

HOUSE FINANCE COMMITTEE  
January 24, 2020  
2:36 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 2:36 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Ben Carpenter  
Representative Andy Josephson

ALSO PRESENT

Neil Steininger, Director, Office of Management and Budget, Office of the Governor; Brian Fechter, Chief Budget Analyst, Office of Management and Budget, Office of the Governor.

SUMMARY

FY 2021 FISCAL OVERVIEW: OFFICE OF MANAGEMENT AND BUDGET

Co-Chair Foster reviewed the meeting agenda.

^FY 2021 FISCAL OVERVIEW: OFFICE OF MANAGEMENT AND BUDGET

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NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, gave a brief description of how the governor's budget had been developed. He detailed that the Office of Management and Budget (OMB) had reached out and worked directly with departments to understand their operating budget needs. He shared that prior to his current position he had served as the administrative services director for the Department of Education and Early Development (DEED) for six months. He noted he had been involved in the DEED budget development process. The process had been collaborative to ensure the budget fit within the vision of the various departments.

Co-Chair Foster communicated that members were free to ask questions throughout the presentation.

Mr. Steininger provided a PowerPoint presentation titled "State of Alaska Office of Management and Budget: House Finance Committee FY2021 Budget Overview," dated January 24, 2020 (copy on file). He briefly highlighted a "swoop graph" on slide 1 showing the FY 21 budget by agency. He highlighted that almost half of the state budget was covered under two programs: K-12 foundation formula and Medicaid accounted for about 44 percent of the operating budget.

Mr. Steininger turned to slide 2 and addressed a graph showing Alaska's revenues and expenditures from FY 75 to FY 20. The slide indicated that expenditures changed as revenues changed - as revenues increased, expenditures increased. He pointed out that during high revenue years there had been a good effort to put a substantial amount of money into savings. He pointed to two spikes where revenues significantly exceeded expenditures, which had allowed the state to build a savings that had enabled it to weather the storm shown to the right of the graph.

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Mr. Steininger moved to slide 4 and addressed the FY 21 revenue outlook. Total unrestricted general fund (UGF) revenue available for government use was approximately \$3 billion, comprised of about \$2 billion in UGF revenue and a percent of market value (POMV) transfer of about \$1 billion. The current oil price projection was \$59 per barrel, which would bring in about \$1.4 billion in petroleum revenue. The POMV revenue was about \$3 billion

split between the dividend and government services. The other non-petroleum, non-Permanent Fund revenue was about \$500 million. He relayed that balancing the budget on oil price would require maintaining a per barrel price of approximately \$91 for a year.

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Co-Chair Johnston pointed out that the swoop graph [slide 2] did not show an appropriation for the Permanent Fund Dividend (PFD). Additionally, the revenue source of the full structured draw was not shown. She highlighted that total UGF revenue was \$5.059 billion.

Mr. Steininger agreed and noted that the total UGF of \$5 billion was shown on the chart [slide 4]. He added that the slide also showed total UGF revenue after removing the amount statutorily transferred into the PFD.

Co-Chair Johnston noted it was an appropriation.

Co-Chair Foster recognized that Representative Wool had joined the meeting.

Representative Knopp remarked that the spring revenue forecast projected oil at \$67 per barrel and the projection had decreased to \$59 per barrel in the fall forecast. He referenced recent discussion about a new methodology for calculating the per barrel price. He asked for detail and noted there was a significant difference between the spring and fall forecasts.

Mr. Steininger deferred the questions to DOR as the experts.

Co-Chair Foster remarked that it would be an issue to look at going forward. He noted there was a philosophical difference in what the legislature regarding the payment of the PFD. He discussed that the governor's budget paid for the PFD transfer directly from the Permanent Fund Earnings Reserve Account (ERA) instead of the traditional funding method from the General Fund.

Co-Chair Johnston agreed it was a matter of appropriation versus a transfer. She highlighted that the total UGF revenue was reflected on the second to last row [on slide 4].

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Mr. Steininger moved to slide 5 showing an FY 21 fiscal summary compared to the FY 20 management plan including the likely supplementals. He remarked that additional details would be provided when the administration's supplemental bill was introduced in early February. He highlighted that total UGF spending outpaced revenue by about \$1.5 billion, which would result in a draw from the CBR.

Mr. Steininger turned to slide 6 and reviewed significant budget highlights. The slide included public safety investment of about \$85 million, the introduction of the Alaska Development Team (a pilot program through FY 23), a fully funded K-12 formula at \$1.3 billion (a \$20 million increase over FY 20), an estimated full statutory PFD of about \$3,000 per Alaskan, and a capital budget of about \$136 million UGF to fully utilize federal funds available. He elaborated on the K-12 increase and noted that the student count had decreased slightly, but the makeup of the student population resulted in increased costs to the foundation program.

Co-Chair Johnston asked if the numbers on slide 5 included the supplemental.

Mr. Steininger answered that the FY 20 management plan numbers included the likely supplementals discussed on the December 11 budget release. The amounts would be trued up in the governor's supplemental budget to be released in early February.

Co-Chair Johnston referenced the bullet point on leveraging available federal funds [associated with the capital budget] on slide 6. She asked whether the administration had been reaching out to its federal delegation to access all available federal funding.

Mr. Steininger answered that the bullet point largely pertained to the highway match and capital budget. He reported that every department worked with its federal partners to look for opportunities to bring in federal funds.

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Co-Chair Foster returned to slide 5. He stated his understanding that the forthcoming supplemental could be around \$230 million. He asked for verification that the number was included in the FY 20 management plan portion of the table.

Mr. Steininger agreed that the [supplemental] number was included in the management plan figures. He noted the information had been discussed when the governor's budget had been released on December 11. There would be more detailed numbers provided in early February.

Representative Wool referenced \$2.8 million for the Alaska Development Team pilot program. He asked how the program would reach self-sufficiency by FY 23.

BRIAN FECHTER, CHIEF BUDGET ANALYST, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, answered that the intent was for the Alaska Development Team to utilize public funds for the first three years, whereby the team would act as navigators connecting money to projects. There would be discussions about what a public-private partnership may look like in order to obtain funds from the private sector.

Mr. Steininger provided additional detail on the proposed increase of \$86 million for public safety capital and operating spending on slide 7. He discussed that public safety continued to be a high priority and was prioritized in the budget. He noted that the largest increment of \$32 million was not necessarily new spending but reflected adjusting fund sources for things that had been funded with the Power Cost Equalization (PCE) fund in the FY 20 budget. The FY 21 budget funded the items with general funds in order to be operationally sustainable over time. The total increment also included \$24.7 million for the Department of Corrections (DOC) due to a growth in inmate counts.

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Mr. Steininger reviewed the departments' high level budget items on the next several slides. He began with the Department of Administration (DOA) on slide 8. The slide included approximately \$1.8 million for public defenders in the Office of Public Advocacy (OPA) to ensure their ability to perform client work. He highlighted an increment for the Office of Information Technology (OIT) and other

centralized standardized systems within DOA. The goal was to ensure that as functions were brought in from other departments to operate in a more cost-conscious way that it was done so in a standardized way. He noted that each department was doing things a bit differently, meaning some investment was needed to undergo the process.

Mr. Steininger moved to the Department of Commerce, Community and Economic Development (DCCED) on the lower half of slide 8. He noted that a \$2.8 million increment for the Alaska Development Team pilot program was spread across FY 20 through FY 23. The budget included a \$28.7 million deposit for community assistance. He explained that the program was funded based on a calculation on the PCE earnings.

Co-Chair Johnston asked for verification that community assistance had been paused in the previous year due to some vetoes. She noted it was a formula-based program where one-third of the PCE fund balance went to communities. She remarked that the increment was not the historical \$30 million and asked if the increment reflected a calculation from the PCE fund.

Mr. Steininger agreed. He explained the amount had been determined by a calculation based on earnings of the fund.

Co-Chair Foster referenced the committee discussion with the Legislative Finance Division two days earlier. He believed the full capitalization of the fund was \$90 million. He detailed that \$30 million had been vetoed by the governor in the FY 20 budget, which brought the amount down to \$60 million. He elaborated that \$30 million would normally be put into the FY 21 budget, but the only excess available from the PCE fund was \$28.7 million, meaning the funds would be short \$1.3 million. He reminded committee members that there would be a shortage of \$30 million resulting from the vetoed funds the previous year.

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Mr. Steininger addressed the last DCCED increment on slide 8, a \$1 million investment into the Alaska Energy Authority (AEA) Statewide Railbelt Energy Plan.

Representative Wool asked for more detail about the item.

Mr. Fechter answered that the last comprehensive review of the strategic plan for the Railbelt was in 2010. Enough had changed, including the costly Swan Lake fire, that made it important to go back through and determine how to provide the best service at the lowest cost rate.

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Mr. Steininger reviewed funding for the Department of Education and Early Development (DEED) on slide 9. He reported that K-12 aid to school districts was fully funded. With the addition of the North Slope Borough and Lower Yukon School Districts the residential programs were fully funded for the first time in a couple of years. Additional changes included the discontinuation of the Online with Libraries video conferencing system; outsourcing of Federal Family Education Loan Program servicing; the transition of the Public School Trust Fund to the language section to maximize investment returns; and additional foundation funding of \$488,200 from dividend donations to the dividend raffle.

Co-Chair Johnston recognized that one of the issues with education was parity. She asked how the residential programs fit into the parity equation, especially when adding the North Slope. She asked how the change worked in relation to tax caps.

Mr. Steininger asked if she was speaking to the disparity test.

Co-Chair Johnston agreed.

Mr. Steininger replied that he was not certain how the residential programs factored into the calculation. He deferred the question to the department.

Co-Chair Johnston thought it may be a question in subcommittee. She clarified she was not saying she did not want to see the funding, but she wanted to learn more about the issue.

Mr. Steininger addressed the Department of Fish and Game (DFG) on the bottom of slide 9. The department had identified various reductions for a total of \$1.3 million that it had determined would have minimal impact to fisheries.

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Mr. Steininger moved to the Office of the Governor, the Department of Health and Social Services (DHSS), and the Department of Labor and Workforce Development (DLWD) on slide 10. He began with the Office of the Governor and highlighted the restoration of funding for the Division of Elections and a \$30,000 capital budget increment to address deferred maintenance on state buildings.

Mr. Steininger highlighted DHSS budget items. The budget transferred the Parents as Teachers program from DEED to better align with program management. The Payment Assistance program under Alaska Pioneer Homes had been increased by \$5 million. He detailed that as the department had implemented rate increases and received better information about residents' income, DHSS found it needed more money to ensure all of the residents were able to remain in the homes. The budget added authority for electronic visit verification maintenance and operations to ensure the staff caring for people in their homes were properly going to locations they were billing to the state.

Mr. Steininger relayed that the Adult Public Assistance Maintenance of Effort (MOE) had been reduced in FY 20, but through discussions with the Centers for Medicare and Medicaid Services (CMS) the department had discovered the impact of the reduction combined with other changes in the MOE calculation would have been much greater than intended. The budget restored the MOE funding. He highlighted an increment of approximately \$1.6 million for Alaska Psychiatric Institute (API) projects to comply with a corrective action plan. Additionally, the budget would utilize available marijuana education and treatment funds to offset UGF. He reported that revenue from marijuana had increased slightly and the budget also used a bit of the fund balance.

Co-Chair Johnston noted that it was a case in point where the December supplemental figures were playing into the budget, specifically related to Medicaid. She stated it was the reason there was no increase.

Vice-Chair Ortiz asked for details about an additional \$5 million for the Pioneer Homes payment assistance. He asked

if the increment was in addition to the FY 20 budget amount.

Mr. Steininger answered that the increment was an additional \$5 million over FY 20. He detailed that the appropriation for the Pioneer Homes had been restructured in the budget in FY 20 to break out payment assistance separately to track how much money was used to subsidize care and how much money was collected through fees to residents or through insurance or Medicaid. The process had given the department much more information about the makeup and demographics of the residents that had not been collected in the past. The information had provided a much clearer picture of how much money was required in order to ensure coverage for residents who did not have sufficient funds to pay increased rates. The \$5 million increment reflected the increased amount over what had been budgeted in FY 20.

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Vice-Chair Ortiz asked for verification that a [Pioneer Homes] fee increase had been implemented in the FY 20 budget.

Mr. Steininger replied in the affirmative.

Vice-Chair Ortiz wondered if the fee increase had ended up costing the state more because the state had to cover residents who could not afford the increase.

Mr. Steininger answered that he would let DHSS speak to the demographic component. The information the administration had on the demographics of residents was more complete at present than it was when the proposal had been put forward in 2019. He reported there was a better idea what the subsidy level needed to be to charge full rates at the homes.

Representative LeBon referenced the Pioneer Homes payment assistance line item and asked if the name implied it had been tested. He asked if the additional information the administration learned about the Pioneer Homes residents was based on their financial disclosures.

Mr. Steininger answered that he did not want to speak for the department. He relayed that the payment assistance

program had been laid out in statute, but the current budget appropriated money separately.

Representative LeBon asked if there was a means testing application to payment of services in the Pioneer Homes.

Mr. Steininger believed so but did not know the details of the means testing.

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Co-Chair Johnston relayed that the new billing payment system for the Pioneer Homes was on a fee service. She explained that after Medicare/Medicaid or private insurance had paid their portion, the Pioneer Homes determined whether they needed additional assistance to make the payment. She clarified that it was reimbursement tested and less of a means test. The department knew it would have to shore things up and was feeling better that it was coming in range.

Mr. Steininger addressed DLWD increments at the bottom of slide 10. He detailed that the Alaska Vocational Technical Center (AVTEC) would be instituting a 4 percent tuition increase to raise additional revenue in order to support operations. The vocational center had also proposed restructuring savings of about \$227,000.

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Mr. Steininger moved to the Department of Military and Veterans Affairs (DMVA) and the Department of Natural Resources (DNR) on slide 11. He began with DMVA and highlighted business process and contractual savings of about \$500,000. Additionally, there were savings related to armory divestiture, which was an ongoing effort by the department.

Mr. Steininger reviewed DNR items where the department was looking to invest to increase resource development throughout the state. He highlighted increments for aquatic farms application processing and phase 2 of the Arctic Strategic Transportation and Resources (ASTAR) project.

Mr. Steininger turned to slide 12 and reviewed budget highlights for the Department of Revenue, Department of Transportation and Public Facilities (DOT), and the

University of Alaska. He began with DOR and pointed to a savings of approximately \$500,000 due to PFD technology enhancements. There were additional savings related to investment management fees in Treasury and the Permanent Fund. The tax revenue management revenue system had an increase of almost \$1.7 million - the implementation of the management system had previously been supported through a capital project. The budget also contained the Alaska Housing Finance Corporation (AHFC) Homeless Assistance Project for \$6.3 million UGF.

Mr. Steininger reviewed items in the DOT budget including an increase in 8.8 weeks of service at a cost of approximately \$4 million UGF for the Alaska Marine Highway System (AMHS). The budget also included a deposit into the AMHS fund to ensure a healthy fund balance and \$15 million for vessel certification. The capital budget contained about \$75 million in matching funds for highway and aviation at a 90/10 rate. The breakdown included approximately \$64 million UGF and \$11 million in reappropriations from finished projects.

Mr. Steininger addressed the University at the bottom of slide 12. He reported that per the compact there was a \$25 million reduction structured as a single appropriation to ensure the University had flexibility to manage the cut.

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Mr. Steininger moved to slide 13 and reviewed key cost drivers responsible for increasing the budget and resulting in the significant deficit shown in the fiscal summary [slide 5]. He noted that subsequent slides would provide additional detail on each of the programs. The budget restored \$128 million UGF to the Medicaid program. He explained that in FY 20 the Medicaid program took a significant reduction via the legislative process and subsequent veto. He elaborated that throughout the process the department had devised numerous plans to deal with the reductions, but it had found there were many other stakeholders it was necessary to work with including the federal government and hospital associations. He relayed the issue was not a problem that could be fixed through simple budget action. He pointed out that the restoration of \$128 million was still a \$31 million reduction from FY 19. He added that there was still success in the actions taken by the department and further success that could be

shown. He stated that the problem could not be solved by simply cutting money from the budget.

Mr. Steininger continued to review key cost drivers on slide 13. The K-12 formula program included a \$20 million increase resulting from the change in the demographics of the students. The number of students was declining; however, the number of students with intensive needs has increased, which had driven the formula program up. There was a \$37.6 million increase to a total of \$345.6 million. There was a debt increase of \$12.2 million for a total of \$135 million in debt service payments. State employee costs accounted for 28 percent of agency budgets and included cost of living adjustments and significant increases in health insurance costs.

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Co-Chair Johnston looked at the full-time, part-time, and nonpermanent positions in a table at the bottom of slide 13. She highlighted 389 nonpermanent positions in FY 19, 426 in FY 20, and 737 filled as of 12/15/19. She asked for an explanation of the information.

Mr. Fechter described the situation as a technical issue. There were off-budget positions and 99 of those positions were nonpermanent. He used a seasonal firefighter position as an example where an employee was brought on for a month.

Co-Chair Johnston was interested in a breakdown. She looked at full-time positions and asked if there were unfilled positions. She pointed out that FY 19 showed 15,466 fulltime positions and 14,245 filled as of 12/15/19.

Mr. Fechter answered that Co-Chair Johnston was correct, but the information shown was for a point in time. He explained that as people were hired and others left state service throughout the year, there would always be a smaller number for the filled positions as of a specific date. The filled positions were much closer to the budgeted position number when looking at the entire fiscal year.

Co-Chair Johnston understood. She thought the number still seemed rather large, but guessed it was because it was the end of the year.

Co-Chair Foster remarked that when the governor's budget had been released, the press release had highlighted that by formula a number of things had increased by \$86 million. He observed the figures on the slide exceeded that amount. He recognized that the \$86 million was agency specific, whereas, the increases shown on slide 14 included statewide items like retirement and debt. He asked if that explained the difference.

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Mr. Steininger answered that at the time the budget had been released, the administration had known Medicaid would require a significant supplemental. The press releases had included the numbers as well. He stated that the natural pressure and Medicaid may not be included in the \$86 million.

Mr. Steininger advanced to a chart on slide 14 titled "Budget Drivers: Formula Programs - Medicaid." He shared that between FY 04 and FY 21, inflation had increased by about 40 percent and the population had increased by approximately 12 percent. When compounded, the figures showed a 57 percent natural pressure on the budget. He highlighted that the Medicaid program had come close to tripling within that time period. He elaborated that during that time, Medicaid coverage had expanded from 17.5 percent of state residents to 35 percent. Between FY 04 and FY 21 new provider types, services, and eligibility categories had been added. Additionally, rates to providers had increased.

Co-Chair Johnston asked for the underlying data for the graph including federal, UGF, DGF, and other funds.

Mr. Steininger clarified that the slide showed only UGF funds

Co-Chair Johnston requested a chart including federal funds as well. She wanted to see the ratio of UGF to federal funds.

Representative Sullivan-Leonard saw the Medicaid program increase as unsustainable. She noted that when the new programs had been brought on in 2015, there had been a plan to decrease UGF in the next four or more years. She highlighted the steady growth that had occurred instead.

She asked what the administration was doing to decrease the use of UGF to FY 16 levels.

Mr. Steininger deferred the question to Adam Crum, Commissioner, Department of Health and Social Services. He reported that DHSS was making numerous efforts to contain costs within the Medicaid program.

Representative Sullivan-Leonard was concerned that the increase was unsustainable. She stressed there was a huge deficit in Alaska. She pointed to high costs for education and DHSS. She remarked that everything seemed to be increasing. She asked if there was discussion about decreasing the DHSS budget.

Mr. Steininger replied that the solution to the problem was not necessarily only a budget problem. He elaborated that the solution would require a concerted effort by DHSS to work with stakeholders and federal partners to create meaningful change to drive costs down. He explained that simple budget changes would not necessarily be lasting or sustainable in the same way as the things DHSS may be able to work through with its federal partners.

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Co-Chair Johnston relayed that the previous year there had been a move to solve the problem with budget cuts alone and the legislature had been promised no supplemental. She discussed that the work was not done in a vacuum; it required working with the federal government in order to get waivers, which had not taken place in 2019. She appreciated Mr. Steininger's candor and honesty. She shared that she and Co-Chair Foster were talking about holding a session on medical costs to the state including Medicaid, employee, and retirement costs in order to look at the full medical picture.

Representative Wool looked at a large increase in the Medicaid population beginning in FY 15, reaching 250,000 beneficiaries. He asked if the jump was largely due to the Medicaid expansion population. He asked what percentage of the beneficiaries fell into the expansion population receiving the much higher federal reimbursement.

Mr. Steininger answered that he would follow up with the information.

Representative Wool asked if the large increase in FY 15 was due to Medicaid expansion.

Mr. Fechter answered that about 40,000 to 50,000 of the added recipients were due to expansion. Additionally, a substantial number of workers had lost their jobs when oil prices had dropped, which had resulted in an additional 30,000 to 40,000 individuals on regular Medicaid.

Mr. Steininger returned to slide 14 and highlighted a reduction from FY 19 actuals of approximately \$30 million.

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Mr. Steininger moved to slide 15 titled "Budget Drivers: Formula Programs - K-12 Foundation Formula." He pointed out that the average daily membership had remained fairly flat from FY 04 to FY 21; however, the total program cost had come close to doubling. The Base Student Allocation (BSA) had increased by 42 percent from \$4,169 to \$5,930.

Co-Chair Johnston returned to slide 14 and asked for verification that the yellow line reflected Medicaid enrollment and the blue bars pertained to cost.

Mr. Steininger agreed.

Mr. Steininger advanced to a bar chart on slide 16 showing UGF payments for pension liabilities over time. He highlighted a steady increase through FY 14. The bar reflecting the liability in FY 15 was very low because there had been a \$3 billion supplemental deposit into the retirement systems. He noted that the \$3 billion payment was excluded from the slide. He reported that the deposit had brought the cost pressure down significantly. The right side of the graph reflected that the cost pressure was starting to push back up.

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Mr. Steininger turned to debt service obligations on slide 17. Debt service was more variable and had peaked in FY 12. The state continued to issue new debt but not any new general obligation bond packages. He pointed out that debt had dropped in the FY 20 management plan, but there was still some upward pressure on debt service obligation.

Mr. Steininger addressed state employee costs on slide 18, which represented a significant portion of the operating budget for all state agencies. The line showed a general increase in the total count of budgeted positions in the executive branch and a drop as revenues had decreased. He noted there was still an increase in the total cost of state employees. He highlighted that the orange portion of the bar represented benefits - healthcare cost was the primary driver of the benefit cost increase (healthcare payments made by the state for employee insurance).

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Mr. Steininger moved to slide 19 showing historical CBR/SBR balances over time. He referenced his earlier testimony highlighting two spikes showing significant money deposited into savings, which had allowed the state to weather the decline in revenue. The slide showed the decline in savings balances that could be used to balance the budget. Prior budgets had been balanced off of revenue that had not been vetted or passed by the legislature, which had resulted in significant draws on savings or reductions to statutory programs that were not durable changes to cost pressures. He explained it was necessary to address cost pressures in order to truly turn the tide. He elaborated that simple increments and decrements in the budget would not fix the long-term problems. He stated that the budget was an important policy document, but durable change was needed for a truly balanced budget going forward.

Representative LeBon observed that the slide showed the CBR at a zero balance in FY 22.

Mr. Steininger answered that the graph showed where the balances would go if durable solutions were not implemented and the budget continued to be balanced with draws from savings (instead of making changes to statutory formula programs driving the budget).

Representative LeBon asked if the projection down to a zero balance in the CBR was based on the governor's proposed draw from the CBR for a large dividend check.

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Mr. Steininger answered that the draw on the CBR was a result of a budget that ensured all of the statutory and formula programs were fully funded. The graph acknowledged that without changing some of the cost pressures, drawing from the CBR would not be an option for a second year [in FY 22].

Vice-Chair Ortiz asked if the decrease in the CBR balance in FY 21 shown on slide 19 reflected the governor's payment of a full PFD.

Mr. Steininger answered that the drop in FY 21 was a result of the \$1.5 billion deficit and the governor's budget as proposed.

Vice-Chair Ortiz asked for verification that the governor's proposed budget included the full PFD.

Mr. Steininger responded affirmatively.

Vice-Chair Ortiz observed that the CBR savings account appeared to be a bit below \$2 billion. He thought the account had held approximately \$2.1 billion at the start of session. He wondered if the difference reflected the amount needed for the supplemental or the actual current balance.

Mr. Steininger answered that the estimates for balances included the likely supplementals shown on the fiscal summary on an earlier slide. He relayed that the number would be trued up when the supplemental budget was released in early February.

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Co-Chair Foster asked if the estimated remaining CBR balance would be in the \$400 million to \$500 million range. He shared that the legislature had heard varying numbers on what the CBR minimum balance should be in terms of the ability to pay the state's monthly bills. For many years he had heard the minimum CBR balance should be \$1 million, more recently he had heard \$500 million, and most recently he had heard \$400 million. He noted that \$1.4 billion was another figure he had heard. He had recently found that even based on the current balance of \$2 billion there had been a request from the Permanent Fund to draw earlier than normal. He imagined things would be much more difficult for cash flow purposes when the balance declined to \$500

million. He asked what the administration believed the minimum CBR balance should be for cash flow purposes.

Mr. Steininger deferred the question to DOR as the experts in the field. He agreed that drawing down savings balances made cash management more difficult.

Co-Chair Johnston appreciated that the governor was forcing the legislature to look at formula-driven programs. She pointed to slide 2 that included the large formula K-12 program. She noted that the health costs were not limited to Medicaid and included employee health, retirement health, and retirement programs. She remarked there was not a lot of wiggle room in the "swoop" curve "of other," but she guessed there were small formula driven items in that category. She believed DPS and DOC primarily had needs-based programs and very few formula-driven programs. She moved to slide 4 and looked at the largest formula-driven program of over \$2 billion. She asked if the administration believed it was necessary to look at all of the formula-driven programs, to determine wants and needs, and identify what the state could afford.

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Mr. Steininger agreed. The problems could not be solved merely through budget actions. He elaborated that the problems needed to be fixed through looking at cost drivers and formulas.

Co-Chair Johnston stated that the legislature had already found from the experience of the previous year that the state could work with the federal government on the Medicaid (formula driven) program, but the state did not have as much control over the program. The education formula needed to be reviewed but took a couple of years. There was little flexibility in the state's retirement program, which was driven by the Alaska Retirement Management Board (ARMB), unfunded liability, and by the benefits. She noted the state could not decide to discontinue retirement funding because it would never survive a court decision on the topic. She relayed that the legislature needed the departments' help with identifying the programs with any degree of flexibility. She appreciated Mr. Steininger stepping up to his position. She thought it was important to know which formula-based programs could be discussed.

Mr. Steininger saw OMB as a resource to provide information to help the legislature make decisions.

Co-Chair Johnston truly appreciated it. She stressed that the issue she had highlighted was the question and problem that needed to be solved. She requested working together on the issue.

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Co-Chair Foster considered his takeaway from the presentation. He observed that the budget was overall flat with an increase of 4 percent or \$178 million in agency and statewide spending. He elaborated that part of the increase was formulaic, which the administration had no control over, and part was due to the governor's decision to invest more in public safety. He remarked that the elephant in the room was what to do with the PFD. He noted that the budget had a \$1.5 billion deficit and how the PFD was tackled would be a big part of how the budget was managed.

Representative Wool referenced formulaic budget obligations and the PFD. He noted that the last slide showed \$2 billion in FY 21. He noted that the PFD formula had not been followed in the past five years and had been underpaid by approximately \$900 million. He noted that the FY 21 budget had a \$1.5 billion deficit [with the payment of a full PFD]. He considered that if the full PFD formula was not paid the deficit would be \$500 million. He noted that many people were looking at the CBR to cover the funds. He recognized the legislature needed to look at formula programs beyond the PFD. He elaborated that the PFD was the largest budget item and recent history had shown that the formula had not been adhered to. He thought the legislature should deal with the formula.

Co-Chair Foster reviewed the schedule for the following Monday.

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ADJOURNMENT

[3:37:17 PM](#)

The meeting was adjourned at 3:37 p.m.