

HOUSE FINANCE COMMITTEE
February 21, 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 (via teleconference)
Representative Colleen Sullivan-Leonard
Representative Adam Wool

MEMBERS ABSENT

Representative Cathy Tilton

ALSO PRESENT

Pat Pitney, Director, Legislative Finance Division; Kelly Cunningham, Analyst, Legislative Finance Division.

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 AMENDMENTS AND SUPPLEMENTAL REQUEST OVERVIEW:
LEGISLATIVE FINANCE DIVISION

Co-Chair Foster reviewed the meeting agenda.

#hb205

#hb206

#hb234

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."

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 AMENDMENTS AND SUPPLEMENTAL REQUEST OVERVIEW:
LEGISLATIVE FINANCE DIVISION

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PAT PITNEY, DIRECTOR, LEGISLATIVE FINANCE DIVISION, provided a PowerPoint presentation titled "Governor's Amendments and Supplemental Request Overview: House Finance Committee," dated February 21, 2020 (copy on file). She

began on slide 2 titled "Governor's Supplemental Requests." The governor had proposed \$1.117 billion in unrestricted general fund (UGF) supplemental requests for FY 20 including \$271.1 million operating, \$30 million capital, and \$815.9 million for additional dividend payments (the dividend was also in the operating budget). She reported that compared to FY 19, the governor's proposed FY 20 UGF supplemental budget was \$809 million higher and agency operations were up \$17.8 million dollars even after cuts made to the Alaska Marine Highway System (AMHS), the University, and the Department of Health and Social Services. She explained that the cuts to the aforementioned items were offset by the supplemental request including fire.

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Representative Wool referenced Ms. Pitney's statement that the FY 20 budget was \$809 million higher [than the FY 19 budget]. He asked how the \$815 million in additional money for an additional dividend was accounted for in the FY 19 budget. He asked if the FY 20 budget was actually \$6 million lower [than FY 19] if \$815 million was added for a [previous] dividend and the budget was \$809 million higher [than FY 19].

Ms. Pitney replied that she would answer the question with a following spreadsheet.

Representative LeBon considered a scenario where the governor's supplemental request of \$815.9 million for the 2019 dividend was paid with an additional draw from the Permanent Fund Earnings Reserve Account (ERA). He asked Ms. Pitney if she had an opinion on the Constitutional Budget Reserve (CBR) balance at \$491 million and its use of working capital for the state operating budget.

Ms. Pitney answered that the projected CBR balance of less than \$500 million was very risky for the state because it was the only remaining reserve account that was not expected to be a source of ongoing revenue. She added that the governor's proposal for an additional \$815 million to go to the [2019] dividend would overdraw the POMV. She added that the reduction in the CBR was other spending. She elaborated that in addition to the significant depletion of the CBR, the budget required an overdraw of the POMV from the Permanent Fund. The POMV was anticipated to be the

ongoing revenue stream. Overdrawing the POMV just once would cost the state \$40 million annually in POMV revenue.

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Co-Chair Johnston stated her understanding that for the state's daily cash management needs the balance in the CBR should be \$400 million to \$500 million.

Ms. Pitney replied that the treasury put money into cash management when the General Fund was at or below \$400 million. She explained that perhaps the treasury would draw on the CBR at that amount or take a draw from the anticipated POMV appropriation. The threshold used was \$400 million. She noted that the treasury drew from the CBR often in chunks of \$400 million to \$500 million.

Co-Chair Johnston stated it was her understanding that the POMV draw from the Permanent Fund happened earlier - she believed the money had been taken since March. She asked for verification that it became more difficult to balance cash management during closeout from one year to the next and sometimes there was a spiked to a relatively high period due to a lack of revenue.

Ms. Pitney would have to follow up on the specifics - there were charts that showed when the draws took place. A CBR balance of below \$500 million changed the flexibility available and all of the money from POMV would have to come first. The more money invested and held with the Permanent Fund or the more money invested in the CBR, the more money the dollars earned. The existing asset was being drawn down, which took away its ability to earn dollars throughout the year.

Co-Chair Johnston stated it was her understanding it was not clear that unstructured draws could be taken from the ERA to use as it as a cash management system similar to how the CBR had been used. She asked if Ms. Pitney would suggest the legislature obtain a legal opinion on the issue.

Ms. Pitney replied that a legal opinion would be a point of clarification on the issue.

Co-Chair Foster highlighted that over the years the legislature had been told that the CBR balance should be at

least \$1 billion. More recently the legislature had been told \$400 million was part of a MOU [memorandum of understanding] and was an absolute minimum balance. He noted that the \$400 million number was not necessarily the minimum recommended. He asked if the \$400 million was in the MOU.

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Ms. Pitney answered the \$400 million was the point that the treasury made certain there where funds in the General Fund to account for the cashflow. The MOU did not address the CBR balance. The memorandum directed borrowing from the CBR if the treasury balance fell below \$400 million to ensure there was always a minimum of \$400 million in available assets for the cash management of the state. She referenced testimony by Mike Barnhill (Deputy Commissioner with the Department of Revenue) that the CBR should have the highest minimum balance possible if the fund was used as an ongoing revenue stream. She relayed that until the structural deficit was addressed, having as much money in the CBR was important. Under a scenario with no structural deficit, \$1 billion would be the minimum recommended balance (20 percent of the state's annual revenue). She stated that the balance should be closer to \$1.5 billion to \$2 billion on an ongoing basis, based on the size of the state's budget.

Representative Josephson stated that the administration's current position was that the money listed in the first bullet [on slide 2] would be funded using an overdraw of the SB 26 [Permanent Fund legislation passed in 2018] number and that the FY 21 dividend would be funded by drawing down the CBR to \$400 million to \$500 million.

Ms. Pitney replied that the statements were correct.

Representative Knopp provided his understanding of Ms. Pitney's statements. He asked for verification that with the supplementals the FY 20 budget was higher than all of the FY 19 actuals, even with the vetoes.

Ms. Pitney agreed.

Representative Knopp asked for verification that it included all of the vetoes and not just the AMHS. He asked if the FY 20 budget was \$17.8 million higher than FY 19.

Ms. Pitney referred to a table showing a UGF comparison on slide 4. She pointed to the \$5.8 billion appropriations total for FY 19 in the first column. The governor's FY 20 proposal including the supplementals was \$6.6 billion. She looked at column 1, line 7 and highlighted that agency operations totaled \$3.9 billion in FY 19. Column 2, line 7 showed an FY 20 agency operations total of \$4 billion. There was a reduction in statewide items associated with community assistance, school debt reimbursement, and oil tax credits. The largest increase was the additional PFD of \$815 million shown in column 2, line 16. Column 4, line 13 showed a total Permanent Fund difference of \$932 million from FY 19 to FY 20. Column 4, row 5 showed a total appropriations difference of \$809 million from FY 19 to FY 20.

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Ms. Pitney turned to a table titled "Short Fiscal Summary - FY20 with Governor's Supps/FY21 Governor's Amended Budget" (reflecting all funds) on slide 3. Prior to the supplementals the FY 20 ending value was over \$2 billion. The FY 21 balance had been projected at nearly \$600 million, but the number had declined to \$491 million under the governor's proposal.

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Ms. Pitney turned to a bar chart on slide 5 reflecting UGF revenue and budget with a bar chart. The green portion of the chart reflected traditional oil-based revenue and the gray portion represented the POMV draw from the ERA. The light blue portion of the chart reflected the overdraw of the POMV to cover the additional dividend included in the governor's proposal. There were three bars reflecting different variations of the FY 20 budget. The first bar labeled "FY20" represented the budget when the legislature had adjourned special session the previous summer, with the addition of the governor's vetoes. The second bar labeled "FY20 w/ Gov Sups thru 2-4" reflected the FY 20 budget including the early February [2020] supplemental package. The third FY 20 bar labeled "FY20 w/ Gov Sups thru 2-20" reflected the FY 20 budget with the most recent supplemental request. She highlighted the last bar on the slide showing the governor's FY 21 budget as amended.

Representative Sullivan-Leonard highlighted a transfer by the legislature of a little over \$5 billion from the ERA to the corpus of the Permanent Fund. She asked where it would appear on the graph and whether it was considered an additional ERA draw.

Ms. Pitney answered that the transfer was not considered spending. The action reflected the movement of one asset to another asset or government to government.

Representative Sullivan-Leonard considered the additional ERA draw. She stated that the \$815 million reflected the governor's preexisting desire to fund a full PFD in FY 20.

Ms. Pitney answered that the gray portion of the chart represented the POMV of just over \$3 billion. The blue shaded area on the chart reflected the additional \$815 million spend proposed by the governor.

Representative Wool referenced the last two bars on the right for FY 20 with the supplemental and FY 21. He observed that the PFD was the same for both years and reflected a full statutory PFD. He looked at the pink portion of the bars showing the net fund transfer. He surmised that in FY 20 the PFD was paid by the ERA draw and in FY 21 it was paid with a CBR draw. He asked for verification that the pink portion of the FY 21 bar was larger because of a larger fund transfer from the CBR.

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Ms. Pitney answered in the affirmative. The governor's proposed supplemental budget would pay the additional dividend for FY 20 with funding from the ERA. Under the proposed FY 21 budget, the ERA would pay the PFD first and the remaining funds would pay for government. She explained that any remaining needs would be funded by the CBR. She clarified that FY 20 with the supplemental was structured differently than the governor's proposal in FY 21.

Co-Chair Foster knew the transfer versus an appropriation was always a confusing topic. He explained that paying out a "payback" dividend would be money coming out of the treasury. Whereas, a transfer moved from one part of the treasury to the other and was still within the state's purview.

Ms. Pitney agreed.

Ms. Pitney turned to slide 6 titled "FY20 Supps and CBR Headroom." The statutory CBR headroom was \$250 million in FY 20. The governor's recent supplemental package was \$301 million and exceeded the headroom by \$51 million.

Representative Josephson asked why the additional \$51 million could not be funded through the general treasury. He asked for verification the legislature did not have to get the money from the CBR.

Ms. Pitney answered that the spending amount had exceeded the balance in the UGF accounts. The CBR was the most traditional place to cover the \$51 million.

Representative Josephson stated that nothing had been appropriated for FY 21 at present. He thought receipts from royalties and taxes were coming in, meaning there must be some funding in the treasury.

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Ms. Pitney returned to slide 4 [column 1, row 1] and looked at revenue available for FY 20 estimated at \$5.163 billion. She noted that all of the supplementals were FY 20 spend. The operating budget of \$4.5 billion [row 6], the capital budget, and original dividend exceeded the estimated revenue amount. The \$51 million could come from other accounts such as Power Cost Equalization (PCE) or Higher Education. She relayed that other accounts could be used, but traditionally the CBR had been used when available UGF funds were not sufficient.

Representative Josephson understood they were dealing with an FY 20 issue and they were trying to true up based on needs that had arisen. He asked for verification that the legislature was not required to only spend from FY 20 sources for the FY 20 supplemental. He asked if by law, the legislature was to treat the funding of the bill as if it were June 30, 2019.

Ms. Pitney answered that the committee was considering two bills - one impacted FY 20 and one impacted FY 21. The money appropriated for FY 20 needed to fit into the FY 20 revenue stream. She noted that if there were FY 20 items that could be pushed into FY 21, the legislature could use

FY 21 revenue as a funding source. Based on the governor's request, slide 6 showed FY 20 budget requirements for dollars associated with FY 20.

Co-Chair Foster stated the items were all legitimately FY 20 expenses. He recognized that if there was a way to push some items to FY 21, it was a possibility. He reasoned that if an expense was from FY 20, it should be in the FY 20 supplemental. He noted that the CBR headroom cap was \$250 million and beyond that amount a three-quarter vote [by the legislature] was required.

Co-Chair Johnston remarked on the concept of mixing two budget years. She pointed out that the legislature had to wrap up its budget and audit it for the Comprehensive Annual Financial Report (CAFR).

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Ms. Pitney moved to slide 7 titled "Gov Amendments Addressed in Subcommittee." The slide showed all items that had been addressed in subcommittee that were also governor's amendments. She explained that the items had been taken care of in the subcommittee process and did not need to be taken care of in the amendment process for FY 21.

KELLY CUNNINGHAM, ANALYST, LEGISLATIVE FINANCE DIVISION, elaborated that slide 7 contained items that could be accepted or denied by the committee going forward. She reviewed the first two of seven items listed on the slide. The first item was a \$17.8 million reduction from the Department of Corrections tied to the removal of the request for proposal to send prisoners out of state. The subcommittee had denied the increment and the governor had also removed it. Additionally, the finance subcommittee for the Department of Commerce, Community and Economic Development had added carry forward language [for Alaska Oil and Gas Conservation Commission (AOGCC) receipts]. She communicated that she was available for questions.

Co-Chair Foster observed that the largest increment on slide 7 was the reduction of \$17.8 million due to the out-of-state contract for prisoners that was no longer going forward. He observed that other items on the slide reflected smaller UGF numbers.

Representative Carpenter asked if the list on slide 7 was exhaustive.

Ms. Cunningham replied that the list contained all of the items LFD had identified as duplicative from the subcommittee action.

Co-Chair Foster looked at the Judiciary item of \$334,700 to restore previously vetoed funding. He asked for verification the restoration meant there would be no cut.

Ms. Pitney agreed. She clarified that the list only included amendments proposed by the governor that had also been addressed in subcommittee. Slide 7 did not include an exhaustive list of amendments. She noted that the Office of Management and Budget had presented a spreadsheet with the full list of the governor's amendments the previous day. She was happy to take any questions on all of the amendments. She reiterated that slide 7 was limited to governor's amendments that had already been addressed by the finance subcommittees.

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Representative Carpenter thought the information on slide 7 was misleading. He believed the slide made it appear that subcommittees only addressed the items listed on the slide. He referenced a subcommittee action item for the Department of Law that was not included on the slide. He thought the public would not understand why the information was not listed on the slide.

Ms. Cunningham replied that slide 7 only contained governor's amendment items that had been duplicated in the subcommittee process. She noted there were several amendments that were not included on the slide. The intent of the slide was to let the committee know the \$17.8 million reduction did not need to be adopted because it had not been approved [by the subcommittee] in the first place.

Co-Chair Foster clarified that the governor had made numerous amendments and the subcommittees had also made numerous amendments. He explained that the overlapping amendments were included on the list [on slide 7].

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Representative Wool looked at slide 4, row 5 that showed an \$809 million or 14 percent increase under the FY 19 to FY 20 column. He asked if the \$809 million reflected the increase in the PFD from the ERA in the supplemental budget for FY 20.

Ms. Pitney answered that the FY 20 column represented all of the governor's proposed supplemental requests. She clarified the column reflected the budget the governor had asked the legislature to consider.

Representative Wool understood. He knew there had been other supplemental items such as Medicaid and fire [suppression]; however, the lion's share of the \$800 million was the requested draw from the ERA.

Ms. Pitney agreed.

Representative Josephson stated that the governor had vetoed about \$430 million at the end of June 2019. The legislature had come back in July and had tried to restore about \$375 million; it had successfully restored \$222 million. He extrapolated that it meant there was \$200 million the legislature had wanted that the governor had declined. He asked where the money was that the governor had saved by veto.

Ms. Pitney answered that Medicaid was the largest example. The vetoes enacted in Medicaid had been requested back in the governor's FY 20 supplemental budget. The agency operating budget for FY 20 was now higher than what had been finalized after all supplementals for FY 19.

Representative Josephson asked for verification that even though Medicaid had not been fully funded, the claims had come in and had been paid.

Ms. Pitney answered that the claims would only be paid if the supplemental request was appropriated.

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Representative Knopp looked at the third bullet point on slide 7 associated with the Department of Environmental Conservation. He noted that the governor's amended budget added back \$164,600. He observed that the slide showed the governor was proposing to collect \$15,000 in SDPR

[statutory designated] program receipts. He believed the subcommittee had rejected the decrement [related to the commercial dairy program].

Ms. Cunningham would have to follow up on the question. She had been informed that both items had been adopted in subcommittee, but she would follow up.

Representative Knopp knew the commissioner was working with the dairies on the issue. He noted that a workable deal had been struck with two dairies - one of which was a nonprofit. He remarked that \$15,000 in receipt authority for two dairies could be substantial. He wondered what deal had been worked out. He wondered if the item was something he needed to look into further or if "the other" had been left in place.

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Co-Chair Johnston noted that she had asked the following question to OMB as well regarding the new supplemental and budget. She discussed that in 2019 the legislature had held hearings on a spending cap bill. She noted the governor had also introduced spending cap legislation. She believed there would be other spending cap bills introduced. She asked if the governor's proposed budget met his spending caps. She requested a report with the information from LFD.

Ms. Pitney discussed that an area of interest had been on the mental health budget forwarded by Alaska Mental Health Trust Authority (AMHTA) trustees. She communicated that the subcommittee actions and amendments put forward by the governor included everything the trust had requested.

Representative Knopp communicated the sense of urgency to have responses from LFD as soon as possible due to the upcoming amendment deadline for committee members.

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

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

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

Co-Chair Foster reviewed the schedule for the following meeting. He RECESSED the meeting until 5:00 p.m. [note: the meeting never reconvened. A new meeting began at 5:07 p.m., see meeting document dated 2/21/20 5:07 p.m. for detail].

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ADJOURNMENT

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The meeting was adjourned at 2:16 p.m.