

SENATE FINANCE COMMITTEE  
February 14, 2019  
9:02 a.m.

9:02:03 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:02 a.m.

MEMBERS PRESENT

Senator Natasha von Imhof, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Click Bishop  
Senator Peter Micciche  
Senator Donny Olson  
Senator Bill Wielechowski  
Senator David Wilson

MEMBERS ABSENT

Senator Lyman Hoffman  
Senator Mike Shower

ALSO PRESENT

Senator Cathy Giessel; Donna Arduin, Director, Office of Management and Budget; Lacey Sanders, Budget Director, Office of Management and Budget; Senator Gary Stevens; Senator Shelley Hughes; Dan Spencer, Administrative Services Director, Department of Public Safety, Office of Management and Budget.

SUMMARY

SB 20        APPROP: OPERATING BUDGET/LOANS/FUNDS

SB 20 was HEARD and HELD in committee for further consideration.

Co-Chair Stedman asked people to silence their cell phones.

#sb20

SENATE BILL NO. 20

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; 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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Co-Chair Stedman noted that the committee would consider a Sponsor Substitute for SB 20. He provided an outline of the budget process. He thought today's meeting was the beginning of a lengthy process.

Co-Chair Stedman continued his remarks. He recognized that Senate President Cathy Giessel was in attendance. He stated that he would be monitoring decorum in the room, encouraging respectful presentations and responses from visitors. He anticipated there would be some people that did not like what was being proposed. He reassured them there would be an opportunity in another meeting to testify.

Co-Chair Stedman invited the director of the Office of Management and Budget (OMB) and her staff to the table. He wanted to confine the presentation to the contents of the slides being presented to keep the meeting on track. He asked members to direct questions to the appropriate parties, such as agency staff when in committee. He spoke of the large budget reduction and the urgency the state faced in terms of having to fix the problem within a couple of years. The state faced a substantial structural deficit.

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DONNA ARDUIN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, introduced herself and indicated the budget director, Lacey Sanders, was with her.

Ms. Arduin introduced the presentation "FY2020 Governor's Amended Budget" (copy on file). She began with slide 2, "Building the Budget: Core Programs":

- Public Safety
- Management of our natural resources

- Preserving maintenance of our transportation infrastructure

Ms. Arduin reported that the governor introduced his budget the previous day and talked about building the budget from the bottom up based on the state's core programs. She read the list of core services on the slide.

Ms. Arduin showed slide 3, "Building the Budget: Guiding Principles":

- Expenditures cannot exceed existing revenues
- The budget is built on core functions
- Maintaining and protecting our reserves
- The budget does not take additional taxes from Alaskans through taxes or PFD
- It must be sustainable, predictable, affordable

Ms. Arduin stated that the budget was built on a set of guiding principles. She read the list of guiding principles on the slide. She explained that the state did not rely on a Constitutional Budget Reserve (CBR) draw in the budget. The core principles were that the budget must be sustainable, predictable, and affordable which was more important than the budget being unbalanced and kicking the can down the road to future legislatures.

Senator Wielechowski asked if Ms. Arduin considered taking money from the Permanent Fund (PF) to pay for government to be a tax on Alaskans.

Ms. Arduin commented that the guiding principal was that the state did not take additional taxes from Alaskans through taxes or the Permanent Fund Dividend (PFD), and the budget was built on existing revenues. She noted a law that allowed for a certain amount of money to be transferred from the PF to the budget for appropriation purposes, the Percent of Market Value (POMV), a statutorily existing revenue. The budget was partially built on the statutory amount that was allowable from a transfer from the Permanent Fund Earnings Reserve Account (ERA).

Senator Wielechowski did not think Ms. Arduin answered his question. He asked if she considered using funds from the ERA to be a tax on Alaskans.

Ms. Arduin did not believe that the existing statute that allowed the state to take a portion of revenues (about \$1 billion) from the ERA through the POMV statutory structure to use for the budget as a tax. She thought it was the statutory limit the legislature determined that could be taken from the ERA to allow the balances of the ERA and the PF to continue to grow.

Co-Chair Stedman explicated that there was a statute that limited the draw of the PF to 5.25 percent of the market value over 5 of the 6 preceding years. The intent of the finance committee was to stay within the 5.25 percent draw. He reported that no members had talked to him about breaching that percentage. He continued that the dividend was taken out of the 5.25 percent POMV draw. The remaining balance of the draw was available for appropriation by the legislature for core services. He thought there was a philosophical question posed by Senator Wielechowski in asking if the POMV draw was a tax. He did not believe the OMB director was the policy person.

Senator Olson thought it was a tax on Alaskans.

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Ms. Arduin reviewed slide 4, "Building the Budget: Historical Look-back," which displayed a line chart that showed revenues and expenditures. She pointed out that prior to FY 13, revenues exceeded expenditures. However, since then it had been the other way around. She referenced a chart from the Legislative Finance Division (LFD) that exhibited the expenditure line, represented in orange, which showed that spending levels were not too high. The current chart suggested expenditures were too high because they were exceeding available revenues and had been since 2013. She furthered that the gap between revenues and expenditures had totaled over \$16 billion in deficits.

Co-Chair Stedman asked Ms. Arduin to elaborate on how the state backfilled the gap.

Ms. Arduin displayed slide 5, "Building the Budget: Historical Savings, Revenue and Expenditures," which contained a bar graph showing budget reserves. She pointed out that due to chronic annual deficits, budget reserves had been spent down from over \$16 billion to the current balance of about \$2 billion.

Co-Chair Stedman defined that the orange bars signified the Statutory Budget Reserve (SBR), which was a smaller savings account established by the legislature. It took a simple majority vote to withdraw money from the account. The blue bar signifying the CBR took a three-quarter vote of the legislature to access funds. It was the fund which the legislature had depended on heavily to balance the budget for the previous several years. It was the fund used at the end to muster enough political support to get the budget to the governor's table. Currently, the balance of the CBR was about \$2 billion. He asked the OMB director if the amount was too much or too little. He asked why the committee should have an interest in the positive balance of the CBR rather than taking it to zero.

Ms. Arduin replied that by spending revenues the state did not have, the state had been spending down its savings accounts to about \$2 billion. She suggested the state needed to have reserve funds available for emergencies, and she strongly cautioned against spending them down any further. She explained that the governor believed the fiscal problem needed to be taken care of presently rather than later.

Co-Chair Stedman stated that historically \$2 billion to \$2.5 billion had been a common target range for the CBR balance.

Co-Chair von Imhof asked if the administration considered the ERA to be a savings account. Ms. Arduin answered that the administration considered the ERA (outside the POMV draw) to be reserved for PFD payments rather than appropriations to the budget.

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Co-Chair von Imhof considered that although Ms. Arduin's response differed from the founding fathers and the trustee papers written in the late 1970s and early 1980s, it was counter to the several trustees who were there, including her grandfather. She quoted her grandfather in saying that the PF was set up as a "rainy day fund" to offset the boom-and-bust cycle of a commodities market, which was applicable to Alaska's oil revenues. The fund was set aside for many years until it was large enough and until the oil revenues began being depleted. The fund was set up to be a

renewable resource to be used on an annual basis, as long as there was "sane and reasonable spending." She recognized Ms. Arduin was trying to spend reasonably with the budget. She stated she would be a protector of the PF including the ERA. She agreed with Co-Chair Stedman that they were going to keep a close eye on the fund.

Senator Micciche commented that Ms. Arduin sounded supportive of the statutory structure of the POMV. He requested that in future slides and presentations the slides be changed to reflect the POMV as revenue if that was the position of the administration. He thought it would clarify that the POMV would contribute to filling the state's fiscal gap.

Co-Chair Stedman asked if Senator Micciche had a comment. He stated the committee would have OMB or LFD add the additional information to a slide in a presentation. He appreciated Senator Micciche's point that as the state moved forward into the new dynamics of a POMV approach the balance going over from the PF to the revenue side should be clearly noted. He wanted the information to be clear for the public and the legislature.

Senator Micciche remarked that FY 19 was the first year in which monies from the ERA were used. He wanted the public to understand that the gap was not as extreme with the use of the POMV draw.

Senator Wielechowski stated that the governor's budget drew about \$1 billion from the ERA which equated to about \$1500 per Alaskan. He wondered if the governor would veto any draws from the ERA greater than that amount. Ms. Arduin was not able to speak for the governor. She noted that the governor had constitutional authority to veto any item or bill that he chose. She would not limit his ability to do so by saying what he would or would not do.

Ms. Arduin discussed slide 6, "Alaska Economic Trends: GDP," which showed a line graph of the state gross domestic product (GDP). She alleged that there had been economic consequences to the state's unbalanced budgets. It coincided with economic results in Alaska that had fallen below the United States. She pointed to the state's gross domestic product. The thicker blue line on the chart represented Alaska's GDP and the thinner blue line was the United States. Since 2012, Alaska's GDP had been

significantly lower than that of the United States and continued to fall. The rest of the nation's GDP was growing.

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Ms. Arduin turned to slide 7, " Alaska Economic Trends: Population," which showed that more people were moving out of Alaska in the period.

Ms. Arduin showed employment declining on slide 8, " Alaska Economic Trends: Payroll." She pointed to the steep divergence since 2012. Alaska continued to drop while the rest of the country's employment was growing.

Co-Chair Stedman pointed to slide 7 and slide 8. He mentioned that the state had set a policy of stimulation within Alaska's oil basin of massive credits paid to the industry to help modify and catch up on maintenance starting in 2006. He recalled that employment in the industry had increased from 8,500 to 16,000. He reemphasized the large credit stimulus of billions of dollars. The policy had changed in the previous several years. Credits had been pulled out of the system. There had been numerous conversations about the credits. He believed there were still significant outstanding credits at present. He thought the absence of the economic stimulus was reflective of the state's job market. He thought some of the change was driven by Alaska's policy to try to expand and stabilize its oil basis.

Ms. Arduin thought Co-Chair Stedman made a wonderful correlation. She suggested that changing tax policy to increase taxes or reduce tax credits for oil exploration, other businesses, and entrepreneurs was not a stable environment for further investment in Alaska. One of the reasons the governor believed the state needed to get its fiscal house in order was so that the state stopped sending uncertain signals to those who would invest in Alaska.

Senator Micciche was curious about slides 7 and 8. He asked if Ms. Arduin had analyzed the potential effects on out-migration and unemployment considering the magnitude of the cuts proposed by the governor. Ms. Arduin stated that the purpose of the slide was to show the effects of overspending, having deficits in the state, and having uncertainty for business investments by entrepreneurs and

oil explorers. She thought the numbers strongly suggested that if the budget was in order and stability was maintained, the numbers would be reversed adding GDP and employment to the state.

Senator Bishop disagreed with Ms. Arduin. The current slide and the previous slide were tied to Alaska's oil commodity. He opined that people left the state because the price of oil dropped, and capital spending decreased.

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Senator Wielechowski reminded Ms. Arduin that she had only been in the state for 8 weeks and had not been around during the oil tax debates. All the members at the table had been around for the debates. He recalled that the state had been promised that if it cut oil taxes and increased tax credits to over \$1 billion per year that it currently paid, the state would see increased production, revenue, and jobs. Instead, the state had seen a drop in jobs, revenue, and production. He thought Ms. Arduin could suggest that cutting taxes or leaving them at current levels would provide many economic benefits. However, he and other legislators had seen for themselves that the economic benefits had not come to fruition.

Senator Micciche recalled that Ms. Arduin stated the data suggested something but wondered if she had analyzed the potential additional out-migration associated with the reduction of the budget and of jobs. He wanted to know that the state adequately analyzed their effects. Ms. Arduin stated that the chief economist had been analyzing potential impacts and clearly believed that the result of solving the state's fiscal problems would lead to greater private sector investment, outweighing the loss of jobs in the government sector.

Ms. Arduin informed the committee that Director Sanders would review the fiscal summaries of which there were two. The first had to do with defining the problem (seen on slide 9). She explained that the supplemental budget request and the FY 20 budget dated December 14, 2019 could be seen on the slide. She continued that the December 14th budget was a starting point for the new administration and contained a deficit of \$1.6 billion.

Co-Chair Stedman invited Ms. Sanders to walk through slide 9.

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LACEY SANDERS, BUDGET DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, reviewed slide 9 "Building the Budget: Defining the Problem." She explained that the fiscal summary which the committee had seen previously. She highlighted the left-hand column that showed the FY 19 management plan. It was adjusted to include the supplemental numbers that had been proposed to the legislature. It included numbers from the supplemental bill and the disaster bill. There were also several supplemental items in the operating and capital budgets before the committee. She pointed to the top of the page where general fund (GF) revenue was listed totaling \$2.8 billion. Fund withdrawal appeared below GF revenue and included the transfer of the earnings reserve amount through the POMV, an amount of \$172 million from the SBR for a supplemental appropriation to the Department of Health and Social Services (DHSS), and restricted revenue. The total revenue equaled \$5.8 billion.

Ms. Sanders pointed out the appropriations section of the table on slide 9. Appropriations included an operations, capital, and fiscal notes line which she would address shortly. She reported a deficit of \$282 million.

Ms. Sanders looked to the right-hand side of the table, which showed the FY 20 Unendorsed Dec. 14 Budget. A deficit of \$1.6 billion was identified and became the target from moving the administration's budget forward.

Co-Chair Stedman referenced the \$282.6 million deficit. He recalled the state expecting a \$600 million deficit that would come out of the CBR. He thought it sounded like good news that the state would have a lower deficit and would be spending less.

Ms. Arduin stated that the reason for the lower deficit was because of the updated revenue forecast put out by the Department of Revenue in December 2019. She suggested the numbers could change. The final deficit might be larger. She agreed that taking less money from the CBR was better.

Co-Chair Stedman thought it was nice to highlight the good news during budget meetings. He hoped revenues for FY 20

would be greater than expected and expenditures would be less.

Ms. Arduin conveyed that the state was still looking at a deficit for the current year. The good news was that the governor was proposing a balanced budget for FY 20 without a deficit.

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Ms. Sanders turned to slide 10, "Balancing the Budget: Streamlined Fiscal Summary," which showed a new streamlines fiscal summary for the FY 20 governor's amended budget. She pointed to the top of the chart showing the projected general fund revenue as well as the transfer from the ERA. She highlighted a new item on the table - revenue from fiscal notes. The governor introduced a bill that would eliminate local petroleum property taxes and result in just under \$400 million of new revenue. Additionally, there was \$20 million in new revenue associated with the revolving loan funds that were slated for elimination.

Ms. Sanders continued to discuss slide 10. She directed attention to the lower portion of the chart outlining appropriations including agency and statewide operations. The total capital appropriations came to \$143 million primarily matching federal projects. The fiscal notes line included the proposed crime bill repeal providing a surplus of \$20 million.

Co-Chair Stedman relayed that the committee would be taking up some of the crime bill issues shortly which he thought would reflect positive news for the public.

Senator Wielechowski asked for the total amount lost in federal funds under the proposed budget and a detailed list of the funds. He also asked for a list of state matching funds required to receive those federal funds in order to know what amount would have to be put back in the budget. Ms. Sanders agreed to provide a list of federal funds and the areas in which they were being reduced. She would also provide the state match requirements corresponding to the federal funds.

Co-Chair Stedman stated that the committee would be looking at the information by department and the subcommittees would be looking at further detail.

Senator Wielechowski reiterated his question regarding the total amount lost in federal funding. Ms. Arduin referenced a chart that had been added to the presentation under "Additional Slides" (copy on file).

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Co-Chair Stedman asked for the delta on the federal funds in aggregate.

Ms. Sanders looked at slide 3, "FY2020 Budget: Statewide." The chart reflected a loss of about \$500 million in federal funding. She pointed to the funding comparison on the slide which showed the FY 18 management plan plus the proposed supplementals, the FY 20 governor's budget from December 14th, and the FY 20 governor's budget from February 13th - the current proposed budget. On the right-hand side of the slide was a comparison of positions from year-to-year.

Co-Chair Stedman asked Ms. Sanders to review the position count on the slide. Ms. Sanders stated that the FY 19 management plan showed 20,416 total permanent full-time positions. The amount of positions for the FY 20 governor's budget on December 14th was 20,700. The number of positions in the FY 20 governor's amended budget on February 13th equaled 20,075.

Co-Chair Stedman clarified that the budget submitted by the previous governor on December 14th was not being used for much of anything. It might be used for comparison, but the committee would be focusing on the FY 19 management plan compared to the FY 20 governor's plan dated February 13, 2019. He wondered if a little less than 400 jobs were being reduced. Ms. Sanders replied that the 400-position comparison was to the FY 19 management plan. The number referenced recently of 625 positions was compared to the FY 20 governor's budget dated, February 13, 2019.

Senator Wielechowski had read an Institute of Social and Economic Research (ISER) study that concluded that the proposed budget would result in 16,000 Alaskans losing their jobs. Ms. Arduin thought the ISER analysis considered

only one side of the equation, which was the analysis of the resulting reduction in government jobs. The analysis did not take in to account the benefit to the private sector of having more money through dividends, less money going to government, and less taxes on private activity.

Co-Chair Stedman thought committee members were interested in having an additional presentation by an economist about expectations and an economical analysis reflecting both sides.

Senator Wielechowski concluded that Ms. Arduin disagreed with ISER's conclusion that with the proposed budget 16,000 Alaskans would lose their jobs. He asked if Ms. Arduin had done an analysis and, if so, he wanted a copy provided to the committee. Ms. Arduin stated that the chief economist at OMB performed such analyses. She would be happy to have him make a presentation to the committee. She reasserted that the reduction of 600 government jobs would be more than offset by the positive affects to the private sector.

Co-Chair Stedman stated that the committee would extend an invitation to OMB to have a comparative discussion on the ISER study. He hoped that the discussion could occur within the following two weeks.

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Senator Wielechowski commented on the topic of analysis. He asked, with many of the proposed cuts such as the ones to education and revenue sharing, what kind of analysis had been done regarding how much the reductions would increase local sales taxes or property taxes. Ms. Arduin replied that OMB had not done an analysis about increasing taxes. The governor's budget did not propose to increase taxes.

Co-Chair Stedman thought that the question should be directed to the economist during their presentation. He would ask them to discuss expectations at the state level, within the private sector, and amongst home owners. He would also ask questions regarding some or all of the proposals in revenue changes. The committee would keep the economist busy.

Senator Olson commented that reliance on the private sector to make up for lost jobs reminded him of the Hoover administration after the stock market crash of 1929 that

resulted in the Great Depression. He was getting the same flavor with the proposed budget. He brought up Ms. Sanders' consideration of new revenues for the state regarding petroleum property taxes. He asserted that the funds that were characterized as new revenue were actually funds that had been confiscated by the administration from local government. He objected to the shifting of funds, as he represented constituents from the pipeline corridor.

Co-Chair Stedman asked Senator Olson to explain what he was referencing. Senator Olson relayed that the governor had introduced a bill, SB 57 having to do with gutting the petroleum property tax that the boroughs along the pipeline corridor charged the oil companies for running services on borough properties. The taxes collected totaled about \$437 million. He continued that 85 percent of the amount came out of his district.

Co-Chair Stedman clarified that the state had a 20 mil rate for oil and gas production facilities in the state, which was similar to home property tax. The funds were split between the state and the municipalities. The governor's bill would potentially change the split rather than the mil rate. The bill would change the sharing relationship with the affected boroughs.

Senator Bishop stated that the funds equated to \$372 million for the North Slope Borough, \$11.8 million for the Fairbanks North Star Borough, \$2.4 billion for the Municipality of Anchorage, \$15 million for the Kenai Peninsula Borough, and \$38.4 million for the City of Valdez.

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Senator Micciche wanted to clarify for the public that Ms. Arduin's statement about no additional taxes had to do with state taxes rather than municipality taxes. He relayed that the Kenai Peninsula Borough mayor was very conservative and had done a very good job of cutting the budget and managing responsibly. The reduction of \$15 million for the borough would result in additional sales taxes or property taxes to the people of the Kenai Peninsula. He suggested that the governor's budget was working towards not having a need to increase taxes, but the burden would be shifted to municipalities. He asked if Ms. Arduin realized that the revenue had to be made up at the local level, likely

resulting in higher property taxes. Ms. Arduin could not comment on how local governments would structure budgets and treat revenues and expenditures.

Senator Bishop asked how many jobs the University anticipated losing with the governor's proposed budget. Ms. Arduin was unsure if the University had done an analysis yet. She conveyed that, in fairness, the University had just recently received the news of the budget reductions. She had not expected the University to have a plan together to meet its new budget challenge yet. She believed the University would be on the committee's agenda at some point. Senator Bishop thought the number was close to 1300 jobs.

Co-Chair Stedman informed the committee that members would be hearing from the University on Tuesday of the following week. He wanted to hear from the education commissioner, the University president, and an economist to provide a wholistic view for the purpose of making informed decisions on the budget.

Senator Wielechowski had received a message from the school board president in his district who informed him that the loss to Anchorage in education funds would be about \$150 million and would result in the reduction of approximately 1000 teachers. He reminded members that the Alaska Constitution required the state to provide adequate education for its students. He wondered what sort of analysis OMB had done regarding how the cuts would impact the state's ability to provide an adequately funded education system with the proposed magnitude of cuts.

Ms. Arduin stated that as with municipalities, the state did not tell school districts how to allocate revenues and expenditures. A subsequent presentation would address education. She thought there were some fair questions to be asked based on data. For example, she reported that across the board about 54 percent of district funding went towards instructional spending, the lowest percentage in the country. There were fair questions that could be asked of school districts. The state did not tell school districts how to spend their funds.

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Co-Chair Stedman indicated that the Department of Education and Early Development would be before the committee along with OMB to address certain questions. He thought the meeting could be as soon as the upcoming Monday.

Senator Olson stated that, although the administration was focused on balancing the budget, he was concerned with ensuring the state did not get into another education lawsuit. The Kasayulie Case and the Moore Case were lawsuits in which the state spent millions of dollars to defend itself. He wanted to caution members about the sideboards of being required to provide an adequate public education. Co-Chair Stedman asked Senator Olson to explain the Kasayulie Case.

Senator Olson recalled that there were a number of rural school districts that were not being given an adequate amount of money to provide a quality education. It resulted in a lawsuit against the state in which the plaintiffs prevailed.

Co-Chair Stedman thought Senator Olson was saying there was a third branch of government to consider, the court. The state had to have adequate education funding for both the metropolitan areas and the rural areas of Alaska. The financial structure for education had to be equitable across the state.

Senator Olson replied that it cost hundreds of millions of dollars to provide adequate and equitable funding in Alaska. He advised the finance committee to be very cautious about addressing the situation.

Co-Chair Stedman would bring up the question with the Commissioner of DEED.

Senator Micciche referenced slide 9 and slide 10. He asked the chairman to bring the committee back to the point of transparency by separating general fund by UGF and DGF. The administration continued to discuss user fees which meant Alaskans paying their own way through DFG. He thought eliminating transparency by combining UGF and DGF was problematic. He noted that in the additional slides on page 2 UGF and DGF were separated. He would like to see both highlighted in the future.

Co-Chair Stedman thought it was clear that members wanted to see the funds separated. He had expressed the committee's desire to both LFD and OMB. He believed it was necessary to look at both GF sources and then combine them to see all state spending. He noted there were items in the budget that were self-funded and were proposed to be eliminated. Not all UGF were the focus of the state fiscal footprint reduction. He indicated that if Senator Micciche wanted any further bifurcation to let him know.

[9:57:27 AM](#)

Ms. Arduin directed attention to slide 2 "Balancing the Budget: Fiscal Summary" from the additional slides, where undesignated general funds (UGF) and designated general funds (DGF) were separated.

Ms. Sanders relayed that the fiscal summary had both the FY 19 management plan and supplementals compared to the FY 20 governor's amended budget. She highlighted that UGF and DGF fund sources were separated out and also the total fund source amount was listed.

Co-Chair Stedman asked for specifics regarding the change in DGF restricted revenues from \$1.1 billion to \$932 million. Ms. Sanders stated that the increase in restricted revenue from FY 19 over FY 20 had to do with supplemental spending that was added in FY 19 including a few items in the capital budget: An Alaska Marine Highway deferred maintenance project and a capital project within the Department of Environmental Conservation.

Co-Chair Stedman asked if Ms. Sanders was referring to the third row from the top, where \$1.1 billion went down to about \$933 million. Ms. Sanders answered in the affirmative.

Co-Chair Stedman thought it was important to note if the amounts were combined, the impacts of the marine highway could not be seen.

Ms. Sanders discussed slide 11, " UGF and DGF By Department - 12/14 Budget vs 2/13 Sponsor Substitute," which showed a bar graph. Undesignated general fund spending was in dark blue, and the DGF budget was in yellow; comparing the December 14th budget to the February 13th budget. She offered that OMB could re-run the graph to compare the

management plan. Co-Chair Stedman responded that the comparison would be helpful.

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Senator Wielechowski referred to the University of Alaska budget. He observed that \$150 million was transferred from UGF to DGF or receipt authority. He asked what receipt authority was being contemplated. Ms. Sanders stated that there was a fund source change within the UA budget of \$155 million which was moved from UGF to receipts. The University could develop a plan to collect the receipt amount.

Co-Chair Stedman asked Ms. Sanders to provide a greater explanation for the public of the fund source change, specifically, the UGF and DGF distinction and why members would have an interest in the difference between the two. He drew attention to the UA bars on the chart. They were almost equal. He wanted the public to understand the difference.

Ms. Sanders explained that UGF dollars came from general fund revenue and could be spent dollar-for-dollar. She continued that restricted revenue dollars (DGF dollars) were more limited in their use. Typically, UGF dollars had statutory designations placed on them and could only be used for the purposes they were collected. For example, the tuition fees collected at the University would be used for paying tuition.

Co-Chair Stedman provided a hypothetical scenario in which the designated fund category equaled \$1 billion rather than \$300 million. He concluded that it would not affect the state's cash flow if additional sales could not be generated. He asked if he was correct.

Ms. Sanders answered in the affirmative. She noted that there were instances in which the state had designated funds that did not require dollar-for-dollar collections in receipts. Part of the administration's look working with LFD over the next interim would be to identify where funding sources were receipt supported and \$1 had to be collected in order to be expended. There were several instances where the dollars were available and not having to be collected.

Co-Chair Stedman thought the issue existed for the Alaska Pioneer Homes. It was referred to in committee as hollow receipt authority.

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Senator Wielechowski stated that the president of UA had stated that the proposed cut would require the closing of several campuses or approximately doubling tuition rates for UA students. He wanted to see an analysis by OMB of how many students would be forced to leave the University because of not being able to pay a double tuition rate. He asked if an analysis had been done. Ms. Arduin answered in the negative.

Co-Chair Stedman stated that the committee would be asking the economist the question. The question could also be posed to UA on the following Tuesday.

Senator Wielechowski asked if Ms. Arduin and her office had done any sort of analysis on the impacts of the cuts to Alaskans. Ms. Arduin stated that OMB's chief economist could present the implications of all of the budget decisions to the committee including the governor's proposal to pay full dividends through the PFD. The economist could also provide analysis of all of the positive economic impacts that would result in getting the state's fiscal house in order.

Co-Chair Stedman asked if Ms. Arduin was referring to Mr. King. Ms. Arduin responded, "Correct." Co-Chair Stedman indicated the committee would add to the list of things to cover in his presentation.

Senator Wielechowski asked if the analysis had already been done prior to the release of the governor's budget. Co-Chair Stedman suggested asking the economist when he was before the committee.

Senator Wielechowski asked Ms. Arduin if the analysis had already been done. Ms. Arduin responded that when the economist was before the committee he would present the analysis he had available.

Co-Chair Stedman suggested incorporating a timeline. It was his understanding that some of the analysis had been done, and some of it had not been completed.

10:06:25 AM

Co-Chair von Imhof appreciated slide 11. She thought it was interesting to have federal funds and other state funds listed along with DGF and UGF because, in the past, it had been a habit of state government to cost shift UGF into federal funds. In particular, it had occurred within the Department of Health and Social Services (DHSS). She noted there had been tribal compact agreements in which programs that remained in existence were being funded differently. She thought it was important to add two more colors to the graph to represent other state funds and federal funds. She asked for the rationale of comparing the December 14, 2018 budget (Governor Walker's exit budget) versus using the FY 19 enacted budget.

Ms. Arduin stated that slide 11 was an overview slide. The administration was showing how the governor was proposing to solve the \$1.6 billion deficit. She continued that the \$1.6 billion deficit was a comparison of the past administration's proposed budget and Governor Dunleavy's budget. She suggested that there would be slides for each of the agencies showing all of the funding sources in the FY 19 management plan, the December 14th budget, and the proposed FY 20 budget.

Co-Chair von Imhof reported that in looking at the FY 20 governor's amended budget compared to the FY 19 budget, the magnitude of the reductions were less.

Co-Chair Stedman thought the committee was interested in comparing the FY 19 management with the FY 20 governor's budget dated February 13th and little interest in the previous governor's budget submitted in December. He thought including the December 14th budget was a distraction and not relevant. He would work with members on how they wanted to see the data presented. He agreed with Co-Chair von Imhof and other members as to how the data should be presented. He did not want data to be skewed one way or another. The decisions the legislature was going to have to make would be difficult.

10:10:20 AM

Senator Wielechowski asked about oil tax credits. He wondered if the amount of oil tax credit payments by the

state from AIDEA had increased by \$227 million. Co-Chair Stedman asked for the senator to clarify what information he was referring to. Senator Wielechowski was looking at pages 68 and 69 of the budget beginning on page 68, line 29. He read directly from the referenced pages and lines.

Co-Chair Stedman explained that the committee was trying to get a general feel for the budget in the current meeting, rather than getting into the line item detail.

Ms. Arduin stated that OMB would have a presentation on the issue and would provide information on the details of the budget in the current day and into the following week. She reported that the statutory minimum for oil and gas credits was proposed to be paid in the budget for FY 20, as well as the remainder of the unpaid statutory minimum for FY 19. Co-Chair Stedman stated that the matter would be addressed in more detail in subsequent meetings, as well as the matter of the bond package.

Ms. Arduin spoke to slide 12, "FY2020 Budget: Policy Groupings ":

- Reducing dependence
- Business process realignment
- Unleashing entrepreneurialism
- Program reform
- Maximizing return on assets
- Outsourcing
- Reducing regulatory burden
- Eliminate duplication
- Non-essential programs
- User pay

Ms. Arduin noted that the slide showed additional guiding principles for formulating the proposed budget. She reviewed the list on the slide.

Co-Chair Stedman asked if Ms. Arduin would discuss the substantial amount of legislation coming forward to help enact the proposed budget. He asked her to provide an overview of expectations, as the budget bill was not the entire package. Ms. Arduin stated that not all the bills accompanying the budget had been introduced. There were several bills that would enforce the proposals in statute. For example, if the administration proposed to eliminate a program in the appropriations bill, it would be followed

with a statutory proposal to eliminate the program in statute.

Co-Chair Stedman's impression was that OMB would provide documents that would make it easier for committee members and the public to understand all of the components. He asked if he was correct. Ms. Arduin answered in the affirmative.

Co-Chair Stedman asked for an estimated time-frame when the bills would be submitted. Ms. Arduin asked if the Senator was talking about all of the bills.

Co-Chair Stedman asked if the information would be presented all at once on the following Monday or over the following several weeks. He was not trying to hold Ms. Arduin to a specific date, rather to provide a larger picture. Ms. Arduin responded that on the following Monday OMB was scheduled to discuss statewide items including the legislative proposals. However, she could not give a timeline as to when all of the bills would be drafted and presented to the legislature. She would present an outline for the committee in the presentation on the following Monday. Co-Chair Stedman added that that it would begin on Monday and for however long thereafter.

[10:15:52 AM](#)

Senator Bishop asked if Ms. Arduin had heard anything from the state's credit rating agency since the budget was presented. Ms. Arduin stated that OMB and the Department of Revenue were scheduled to discuss and review the budget proposal with the credit rating agency, as was the customary practice on the part of the state.

Senator Bishop wanted Ms. Arduin to ask how the proposed budget would impact the credit rating of local municipal governments.

Co-Chair Stedman suggested when the committee was dealing with the forthcoming package of potential changes needed to implement the proposed budget, OMB had done a very good job of encouraging departments to provide a list of priorities. It was important to have a basis for making decisions. He was curious when committee members would be given that data for their subcommittee work.

Ms. Sanders stated that agencies had prepared their priority lists which were available. She would make sure to provide them to the subcommittees.

Co-Chair Stedman stated that the legislature had been waiting for years to see prioritized lists from the agencies. The legislature had never been able to get the departments to prioritize a list. The committee was very interested in the information and would take them under advisement.

Senator Olson requested that, in addition to the economist from OMB, the committee invite economists from the Department of Labor and Workforce Development and from ISER to make a presentation.

Co-Chair Stedman encouraged members to communicate with the co-chairs as to who they might want to have come before the committee. He relayed that the Department of Public Safety would be up next. He reviewed the protocol for hearing from the individual agencies.

Co-Chair von Imhof stated that there had been conversation about forthcoming bills to accompany the budget. She referenced crime bills that were currently in committee. She asked if testifiers could address whether the bills with fiscal notes that had not been passed but were in play were included in the budget. If they were not included, she wanted to know about the fiscal impacts.

Co-Chair Stedman wanted to strive for clarity in the entire budget. He acknowledged Senator Gary Stevens and Senator Shelley Hughes in attendance.

[10:21:59 AM](#)

DAN SPENCER, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF PUBLIC SAFETY, OFFICE OF MANAGEMENT and BUDGET, conveyed Commissioner Price's apologies for not being in attendance, as she had to go up North unexpectedly. He moved to slide 14, "FY2020 Budget: Department of Public Safety," which showed the budget changes in the FY 20 governor's amended budget from the FY 19 management plan. He reported a decrease of about \$3.1 million in general funds, an increase of about \$620,000 in other funds, and an increase of about \$9.2 million in federal funds. He noted that there was a very small change in positions. There was a reduction

of two permanent full-time positions in the FY 20 governor's amended budget, and there was no change in the number of part-time positions or non-permanent positions.

Co-Chair Stedman clarified that looking at the middle graph reflecting the FY 20 Governor's plan from 12/14/19 there was an increase of two people. Mr. Spencer answered in the affirmative. Co-Chair Stedman asked about vacancy issues. Mr. Spencer was not sure what the vacancy issues were for the non-trooper positions. However, there were currently 40 trooper vacancies. He relayed that there was an academy starting at the end of the month with 18 recruits signed up for the training.

Co-Chair Stedman asked if the 40 vacancies were included in the 807 positions listed on the graph. Mr. Spencer replied in the negative. He indicated that the 807 depicted positions rather than persons.

[10:24:15 AM](#)

Senator Micciche clarified that the 40 positions were included in the 807. The number reflected all positions budgeted for the department. He asked if he was correct. Mr. Spencer answered, "That's correct."

Co-Chair Stedman asked about the comparison between the FY 19 management plan to the FY 20 governor's budget (2/13). Mr. Spencer stated that on the left-hand side of the page it showed a decrease of about \$3.1 million in general funds, an increase of \$620,000 in other funds, and an increase of \$9.2 million in federal funds.

Co-Chair Stedman wanted Mr. Spencer to clarify that the department would have more money for the FY 20 budget and that there would be more cops rather than less. Mr. Spencer confirmed that the department would have more money to run the budget. He reported DPS would have fewer general fund dollars and more of all other funds.

Senator Micciche asserted that the number one concern of Alaskans was the issue of crime. There were four administration crime bills and a couple of non-administration crime bills to address the issue. There was a demand for additional law enforcement resources around the state. It appeared that the state was only adding two positions. He was unsure if two additional positions and

the filling of the other 40 vacancies would satisfy the expectations of Alaska's public. He asked Mr. Spencer what legislators should say to Alaskans that are focused on the issue.

Mr. Spencer responded that he would tell Alaskans that the department would not ask for money it would not use. Currently, with the 18 individuals coming into the Alaska State Troopers academy and the Alaska Wildlife Troopers academy and the individuals planning to attend the Fall academy all of the trooper positions would be filled. Only after all of the positions were filled would the department request new positions. Historically, there were extremely high vacancy rates for state troopers. Neither the Office of Management and Budget nor the commissioner wanted to request money for positions that could not be filled. He would bring up additional funding once all the vacancies were filled.

Co-Chair von Imhof asked why the positions had been difficult to fill and why Mr. Spencer was confident the positions could be filled in the coming Fall. Mr. Spencer was uncertain why the recruitment unit had difficulty filling the positions. In the current year, the Alaska State Troopers had its largest academy in years. He highlighted that there were more municipal employees attending the next academy than state troopers. He had seen downturns in recruitment. He would respond back to the committee on the reason for the increased enrollment.

Co-Chair Stedman asked about a previous legislative concept that included a salary increase for state troopers with a 2-year step increase.

[10:28:31 AM](#)

Mr. Spencer stated that in the previous year for the Alaska State Troopers, there was a classification increase for Alaska State Troopers. The increase had the effect of increasing the troopers salary by 7.5 percent on average. In addition, there were letters of agreement with the Public Safety Employees Association for an additional increase in salaries, about another 7.5 percent, and a couple of other smaller changes to salaries. He referenced an ongoing issue of other police departments in Alaska, such as the Anchorage Police Department, having wages higher than Alaska State Troopers. The state had lost some

state troopers to that. Wages in the Lower 48 had increased, also adding to the problem of losing troopers to other employment opportunities. He reported that in exit surveys he had consistently seen comments about wages paid in other places. The intent was to address the issue of wages and to help with recruitment. He was uncertain if the reasons he had mentioned were driving recruitment.

Co-Chair Stedman recalled a two-year implementation and asked if there were any changes in it. Mr. Spencer stated that the information the Senator had remained in the budget.

Senator Micciche thought it was important that the public knew that there had been a study which had made clear that in order for the state troopers to be on par with other law enforcement organizations, an increase was necessary. Otherwise, the gap was too great for individuals to be interested. He thought the changes had made a difference in morale and had increased the numbers in the academy.

Co-Chair Stedman asked if the increase was included in the FY 20 budget. Mr. Spencer responded that it was in the FY 20 budget. He noted there was a separate section in the operating budget bill that addressed salary increases.

Senator Olson noted Mr. Spencer had witnessed the Village Public Safety Officer (VPSO) numbers fluctuate. Currently, the numbers were down significantly. He asked if the same considerations had been provided, such as exit surveys with VPSO personnel to find out their reasons for leaving service.

Mr. Spencer did not know if DPS had conducted surveys. He reminded the audience that VPSOs were not state employees. Rather, they were employees of the regional non-profits or the one municipal government that ran a VPSO Program. He noted that in FY 12 VPSO salaries were increased and in FY 19 VPSO salaries were increased by 6 percent. The state offered a retention bonus of \$5,000 for VPSOs that stayed for a minimum period of 3 years. There was one other salary incentive. The state recognized that the VPSO Program had many of the same challenges as the trooper program. He would be addressing the VPSO Program being down in numbers later in the presentation.

[10:32:44 AM](#)

Mr. Spencer spoke to slide 15, " FY2020 Budget: Department of Public Safety Snapshot":

- Training Academy - Interagency Receipt Authority for Anticipated Training Academy Revenues (+\$500.0 Other)
- Statewide Support - Executive Branch 50% Travel Reduction (-\$103.8 GF)
- Align Village Public Safety Officer Funding (-\$3,000.0 GF)
- Reverse State Support for Civil Air Patrol (-\$302.3 GF)
- Federal Receipt Authority for the High Intensity Drug Trafficking Areas Program (+\$5,000.0 Fed)
- Council on Domestic Violence and Sexual Assault - Federal Receipt Authority for Victim of Crime Act Grant Award (+\$4,000.0 Fed)

Mr. Spencer noted that the training academy was in Sita where the state troopers, many municipal police officers, and VPSOs received their training. He drew attention to the \$500,000 other increase was for interagency receipts - payments that would come from the Alaska State Troopers and the Alaska Wildlife Troopers to the academy (a separate component because of the increased enrollment). There was also a \$150,000 general fund program receipt that was not bulleted on the slide for additional collections from municipalities for sending their law enforcement officers to the academy.

Co-Chair Stedman asked about the capacity of the police academy. Mr. Spencer did not know the answer. He estimated 40 recruits as the maximum class size.

[10:34:27 AM](#)

Mr. Spencer continued to address slide 15. He pointed to the 50 percent reduction to travel within statewide support. He explained that most of DPS was not affected by the decrease. The travel reduction applied to the commissioner's office, the administrative services division, information services, the crime lab, and the academy.

Ms. Arduin added that the 50 percent travel reduction was a statewide reduction that would be reflected in other agency

budgets. Certain functions were exempt from the travel reduction such as law enforcement.

Mr. Spencer noted the reduction to VPSO funding of \$3 million which was a continuation from a supplemental appropriation. The reduction was not a comment about the VPSO Program. The sum reflected the amount lapsed in the past. In each of the previous 2 years about \$3 million was left over. The amount had been about \$800,000 in each of the 2 years before that.

Mr. Spencer continued to discuss the proposed reduction to VPSO funding. He reported that at the end of January 2019, the VPSO Program had 42 people in it. At its high point and very briefly, the program had 101 VPSOs. Since then, the program had been in a steady downward trend. The funding over the previous 4 years, after a brief reduction in funding at the start of the prior governor's administration, had been relatively flat. The number of VPSO that were being employed by non-profits in the Northwest Arctic Slope Borough continued to decline. The department would like to see the numbers improve, as it was the job of the department to promote and provide public safety. The state had viewed the VPSO Program as a partner. The state was also looking at other innovative ways to improve public safety overall instead of only the law enforcement aspect. He recalled that the VPSO Program, started in the '70s and was not as much about law enforcement as it was about other things related to public safety such as search and rescue, fire, and emergency medical response. The department wanted to get the VPSO Program doing what it was intended to do and taking full advantage of the available funding in order to make a difference in communities.

[10:38:57 AM](#)

Senator Olson referenced the VPSO Task Force that he had chaired. He noted that one of the strong recommendations was for the legislature to provide compensation for VPSOs equitable to the compensation the unionized state troopers received. He wondered if the recommendation was followed and whether Mr. Spencer remembered the amount recommended during the VPSO Task Force era.

Mr. Spencer could not speak to the previous four years, as he was not with the department during those years. He

reiterated that VPSOs had received a salary increase. He agreed that the Alaska State Troopers were state employees and were represented by a bargaining unit. The Village Public Safety Officers were employees of various non-profits. The state had a salary schedule which included merit increases. He could get back to the committee in terms of what happened over the past several years. He did not know.

Senator Wielechowski did not understand the rationale for the proposed reduction to the VPSO Program. He argued that the legislature had a constitutional obligation to provide public safety to both rural and urban areas. The wages and benefits were set so low that it was difficult to attract qualified VPSOs, yet the administration cut the funding. It appeared as though the department was admitting to failure.

Mr. Spencer rebutted that the department was not admitting to failure or reducing funding for VPSO salaries. The department was basing its reduction on historical patterns. The VPSO Program had not been able to fill all of its positions or use all the money that was appropriated. The governor's commitment was to not ask for money that was not going to be spent. If the VPSO Program had enough VPSOs onboard and it appeared the program needed additional funding, he was certain the governor would reevaluate the program. The administration's attitude had been that the state would fund the positions if the non-profits could fill them. Senator Olson did not agree with Mr. Spencer.

[10:42:10 AM](#)

Senator Wielechowski thought there was a problem in saying "Don't even try." He suggested that if the VPSOs came up with a solution in July, August, or September, they did not have the funds to fill the positions. He thought Mr. Spencer was saying, "Give up. Don't even try." He wondered what would be wrong with putting the funds into the budget and urging the program to find solutions. If the money was not spent it could be rolled back into the general fund.

Ms. Arduin stated that the department was trying very hard to work on the issue. The issue had been around for many years. The administration would welcome any proposals legislators might have to try to improve the situation. She reiterated that if the program filled all of its positions,

the administration would be asking for expenditure authority.

Co-Chair Stedman suggested that the committee wait for the attendance of the commissioner to have a dialogue regarding the VPSO Program. He thought there was concern that some of the small villages needed additional assistance. In some cases, some of the villages had gone a long time without a VPSO. In some instances recruitment was difficult. He wanted to speak further with the commissioner about attracting more participation. The smaller communities were very concerned about the safety of their children and families. If there were more people interested in becoming VPSOs, he believed the legislature would support additional funding.

Senator Olson considered budget deficits, and asked Mr. Spencer about any potential plans for VPSO aircraft. He recalled when he started there was a Jet Ranger and currently there were two A-Stars, one of which was moth-balled in Fairbanks or was being readied for liquidation. He asked for confirmation.

Co-Chair Stedman thought some of his questions could be posed to the commissioner. He asked Mr. Spencer to comment. Mr. Spencer had not had the opportunity to have discussions with the commissioner regarding the aircraft. He thought the question would be better answered by the commissioner.

[10:45:42 AM](#)

Mr. Spencer continued his remarks on slide 15. He drew attention to the reversal of funds for the Civil Air Patrol. He recalled that in the previous year the legislature put in a one-time appropriation of \$302,300 general fund dollars. The item had not been added back in - one of the differences between the FY 19 funding and the FY 20 proposed funding.

Co-Chair Stedman asked if the one-time funding had been historically in the budget. Mr. Spencer answered in the affirmative, although the amount varied. There had been many discussions over the years whether the state should continue to fund the program. The legislature made the choice to include the appropriation in the budget in FY 19. He was unsure of the history of the requests.

Mr. Spencer discussed the federal receipt authority for the High Intensity Drug Trafficking Area (HIDTA) Program. The president gave the state the designation of a HIDTA Program. The state had already received \$2.5 million in federal grant funding and would receive another \$2.5 million in federal FY 19. He was expecting the state would receive \$2.5 million each year into the foreseeable future and possibly more. The department was asking for additional receipt authority so that when the funds came in they could be spent. The department was working with law enforcement around the state to try to do something to reduce the crime rate, the drug abuse rate, and associated crimes.

Co-Chair Stedman asked if the funds could be used for drug interdiction with drug dogs to help with mail coming from various delivery sites. Mr. Spencer understood that anything was fair game to stop the flow of drugs coming into the state.

Co-Chair Stedman had heard from his district that drugs were flowing into small communities that did not have much of a law enforcement presence. He used Prince of Wales Island as an example. He thought it tied in with VPSO needs along with working with drug enforcement to close the gaps. He advocated for additional drug dogs.

[10:49:16 AM](#)

Co-Chair von Imhof thought it was good news that the state had received some of the grant funds. She wondered if the funding would flow into FY 20. She noted the \$5 million for the HIDTA program and the Victim of Crime Act Grant Award of \$4 million for the Council on Domestic Violence and Sexual Assault (CDVSA). She observed that although there were additional funds of \$9 million, there were not many additional employees. She wondered how the money would be spent. If the money was going to be spent on programs, she asked who would be running the programs.

Mr. Spencer stated that there were joint agreements with several agencies. The department would spend funds on a variety of things. An example was reimbursing municipal police officers for some time. The department might purchase equipment or drug dogs. It was not always necessary to hire more individuals. Much of the time the department could do more with the individuals it already

had with more funding. He would be able to provide additional detail in the finance subcommittee.

Mr. Spencer addressed the last item on slide 15, which was the Council on Domestic Violence and Sexual Assault federal receipt authority for the Victim of Crime Act (VOCA) Grant Award of \$4 million in federal funds. The funding included \$500,000 for prevention efforts, safe housing, and shelters, particularly in rural areas. The department had requested receipt authority from the Legislative Budget and Audit Committee for these funds.

Mr. Spencer noted that in the previous year the legislature had made a change that allowed Permanent Fund Dividend criminal funds, funds from convicted felons, to be used for domestic violence and sexual assault. He reported that \$215,000 of authority was added to the CDVSA budget.

Co-Chair Stedman discussed the schedule for the following day.

SB 20 was HEARD and HELD in committee for further consideration.

#  
ADJOURNMENT

10:53:57 AM

The meeting was adjourned at 10:53 a.m.