

HOUSE FINANCE COMMITTEE  
SECOND SPECIAL SESSION  
July 22, 2019  
2:49 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 2:49 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

Erin Shine, Staff, Representative Jennifer Johnston; Brodie Anderson, Staff, Representative Neal Foster; Representative Sarah Vance; Representative Sarah Hannan; Representative Andi Story; Representative Josh Revak.

SUMMARY

HB 2001      APPROP: ERA FOR PERMANENT FUND DIVIDENDS

CSHB 2001(FIN) was REPORTED out of committee with a "do pass" recommendation.

Co-Chair Foster reviewed the agenda for the meeting.

#hb2001  
HOUSE BILL NO. 2001

"An Act making a special appropriation from the earnings reserve account for the payment of permanent fund dividends; and providing for an effective date."

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Vice-Chair Ortiz MOVED to ADOPT the proposed committee substitute for HB 2001, Work Draft 31-LS1103\H (Wallace/Caouette, 7/22/19).

Co-Chair Johnston OBJECTED for discussion.

Co-Chair Foster asked staff to address the committee.

ERIN SHINE, STAFF, REPRESENTATIVE JENNIFER JOHNSTON, explained the changes in the CS. She read from a prepared statement. She stated that the proposed Committee Substitute (CS) would remove all capital budget appropriation items and some capital budget items in the previous bill version. The CS additionally removed some of the operating budget items that were included in version K of the bill. The CS removed the Constitutional Budget Reserve (CBR) section that had included the reverse sweep, deficit filling language, and the headroom language. The CS also added a language section to access the Statutory Budget Reserve (SBR); and appropriated \$901,470,000 to the Permanent Fund Dividend Fund; which in version K had been \$641,151,000.

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BRODIE ANDERSON, STAFF, REPRESENTATIVE NEAL FOSTER, addressed additional changes to the bill. The previous version of the bill had restored the complete list of vetoes provided by the governor. The CS restored \$278.7 million of the vetoes. He highlighted \$110 million restored to the University, Senior Benefits were restored for FY 19 supplemental and FY 20 budget. Funds were restored for public assistance Medicaid including adult preventative dental. The CS kept approximately \$100 million of the governor's vetoes.

Mr. Anderson continued to address changes to the bill reflected in the CS. He reiterated that sections removed including the capital budget, supplemental capital budget, and mental health capital budgets. The last change was

related to the Permanent Fund. The SBR was added to the deposit to the PFD account, to increase the size of the fund over a surplus PFD. After calculating the vetoes that remained, the surplus deposit to the dividend account was increased. With the changes the size of the surplus would be approximately \$1,336. Including the SBR deposit as outlined in the CS, the PFD payment would be \$1,605.

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Co-Chair Foster provided clarifications for the public. He summarized that the capital budget had been removed from the bill. The original version of the bill had included a restoration of all of the governor's vetoes. The CS restored most of the vetoes, save for a few items. The CS restored up to \$110 million to the University, which resulted in a \$20 million cut. School bond debt had been vetoed by 50 percent by the governor, which had been accepted, as well as the cut to the Regional Educational Attendance Area (REAA) of about \$19 million.

Co-Chair Foster continued to discuss the changes to the bill. The CS also accepted some of the governor's smaller vetoes including cuts to executive branch travel, except for travel for the Office of Public Advocacy (OPA). He reiterated the changes. The bill would use the Statutory Budget Reserve (SBR), which had a balance of \$172 million; however, unless the reverse sweep was in effect it would be hollow authority. He explained that Mr. Anderson had cited two PFD numbers to reflect the two different scenarios.

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Representative Knopp pointed to page 2 of the sectional analysis and asked if the header version K was a typo.

Ms. Shine agreed there was a typo, and the sectional analysis was for version H.

Representative Knopp asked if there was a summary of the items that had been excluded. He asked about the State Council on the Arts.

Ms. Shine replied that the State Council of the Arts was included in the bill, and that she could provide a list of items that were and were not included in the bill.

Representative Knopp would like to see it but would leave it to the co-chairs to decide whether to compile and share the information.

Co-Chair Foster asked for a simple list of what was included and excluded. Everything had been restored with the exception of the University, REAA, school bond debt reimbursement, and a host of small items. Items restored in the bill included Medicaid adult preventative dental, the Online with Libraries (OWL) internet program, public defenders, and Department of Law (LAW) support staff.

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Representative Knopp asked about funding for the Court System.

Co-Chair Foster replied that the funding was included.

Vice-Chair Ortiz seconded the request to receive a list of things that were not included in the budget.

Mr. Anderson replied that he had an internal draft that listed all items not included in the committee substitute and offered to provide it to the committee.

Co-Chair Foster agreed.

Co-Chair Foster spoke to items in the bill including public broadcasting, Alaska Legal Services, Pre-K and Head Start, Alaska State Council on the Arts, live homework help, OWL, Department of Fish and Game surveys and assessments, public assistance, behavioral health treatment grants, LAW support staff and prosecutors, senior benefits, the agricultural revolving loan program, \$3 million for Village Public Safety Officers (VPSO), the Council on Domestic Violence and Sexual Assault (CDVSA), Department of Transportation and Public Facilities funds, civil air patrol, \$110 million for the University, and therapeutic courts. Cuts included agency travel. He asked if there were further items not included.

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Mr. Anderson replied there were roughly 74 items that were not included in the new version of the bill - the majority

of which were travel reductions. The list was approximately 10 to 15 items outside of travel.

Co-Chair Foster relayed that the bill had started with a surplus PFD of \$929. The bill version considered how to increase the PFD while trying to meet somewhere in the middle with individuals who wanted to see some cuts and a larger PFD. Consideration was also given to balancing the wishes of individuals who did not want to access the ERA or draw down on savings such as the Constitutional Budget Reserve (CBR). While the bill did access the SBR, the goal was to balance the interests of all parties.

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Representative Tilton asked for the total amount for items left in the bill. She believed all the other vetoes would be restored by the bill.

Mr. Anderson answered the total sum of vetoes not restored by the bill was \$91,994,400; of which \$89.3 million was UGF, \$226.3 million was DGF, \$1.6 million was other funds, and \$684.8 million was federal funds. He reiterated that the amounts he listed were remaining out as vetoes.

Co-Chair Foster referenced the governor's veto of \$444 million. The \$444 million had included a grand total of UGF, DGF, and other funds. He asked about total vetoes of state dollars.

Mr. Anderson responded that included in the CS was \$259.9 million in UGF.

Co-Chair Foster noted that the governor had vetoed \$444 million, of which only part was UGF. He thought there was about \$90 million in cuts. He wanted to understand the total amount of UGF vetoes.

Ms. Shine stated that there was \$259,990,700 in vetoes. She noted that the number was preliminary, and staff would provide final numbers to the committee.

Co-Chair Foster stated that the governor vetoed approximately \$259 million of UGF, of which \$91 million UGF in vetoes was being accepted in the CS.

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Representative Wool referenced the statement about the veto amount. He thought Mr. Anderson had stated that the CS reinstated \$278 million of the vetoes, which would leave \$162 million. He wanted clarification.

Ms. Shine answered that \$91 million was all funds and the UGF was \$89,387,000 million. She reiterated that the numbers were preliminary, and the Legislative Finance Division would provide transaction compare detail to verify the total amounts in the bill.

Mr. Anderson added that the director of LFD was present to answer questions. He stated that of the original \$440 million in vetoes by the governor, there was approximately \$380 million in UGF. He continued that of the \$380 million, the proposed CS had restored \$259 million in UGF, allowing for \$89 million to remain cut.

Representative Wool replied that the explanation was helpful.

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Representative Merrick looked at item 144 on the spreadsheet that had been handed out related to a subsidy for the University. She thought the president had reported that the University could withstand a cut of up to \$50 million to \$60 million. She wondered where the \$20 million cut had come from.

Representative Josephson replied that the University president had reported that the University could withstand the cuts over a period of three or four years. He thought a \$50 million cut would put the University in a state of exigency.

Co-Chair Johnston added that in discussions with the University she had learned that because the fall semester was starting soon, there was already enrolled students, and the University would have to move forward as there had been no cuts. By spring, the cuts would be doubled.

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Representative Wool recalled conversations with the University president in the past and had understood that \$40 million could be sustained over a period of four years.

He recalled that the president had talked about a worst-case scenario of a \$60 million cut, which could result in having to close a campus. He pondered the question of what was "sustainable" and thought even a cut of \$25 million or \$30 million would require a declaration of exigency.

Co-Chair Foster drew attention to the list of vetoed items that had been accepted.

Representative Sullivan-Leonard had concerns with the PFD component. She asked for the ERA balance.

Ms. Shine deferred the question to the LFD.

Representative Sullivan-Leonard recalled the ERA balance was close to \$19 billion. She noted there was a request to transfer \$9.4 billion to the corpus, which would leave a balance of \$8 billion to \$10 billion. She wanted to know why ERA funds were not being used to fund the full statutory PFD.

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Ms. Shine answered that the bill was following the 5.25 percent of market value (POMV) draw from the ERA; and the surplus PFD was appropriated after state funds were expended to appropriate the leftover for PFD. She cited AS 37.13.140.

Representative Sullivan-Leonard clarified she was asking about the statutory PFD formula.

Co-Chair Johnston replied that as far as putting the vetoed amount back in the corpus of the Permanent Fund would leave approximately three years of structured draw in the ERA so there would be a cushion. She acknowledged market fluctuations, and thought the cushion would protect more of the ERA and the corpus, but not so much that there was not a structured draw.

Co-Chair Foster recognized Representative Steve Thompson in the audience.

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Representative Knopp asked about the \$9.5 billion that was in the original budget, of which \$5 billion was vetoed. He

thought that by signing the operating budget, it should have transferred \$4.5 billion from the ERA to the corpus to bring the fund balance of the ERA be closer to \$14 billion. He thought Mr. Anderson had stated that the \$380 million was the amount of UGF in the \$440 million originally vetoed. He thought the bill restored \$259 million in UGF. He calculated that there was \$121 million cut, not \$80 million.

Mr. Anderson answered that LFD had clarified the information in a note. He reported the numbers the governor had vetoed: \$367.7 million of UGF, \$8.1 million DGF, \$13.8 million in other funds, and \$3.8 million in federal funds. He continued that there had been \$11.7 million separately vetoed for Alaska Housing Finance Corporation (AHFC) homeless assistance (the Alaska Mental Health capital projects), and \$800,000 vetoed from the FY 19 supplemental budget that showed on the list of adds but was calculated into FY 19 transactions.

Representative Knopp asked if LFD had sent a new total of UGF funds that remained vetoed. He thought the amount was on top of the \$200 plus million cut in the operating budget by the legislature. He wanted to know the total UFG cut from the budget.

Mr. Anderson replied that LFD confirmed that the amount of remaining veto was \$89.3 million UGF.

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Representative Knopp was curious about the total UGF cut from the FY 19 base to the current version being considered.

Mr. Anderson did not have the number on hand. The information would have to be provided by LFD.

Representative Tilton thought there was \$4.5 million left in to transfer from the ERA to the corpus and asked if there was another \$9.5 million in the CS, or if it was a total amount of \$9.5 million.

Co-Chair Johnston referred to page 16 of the bill, Section 8(h) that put back in the amount that had been vetoed.

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Representative Josephson noted that the largest item vetoed and not restored was school bond debt reimbursement. He clarified that the legislature wanted to honor the moral promise, and though it had the funds to do so. The administration had believed the funds were not available, and the effort to override the veto had failed.

Co-Chair Johnston WITHDREW her OBJECTION.

There being NO OBJECTION, Work Draft 31-LS1103\H was ADOPTED.

Representative Knopp wanted to express that there was a certain amount of unease when he did not have familiarity when he didn't know what was going into a bill draft. He stated that after going through the CS, he liked the draft and thought it was appropriate.

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Co-Chair Johnston MOVED to REPORT CSHB 2001(FIN) out of committee with individual recommendations.

Representative Sullivan-Leonard OBJECTED. She spoke to her objection. She did not find the CS to be a compromise bill, and hoped there would be some necessary changes made when the bill reached the floor.

Representative Josephson mentioned meetings around the state and many communications from residents. He thought Alaskans overwhelmingly supported taking the action in version H, to restore funds. He thought the restored funds were affordable and supported moving the bill out of committee.

Co-Chair Foster added that the operating line items that were being restored had been discussed in sub-committee, in full committee, and on the floor. He thought a lot of the issues had been discussed extensively. He discussed public testimony and recalled a PFD debate when two amendments came before the body. He acknowledged that the bill moved fairly quickly but reiterated that there had been robust discussion on the topics.

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A roll call vote was taken on the motion.

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

OPPOSED: Merrick, Sullivan-Leonard, Tilton

The MOTION PASSED (7/3). There being NO OBJECTION, it was  
so ordered.

CSHB 2001(FIN) was REPORTED out of committee with a "do  
pass" recommendation.

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ADJOURNMENT

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The meeting was adjourned at 3:31 p.m.