

HOUSE FINANCE COMMITTEE
February 5, 2020
1:34 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:34 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Neil Steininger, Director, Office of Management and Budget, Office of the Governor; Craig Christenson, Deputy Commissioner, Department of Military and Veterans Affairs; Sana Efird, Assistant Commissioner, Department of Health and Social Services; Amanda Price, Commissioner, Department of Public Safety; Colonel Bryan Barlow, Alaska State Troopers, Department of Public Safety; Leon Morgan, Deputy Commissioner, Department of Public Safety; Mike Barnhill, Deputy Commissioner, Department of Revenue; Dom Pannone, Administrative Services Director, Department of Transportation and Public Facilities.

SUMMARY

HB 234 APPROP:SUPP; REAPPROP; CAP; AMEND; CBR

HB 234 was HEARD and HELD in committee for further consideration.

FY 20 Supplemental Budget Overview

Co-Chair Foster reviewed the agenda for the day.

#234

HOUSE BILL NO. 234

"An Act making supplemental appropriations, reappropriations, and other appropriations; amending appropriations; capitalizing funds; 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."

^FY 20 SUPPLEMENTAL BUDGET OVERVIEW

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NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced the PowerPoint Presentation: "FY 20 Supplemental Budget Overview." He began with slide 2 titled "Supplemental Bill:"

- Supplemental bill comprised of two parts:
- Urgent/emergency response: \$241,931.7 UGF
- Regular supplement: \$20,615.0 UGF

Total: \$262,546.7 UGF, \$507,910.4 All Funds

Mr. Steininger explained that the supplemental bill was broken into 2 parts. The first section dealt with urgent or emergent responses where the money was needed soon.

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Mr. Steininger moved to slide 3 titled "UGF Operating and Capital Budgets with Supplementals from FY 19 to FY 21" that contained a bar chart. He provided some context for the supplemental bill. The FY 19 budget inclusive of the supplemental budget totaled \$4.9 billion, the FY 20 budget inclusive of the supplemental totaled \$4.67 billion, and the FY 21 governor's request inclusive of the supplementals

totalled \$4.6 billion. The budget equated to a reduction of \$238.8 million between FY 19 and FY 20 and a reduction of \$70.3 million between FY 20 and FY 21; both figures included the supplemental budgets.

Co-Chair Foster asked about the statutory oil tax credits. He asked Mr. Steininger whether the administration had considered that a portion of the reduction between FY 19 and FY 20 was due to not paying oil tax credits in FY 19. He noted that either the statutory or debt service amount of the oil tax credits would be paid in FY 21. He asked Mr. Steininger to comment. Mr. Steininger responded that the total "reflected a clear picture of total UGF" (Unrestricted General Fund) spent in FY 19. He was uncertain about the tax credit payments. Co-Chair Foster suggested that the total FY 21 UGF spend could increase by approximately \$55 million with the addition of an oil tax credit payment.

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Mr. Steininger turned to slide 4 titled "Supplemental Bill - Urgent/Emergency Response Items:"

- Dept. of Natural Resources
- Fire, Land, and Water Resources; Fire Suppression: \$110,500.0 UGF
- Dept. of Transportation and Public Facilities
- Operating: Highway, Aviation and Facilities. Northern Highways Dalton Highway/Atigun Pass: \$158.1 UGF
- Capital: Knik-Goose Bay Road: \$2,000.0 UGF Reappropriation
- Capital: Earthquake Relief - Federally Ineligible: \$3,000.0 UGF
- Dept. of Military and Veterans Affairs
- Capital Mass Notification: \$900.0 UGF Reappropriation
- Dept. of Health and Social Services
- Medicaid Services; Medicaid: \$128,273.6 UGF, \$162,130.9 Fed

TOTAL: \$241,931.7 UGF, \$162,130.9 Fed

Representative LeBon asked about the timeline for reappropriation of funds for the Capital Mass Notification project.

CRAIG CHRISTENSON, DEPUTY COMMISSIONER, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS, responded that the work would begin in FY 20 and continue through FY 21. Representative LeBon asked whether additional staff was required for completion of the project. Mr. Christenson replied that the work would be contracted out. Representative LeBon asked how much was allotted for the contracted services. Mr. Christenson answered that the split between the state and federal government was 50 percent, the total cost was approximately \$1.3 million to \$1.8 million.

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Co-Chair Johnston asked about the figure of \$16 million for fire suppression. She wondered if the amount included the fires burning underground. Mr. Steininger responded that the fire suppression dollars in the supplemental would apply to potential fires in the spring of 2020. Co-Chair Johnston asked if the amount was the state's total cost of fire suppression keeping in mind the state and federal governments split the cost. Mr. Steininger affirmed that the number reflected the total cost.

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Mr. Steininger turned to slide 5 titled "Medicaid: Ambitious Goals:"

Governor's FY20 budget had ambitious savings targets for Medicaid based on changes to several elements

- Reduced provider payments
- Withhold payment inflation adjustments
- Elimination of adult preventative dental benefit
- Timely filing allowance
- Transportation efficiencies
- Tribal claiming
- Other efforts

Mr. Steininger delineated that the status quo estimate of Medicaid spending needs made on November 30, 2018 was \$683 million. Through the legislative process, the appropriation was reduced to \$574.6 million and further vetoed to \$516.3 million. The Department of Health and Social Services (DHSS) had various plans to achieve the reductions through adjustments to optional services. Many of the reductions

were difficult to implement and difficulties were encountered with medical providers and federal approval resulting in failure to produce the reductions. He noted that many services the department believed were optional were not. Mr. Steininger reviewed the chart on slide 6 titled "Medicaid: Realized Savings:"

FY2020 ambitious savings goal of \$166,707.7 UGF was not realized.

Even after supplemental, FY2020 Medicaid spending is still substantially reduced

11/30/18 FY2020 Projection \$ 683,038.4 UGF
Provider rate reductions \$ (17,716.9)
Savings through tribal claiming \$ (20,100.0)
Savings thru pharmacy and Medicare Part B
\$ (5,538.0)
Other utilization changes \$ 4,919.9
FY2020 Projected Total \$ 644,603.4
Projected Savings in FY2020 \$ (38,435.0)

Mr. Steininger reported that savings amounted to \$38.4 million instead of the projected \$166.7 million.

Co-Chair Johnston asked if the fast-track supplemental accounted for the lawsuit brought on by the providers. Mr. Steininger answered in the affirmative. Co-Chair Johnston asked for the court case amount. Mr. Steininger responded that the amount was \$900 million UGF.

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Mr. Steininger highlighted the graph on slide 7 titled "Medicaid: General Fund Cash Flow." He pointed out that weekly UGF Medicaid spending was \$13.7 million, and contrary to the statement on the slide, it was improbable there was enough funding for the entire third quarter of FY 20. The statement on the slide was as follows:

"Insufficient funding to get through last quarter of FY 2020 absent supplemental."

Mr. Steininger advanced to slide 8 titled "Medicaid Spending: FY 2004 through FY 2021." He commented that the slide was included by request. The bar chart depicted the

growth of the program in cost and number of beneficiaries, inclusive of all funds.

Co-Chair Johnston thanked Mr. Steininger for including the chart. She relayed that the state was serving more people at the same cost and believed the slide illustrated the "full picture" between UGF and federal receipts. She added that while the recipients had grown the state's cost had not.

Vice-Chair Ortiz concurred with Co-Chair Johnston's previously stated observations regarding slide 8.

Representative Wool added that not only were more people being served, it also positively affected Alaska's economy.

Co-Chair Johnston commented that the state had learned a valuable lesson which was that the state could not make reductions in the program without engaging in consultation and negotiations with its [healthcare] partners and the Centers for Medicare and Medicaid Services (CMS). The current supplemental was an acknowledgement that savings could not be achieved by one-sided budget cuts.

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Mr. Steininger discussed the regular supplemental items. He turned to slide 10 titled "Supplemental Bill: Department of Administration:"

Operating Total: \$1,700.0 UGF, \$550.0 DGF

- Legal and Advocacy Services, Office of Public Advocacy Caseload growth and operational cost: \$1,700.0 UGF
- Division of Motor Vehicles Document security and preservation system: \$50.0 DGF Anchorage office location move: \$500.0 DGF

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Mr. Steininger reviewed slide 11 titled "Supplemental Bill: Department of Commerce, Community and Economic Development:"

Capital Total: \$45,526.1 Fed

- Housing and Urban Development (HUD) Community Development Block Grant, Disaster Recovery Program: \$38,856.0 Fed
- National Petroleum Reserve-Alaska (NPR-A) Impact Grants: \$6,670.1 Fed

Mr. Steininger addressed slide 12 titled "Supplemental Bill: Department of Corrections (DOC):"

Operating Total: \$8,025.7 Fed

- Population Management, Anchorage Correctional Complex Add carryforward language: \$8,025.7 Fed
- Population Management, Palmer Correctional Center Extend appropriation for Palmer Correctional Center efforts (FY20-FY21)

Mr. Steininger reported that additional language regarding the opening of the Palmer Correctional Facility was included in the bill.

Mr. Steininger continued to slide 13 titled "Supplemental Bill: Department of Education and Early Development:"

Operating Total: \$100.0 UGF, \$150.0 DGF, \$10,000.0 Fed

- Education Support and Administrative Services, Student and School Achievement Additional federal receipts for U.S. Dept. of Education grants: \$10,000.0 Fed
- Mt. Edgecumbe Boarding School, MEHS Facilities Maintenance Operational and maintenance costs for MEHS Aquatic Center: \$100.0 UGF, \$150.0 DGF

Mr. Steininger turned to slide 14 titled "Supplemental Bill: Office of the Governor:"

Operating Total: \$233.4 UGF Capital Total:\$3,700.0
Other Operating

- Executive Operations, Lieutenant Governor Voter initiative public hearings: \$18.0 UGF

- Elections Voter initiative review, certification and language translation: \$215.4 UGF Capital
- Help America Vote Act: \$3,700.0 Other

Mr. Steininger continued to slide 15 titled "Supplemental Bill: Department of Health and Social Services (DHSS):"

Operating Total: \$15,600.0 UGF

- Alaska Pioneer Homes, APH Payment Assistance
Alaska Pioneer Homes payment assistance:
\$1,000.0 UGF
- Alaska Psychiatric Institute
Add authority to achieve full capacity:
\$6,000.0 UGF
- Public Assistance, Adult Public Assistance
Restore Adult Public Assistance payment maintenance of effort requirements:
\$8,600.0 UGF

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Co-Chair Johnston asked when the Alaska Pioneers Homes would run out of money in the current fiscal year.

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SANA EFIRD, ASSISTANT COMMISSIONER, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, replied that the funding was sufficient through May and was not as time sensitive as other items. Currently, DHSS was spending roughly \$2.3 million on average per month from the Payment Assistance Program to support the residents in need of assistance. Co-Chair Johnston wondered what the state had budgeted for payment assistance. Ms. Efird answered that the budget was \$25.9 million, and the current request added \$1 million. The department was being very conservative with the request of \$1 million. Co-Chair Johnston noted that the state partnered with the federal government for the payment assistance program. She asked whether the state assumed extra costs when it attempted to change the maintenance of effort. Ms. Efird replied that two items within the Adult Public Assistance (APA) program had changed that would

affect the assistance program. She explained that the department attempted to change the methodology for the maintenance of effort amounts through APA, which was the match for the Medicaid program. The department wanted to return to the 1983 standard and submitted a plan amendment. The CMS discovered that the state had made miscalculations on the payments since 1995 that resulted in a further reduction in residents' assistance payments. The governor did not want the mistake to impact the residents with a deeper reduction. Therefore, a cost of living increase was added to current expenditures. The department was not currently adding administrative costs and was redirecting resources via diverting staff to ensure the calculations for residents were correct. Co-Chair Johnston asked about time sensitivity for the item. Ms. Efird responded that the funding was needed by the end of the fiscal year.

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Representative Knopp asked if occupancy had dropped with the increase in rates at the Pioneers Homes. Ms. Efird responded that 16 residents had left but the rooms had been filled with people on the wait list. Representative Knopp was pleased because the supplemental request was less than he expected. He wondered whether the rate change impacted the Pioneer Homes' revenue. Ms. Efird responded that the department had seen an increase in revenue. She qualified her response. She indicated that the exact income status of a resident entering the Homes was unknown and reflected the department's best projections. The projections were based on who would live in the Homes for the remainder of the year and their ability to pay.

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Vice-Chair Ortiz asked about the Alaska Psychiatric Institute (API) item. He wondered if the request was associated with the expansion of the contract with Wellpath. Ms. Efird responded that the request was for a continuation of the contract. She recounted that the contract began in FY 19 for \$1 million per month and was reduced to \$750 thousand per month through March 31, 2020 with an option to renew. Vice-Chair Ortiz asked about details of the contract with Well Path. He asked if the contract was based on capacity or facility use. Ms. Efird was unable to answer and offered to follow up with the information. She acknowledged that Wellpath was helping the

state stabilize the facility and meet requirements for certification and licensing. Vice-Chair Ortiz confirmed that he wanted the information.

Mr. Steininger moved to slide 16 titled "Supplemental Bill: Department of Law:"

Operating Total \$150.0 Other, \$250.0 Fed

- Criminal Division, Second Judicial District Reopening Utqiagvik District Attorney's Office: \$150.0 Other
- Criminal Division, Criminal Appeals/Special Litigation Expand prosecutions in rural Alaska: \$250.0 Fed

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Representative Josephson relayed that he had been involved in reopening the rural office in Utqiagvik. He shared that recruitment was a problem and wondered what the appropriation was for. Mr. Steininger responded that the request reflected a partial year's worth of the appropriation.

Mr. Steininger reviewed slide 17 titled "Supplemental Bill: Department of Natural Resources (DNR):"

Operating Total: \$76.1 DGF

- Fire Suppression, Land, and Water Resources; Mining, Land and Water Aquatic farm application processing: \$76.1 DGF

Mr. Steininger directed attention to slide 18 titled "Supplemental Bill: Department of Public Safety (DPS):"

Operating Total: \$6,743.4 UGF Capital Total: \$605.0 UGF

Operating

- Alaska State Troopers, AST Detachments, Alaska Wildlife Troopers, and Wildlife Troopers Aircraft Section - Meet FY2020 operating needs and law enforcement safety equipment: \$6,743.4 UGF

Capital

- FAA required aircraft equipment: \$105.0 UGF
- Radio replacement: \$500.0 UGF

Representative LeBon asked about the personal services request and wondered how much of the appropriation was for overtime.

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AMANDA PRICE, COMMISSIONER, DEPARTMENT OF PUBLIC SAFETY, was unable to answer the specific question. She knew that overtime costs between FY 18 and FY 19 increased 26 percent and she expected an increase of 9 percent between FY 19 and FY 20 due to personnel shortages.

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Representative LeBon asked if overtime would be reduced as the department successfully recruited additional trooper positions. Commissioner Price responded that "theoretically" Representative LeBon was correct. She believed that a correlation existed and expounded that "common sense" told her that as she hired, trained, and deployed more troopers, there would be a reduction in overtime hours. She noted that there was a lag time of 18 months between hiring and deployment. The impact of hiring additional troopers would be known in approximately 18 months. Representative LeBon asked about the shortfall of nearly \$2 million in FY 19. He wondered whether the prior deficit influenced the current shortfall. Commissioner Price was unable to answer the question. She was uncertain whether the shortfall was related to the personal services line. She revealed that historically, DPS had not accurately represented how the personal services funding was spent. She believed that it was much more responsible to present the actual overtime hours rather than use an arbitrary number assigned per trooper. She guessed that the shortfall was an "aggregate total reflecting the department's historic lack of preparation" for managing necessary overtime. Representative LeBon shared that the DPS subcommittee had been exploring the same questions.

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Representative Josephson had heard that the commissioner had been having great success in recruiting troopers. He wondered what attributed to the success. Commissioner Price answered that a "significant number of factors contributed to the success." She identified both recruitment and retention as problematic. She offered to send the committee the "significant body of work" that detailed the department's comprehensive effort around retention. She delineated that most of the effort was associated with information, findings, and recommendations from a survey undertaken by the department's working group. The effort identified and addressed issues related to moral. Certainly, the increased salary compensation created the opportunity to attract and retain candidates, however, the focus of the effort addressed moral issues. Currently, the department had implemented 95 percent of the recommendations it received. She spoke of a culture change in the recruitment arena. The department had made many improvements to "inform and communicate effectively" with recruits what DPS's expectations were related to taking polygraph tests and deployment in rural Alaska. The changes were successful; the fall hiring cycle included 360 invitations for background checks versus only 70 in 2017.

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Representative Wool asked the commissioner whether she had hired additional people in the DPS recruitment unit. Commissioner Price replied in the negative. Representative Wool wondered what percentage of applicants were offered trooper positions. Commissioner Price answered that it varied per recruitment cycle.

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COLONEL BRYAN BARLOW, ALASKA STATE TROOPERS, DEPARTMENT OF PUBLIC SAFETY, responded that the percentage was very low. He did not have a specific number, he estimated that one to three percent of applicants were hired.

Representative Wool asked whether applicants were paying testing fees if they did not get hired. Commissioner Price responded in the negative. She indicated that the department paid for application and testing fees.

Representative LeBon asked whether the department was creating a budget shortfall if it hired more positions over

the vacancy factor. Commissioner Price reported that the department anticipated having 40 Position Control Numbers (PCNs) filled over the number of PCNs that DPS had authorized including the 15 PCNs that were requested in FY 21. She commented that the success in hiring meant that the legislature would need to decide what was the optimal number of state troopers required for the state and set limits. However, she hoped a limit was not set in the current year, due to the "desperate need to increase" the number of troopers.

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Representative Sullivan-Leonard asked for further information regarding the radio replacement noted on the slide [Slide 18]. Commissioner Price deferred the question to the deputy commissioner.

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LEON MORGAN, DEPUTY COMMISSIONER, DEPARTMENT OF PUBLIC SAFETY, replied that the [\$500 thousand] UGF request was necessary to replace 50 portable and 63 vehicle radios. He elaborated that 10 percent of the portable radios were kept on reserve for repairs and replacement. Both types of radios were 10 to 15 years old and were in a "break fix mode;" they were unrepairable if broken.

Co-Chair Foster asked whether the request for aircraft equipment on slide 18 was for Instrument Flight Rules (IFR) instruments. Mr. Morgan responded in the affirmative and elucidated that the request was specifically for aircraft flying in Class C airspace for Automatic Dependent Surveillance-Broadcast (ADS-B) compliance.

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Mr. Steininger continued to slide 19 titled "Supplemental Bill: Department of Revenue:"

Operating Total: \$854.4 UGF, (\$400.0 Other)

- Taxation and Treasury, Tax Division

Tax Revenue Management System maintenance and support costs: \$400.0 UGF, (\$400.0 Other)

Tax subject matter experts, economic and legal analysis (FY20-FY22): \$350.0 UGF

- Administration and Support, Commissioner's Office Technology refresh and space utilization and planning: \$104.4 UGF

Vice-Chair Ortiz asked what type of tax subject matter experts the Department of Revenue (DOR) was hiring. Mr. Steininger replied that the DOR was looking for economic and legal experts to assist existing staff in analyzing areas of taxation that DOR might need to examine in the coming months. Vice-Chair Ortiz asked whether the state currently lacked the necessary level of expertise. Mr. Steininger responded in the affirmative and furthered that the experts would assist existing staff.

Representative Wool asked why DOR was planning to engage in tax research and what the administration was anticipating.

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MIKE BARNHILL, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE, spoke candidly. He announced that the department hoped the legislature would be interested in taking up new tax measures, specifically a sales tax. Currently, the department did not have the expertise within the department to develop or analyze tax measures. He also indicated the need for economic experts to analyze the impacts taxes had on the economy.

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Mr. Steininger advanced to slide 20 titled "Supplemental Bill: Dept. of Transportation and Public Facilities (DOT):"

Operating Total: \$7,050.0 DGF
Capital Total: \$5,000.0 DGF, \$3,155.0 Other
Operating

- Administration and Support, Measurement Standards
Replace capital funding with unified carrier
registration receipts: fund source change
- Marine Highway System, Marine Vessel
Operations Maintain AMHS vessel operations:

\$7,050.0 DGF

Capital

- AMHS vessel overhaul:\$5,000.0 DGF
- DPS patrol vehicles: \$3,155.0 Other

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Vice-Chair Ortiz asked what the \$7 million in DGF was. Mr. Steininger responded that both operating, and the \$5 million DGF capital appropriation requests were for the Marine Highway Fund. He explained that system receipts were deposited into the fund along with occasional deposits from other sources. Vice-Chair Ortiz asked for the balance of the fund. Mr. Steininger offered to provide the fund balance later, when known. Vice-Chair Ortiz asked if the \$7 million would facilitate an expanded schedule. Mr. Steininger responded that the funds would not be used to expand services but to ensure the published schedule was met. He noted that there were unforeseen cost increases in fuel costs and repairs and in chartered vessels. Vice-Chair Ortiz asked if the capital request of \$5 million was for vessel repair. Mr. Steininger answered in the affirmative. Vice-Chair Ortiz asked how much the \$5 million would help with needed repairs.

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DOM PANNONE, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, replied that the capital request represented increased additional costs for the current fiscal year's capital overhaul work.

Representative Knopp asked if the \$5 million applied to one vessel or for several vessels. Mr. Pannone responded that the M\V Le Conte had a significant amount of unanticipated rusted steel, the M\V Columbia had rudder, hub, and vibration issues, and additional repairs were needed for the M\V Kennecott and M\V Tustumena. Representative Knopp asked whether the funding would get the vessels back online and if the vessels would operate in FY 21 after the repairs were completed. Mr. Pannone responded that the specific request would help to get the vessel up to speed for the

remainder of the year to meet the already established schedule. Representative Knopp asked if the vessels would operate in FY 21. He noted that the FY 21 Marine Highway funding did not increase. Mr. Pannone replied that the vessels would operate in FY 21. He notified the committee that the governor's proposed FY 21 budget contained an increased request of \$4.7 million. The department was working with the legislature to identify the marine highway's capital and operating needs.

Representative Knopp continued his questioning with the DPS patrol vehicle request. He wondered why the request was so large. He recalled that replacement was achieved in cycles. Mr. Steininger responded that the increase corresponded to the increased number of troopers. Representative Knopp asked whether the funding was for new vehicles. Mr. Steininger answered that the money was for some replacement vehicles as well as new vehicles for the additional troopers.

Representative LeBon had another question regarding DPS vehicles. He wondered what the "Other" funding source was. Mr. Steininger replied that the funding source was the Highway Equipment Working Capital Fund. He detailed that agencies contributed to the fund and the Statewide Equipment Fleet (SEF) tracked how much each agency was paying for its vehicles, which built up a credit for each agency. The \$3.155 million was additional authorization for DPS to access more of its credit than was allotted for in the FY 20 budget. Representative LeBon inferred that DOT purchased the patrol vehicles for DPS who repaid DOT in payments. Mr. Steininger responded in the affirmative. Representative LeBon asked if capital monies were determined on an annual basis. Mr. Steininger affirmed that they were amortized on an annual basis from the SEF.

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Representative Josephson asked whether the current balance of the Marine Highway Fund was enough for the operating and capital DGF request. Mr. Pannone responded in the affirmative. Representative Josephson surmised that they were asking for authority to spend from the fund. Mr. Pannone answered in the affirmative. Representative Josephson found it frustrating given the status of the affairs with the state's marine highway vessels that an

"open" dialogue regarding collecting revenue from the fund "when it was needed" did not happen.

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Representative Wool asked about patrol vehicles owned by DOT and used by DPS. He asked whether it was the same for DPS airplanes. Mr. Steininger answered in the negative. He clarified that it only applied to patrol vehicles. Representative Wool asked if airplanes were in a separate category. Mr. Steininger replied in the affirmative.

Vice-Chair Ortiz asked about the balance of the Marine Highway Fund. Mr. Pannone replied that the balance was approximately \$23 million. Vice-Chair Ortiz asked for the historical balance of the fund. He inquired whether the \$11 million remaining balance after the deductions of the supplemental appropriations was typically low. Mr. Pannone answered that he would follow up with the information.

Co-Chair Foster asked if any of the \$7 million operating request covered revenue lost during the Alaska Marine Highway System (AMHS) strike. Mr. Pannone answered that during the strike AMHS refunded \$3.3 million for all fares, even for future fares due to passenger uncertainty. The department did not lose spending authority in the budget. He delineated that the strike specific related costs totaled \$2 million and during the strike AMHS saved \$1.2 million. The balance of \$800 thousand was the portion of the request for increased authority related to the strike.

Representative Wool had heard that some of the \$800 thousand was for the purpose of leasing other vehicles like barges and other vessels. Mr. Pannone did not have the figures relating to the costs he was referring to. He was uncertain whether the monies Representative Wool mentioned were built into the supplemental request. Representative Wool asked about how the vessel rentals worked. Mr. Pannone acknowledged that there had been some ferry runs in which the AMHS had hired commercial providers but was unaware that vessel lease costs were part of the supplemental request.

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Co-Chair Johnston clarified that the \$7 million request would be used to pay for a portion of the cost of the

strike and to fulfill the current year's schedule. Mr. Pannone responded in the affirmative. Co-Chair Johnston asked for a breakdown of the \$7 million.

Mr. Pannone listed a breakdown of the \$7 million request as follows:

- \$800 thousand in increased authority related to the strike
- \$1.6 million in higher operating cost for the M\V Columbia related to the M\V Matanuska project delays (repower and major conversion)
- \$1.5 million of additional costs related to the M\V Matanuska project delays for wages, travel, and per diem
- \$200 thousand was added service to the Northern Panhandle including costs to operate the Angoon ramp
- \$110 thousand to Haines for the ALCAN 200 event.
- \$400 thousand service to Prince Rupert including 10 roundtrips in the current fiscal year. The amount also included \$207 thousand for Royal Canadian mounted Police for customs. \$193 thousand included for fuel terminal staff

Mr. Pannone indicated that roundtrips to Prince Rupert would occur in May and June of 2020 and two had occurred in October and November of 2019.

Co-Chair Foster requested a handout of the cost breakdown. [SEE DRAFT HANDOUT - Change Record Detail - DOT (copy on file)]

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Mr. Pannone continued with the \$7 million cost breakdown:

- \$1.8 million was for fuel increases. Fuel costs were projected on average at \$2.36 per gallon which increased to \$2.50 per gallon. The AMHS used 8.5 million gallons of fuel per year on average.
- \$400 thousand related to an underestimation of the required crew for the M\V Tazlina for per diem and lodging.
- \$250 thousand for the economic reshaping study.

Co-Chair Johnston commented on fuel costs. She guessed that the service cuts would have reduced fuel costs. Mr. Pannone answered that the budget cut included fuel costs. The fuel increases happened during the FY 20 fiscal year.

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Representative Josephson deemed that much of the marine highway revenue was made in the summer via tourism. He asked whether the administration had a plan to capture the increased revenue with enough ferry service to bring the tourists to Alaska. Mr. Pannone responded that the supplemental request provided the AMHS with the maximum level of service it could provide for the remainder of the fiscal year. The service for the following fiscal year was under discussion. Representative Josephson did not have any sense of what the funding was going to allow for ferry service. He deduced that the AMHS "budget was suffocated" and caused the current situation and was not just due to a series of misfortunes, miscalculations, and the strike. He suggested the events were related to the budget cut. He asked for comment.

Mr. Steininger responded that many of the factors listed contributed to the \$7 million request, which would be smaller without them. He relayed that much of the request was to provide the service that was planned. He countered the idea that the need was a result of the previous year's budget reductions. He concluded that the situation had to do with unexpected items. He added that the capital request was caused by identifying issues that could only be discovered during a layup period. Representative Josephson contended that the ferry service began in 1962 and unanticipated events were commonplace. He believed that "something different" affected the system and he "had a good sense of what that is."

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Vice-Chair Ortiz clarified what the money was for. He voiced that the state went into the current fiscal year with a \$40 million reduction to AMHS after many prior years of cuts. The significantly reduced schedule of operations reflected the \$40 million reduction. He surmised that Mr. Steininger maintained that the supplemental request was for the purpose of meeting the "significantly reduced schedule" that had been put forth by AMHS. Mr. Pannone answered in

the affirmative. Vice-Chair Ortiz asked that by adding the funding, the state would not receive additional services. Rather, the post budget cut schedule would be restored. Mr. Pannone responded in the affirmative.

Representative Sullivan-Leonard mentioned the \$200 thousand for the "Haines" event. She asked for more information. Mr. Pannone replied that extra trips were made to collect additional revenue. He offered to provide more information.

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Co-Chair Foster determined that some of the AMHS supplemental requests would recur. He inquired whether some of the items were added to the FY 21 budget. Mr. Steininger responded that any items of a recurring nature was added to the FY 21 budget. He corrected that the balance in the Marine Highway Fund was \$30 million. Co-Chair Foster noted that the budget detail document Mr. Pannone was citing included \$100 thousand for the ALCAN 200 snow machine race. Mr. Pannone replied that he mistakenly named the location of the race and was the same race that Representative Sullivan-Leonard referred to. He would provide more information later.

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Mr. Steininger moved to slide 21 titled: Supplemental Bill: Fund Capitalization and Transfers:"

Fund Capitalization: Total \$600.0 UGF, \$3,000.0 Fed

Capital

- Election Fund - FY20 capitalization of the Election Fund with federal receipts: \$600.0 UGF, \$3,000.0 Fed

Fund Transfers: Total \$1,100.0 deposit into General Fund

- Undesignated Reserve (UGF out), AHFC Subsidiary Fund Transfer balance of AHCC account to the General Fund: \$1,100.0 fund transfer

Mr. Steininger explained that the election fund capitalization was related to the election security item he mentioned on a prior slide [slide 14]. He reported that the

Alaska Housing Finance Corporation (AHFC) fund balance was relatively small and required administrative costs and staff time to maintain the fund separately. The administration wanted to close the fund.

Representative Josephson asked for history of the fund. Mr. Steininger thought that the simplest way to provide the information would be in writing. Representative Josephson perceived that the state was \$1.1 million richer.

[2:56:26 PM](#)

Representative LeBon asked whether it was conceivable that the AHFC Subsidiary Fund contained AHFC receipts and represented cash inflow to the agency and its source was external. Mr. Steininger understood that the fund was not comprised of revenue; it contained funds from other sources. Representative LeBon cited the AHCC account and asked for clarification that it was not a typo on the slide. Mr. Steininger specified that the Alaska Housing Capital Corporation account was an account that existed within AHFC and was one of its subsidiary accounts. Representative LeBon asked whether AHFC generated revenue from its loans. Mr. Steininger responded that Representative LeBon was correct but, the AHCC account was not related to loan activity.

Mr. Steininger addressed slide 22 titled "Supplemental Bill: Special Appropriations and Capital Items:

Special Appropriations: Total \$131.7 UGF

- Judgments, Settlements, and Claims

FY2020 judgments, settlements, and claims: \$131.7 UGF

Capital: Total \$4,852.9 deposit into General Fund

- Capital

Repeals: \$4,398.6 UGF

Mr. Steininger noted that there were various capital budget repeals where remaining balances of finished projects were identified. The specific project detail was included in the bill and back up materials.

[2:58:45 PM](#)

Vice-Chair Ortiz returned to slide 3. He referred to the \$238.8 million reduction between FY 19 to FY 20 noted on

the slide. He listed the budget reductions amounting to \$273 million. He wondered whether an estimated \$35 million was increased across the budget. Mr. Steininger answered in the affirmative.

Co-Chair Johnston referred to the Supplemental Bill detail spreadsheet (copy on file). She requested more detailed information regarding items on page 9. Mr. Steininger explained that the items were ratifications where expenditures were greater than anticipated revenue and agreed to provide additional information.

Co-Chair Johnston also requested more details regarding the repealed capital projects. Mr. Steininger responded that the repealed projects were in the language section of the bill and backup. He agreed to provide more information.

[3:02:17 PM](#)

Co-Chair Foster had a question regarding community assistance. He remarked that the governor vetoed \$30 million in FY 20. He asked if the governor had a position on a possible inclusion by the legislature of additional funding for community assistance. Mr. Steininger could not speak to other items that might be added to the bill.

HB 234 was HEARD and HELD in committee for further consideration.

Co-Chair Foster reviewed the agenda for the following meeting.

#

ADJOURNMENT

[3:03:52 PM](#)

The meeting was adjourned at 3:03 p.m.