in Alaska to pursue a medical degree.

Mr. Labolle's understanding was that the general fund would backfill any fund that was swept for one year. He noted that if PCE was swept into the CBR, the CBR's investment portfolio would change. He informed members that the CBR was managed for liquidity. It was expected to be spent and could not be invested at a higher level. He thought the percentage was between 2 to 3 percent. The PCE Fund, the balance of which was not expected to be spent, could be invested at a higher rate - between 5 and 7 percent.

Co-Chair Foster suggested that the programs could be financed in the current year with UGF, but a problem remained. If the Higher Education Fund was swept and went away, the correlating programs would be put at risk. He shared the same concern for the PCE Fund as he had for the Higher Education Fund.

Representative Merrick asked if it was possible to fund the essential programs with time constraints with UGF and to do the reverse swept later with legislation. Co-Chair Johnston responded that the longer the legislature delayed dealing with the matter, the more complicated the accounting would become. She also pointed out that the PCE Fund would return less earnings. Mr. Labolle agreed with Co-Chair Johnston. Representative Merrick thought her suggestion could be a solution in the short-term.

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Representative Tilton referred to Section 12 on page 18 regarding the funding for Mt. Edgecombe boarding school maintenance and operations. She asked what the funding was for. Mr. Irvine replied that the provision, added by the Senate, stated that if Mt. Edgecombe was going to sell off

any of its lands, the proceeds would be used for the maintenance and operations of the school.

Representative Tilton mentioned the pool and wanted to clarify the use of the funds. She moved on to Section 13 containing a reappropriation for the Flat Top Mountain Trail Cleanup Pilot Project. The appropriation was coming from the Department of Military and Veterans Affairs' deferred maintenance project: Military Youth Academy deferred maintenance renewal and replacement. She wondered if it was important for the Military Youth Academy to have the funds reappropriated back to them. She asked if the funding started as UGF. She also wanted to more information on the project being funded. Mr. Labolle responded that the money was being reappropriated from a closed project, the balance of which was lapsing.

Representative Tilton asked Mr. Labolle to better explain the Flat Top Mountain Trail Cleanup Pilot Project. She was concerned about the project being a pilot project and future funding to maintain it. Mr. Irvine explained that the project encompassed placing receptacles on Flat Top Mountain so that individuals that were hiking had a place to deposit their dog's poop. Kids would be employed to pick up the trash in the receptacles. There was concern that fecal matter was getting into streams creating pollution.

Representative Tilton questioned whether any consideration had been given to future funding of the project since it was currently a pilot project. Co-Chair Johnston replied that the Senate had indicated that if the project was successful and seemed worthy, they would be considering it for future years. She thought the Senate had benchmarks for measuring the success of the program.

Representative Tilton referred to Section 16 regarding the Alaska Housing Finance Corporation fund balances for the listed projects. The balances were being appropriated to a parking garage for future use and to be appropriated in a future session. She wondered why the monies were not being placed into the CBR to be used for funding some of the state's current deficit.

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Co-Chair Johnston thought the issue was a policy call. It was a common practice used for the past several years,

because of the state's limited funds. Matching funds for the following year would be a consideration. She spoke of an issue in the current year of getting funds out of the CBR. She thought any federal matching funds that could be reappropriated should be saved.

Representative Tilton appreciated wanting to make sure that the state had funds available for reappropriations for federal highways. She wondered why the funds weren't being used with the state's current deficit.

Representative Josephson offered a comment relative to the PCE Fund and the Higher Education Fund. He suggested that, although the funds were not technically dedicated funds, they could be used for any purpose by any legislature. The dedicated funds the state had were from the territorial period. He surmised the funds were an expression of the continued belief the programs were worthy and did not believe they should be used for any other purpose.

Representative Merrick referred to Section 13 on page 18. She queried the number of receptacles the state would be receiving at a cost of nearly \$35,000. Mr. Irvine would have to get back to the committee with the information.

Representative Wool asked how long the reverse sweep had been in place. Mr. Teal replied, "The sweep has been going on since the creation of the Constitutional Budget Reserve Fund in 1991." He added that the sweep did not occur every year. The sweep only occurred when the state owed money to the CBR. He reported that the state owed money most every year until the last round of high oil revenues when the CBR was completely reimbursed. He reported there being no sweep in 2014, 2015, and 2016. The state currently had a liability to the CBR of about \$12 billion with \$2 billion cash that remained in the fund. He explained that when an accountant was asked for the balance of the CBR, they would respond with a figure of \$14 billion: \$2 billion in cash and \$12 billion in what the state owed itself. Every year the state had an outstanding liability to the CBR, there was a sweep. Every year a sweep occurred there was also a reverse sweep.

Representative Wool clarified there had never not been a reverse sweep when the CBR had been swept.

Sullivan Leonard relayed that in most of her experience with local and state entity budgets, the general fund accounts was used to pay for all appropriations first. She asked Mr. Teal why the state would pull from its savings account first as opposed to paying the budget from the general fund.

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Mr. Teal replied that it could be done either way. It was a policy call. Generally, that legislature did not spend directly from the CBR. The legislature spent general funds. Due to the provisions in Section 13(b), if the state spent more general funds than it had, money would automatically be drawn from the CBR. However, the draw would be counted as general fund spending. He continued that when there was a direct appropriation from the CBR (like the \$3 billion that was placed in the retirement system) it would not show as a general fund appropriation. In effect, spending general funds which created a deficit situation was spending from the CBR. It did not matter whether the money was spent before being forced to draw from the CBR or whether it was spent directly from the fund. If revenue did not support the state budget, the money would come from the CBR.

Representative Merrick understood the concept Mr. Teal was explaining. She asked for the current balances of the general fund and the CBR. Mr. Teal replied that the general fund balance was zero. It had to be zero. The language regarding the deficit filling draw in Section 13(b) directed the state to draw the necessary amount of money to fill the deficit. The state had not had an end-of-year general fund balance for years. As long as there was a sweep and a deficit filling measure was used, the end balance of the general fund had to be zero. The end balance of the CBR was slightly over \$2 billion in cash and slightly over \$14 billion of state-owed dollars.

Co-Chair Johnston added that, with the vetoes and the structured draw, the governor transferred \$1 billion back to the Earnings Reserve Account. The total revenues dropped presenting a problem with the budget.

Representative Wool asked how to get the CBR balance down in nominal terms. He wondered if the fund was always a continually growing fund, or if it got smaller.

4:39:01 PM

Mr. Teal indicated Representative Wool had described what happened accurately. He explained that once money was in the CBR, the fund would never go below that balance including the amount the state owed. The state was required to repay what it drew from the fund. The issue that would always arise was whether the CBR had to be repaid. He indicated the answer was, "No." The constitution envisioned paying the money back with sweeping funds at the end of the year. The state went from owing a substantial amount in the mid-2000s to repaying it after a spike in oil revenues. The amount was fully repaid to the CBR. At the time, there was a decision made to put surplus funds into the Statutory Budget Reserve (SBR) rather than the CBR. He explained that any money taken from the CBR would be owed again. He reported a current SBR balance of \$172 million.

Co-Chair Foster returned to the idea of funding items affected by the reverse sweep with UGF and returning to do the reverse sweep later. He contemplated why he would allow the sweep to occur when he was aware of the intent of the administration to drain the PCE Fund and the Higher Education Fund. He did not see any potential of dealing with the reverse sweep later.

Representative Merrick noted she was not the administration. Co-Chair Foster was aware Representative Merrick was not the administration. However, he knew full-well it was the intention of the administration to drain the funds, which he would not support.

Rep Ortiz MOVED to report CSSB 2002(FIN) out of Committee with individual recommendations.

Representative Sullivan-Leonard objected.

Representative Sullivan-Leonard spoke to her objection. She thought an opportunity to offer amendments should be provided. There were things in the bill she thought contained significant fluff. She had heard there were mission critical pieces to the bill which she could appreciate and support. However, there several pieces she could not support. She reiterated wanting a chance to offer and debate amendments.

Representative Sullivan-Leonard MAINTAINED her OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Josephson, Knopp, LeBon, Ortiz, Wool, Johnston, Foster

OPPOSED: Tilton, Merrick, Sullivan-Leonard

The MOTION PASSED (7/3).

CSSB 2002(FIN) was REPORTED out of committee with with seven "do pass" recommendations, one "do not pass" recommendation, and two "amend" recommendations.

Co-Chair Johnston thanked the people involved in the budget process. She reported the agenda for the following day.

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ADJOURNMENT

4:45:31 PM

The meeting was adjourned at 4:45 p.m.