

HOUSE FINANCE COMMITTEE  
February 20, 2020  
1:33 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:33 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 Adam Wool

MEMBERS ABSENT

Representative Cathy Tilton

ALSO PRESENT

Neil Steininger, Director, Office of Management and Budget,  
Office of the Governor.

PRESENT VIA TELECONFERENCE

NONE

SUMMARY

HB 205      APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 205 was HEARD and HELD in committee for further consideration.

HB 206      APPROP: MENTAL HEALTH BUDGET

HB 206 was HEARD and HELD in committee for further consideration.

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

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

GOVERNOR'S FY 21 OPERATING BUDGET AMENDMENTS

GOVERNOR'S FY 20 SUPPLEMENTAL BUDGET AMENDMENTS

Co-Chair Foster reviewed the agenda for the meeting. He invited Mr. Steininger to the table.

#hb205

#hb206

HOUSE BILL NO. 205

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; 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."

HOUSE BILL NO. 206

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

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^GOVERNOR'S FY 21 OPERATING BUDGET AMENDMENTS

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NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced the PowerPoint Presentation: FY2021 Governor's Amended Budget Overview." He began with the chart on slide 2 showing an updated Office of Management and Budget (OMB) fiscal summary that included the supplemental, capital, and operating amendments. He indicated the total difference was not noted

on the slide. The amendments offered by the governor for FY 21 totaled \$45.3 million in unrestricted general funds (UGF) and \$42.5 million in all funds. He reported that the total for the FY 21 capital budget equaled \$4.6 million UGF and \$2.8 million all funds. He relayed that the supplemental budget for FY 20 totaled \$30.5 million UGF and \$815.9 million from the Permanent Fund (PF) Earnings Reserve Account (ERA).

Mr. Steininger continued to slide 3 listing the amended statewide items. The first item dealt with the calculation for the FY 21 salary adjustments which were initially calculated in the prior November and inadvertently included some other factors in the base. The salary adjustment was misstated higher than it should have been. There were several minor changes to the salary adjustments totaling a reduction of \$300,300 in UGF and other fund sources. He indicated it had been a clerical error by OMB as it calculated the impacts of bargaining agreements.

Co-Chair Foster recognized the committee had been joined by Representative Carpenter.

Mr. Steininger explained that in the fund transfer section of the bill, OMB included an amendment that would deposit the remaining balance of the Alaska Fish and Game Revenue Bond Fund into the Fish and Game Fund. The amount in the redemption fund was enough to pay off the outstanding debt on the bonds with a residual amount left in the fund of between \$4 million to \$6 million. The funds needed to be spent on other sport fish related activities. Therefore, OMB planned to deposit the remaining balance into the Sport Fish Enterprise Account within the Fish and Game Fund.

Co-Chair Johnston asked Mr. Steininger to share the terms of the paper being paid off. Mr. Steininger did not recall all of the details. However, he offered that once the balance of the redemption fund was enough to payoff the bonds, the state would do so. The balance would be high enough in FY 21 to pay off the outstanding principle.

Mr. Steininger conveyed that in the debt service section OMB included \$55 million to pay financing on oil and gas tax credit bonds assuming that the outcome of the pending legislation was in the state's favor. Included was a transfer of \$815.9 million from the ERA to the Permanent

Fund Dividend (PFD) Fund for the PFD payment equal to the shortfall amount in calendar year 2019.

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Representative Knopp asked about the debt service for the oil and gas tax credits and how the state would be affected if the sale did not occur. Mr. Steininger responded that should the judgement not fall in the state's favor, the legislature would have to come back to appropriate funds to cover the statutory obligation to pay down the tax credits.

Representative Knopp asked if the outcome would be known before the budget cycle was completed. Mr. Steininger could not speculate when a decision would be made.

Co-Chair Johnston referred to the transfer of \$816 million on slide 2. She clarified that the Percentage of Market Value (POMV) draw from the ERA to the general fund (GF) included the \$816 million. Mr. Steininger responded that the fiscal summary was collapsed to fit on the slide. He indicated that behind the detail to the POMV draw was detail on the ERA draw as set out in statute - the portion that went to the dividend. The slide showed the amount available for state operations.

Co-Chair Johnston referred to the \$510 million deficit reflected on the slide. She wondered if there would be an additional deficit without the draw from the ERA (a draw beyond the structured draw). Mr. Steininger explained that the slide only showed the amount available for statewide operations. It did not include the dividend within the fiscal summary.

Co-Chair Johnston referred back to slide 3. She asked if Mr. Steininger was referring to an ad-hoc draw without operations. Mr. Steininger responded, "Correct."

Representative Merrick believed the administration offered legislation, HCR 13 [Legislation introduced in 2020 - Short Title: Support Future of Permanent Fund/Dividend]. She wondered if the bill had the same PF distribution information as reflected on the slide.

Mr. Steininger assumed she was speaking of the substantive bill that would determine the eligibility for the payment of the back-pay portion of the dividend in the current

year. He wondered if that was what the representative was referring to.

Representative Merrick asked if the figure was for the back pay for the dividend from the prior year. Mr. Steininger responded in the affirmative. He confirmed that there was a bill in play that would set the eligibility for individuals who would receive the back-pay if they received the dividend in 2019 and were eligible in 2020.

Representative Merrick clarified that whoever was eligible, per the bill, would receive a portion. Mr. Steininger responded, "Correct." Representative Merrick queried the amount. Mr. Steininger responded that it was about \$1042.

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Co-Chair Foster referred to the oil tax and an amount of \$55 million. He suggested that if the court struck down the bond program, one of the options would be for the legislature to pay the statutory minimum. He asked for the statutory minimum amount. He thought the figure was approximately \$166 million.

Mr. Steininger agreed with the number suggested by Co-Chair Foster.

Representative Josephson referred to oil tax credits. He provided a brief history of the oil tax changes since he had been in the legislature. He suggested that if he had been asked in the prior year why the state had not paid anything, he would have responded that there was litigation pending and the payment was subject to appropriation. He wanted to pay what was owed. He wondered how to explain why the legislature would be paying if the state were to lose the litigation. He pondered how to explain the situation to his constituents.

Mr. Steininger suggested responding that the state did not pay oil tax credits because it did not have certainty in the outcome of the litigation. The outcome of the litigation would dictate the state's path into the future.

Representative Knopp commented that the PFD draw was obviously a way of complying with a perceived statute or to fulfill a campaign promise. He suggested that following the old statutory formula for calculating the dividend clearly

violated the provisions of SB 26 [Legislation passed in 2018 establishing a Percent of Markey Value draw for state operating expenditures]. He suggested that the budgeting process was flawed because of the conflicting statutes. He thought the legislature should really be talking about actual revenues and expenditures. He asserted the waters were being muddied.

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Co-Chair Johnston asked what the state's responsibility would be if it lost the lawsuit. Mr. Steininger thought the obligation would be about \$166 million. He could get back to the committee with an exact amount. Co-Chair Johnston clarified that the amount was over \$160 million. Mr. Steininger responded in the affirmative.

Mr. Steininger reviewed the changes for the Department of Administration (DOA) on slide 4. There was an amendment for an additional \$1 million in other funds for a third-party claims' administrator contract within the Division of Retirement and Benefits. He reported \$169,000 of UGF related to mandatory patient-centered outcomes research institute dues that must be paid under the Affordable Care Act. In the Office of Public Advocacy there was a new Alaska Mental Health Trust Authority (AMHTA) item. Throughout the presentation there were a handful of new recommendations received from AMHTA after the budget release in December. There was a request for funding for a public guardian position. He also noted there was program receipt authority for increased collection activity and vendor fee revenue within the Shared Services Alaska Initiative. He pointed to the \$500,000 DGF which would help offset costs that would otherwise be billed out to agencies throughout the state. In the Office of Information Technology there was a transfer of a position related to the State of Alaska Telecommunications System (SATS). The position was being transferred to the Department of Military and Veterans Affairs.

Co-Chair Johnston referenced the AMHTA funds. She was aware of a number of positions that were not match-funded in the Department of Health and Social Services (DHSS) and in the Department of Administration (DOA). She thought the amount was close to \$4 million. She asked if the \$91,000 UGF were matching funds for AMHTA. She asked Mr. Steininger for further clarification.

Mr. Steininger replied that the \$91.5 million was AMHTA receipt authority. He indicated there were several other areas within the budget in which the AMHTA had recommended use of its money.

Co-Chair Johnston asked if the money was matching UGF dollars to AMHTA funds. Mr. Steininger responded, "No it is not."

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Mr. Steininger moved to slide 5 showing the changes for the Department of Commerce, Community and Economic Development (DCCED). He explained that there was a technical correction. He indicated that when the Alaska Oil and Gas Conservation Commission (AOGCC) was transferred to DCCED a couple of technical items got lost in the shuffle. He relayed that \$224.8 million DGF were transferred from the Department of Law to AOGCC for support to and payment for services the commission provided. He continued that there was also carry-forward language in the numbers section of the bill in which OMB had added an amendment. The language previously existed but was not carried over when the appropriation was moved into the department.

Representative Merrick clarified that she had incorrectly stated the bill regarding the supplemental payments of the PFD. She indicated the correct bill number was SB 205 [Legislation introduced in 2019 - regarding a supplemental PFD for 2019 recipients].

Co-Chair Foster asked if further clarification was needed. Mr. Steininger responded that he thought the intent of the bill had been addressed previously in the meeting.

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Mr. Steininger reviewed the changes for the Department of Corrections (DOC) on slide 6. He reported a net reduction in the department of \$13.4 million. The change reflected a reduction of the out-of-state contract appropriation in the amount of \$17.8 million associated with sending prisoners out of state. The amount had been offset by some fixed cost increases by the department that would be experienced in FY 21. He continued that \$3.2 million was listed under the Health and Rehabilitation Office and related to risk

management cost increases. The department had seen insurance claim increases which increased the risk management allocation amount.

Representative Josephson thought the reduction was a wise move. He thought it reflected the need to house and feed a certain number of prisoners out of state. He wondered where the costs were reflected since prisoners would remain in the state. He asked if the costs were covered in the existing bill and were adequate.

Mr. Steininger responded that it was covered in the term-year extension of the appropriation to re-open the Palmer Correctional Facility. He explained that extending the term-year and spending the money to re-open the facility, the department did not have to find the money elsewhere in its budget. There was also additional money within the institution director's office that would be used to cover the cost of housing inmates. The department looked at its projections for the number of inmates it expected in FY 21 and did not need further adjustment within the institutions. As long as the department was able to cover the fixed cost increases it would not have to bill the institution for the costs.

Mr. Steininger discussed the changes for the Department of Education and Early Development (DEED) on slide 7. There was an adjustment to the amount of technical and vocational education funding that the department received. There was a handful of other transactions throughout the amendments that were adjustments related to Technical Vocational Education Program (TVEP) funding. The number was adjusted after the December release. He also noted a new federal grant that the department received for \$211,000. The grant was designed to help the Libraries, Archives, and Museums division address emergency events for preservation of state historical artifacts.

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Representative Sullivan-Leonard asked if there was a required state match for the federal grant related to the state libraries, archives, and museums. Mr. Steininger responded that there was not a dollar value match, but existing staff in the division would help manage the grant.

Representative Sullivan-Leonard asked if the item was urgent. Mr. Steininger responded that it was in the FY 21 operating budget. It was not an urgent matter.

Mr. Steininger continued to slide 8 which showed the changes made to Department of Environmental Conservation's (DEC) budget. The administration restored the dairy program at \$164,600 UGF and anticipated \$15,000 in receipts to be collected from the industry.

Vice-Chair Ortiz asked if the amount was already a part of the operating budget the committee was currently addressing. He thought the item had been dealt with at the finance subcommittee level. Mr. Steininger explained that when OMB was submitting budget amendments, they were submitted based on the budget submitted in December [2019]. The amendment was an acknowledgement of support of the action taken by the subcommittee.

Representative Merrick asked if there were three dairies that would be contributing to the receipts Mr. Steininger had mentioned. Mr. Steininger believed so but did not know the exact number of dairies.

Representative Merrick asked if the dairies were consulted about the receipt amount.

Mr. Steininger was aware that the department had had conversations with the industry and discussed the level of state support and the level of receipts needed.

Representative Merrick commented that in the past she had supported companies paying for their own testing and regulations. She thought it was a good faith effort by the industry.

Mr. Steininger advanced to slide 9 which listed changes for the Department of Health and Social Services (DHSS). The first item removed \$7 million of federal authority. Unfortunately, a grant the department anticipated did not go through and the federal authority was no longer needed. He reported there was an addition of \$700,000 UGF and \$700,000 of federal receipts for the Family First Prevention Services Act for the Office of Children's Services (OCS). The funding would target families at risk of entering the OCS system to help prevent taking children out of their homes. There had been a growing number of

children in subsidized adoption and guardianship arrangements. The administration had added \$1 million in UGF and a small amount of additional federal authority. He noted that the \$1 million was not representative of the actual amount of federal matching dollars. It was enough federal authority to collect the amount OCS anticipated leveraging with the \$1 million.

Mr. Steiniger discussed changes within the Division of Senior and Disabilities Services. The Alaska Mental Health Trust Authority recommended adding an Adult Protective Services III position at a cost of \$75,000 from trust receipts and \$75,000 from federal revenue. He conveyed that AMTHC recommended adding a Research Analyst III position in the Division of Behavioral Health at a cost of \$96,000 from trust receipts.

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Mr. Steininger continued to discuss changes to the DHSS budget on slide 10. The Alaska Mental Health Trust Authority recommended professional off-site evaluations at a cost of \$300,000 in trust receipts. The Trust also recommended a Partner Access Line-Pediatric Alaska Program at a cost of \$89,000 and a peer support certification with the Behavioral Health Administration at a cost of \$125,000. He reported that within the commissioner's office the Trust recommended the Statewide Designation Evaluation and Stabilization/Designation Evaluation and Treatment Coordinator position at a cost of \$75,000 in trust receipts and \$50,000 in federal revenues.

Mr. Steininger continued to review slide 10. He reported that within the Division of Behavioral Health OMB made a transfer of \$400,000 from the administrative component to the Suicide Prevention Council to cover grant funding for a Suicide Prevention Council Grant - a grant that went to the Department of Education and Early Development (DEED).

Representative Josephson asked for clarification regarding the Suicide Prevention Council Grant and the grants related to behavioral health. Mr. Steininger responded that they were related to an administrative component within behavioral health. The Office of Management and Budget looked at historical trends of lapsed amounts within the component and found that the full amount of UGF had not been used each year. The department thought the lapsed

amount could be used to support a much-needed program within the Suicide Prevention Council.

Representative Josephson suggested that the \$400,000 was not reaching beneficiaries in need. Mr. Steininger responded that it was not that the dollars were not making their way to beneficiaries. Rather, the money was not assigned to specific grants but to the administration side of behavioral health. The dollars were being reallocated to pay for the suicide prevention grants.

Co-Chair Johnston summarized that the mental health add-ins were additional AMHTA receipts. She asked if the Trust was expecting a UGF match from the legislature for any of the grants. Mr. Steininger responded in the negative.

Mr. Steininger addressed the changes to the budget for the Department of Labor and Workforce Development (DOL) on slide 11. There were two items adjusting the TVEP funding. There was an addition of \$457,900 UGF to the Workforce Investment Board and \$227,500 in TVEP funding for the Alaska Vocational and Education Center (AVTEC). There was also an increased salary and benefit adjustment within AVTEC of \$48,000 UGF and \$10,600 in other funding.

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Mr. Steininger reported changes made to the Department of Law's budget on slide 12. The amount noted on the slide was the other half of the technical adjustment he had mentioned within DCCED. The amount would correct a coordination issue at the release of the December budget and noticed after the release. The adjustment would ensure that the money to support AOGCC went to the right place.

Mr. Steininger advanced to slide 13 which showed changes made to the budget for Department of Military and Veterans Affairs (DMVA). There was an amount of \$280,500 UGF added to support the management positions for the State of Alaska Telecommunications System. He explained that when the program was housed within the Department of Administration (DOA), the positions were funded through the Office of Information Technology budget. Now, because the program was housed within DMVA, it required general funds. There was an additional technical correction, a reduction of \$35,500, to correct a calculation error in the December budget. He

noted that the other side of the transfer of the position could be found on the DOA slide.

Mr. Steininger reviewed slide 14 listing the changes made to the Department of Natural Resources' (DNR) budget. There was an addition of \$204,000 for the servicing of an agricultural revolving loan program support. There was also a federal grant for a boating safety program in the amount of \$200,000. There was an addition of a position for the Citizens' Advisory Commission on Federal Areas at a cost of \$178,000 within the Office of Project Management and Permitting. He mentioned that there were several items on the end of the current slide and the following slide that addressed concerns the department had with travel regarding activities that required employees to conduct site work. The change was an adjustment to the travel reductions that were implemented in the current fiscal year to ensure that critical needs travel was funded.

Mr. Steininger indicated that slide 15, a continuation of the changes made to DNR's budget, addressed some of the other areas in which the critical needs travel was occurring.

Mr. Steininger moved to slide 16 which indicated the changes made to the budget for Department of Public Safety (DPS). There were two other AMHTA items - one in the training academy and one in the Police Standards Council. Both items were for a crisis intervention team training course and reflected a total cost of \$160,000 in trust receipt authority.

Mr. Steininger advanced to the list of changes for the Department of Revenue (DOR) on slide 17. There was an increase across two different change records totaling \$346,600 UGF. The changes reversed efficiency savings. He elaborated that as the department looked at its overall budget for the Tax Division and the need to move the Tax Revenue Management System into the operating budget out of the capital budget, it realized that while it could eliminate the positions identified, it needed the authority to fully support the Tax Revenue Management System. There was also a backlog within the Unclaimed Property Division at a cost of \$150,000 DGF (funds collected by the Unclaimed Properties Section) to get through the claims backlog.

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Mr. Steininger discussed changes made to the Department of Transportation and Public Facilities' (DOT) budget on slide 18. He reported the need for \$55,000 to address equipment calibration and certification for measurement standards. There was also a Vessel Construction Manager position to work with the Interisland Ferry Authority on their annual overhaul and construction projects at a cost of \$126,900. The department determined that the position was needed to help the authority to coordinate with all of the various requirements of the federal monies it received for the overhaul and construction projects.

Mr. Steininger turned to the list of changes to the Judiciary (JUD) budget on slide 19. There was a handful of adjustments having to do with the conversion to a bi-weekly payroll. He reported that as Judiciary looked at the management of the conversion to a bi-weekly payroll, it realized the conversion would have a budgetary impact for its personal services costs. The changes also reflected a restoration of full funding for the Appellate Court budget, a reduction of \$9,100 UGF related to Executive Branch Services, and an adjustment in the number that would be required.

Mr. Steininger reviewed changes made to the budget for the Office of the Governor on slide 21. He reported an increase of \$60,000 related to ensuring that local governments had access to the Alaska Administrative Code. There was also \$236,500 related to election worker pay. An update to their pay level was needed requiring an additional amount of money.

Mr. Steininger continued to slide 22 which listed changes made to the University of Alaska's (US) budget. He reported an adjustment of \$605,900 related to TVEP funding. He concluded his presentation of the FY 21 effective items.

HB 205 was HEARD and HELD in committee for further consideration.

HB 206 was HEARD and HELD in committee for further consideration.

#hb234

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."

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^GOVERNOR'S FY 20 SUPPLEMENTAL BUDGET AMENDMENTS

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Mr. Steininger indicated he would be discussing the proposed supplemental amendments. He began with Judiciary on slide 24. The cost of the conversion to a bi-weekly payroll was reflected as well as funding for additional costs related to the state's accounting system, IRIS.

Mr. Steininger reviewed additional amendments for Judiciary on slide 25. There was \$75,800 related to additional costs for Executive Branch Services.

Co-Chair Foster asked Mr. Steininger to return to page 25. He asked for further detail regarding the addition costs for Executive Branch Services. Mr. Steininger replied that the risk management rate for the amount charged based on employees in the Judicial Branch increased. Judiciary did not have the flexibility in its budget to respond to the increase like other agencies might.

Mr. Steininger indicated that other supplemental amendments included an adjustment to the Judgements, Claims, and Settlements Section adding two new judgements as well as place-holder language related to pending litigation. There was also a special appropriation, a lapse extension for the authority to buy back tax credits using proceeds from a bond sale. The authority existed in FY 20 and needed to be extended into FY 21 in case a bond sale occurred in the time period.

Mr. Steininger reported that within the capital budget there was a \$24 million project to refresh the Alaska Land Mobile Radio (ALMAR) System. He elaborated that the repeaters that were on the towers needed to be replaced. The item needed to be started relatively soon to ensure

that the other partners within the system could stay onboard and keep the system functioning.

Mr. Steiniger relayed that within DPS there was an adjustment to the project for FAA-required equipment on DPS aircraft. The amount OMB included in the supplemental budget a couple of weeks prior was lower than what was actually required to address all the aircraft that needed the equipment. The amount was increased by \$293,400 for a total of just under \$400,000 for the equipment.

Co-Chair Foster asked about the lapsed extension in the special appropriation. He asked if it was for the \$27 million that was in FY 20 so that it could roll over into FY 21. Mr. Steiniger indicated that the amount was for several hundred million to spend the proceeds of a bond sale to actually purchase tax credits.

Co-Chair Foster had heard that if the ALMR money was not appropriated to update the system, the other partners might pull out. Mr. Steiniger responded in the affirmative. He indicated he had finished his presentation.

Co-Chair Johnston suggested the committee would discuss spending caps. She asked how they would fit into the governor's proposed budget and supplemental amendments. She referred to HJR 7 [Legislation introduced in 2019 regarding an appropriation limit]. Mr. Steiniger agreed it would provide context.

Co-Chair Johnston requested that he show how the budget fit into last year's proposed spending cap. She thought it would help in future conversations.

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Co-Chair Foster summarized that the amendments reflected an increase of \$45 million UGF for the operating budget, \$4 million UGF for the capital budget, and \$30 million for the supplemental budget. The total amount was \$80 million UGF. He asked if his figures were correct. Mr. Steiniger responded affirmatively.

Representative LeBon returned to the ALMR program. He asked if the request was to fund the program at \$24 million to meet an expectation of the Department of Defense partner. He asked if there was an additional \$5 million being

proposed in the capital budget for the system. Mr. Steininger responded positively that in the amendments OMB reduced an existing capital request that was in the December release of the budget in the range of \$7.6 million. After further conversation with the department, the funding request was reduced to \$5 million for both SATS and ALMR.

Representative LeBon asked if the total funding for the system was \$29 million. Mr. Steininger responded in the affirmative in terms of capital projects.

Co-Chair Foster commented that if the state were to lose the court case having to do with oil tax credits the cost to the state would increase dramatically from \$55 million to \$166 million - if the committee followed the statutory minimum. The total adjustments proposed was \$80 million but could grow by over \$100 million if the scenario he suggested were to occur.

Co-Chair Foster reviewed the agenda for the following meeting at 5:00 pm in the current day.

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

#  
ADJOURNMENT

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The meeting was adjourned at 2:17 p.m.