

31ST ALASKA STATE LEGISLATURE
FIRST SESSION
CONFERENCE COMMITTEE ON HB 39 and HB 40
June 8, 2019
5:41 p.m.

5:41:03 PM

CALL TO ORDER

Chair Foster called the Conference Committee meeting on HB 39 and HB 40 to order at 5:41 p.m.

MEMBERS PRESENT:

House:

Representative Neal Foster, Chair
Representative Tammie Wilson
Representative Cathy Tilton

Senate:

Senator Bert Stedman, Vice-Chair
Senator Natasha Von Imhof
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT:

David Teal, Director, Legislative Finance Division; fiscal analysts with the Office of Management and Budget and Legislative Finance Division; and aides to committee members and other members of the Legislature.

SUMMARY

HB 39 APPROP: OPERATING BUDGET/LOANS/FUNDS

CCSSSHB 39 was REPORTED out of committee with a "do pass" recommendation.

HB 40 APPROP: MENTAL HEALTH BUDGET

CCSSSHB 40 was REPORTED out of committee with a "do pass" recommendation.

#HB39

#HB40

CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 39 (FIN) am (brf sup maj fld)

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; making supplemental appropriations; and providing for an effective date."

SENATE CS FOR CS FOR SS FOR HOUSE BILL NO. 39 (FIN) am S

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; making supplemental appropriations and reappropriations; and providing for an effective date."

and

CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 40 (FIN)

"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."

SENATE CS FOR CS FOR SS FOR HOUSE BILL NO. 40 (FIN)

"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."

[5:41:35 PM](#)

Co-Chair Foster invited David Teal, Director of the Legislative Finance Division, to come to the testifier table.

He explained how objections would be handled. If there was an objection, he would make note of that item and hold it aside. The committee would continue to go through the other

items in the department, adopt them, and then would come back to any item that had an objection.

In the present meeting the committee would be addressing the remaining open items in HB 39 and HB 40 based on the motion sheets dated June 8th for the following departments:

DEPARTMENT OF NATURAL RESOURCES
PERMMANENT FUND
LANGUAGE ITEMS

^DEPARTMENT NATURAL RESOURCES

[5:42:20 PM](#)

Vice-Chair Stedman MOVED to ADOPT the following in the Department of Natural Resources budget:

Item 3 Senate

Representative Wilson Objected.

Representative Wilson expressed a concern about the state's portion of costs and future obligations related to receiving \$1 million in federal receipts for a program the state did not currently have in place. She hoped the department would exercise caution in taking the funding.

Co-Chair Wilson WITHDREW her OBJECTION.

Representative Tilton OBJECTED.

Representative Tilton aligned herself with the comments made by the previous speaker.

Representative Tilton WITHDREW her OBJECTION.

There being NO OBJECTION, it was so ordered. The action CLOSED conferencable Item 3 in the Department of Natural Resources budget.

^PERMMANENT FUND

[5:43:51 PM](#)

Vice-Chair Stedman MOVED to ADOPT the following in the Permanent Fund:

- Item 1 House
- Item 2 House
- Item 3 House
- Item 4 Senate, plus \$2.6 billion for a total of \$9.4 billion
- Item 5 Senate
- Item 6 Senate, with \$99.8 million appropriated from the Earning Reserve Account to the General Fund and \$99.8 million appropriated from the General Fund to the principal of the Permanent Fund
- Item 7 Senate, with \$80.0 million appropriated from the Earning Reserve Account to the General Fund and \$80.0 million appropriated from the General Fund to the principal of the Permanent Fund
- Item 8 Senate, minus \$2.6 billion for a total of \$9.4 billion. There being NO OBJECTION, it was so ordered.

Representative Tilton OBJECTED to Item 1, Item 4, and Item 8.

Co-Chair Foster indicated the committee would address items 1, 4, and 8.

Representative Tilton spoke to her objection. She explained that Item 1 would pay a statutory dividend. She believed it was the legislature's obligation to follow the law and wanted to see the dividend remain in the budget. She had not seen another bill put forward to support a dividend for the people of Alaska.

Senator Olson also objected to Item 1. He disagreed with not providing a full dividend to Alaskans, as they had expectations of receiving a dividend. He thought not issuing a dividend would have a detrimental effect on the lower income residents of the State of Alaska.

Representative Wilson agreed that the legislature should follow statute. However, she did not believe the operating budget bill was the appropriate vehicle for the dividend appropriation. She mentioned that there was a separate bill making its way through the process that encompassed the dividend amount and the funding mechanism. She had always disagreed with having the dividend in the operating budget.

She believed the operating budget should only include day-to-day costs. She relayed that until a few years ago it was not being recorded in the same way. Although she would support taking the appropriation out of the operating budget, she agreed with the dividend and with following statute. She agreed that a bill addressing the dividend separately was the correct vehicle.

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Vice-Chair Stedman clarified to Alaskans watching at home that Item 1 would pull the current year's dividend out of the operating budget by accepting the House's position. He emphasized that the position of the legislature was not to not have a dividend, but to address the issue separately in a different bill. He thought the legislature would be paying a dividend in October 2019.

Senator Olson understood where the chairmen of the finance committees from each body were coming from. However, until he saw a bill clarifying the amount of the dividend and its fund source, he could not support Item 1 as proposed. He was concerned about his constituents being negatively impacted by less than a full dividend.

Representative Tilton MAINTAINED her OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: von Imhof, Wilson, Stedman, Foster

OPPOSED: Olson, Tilton

The MOTION PASSED (4/2) [Note: House (2/1); Senate (2/1)].
Item 1 was ADOPTED.

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Representative Tilton spoke to her objection. She explained that Item 4 would remove approximately \$9 billion from the Earnings Reserve Account (ERA) and move it into the corpus of the Permanent Fund. Although she was not opposed to moving monies into the corpus, she suggested the amount might be too much at the present time.

Representative Wilson was in favor of moving the sum of \$9.4 billion. She mentioned the Legislature's track record of using state savings to pay operating expenses, a

practice that she believed could not continue. She explained that by transferring the funds from the ERA to the corpus of the fund the monies would be protected. Money could only be removed from the corpus by a vote of the people of Alaska. The transfer would also allow for a greater returns because the Alaska Permanent Fund Corporation (APFC) would know the money could not be touched. The earnings would be deposited into the ERA. She had heard from her constituents that they wanted to have a Permanent Fund in the future. The transfer would help to ensure the health of the fund.

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Vice-Chair Stedman had a mild objection. He indicated that, in the spirit of cooperation, the Senate had proposed a \$12 billion transfer but compromised its number bringing it down to \$9.4 billion. He would have preferred a larger number, but thought the number was workable. He noted the significance of adding to the corpus of the Permanent Fund. He thought all members should take credit for the historic appropriation, as it was the largest appropriation ever. The benefits of the decision would be felt for several generations. He did not believe the appropriation would affect the dividend, as there would be continued earnings on the Permanent Fund. The entire fund would continue to earn handsome returns and could easily generate \$3 billion to \$4 billion per year for the state.

Vice-Chair Stedman mentioned the track record of accumulated earnings and the spending of billions to meet state obligations. He suggested that elected officials had significant concerns about preserving the wealth accumulation over the previous 40 years for the future benefit of Alaskans. The state had ample funds after the transfer to pay whatever dividend amount the legislature chose in the current year. He indicated there would be significant funds to pay the following year's dividend regardless of the amount. He reiterated that the transfer did not affect the dividend. However, it placed \$9.4 billion into the constitutionally protected corpus which could only be accessed by the legislature with a vote of the people. He reiterated that the Senate had made a good faith effort to work with the House to come up with a compromise amount. He did not want to see the earnings squandered leaving future Alaskans with a crippled

Permanent Fund and an empty oil reservoir. He supported the compromise position with the House.

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Senator Olson gave credit to the co-chair of finance for his leadership when the bipartisan coalition was in effect. He had been responsible for putting \$16 billion into the Constitutional Budget Reserve (CBR) which was spent leaving the state in crisis mode again. However, his claim that the Senate passed out a \$12 billion transfer proposal was not accurate, as a number of members did not agree with the figure. He conveyed that the reality was that the money going into the corpus would no longer be accessible for any sort of emergency in the future. Of the years he had been in the legislature, the budget presented on February 13, 2019 was the most precarious he had seen. The budget totally defunded the Alaska Marine Highway System which he argued was completely irresponsible. He suggested that the legislature needed to have appropriate access to funds to be able to continue state services mandated by the Alaska Constitution. He was concerned with the large amount.

Representative Tilton MAINTAINED her OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Foster, Stedman, Wilson, von Imhof
OPPOSED: Tilton, Olson

The MOTION PASSED (4/2) [Note: House (2/1); Senate (2/1)].
Item 4 was ADOPTED.

[5:59:06 PM](#)

Representative Tilton indicated that she objected to Item 8 for the same reasons as the previous item. She asked for someone to explain what Item 8 accomplished.

Vice-Chair Stedman replied that they were offsetting similar to the previous item discussed. It had to do with the same issue and monies and accomplished the transfer. The discussions and the arguments were the same.

Representative Tilton MAINTAINED her OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Olson, Stedman, Foster, von Imhof, Wilson
OPPOSED: Tilton

The MOTION PASSED (5/1) [Note: House (2/1); Senate (3/0)].
Item 8 was ADOPTED.

[6:00:57 PM](#)

Vice-Chair Stedman wanted to put on record that the net result of modified items 6 and 7 was identical to the result of former Senate items 2, 3, 6 and 7. The changes complied with the legislative auditor's request for clarification that items 2, 3, 6 and 7 eliminated potential FY 18 and FY 19 general fund liability to the Permanent Fund. Reports generated by the Legislative Finance Division would show the movement of money from the ERA to the corpus as intra-fund transfers that did not affect general fund revenue or expenditures. The intent of this treatment was to ensure that the APFC would not be forced to liquidate assets in order to transfer money from the reserve account to the corpus.

Vice-Chair Stedman further explained what was being done. He relayed that the committee was adding other monies to the corpus of the Permanent Fund. At the end of the budget cycle the legislature would be transferring about \$10.5 billion including inflation proofing for FY 20. He noted that 25 percent of oil royalties was supposed to go to the Permanent Fund. For some of the newer oil fields, 50 percent of the royalties were supposed to go into the Permanent Fund. However, in some cases that did not happen. Essentially, the committee was trying to keep the Permanent Fund whole.

Co-Chair Foster asked Mr. Teal if he wanted to add a comment.

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, suggested that Co-Chair Foster make it clear that the committee had adopted the items that did not have an objection. He was not sure the co-chair had done so.

Co-Chair Foster asked for any comments or questions from members.

Senator Olson asked Mr. Teal if there were any surprises in the document, as he and other members had only seen the document when the meeting convened.

Mr. Teal responded that he did not think there was anything in the document that was not clear. The Legislative Finance Division had tried to put as many notes of explanation in the document as possible. The items were discussed at length by the co-chairs. He thought the decisions were properly explained. He could not see anything that underlined the motions on the page.

6:05:19 PM

Senator Olson was not trying to imply that anyone did anything tricky. Rather, he wanted to make sure he had not missed something that was not obvious.

Co-Chair Foster summarized that the committee removed the amount of the Permanent Fund Dividend because it would be dealt with in another piece of legislation. Secondly, the committee put \$250 million of oil royalty monies into the Permanent Fund. Lastly, the committee placed \$9.4 billion into the Permanent Fund where it would be constitutionally protected. He asked Mr. Teal if he was accurate.

Mr. Teal responded that the co-chair had been very clear.

Co-Chair Foster clarified that there was NO further OBJECTION, it was so ordered. The action CLOSED conferencable Item 1 through Item 8 in the Permanent Fund.

Co-Chair Foster indicated the committee would be taking up amendments. Three items were before the committee.

6:06:40 PM

Vice-Chair Stedman MOVED to ADOPT Conference Committee Amendment 3.

Co-Chair Stedman explained that the appropriation in Permanent Fund Item 8 would transfer \$9.4 Billion of realized gains from the Earnings Reserve to the Corpus of the Permanent Fund. The adoption of the amendment instructed the APFC to transfer any assigned, associated unrealized gains in conjunction with the funds transferred in Permanent Fund Item 8. The amendment also clarified that

the funds appropriated from the Earnings Reserve Account to the Corpus of the Permanent Fund in Permanent Fund Item 8 would serve as inflation proofing payments to the Permanent Fund Corpus for the next eight years.

There being NO OBJECTION, Amendment 3 was ADOPTED.

^LANGUAGE ITEMS

[6:07:59 PM](#)

Vice-Chair Stedman MOVED to REOPEN the identical language from sections 23(i) and 24(f) of the house version of HB 39 and sections 32(h) and 33(f) of the Senate version of HB 39 previously adopted by the committee.

Co-Chair Foster OBJECTED for discussion.

Co-Chair Foster asked Mr. Teal to explain the motion.

[6:08:42 PM](#)

AT EASE

[6:09:56 PM](#)

RECONVENED

Co-Chair Foster invited Co-Chair Stedman to provide an explanation of the changes.

Vice-Chair Stedman explained that the motion would take Community Assistance Program funding from the Power Cost Equalization (PCE) Fund to the General Fund.

Senator Olson asked what would happen with the deficit of the PCE Fund.

Vice-Chair Stedman responded that rather than funding the Community Assistance Program through the PCE Fund, it would be funded through the General Fund.

Senator Olson clarified that the PCE Fund would be held harmless.

Co-Chair Foster responded, "That was my understanding."

Senator Olson asked Mr. Teal to comment.

Mr. Teal indicated it was a fund source change.

Co-Chair Foster WITHDREW his OBJECTION.

Representative Tilton OBJECTED. She understood that with the fund source change the monies would come out of the General Fund rather than the PCE Fund. She did not believe it was an appropriate time with state's fiscal challenges to draw the proposed amount from the General Fund. She thought the action would not be prudent.

[6:12:30 PM](#)

AT EASE

[6:14:09 PM](#)

RECONVENED

Co-Chair Foster reexplained that the motion before the committee was to reopen certain sections.

Representative Tilton WITHDREW her OBJECTION.

There being NO OBJECTION, it was so ordered.

[6:14:36 PM](#)

AT EASE

[6:15:55 PM](#)

RECONVENED

Vice-Chair Stedman MOVED to ADOPT Item 4, Senate, with a fund source change for the Community Assistance Program from 1169 (PCE Endowment Fund) to 1004 (General Fund).

Representative Tilton OBJECTED. She spoke to the objection earlier when the sections were being reopened. She reiterated that it was not an appropriate time to add to the general fund budget.

Senator Olson asked what the fund transfer did to the surplus of the General Fund.

Vice-Chair Stedman responded, "It shrinks it."

Senator Olson asked how much it shrunk it.

Co-Chair Stedman replied, "Just a little bit."

Representative Tilton MAINTAINED her OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: von Imhof, Wilson, Olson, Stedman, Foster
OPPOSED: Tilton

The MOTION PASSED (5/1) [Note: House (2/1); Senate (3/0)].
Language Item 4, Senate was ADOPTED.

[6:18:14 PM](#)

Vice-Chair Stedman MOVED to ADOPT Item 5, Senate, amended to read, "The sum of \$454,000 is appropriated from the Power Cost Equalization Endowment Fund (AS 42.45.070) to the renewable energy grant fund (AS 42.45.045)."

Representative Tilton OBJECTED. She asked to hear from Mr. Teal about the effect of the transfer.

Mr. Teal explained that the original language followed the law with a cascading appropriation. The Power Cost Equalization Endowment Fund earned money. The first \$30 million of the earnings went to the PCE Program. If there was additional money remaining, the first \$30 million would go to the Community Assistance Program, and any remaining dollars would go to the Renewable Energy Grant Fund. After taking action on Item 4, the Community Assistance Program would no longer use PCE Funds. Under the cascade, it would have put up to \$25 million into the Renewable Energy Grant Fund. There was some question about the interpretation of the law and, the intent was that the original \$454,000 would go to the grant fund rather than cascading being applied. Rather than trying to argue over the interpretation of the law, the approach was to have the original \$454,000 and ignore cascading.

Senator Olson asked about the net effect to the PCE Endowment Fund.

Mr. Teal explained that the PCE Fund would have an additional \$30 million that it would not have had without the action taken on Item 4.

Senator Olson asked for further clarification.

Mr. Teal restated that the additional \$30 million that would have gone to the Community Assistance Program would remain in the PCE Fund.

Representative Tilton WITHDREW her OBJECTION.

There being NO OBJECTION, it was so ordered. Item 5 was ADOPTED.

Co-Chair Foster indicated that the action CLOSED all conferencable items in the budget.

[6:21:37 PM](#)

Vice-Chair Stedman MOVED to give Legislative Finance Division and Legislative Legal Services the ability to make technical and conforming changes to the Conference Committee Substitute for HB 39 and HB 40.

There being NO OBJECTION, it was so ordered.

Vice-Chair Stedman MOVED to REPORT CCSSSHB 39 and CCSSSHB 40 from committee with individual recommendations.

There being NO OBJECTION, it was so ordered.

[6:22:32 PM](#)

AT EASE

[6:24:14 PM](#)

RECONVENED

Chair Foster thanked the committee and support staff. He also thanked Vice-Chair Stedman and his staff, Pete Ecklund. He also extended his thanks to Senator von Imhof, Senator Olson, Representative Wilson, Representative Tilton and their staff. He thanked David Teal, Amanda Ryder and the crew at Legislative Finance. He thanked Linda Bruce, the budget bill drafter at Legislative Legal Services and the rest of the staff at Legislative Legal Services who worked diligently on the budget bills. He continued to thank the Finance Committee secretaries and Legislative Information Office staff who made the committee process run smoothly. Lastly, he thanked his staff Brodie Anderson, and Ryan Johnston.

Vice-Chair Stedman MOVED to ADJOURN proudly with roughly \$10.5 billion heading to the corpus of the Alaska Permanent Fund. He announced that it had been a historic night and the chairman had been a pleasure to work with. He thanked the committee.

There being NO OBJECTION, it was so ordered.

CCSSSHB 39 was REPORTED out of committee with a "do pass" recommendation.

CCSSSHB 40 was REPORTED out of committee with a "do pass" recommendation.

ADJOURNMENT

6:25:49 PM

The meeting was adjourned at 6:25 p.m.