

SENATE FINANCE COMMITTEE
February 18, 2019
9:01 a.m.

9:01:59 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Senator Mike Shower

ALSO PRESENT

Senator Cathy Giessel; Senator Gary Stevens; Senator Mia Costello; Senator Chris Birch; Representative Tammie Wilson; Donna Arduin, Director, Office of Management and Budget; Heidi Teshner, Administrative Services Director, Department of Education and Early Development, Office of Management and Budget; Michael Johnson, Commissioner, Department of Education and Early Development; Mike Barnhill, Policy Director, Office of Management and Budget.

SUMMARY

SB 20 APPROP: OPERATING BUDGET/LOANS/FUNDS

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

PRESENTATION: DEPARTMENTAL REVIEW
 EDUCATION and EARLY DEVELOPMENT
 STATEWIDE

Co-Chair Stedman noted that the committee had modified its schedule due to extensive questions the previous Friday. He noted that two departments had been rescheduled for the following day. He wanted to keep to the schedule as closely as possible. He thought the Legislative Finance Department (LFD) might not be before the committee until the following Monday. He wanted to constrain questions to the budget of the department being discussed.

Co-Chair Stedman informed that the director of the Office of Management and Budget (OMB) would review the budget from a high-level. All members of the committee would chair Senate Finance Subcommittees. He thought the review would be beneficial. He asked for members to refrain from pontificating.

#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."

[9:05:30 AM](#)

^DEPARTMENTAL REVIEW: EDUCATION and EARLY DEVELOPMENT

[9:05:30 AM](#)

DONNA ARDUIN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, introduced herself.

HEIDI TESHNER, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, OFFICE OF MANAGEMENT and BUDGET, introduced herself.

MICHAEL JOHNSON, COMMISSIONER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, introduced himself.

Ms. Arduin discussed the presentation, "State of Alaska, Office of Management and Budget; FY 2020 Governor's Amended Budget; Presentation to the Senate Finance Committee;

February 18, 2019; Director Donna Arduin" (copy on file). She showed slide 2, "Department of Education and Early Development."

Ms. Teshner spoke to slide 3, "FY2020 Budget: Department of Education & Early Development," which showed two bar graphs that provided a funding comparison between the FY 19 Management Plan and the FY 20 governor's amended budget. Overall, the funding was decreased in the governor's amended budget. The blue bar represented General Funds (GF), 98 percent of which was Unrestricted General Funds (UGF). She noted that the green was other funds and the grey showed just over \$250 million in federal funding.

Ms. Teshner continued to look at slide 3. The graph on the right provided a budgeted comparison between the two budgets. She pointed out a small decrease in positions between the two years being compared.

Co-Chair Stedman asked about the purpose of the slide.

[9:08:22 AM](#)

Ms. Teshner stated that the slide provided a picture of how the department was funded. The majority of the Department of Education and Early Development (DEED) funds came from GF, the majority of which was UGF. There were other funds such as the Public School Trust Fund, statutory designated program receipts, interagency receipts (\$61.6 million shown on the green tab), and federal funds of approximately \$252 million. The federal funds were largely passed through to sub-recipients, including title funding, special education funding, and impact aid.

Co-Chair Stedman asked if the funding described was going up or down.

Ms. Teshner stated that future slides would discuss major decreases presented in the budget. Funding was projected to go down in FY 20.

Co-Chair Stedman asked if the proposal was to reduce education funding by roughly \$310 million.

Ms. Teshner stated that "approximately yes."

Co-Chair Stedman asked if the DEED position headcount was negative seven.

Ms. Teshner answered in the affirmative.

Senator Hoffman thought that education was a budget component that everyone supported, which was evident the previous year when the legislature added \$20 million for FY 19 and another \$30 million for FY 20. He emphasized the proposed reduction to education was for over \$300 million. He thought the proposed cut was about 25 percent of the education budget, which he found completely unacceptable. He thought that even though educational performance was low in the state, education funding was still a high priority for Alaskans. He wondered how the administration justified an almost 25 percent reduction in education and asked what was trying to be accomplished.

Co-Chair Stedman suggested consideration of the subsequent slide before addressing Senator Hoffman's question.

[9:12:37 AM](#)

Senator Wielechowski referenced statute that described the commissioner's responsibility for the preparation and execution of the budget. He asked if the Alaska Board of Education had approved the proposed budget.

Commissioner Johnson stated that the board had met the previous week and had received well over an hour of public comment and a presentation by Ms. Teshner on the budget. Almost all the members of the board expressed support for the governor's budget to balance revenues and expenditures but had decided to table the motion and allow the legislative process to happen before taking action on the budget.

Senator Olson understood that the commissioner stated the board had not acted on its statutory obligation to approve the budget.

Commissioner Johnson restated that the board had decided to table the motion in order to see the budget process through the legislature.

Senator Bishop asked how the magnitude of the cut could improve outcomes for students in Alaska.

Ms. Arduin stated that the proposed cut was made because the state was out of money and the budget needed to be balanced. She referenced Senator Hoffman's comments about funds spent the previous year and stated that the monies that were spent in FY 19 for additional funding were spent out of the Constitutional Budget Reserve. She asserted that the state had run out of reserves to drain. The administration had proposed the cut to get the budget balanced and get the state's fiscal house in order.

Senator Bishop stated that Ms. Arduin had given the wrong answer.

Senator Wielechowski recalled that Commissioner Johnson had testified the previous year on February 13 that the department's capacity to meet its constitutional obligation would be "accurately be described as stretched." Additionally, the commissioner had stated that "we have little or no margin in the department" and had had testified about a lack of capacity when employees left. He asked if the proposed budget improved upon the state's ability to meet its constitutional obligations or weakened the ability to do so.

Commissioner Johnson stated that the proposed budget did not reduce personnel inside the department in the K-12 division.

[9:16:16 AM](#)

Co-Chair Stedman suggested that presenters discuss the slide, after which time he would take questions from members. He asked that members to confine the questions within subject matter areas on the slide.

[9:17:24 AM](#)

AT EASE

[9:17:55 AM](#)

RECONVENED

Ms. Teshner turned to slide 4, "FY2020 Budget: Department of Education & Early Development Snapshot":

- Statewide Support - Executive Branch 50% Travel Reduction (-\$146.6 GF)

- Reduction to the Foundation Funding Formula Program (-\$269,396.9 GF)
- Withdraw One-Time Future Funding to School Districts (-\$30,000.0 GF)
- Withdraw funding for the Washington, Wyoming, Alaska, Montana, and Idaho (WWAMI) Medical Education Program (-\$3,096.4 GF)
- Reduction to Pre-Kindergarten Programs & Other Grant Programs (-\$16,847.7 GF)

Ms. Teshner stated that the proposed travel reduction was based on the FY 18 actual travel within the department, and the total travel reduction for the department was \$350,000. She commented that the reduction to the foundation funding formula was not a reduction to the Base Student Allocation (BSA), which was set in statute. She noted that the WWAMI program provided for 20 medical students in Alaska to get education from the University of Alaska through the University of Washington School of Medicine.

Ms. Teshner continued to address slide 4. She explained that the reduction to Pre-K programs included reductions as follows: \$6.8 million for Head Start, \$320 million for Best Beginnings, \$474,000 for Parents as Teachers, about \$1.2 million for additional grants for continuation of a settlement for school construction, and \$8 million in Pre-K grants. She clarified that \$6 million of the \$8 million was a multi-year grant.

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Co-Chair von Imhof considered the proposed reductions in the BSA, which was about \$1,000. She thought the BSA was similar in the 2005 - 2006 school year. She had looked at a comparison between the 2005-2006 school year and the present. The number of students statewide had declined, yet the amount of money paid to education had gone up. She asserted that employee benefits had experienced a \$294 million (97 percent) increase in 11 years. Districts were spending more on healthcare for teachers than for books and curriculum. She thought rather than making an across-the-board cut, perhaps a better approach would be to assist with the highest cost driver. She thought it was

problematic that the proposed cuts did not address the issue.

Co-Chair von Imhof continued her remarks. She hoped to hear a mitigating plan along with the proposed cuts. She asked why the largest cost driver in education was not addressed, and why mitigating factors were not addressed.

Co-Chair Stedman asked the OMB director to help Co-Chair von Imhof to understand the philosophical process that resulted in the proposed cuts.

9:24:00 AM

Ms. Arduin asserted that the state did not control school districts and school district spending. She referenced data that indicated that only 54 percent of funds to districts were spent on instruction. She added that districts also received local funds. She thought the commissioner would be open to proposals from the committee to mitigate expenditures so more money could go to the classroom.

Senator Hoffman thought the problem was that the administration was proposing around 20 pieces of legislation to change the law. He thought school districts were well aware that districts had self-determination to decide on how funds were spent. He emphasized that the legislature had put the formulas in place and modified them many times over the years. He thought Co-Chair von Imhof made a strong case that the administration was not coming forward in a constructive manner to address the problem. He thought it was crucial to consider the state's obligation to educate students, rather than just being "all about the checkbook."

Senator Hoffman emphasized that it was Ms. Arduin's job and responsibility to defend and try and improve education for the students in the state. He strongly stated that the board should do its duty according to the law. He did not think the Board of Education should hide behind the legislature to see what it would do on the budget. He thought activity by the board should be a strong request of the committee.

Co-Chair Stedman asked Commissioner Johnson to explain to the public how the department was structured, including who appointed the commissioner of DEED.

Commissioner Johnson stated that the commissioner of DEED served at the pleasure of the state board, and the board selected a commissioner. The governor approved or rejected the board's selection.

Co-Chair Stedman asked Commissioner Johnson to address Senator Wielechowski's earlier question about the board's timely or untimely review and support or non-support of the proposed budget. He thought it sounded as if the board had an obligation to take action.

Commissioner Johnson stated that Senator Wielechowski was correct in the statute that was cited. He continued that attorneys at the Department of Law (LAW) had informed that the statute was subject to the Executive Budget Act. The State Board of Education's budget acceptance or approval was subject to the act.

[9:28:53 AM](#)

Senator Wielechowski reiterated that his question pertained to whether anyone at LAW had expressed any concern over the constitutionality of the budget with regard to whether the state was meeting its obligation to adequately fund education.

Co-Chair Stedman thought the matter could be addressed by the Legislative Legal Department. He thought it was a broad question.

Commissioner Johnson stated that no one from LAW had indicated any concern over constitutionality since the budget came out.

Co-Chair Stedman asked to go back to the second bullet on slide 4. He referenced a comment about the reduction in the funding formula not being a reduction to the BSA. He asked for further explanation.

Ms. Teshner stated that the foundation formula (including the BSA) was set in statute and was currently \$5,930. The department calculated the foundation funding formula amount based on FY 20 projected average daily membership (student count). In statute, if the foundation formula was not fully funded, the department could pro-rate the balance to all school districts. She continued that the \$269 million

reduction was pro-rating the overall amount that was calculated for the foundation formula.

Co-Chair Stedman assumed that the BSA was \$5,930 per individual, which was adjusted by a litany of factors to determine what each school district received per student.

Ms. Teshner stated Co-Chair Stedman was correct.

[9:31:56 AM](#)

Co-Chair Stedman asked about the BSA after the reduction.

Ms. Teshner answered \$4,880.

Co-Chair Stedman asked if the BSA had ever been lowered before.

Ms. Teshner stated that records showed that the BSA had never declined, only increased.

Co-Chair Stedman recalled the same. He thought it might be beneficial to have both amounts up for discussion. He thought it was easier for members to consider the BSA numbers versus other numbers that might differ depending upon the area.

Senator Micciche asked to go back to slide 3. He thought there was a theme of shifting costs to local governments, which meant local property and sales taxes would increase to make up the difference. He pointed out that reduction in funding also reduced the local funding cap and exacerbated the problem. The locals could not respond with higher funding. The slide seemed to indicate there was a budgeted position comparison reduction of seven. He was concerned about class sizes as a result of the proposed cut. He asked if it was possible to deliver an adequate educational product with 45 kids in a classroom.

[9:35:52 AM](#)

Ms. Arduin stated that there was an additional \$500 million that was collected locally and went to school districts. She asserted that the proposed reduction was a reduction of a total base of over \$2 billion. She contended that the reduction was a lower percentage than what had been stated.

Co-Chair Stedman asked the commissioner to offer thoughts on the student-teacher ratio as mentioned by Senator Micciche.

Commissioner Johnson stated that any reduction in funding would be difficult for everyone. He thought class sizes would vary from district to district. He was not sure how each district would respond if the reductions were passed. He asserted that schools and districts would have to do what the legislature was doing and receive public input, as well as work together to problem solve how to meet the needs of all students with whatever funding was received.

Senator Hoffman thought all the proposed reductions totaled \$320 million; comprised of \$270 million plus one-time funding of \$30 million, as well as \$20 million the governor had spoken about eliminating. He asked about the total proposed reduction for the Anchorage School District (ASD).

Ms. Teshner stated that the proposed combined cuts to ASD would signify \$85.7 million.

Senator Hoffman emphatically asked how ASD would be able to deal with such a reduction when it was challenged with even a \$3 million reduction. He thought it was an impossible task.

Co-Chair Stedman asked if the testifiers could aid Senator Hoffman in understanding the ability of the districts to implement the proposed cuts. He mentioned that school districts had contractual obligations to employees and needed more time to respond to downward budget pressure. He recalled that many superintendents had expressed the need for a year's notice to respond to reductions in the employee base.

[9:40:55 AM](#)

Commissioner Johnson mentioned employee contracts and acknowledged that districts had certain dates and times that contracts were issued before the end of the school year. He stated that DEED was evaluating the impact on each of the 53 unique school districts in the state. He would personally reach out to superintendents to get perspective on the potential impact of the proposed budget.

Co-Chair Stedman asked if Commissioner Johnson had been a superintendent.

Commissioner Johnson answered in the affirmative.

Co-Chair Stedman asked about the commissioner's history as a superintendent and what flexibility he had when facing reductions.

Commissioner Johnson stated that he had been the superintendent of the Copper River School District (CRSD). During his tenure, there had been reductions each year due to the economy and declining enrollment. He discussed the challenge of implementing cuts. There had been few solutions that were agreed upon by all stakeholders. He asserted that consideration of cuts had brought about constructive discussions in the community. He discussed his process for dealing with budget cuts, which included seeking input from faculty and staff and other parties.

[9:44:25 AM](#)

Co-Chair Stedman did not have a background in education. He assumed that the CRSD was similar in size to school districts in his district. He asked the commissioner to put past reductions in a historical perspective considering the proposed reductions. He asked if the proposed reductions were normal or abnormal.

Commissioner Johnson could not recall reductions of the magnitude proposed to be normal. He stated that the proposed reductions were in an abnormal context since the state was in a tough spot.

Co-Chair Stedman asked for the formula-driven number for CRSD.

Ms. Teshner stated that the FY 20 projected state entitlement for CRSD was \$6,837,257. The pro-rated reduction was \$5,566,200; for a difference of \$1,271,057.

Co-Chair Stedman estimated that the proposed reduction was roughly one-sixth of the CRSD budget.

[9:47:03 AM](#)

Senator Micciche agreed that the budget must be reduced. He thought there was a misunderstanding with the connection of funding to the cap while being reduced by 25 percent. He asked for information relating to local match reductions and teacher reductions as a result of the proposed reductions.

Co-Chair Stedman suggested that the department could work on getting the information, including budget reserves per district. He was still concerned and not clear about the timing of employee contracts in school districts. He recalled that sometime in March or April school districts wanted to have employees under contract. He knew that employees and superintendents liked to have early information pertaining to funding in order to lock down contracts. He relayed that the committee had long discussed the topic of early versus late funding for school districts. He thought surely Commissioner Johnson had experience to consider the issue and provide insight.

Commissioner Johnson stated that the sooner teachers could be secured, the better. There was not a certain date when a teacher had to be hired, but clearly the goal was to hire the best teacher possible.

Co-Chair Stedman thought the legislature had been criticized for giving out the funding in May at the end of session versus the beginning of April. He was concerned that the budget would not be completed until well into the middle of May or longer. He thought it was important to understand the matter when making policy decisions.

[9:51:02 AM](#)

Co-Chair von Imhof was not sure how much commissioners were engaged in creating the proposed budget. She thought several of the commissioners had not been chosen until the previous six weeks. She had a background on the Anchorage School Board. She recalled that Governor Dunleavy had background as a superintendent as well as experience on the Senate Education Committee. She thought there would have been more of a plan for rolling out one of the state's top statutory obligations. She thought there seemed to be cuts, and nothing more. She thought the plan was incomplete. She relayed that her office had engaged in a brainstorm for ideas and mentioned several.

Co-Chair von Imhof continued her remarks. She continued her list of ideas including tribal compact agreements, and pooling of covered lives. She asked if there was any evaluation of the impact of the proposed cuts, or if there was any attempt to mitigate the cuts.

Ms. Arduin saw the fiscal plan as solving the fiscal problems in the state, but not the end of the process. She stated that the commissioner was working on ideas and would be working with various stakeholders. She asserted that the proposed budget was the beginning of the process rather than the end. She mentioned the opportunity to work with a reformed University of Alaska college campus system, working with the board of education on changes in the way the formula was funded.

[9:54:26 AM](#)

Senator Wilson declared a conflict of interest as a part-time on-call employee of the Matanuska-Susitna School District. He asserted that it was not possible to control the number of students in the classroom nor how funds were spent in the classroom. He stated that his school district had the opportunity to cut its budget but had not done so. He asked if there were school districts that had fleets of planes.

Commissioner Johnson only knew of one school district with a single plane.

Senator Wilson asked if there were school districts that provided full-time benefits to part-time volunteer school board members.

Commissioner Johnson was not aware of what Senator Wilson had described.

Senator Wilson asked if it was possible to provide more information on different plans and initiatives. He asked if the administration was willing to provide technical assistance to get administrative help in best implementing the best use of reduced funds.

Commissioner Johnson was absolutely committed, as long as the state board allowed, to do everything he could to support school districts in effectively spending the money received. He thought the staff at the department was

equally committed. He referenced issues brought up by Co-Chair von Imhof, and suggested DEED had already begun discussing ways to support school districts. He was confident there would be creativity coming from school districts.

[9:57:17 AM](#)

Senator Olson considered slide 4 and referenced the proposed withdrawal of funding from the WWAMI program. He pointed out that there were 20 students per year in the program and asked about funding for students currently in the program.

Ms. Teshner understood that as of FY 20, the program would no longer be funded. She did not know what would happen for students in the program. She offered to provide more information at a later time.

Co-Chair Stedman asked that Ms. Teshner provide background information on the program. He noted that Senator Olson had been very interested in the program for at least 14 years.

Ms. Teshner agreed to provide the information.

Senator Olson informed that many studies had shown that Pre-K education had been effective for students, particularly for rural students that were sometimes behind. He noted that the proposed budget showed grants that had been rescinded. He found it troubling that two weeks previously he had a communication dated February 4, 2019; which and indicated that FY 20 Pre-K grant funding had not been rescinded for Head Start. The communication also indicated that DEED intended to distribute new letters of intent to award for the FY 20 Head Start funding by the end of May and early June 2019. He asked if DEED or the OMB director was to decide what happened with the programs.

[10:00:04 AM](#)

Commissioner Johnson stated that DEED distributed funds that were appropriated to the department. He was not entirely certain about the communication Senator Olson referred to. He stated that before the budget came out it was intended to proceed with the grants as the department had in previous years.

Ms. Teshner stated that the department was in the process of changing how it distributed Head Start funding. Through the process there was pushback from the Head Start grantees, and one had appealed. Through the appeal, the department had rescinded the original amounts projected to go to each Head Start grantee in FY 20. The department was working with Head Start, and the funding was subject to appropriation. If the funding were to continue in FY 20, a distribution system would be developed.

Senator Olson asked what he should tell Head Start grantees in his district for the FY 20 fiscal year.

Ms. Teshner stated that the department would still work with grantees, but the funds were subject to appropriation by the legislature.

Co-Chair Stedman reminded that Ms. Arduin worked at the behest of the governor, and the legislature was the appropriating body.

[10:02:42 AM](#)

Senator Wielechowski stated that Pre-K funding was required as part of the Moore v. State of Alaska settlement [the agreement concluded an 8-year-old case concerning the state's education system with the state providing \$18 million for the lowest performing schools to improve outcomes in the poorest performing districts]. He relayed that the funding had improved outcomes. He asked if cutting Pre-K funding would improve or decrease outcomes in the poorest-performing districts in the state.

Commissioner Johnson thought Pre-K was important and advantageous for targeted populations. He stated that there was still Pre-K funding that would be sent out, including an over \$2 million federal grant. He continued that the department would be working hard to identify additional outside funding to support as many Pre-K students as possible. He thought some districts supported Pre-K outside of the grants.

Senator Wielechowski asked if the commissioner thought schools would be adequately funded if the governor's proposed budget was passed; or if local communities would be required to add additional funds to adequately fund education.

Ms. Arduin thought the question about adequate education funding had already been answered and thought that Senator Wielechowski was asking about a legal term. She referenced Senator Wielechowski's question about whether the attorney general had advised the administration about issues with education funding, and reiterated that OMB had not heard of any issues from LAW regarding adequate funding.

Senator Olson thought the question was directed at the commissioner rather than OMB.

Co-Chair Stedman thought some questions being raised were better answered through other departments. He thought there would be a litany of questions for LAW to answer. He asked the commissioner to give the committee a broader answer.

Commissioner Johnson could not answer the legal question regarding adequacy of funding. He thought that school performance had many variables and state funding was only one of them.

Co-Chair Stedman thought the adequacy question would be the subject of further hearings. He mentioned that there was some litigation settlements and other topics to be concerned about relating to rural versus urban fairness.

[10:05:59 AM](#)

Senator Hoffman referenced his earlier comments about the \$30 million one slide 4. He suggested that the slide be altered to reflect the actual numbers rather than be shortened. He did not know if the depiction of the numbers on the slide was intentional in order to minimize the proposed reduction and emphasized that the reduction to the formula was \$270 million. He thought the slide was misleading.

Co-Chair Stedman noted that it was standard format to truncate numbers and add a footnote. He did not think there was ill will at work, but perhaps there had been an oversight. He mentioned budgeting scenarios such as forecasting where rounding of numbers was done.

[10:09:05 AM](#)

Senator Hoffman emphasized that pennies and dollars were significant in his school district. He acknowledged that the truncated numbers on slide 4 might be standard format, but thought it should be acknowledged on the page. He stated that the proposed budget was being received with less than enthusiasm by the committee. He did not see consideration of alternatives going into the budget. He thought OMB needed to be better prepared and more diligent when considering cuts. He thought Co-Chair von Imhof had stated the matter eloquently. He thought presenters should be cognizant of the timeframe that the legislature was working under, and that there should have been a better presentation for the justification for one of the state's most important responsibilities.

Co-Chair Stedman understood Senator Hoffman's concerns. He had spoken with the OMB director about keeping presentations streamlined. He pondered if the presentation had been streamlined too much. He was concerned the committee could get bogged down.

Ms. Arduin stated that the presentation was a budget presentation, and was not an opportunity for the commissioner to talk about the things critical to his job, such as improving performance. She noted that discussion of school performance was a big topic for another time.

[10:12:43 AM](#)

Co-Chair von Imhof reminded that the governor had ran on a campaign of paying a full dividend in the current year; and thought that without an income tax, the only way to do so was to cut the budget. She thought there was about 18 state agencies. She suggested that the proposed dividend was equivalent to paying out the proposed budget for 15 agencies and including the DEED and University budgets.

Co-Chair Stedman thought the discussion would be had after the whole budget overview. He thought there would be discussion on cash-flow and savings. There would be a cash-flow report coming from the treasury. He considered that the fiscal impacts would be of concern at the end of the budgetary process. He thought there would be a policy discussion, after which the legislature would consider what the operating budget would look like. He thought there was much input needed.

[10:15:47 AM](#)

Senator Bishop thought it was fair to remember that the administration had only two months to put together the budget. He opined that any good business practice would not do a \$1.6 billion cut across the board without doing due diligence. He did not think OMB had made a very good case for the budget proposal. He was not suggesting that he was not looking for efficiencies. He thought OMB had not shown efficiencies. He suggested that Ms. Arduin had hit a nerve when discussing outcomes. He recalled that the education debate in the state had gone on for sixty years.

Co-Chair Stedman stated there would be ample committee hearings in which to discuss the issues. He reminded that the presentation was only the beginning of the process.

Senator Wielechowski reminded that it was the statutory obligation of the commissioner to prepare a budget to meet the state's constitutional obligation. He was surprised that the commissioner asserted that the proposed budget adequately funded education. He asked if the budget affected school debt reimbursement and Bree's Law dating violence programs.

Ms. Arduin stated that school debt reimbursement would be addressed at a later meeting.

Co-Chair Stedman stated that the budget affect school debt reimbursement.

Ms. Teshner stated there was no budget impact to the dating violence education program.

[10:18:54 AM](#)

Senator Micciche stated his constituents wanted him to support cutting the budget, and he did support cutting the budget. He thought it was very difficult to avoid having a conversation about the effect of the proposed cuts. He recalled that the department had supported a bill the previous year that pertained to teacher hire. He discussed the difficulty in hiring teachers, and thought it was due to uncertainty. He referenced oil and gas policy to increase certainty and increase investment in the state. He asked the commissioner if the proposed budget would make it easier or more difficult to hire teachers.

Co-Chair Stedman asked testifiers to address potential impacts on hiring teachers.

Commissioner Johnson thought Senator Micciche's question was fair. He restated that budget cuts would be difficult.

[10:21:42 AM](#)

Senator Wilson reiterated that the legislature could not set the limits for how funds were spent in districts. He thought some school districts did better than others in terms of management and structure of utilizing funds. He asked about per capital spending on student education as compared to other states.

Commissioner Johnson knew that Alaska had high spending compared to other states but did not have specific information. He offered to follow up with more details.

Co-Chair Stedman asked the commissioner to bring information on FY 19 education spending adjusted for the proposed budget.

Commissioner Johnson agreed to provide the information.

Senator Wielechowski discussed the WWAMI program. He referenced a 2006 report in which the Department of Health and Social Services recommended increasing the number of students to 30. He noted that the United States Department of Health and Human Services had designated much of the state as a health professional shortage area based on the lack of primary care physicians. Based on the information, there was an estimated need for 200 more physicians in the state. He asked if there had been any consideration of impacts of the cuts the WWAMI program in bringing more doctors to the state.

Ms. Arduin stated she would get more information on the program, including the program history and the difficulties the program had in achieving its goals.

Co-Chair Stedman stated that the committee would consider a presentation on the WWAMI program and hoped it would include a historical perspective.

^DEPARTMENTAL REVIEW: STATEWIDE

[10:24:57 AM](#)

MIKE BARNHILL, POLICY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, showed slide 5, "Statewide Items." He thought the conversation was incredibly important for the state. He reflected that the size of the state's deficit made it so that any proposed plan would contain an element that would be hated. He acknowledged the frustration in the room, and acknowledged the budget was a difficult task. He referenced an editorial in the Anchorage Daily News that discussed the difficulty faced by the state. He thought the editorial had made an important point that the state was at "the end of the line." He thought the governor had done an incredible job of bringing the issues into sharp focus. He stated that OMB wanted to be an active participant. His purpose at the meeting was to present the legislative proposals that accompanied the proposed budget.

[10:27:42 AM](#)

Mr. Barnhill highlighted slide 6, "FY2020 Budget: Legislative Proposals":

Revenue

- Repeal Local Petroleum Property Tax (+\$398 million)
- Repeal Sharing of Fisheries Business/Resource Landing Taxes (+\$28.4 million)
- 50% of Alcohol Tax as a Shared Tax (-\$20 million)

Debt Reimbursement

- Repeal School Debt Reimbursement (-\$100 million)
- Repeal Project Debt Reimbursement (-\$4.5 million)

O&G Tax Credit Paydown

- Replace UGF with surplus AIDEA funds
- FY19 \$84 million (Align w/Statutory Calculation)
- FY20 \$170 million (Statutory Calculation)

Mr. Barnhill noted that the slide showed revenue proposals that were not new revenues but rather re-directed existing revenues. He recognized the large impact on communities from the proposed repeal on the Local Petroleum Property Tax. He noted that the amount of revenue would comprise one fourth of the deficit.

[10:30:31 AM](#)

Senator Wilson asked if the administration had considered a partial repeal of the proposed tax repeals.

Mr. Barnhill referenced his opening comments and suggested that anything taken off the table had to be replaced by something else.

Senator Olson referenced Mr. Barnhill's earlier remarks. He did not agree that there was something in the budget for everyone to hate. He thought there was nothing in the budget for oil companies to hate, as they were left harmless. He thought it was disingenuous that the administration would present the budget without considering revenues with sharp focus.

Co-Chair Stedman asked if Senator Olson had a question about the proposed repeal of the Local Petroleum Property Tax and its effect on his district. He thought the matter should be laid out in greater detail, and relayed that there was a pipeline corridor and an oil basin.

Co-Chair Stedman thought Senator Olson had given a high-level review of the property tax, which did not affect his own district but affected other areas of the state. He referenced the Revenue Sources Book, which listed boroughs which were affected and dollar amounts.

Mr. Barnhill noted that every year the Department of Revenue put out the Revenue Sources Book, which had a chart and narrative about the Local Petroleum Property Tax, how it worked, and the revenues that were collected by the state and municipalities. He detailed that there was \$563 million that was collected under the tax in FY 18. He listed the amounts collected by the associated areas, with municipalities collecting about \$440 million with a residual \$123 million for the state.

Ms. Arduin stated that the governor had been very clear that he was not contemplating raising taxes to fix the state's budget problems. He viewed the fiscal issue as a spending problem and was not contemplating tax increases.

[10:34:24 AM](#)

Co-Chair von Imhof stated that in FY 17, HB 111 was passed and had addressed oil taxes for petroleum companies. The

provision of ring-fencing was removed. She discussed ring-fencing. She remarked on increased taxes paid by ConocoPhillips. She asked how the administration had notified the borough and business leaders in Senator Olson's district on the North Slope of the proposed repeal of the Local Petroleum Property Tax.

Co-Chair Stedman asked for a broad answer to the question to include how the process was undertaken to come up with the proposals.

Ms. Arduin stated that the governor's budget was presented the previous week to everyone at the same time. She thought the commissioner of the Department of Revenue would be testifying in committee the following day, and he could discuss specific conversations he had after the presentation of the budget.

Senator Bishop asked if Ms. Arduin had alleged that the governor did not want to raise taxes.

Ms. Arduin answered in the affirmative.

Senator Bishop thought that it was debatable as to whether the governor wanted to raise taxes.

Co-Chair Stedman asked for Mr. Barnhill to provide more detail pertaining to other taxes listed on slide 6.

Mr. Barnhill discussed the Fisheries Business Tax and the Fisheries Resource Landing Tax, which were shared with municipalities that were fishing communities. He continued that DOR published a shared taxes report each year that showed the amount collected and shared.

Co-Chair Stedman thought Dutch Harbor was mostly likely the largest participating community.

Mr. Barnhill thought Unalaska was the largest.

Co-Chair Stedman understood that it would take legislation to repeal the tax.

Mr. Barnhill explained that the tax could be removed from the budget without changing the statutes, and the issue would be before the legislature the following year.

10:38:35 AM

Senator Hoffman noted that when he had met with the governor, he had stated that until the laws changed, they were the laws of the land. He thought the reasoning applied to the dividend. He found it hard to fathom that the governor planned to pick and choose which laws would be enforced. He thought there was inconsistency. He asked if through the budget process the governor would enforce certain laws and ignore other laws.

Ms. Arduin stated that the governor was submitting statutory changes along with the budget so that the statutes would be consistent with the appropriations.

Senator Hoffman was aware of what Ms. Arduin asserted. He asked if the governor would enforce the laws until they were changed. He reminded that he had been in the legislature for 20 years and did not need schooling on the subject of the legislative process. He asked if the governor would honor laws until they were changed, or if the governor would pick and choose which laws to enforce.

Ms. Arduin stated that the governor would be enforce all of the laws of the state. He was proposing changes to the laws.

Co-Chair Stedman thought an earlier response might have been garbled. If the legislature did not take statutory action to alter the proposed tax splits, the existing appropriations would take place in FY 20.

Ms. Arduin stated that some of the proposals were appropriations that were already in the budget, and the legislature had the ability to change the appropriations. The governor was proposing changes in statute to make permanent changes, but appropriations could be changed.

10:42:14 AM

Senator Micciche wanted to point out that the administration's approach, despite discussion of not raising taxes, would dramatically change the local tax rate. He mentioned discussed the Local Petroleum Property Tax. In running petroleum-related facilities, there were a number of required responses by federal and local services, and his district provided the services in Cook Inlet. He

disclosed that he was chair of the Cook Inlet Harbor Safety Committee. The services were required by federal law to serve petroleum facilities. He asked that if the budget proposed that direct costs should be billed to the state in order to stay with the philosophy of not raising taxes, or if the administration proposed that property and sales taxes in his district must be increased to meet the federal requirements to deliver the taxes to the state.

Ms. Arduin stated that OMB would provide an answer at a later time.

Co-Chair Stedman mentioned the Resource Landing Tax and the Fisheries Business Tax and stated that many taxes were shared with coastal communities. The taxes paid by fisherman was shared with the city as well as ports and harbors, in order to drive the economy forward. He asked if there had been discussion or policy consideration pertaining to the balance of taxation to drive the economy forward.

Mr. Barnhill stated that each of the items presented on slide 6 was prepared and included in the budget as a way to achieve a budget within the policy parameters that were dictated by the governor, which was to get to \$1.6 billion and keep the PFD whole. He shared that getting to the number without redirecting some revenue was very difficult. He fully recognized that there were impacts for each and every piece of the budget.

[10:46:09 AM](#)

Senator Bishop asked how the budget proposal grew the state's economy. He had received phone calls from businesses.

Ms. Arduin recalled that the impacts of the budget, the budget imbalance and the negative impacts on the economy because of the state's fiscal situation had been discussed at a prior meeting. She asserted that any money that was taken out of the private sector to put into the government would continue to deteriorate Alaska's economy. She stated that Alaska's economy was falling, while the rest of the nation was increasing. She stated that the administration was striving to reverse the situation, starting with getting the state's fiscal house in order.

Senator Wilson referenced Senator Hoffman's earlier statement about following the laws of the land. He thought the governor was going to introduce his permanent solution to the budget crisis by introducing legislation, and asked if the governor but would still be following the law if he used his power of veto.

Ms. Arduin answered in the affirmative.

Co-Chair Stedman referenced the proposed 50 percent of the Alcohol Tax going back to the community.

Mr. Barnhill answered in the affirmative.

Co-Chair Stedman thought it was preventive to take the funds and put them into alcohol and drug programs.

Mr. Barnhill answered in the affirmative. He explained that the funds would be redistributed into the Community Assistance Program.

Co-Chair Stedman thought it was good news for communities.

[10:49:03 AM](#)

Mr. Barnhill continued to discuss slide 6 and addressed the subheading 'Debt Reimbursement.' He stated that the debt reimbursement section of the budget was reduced substantially. Both of the programs listed on the slide were set in statute, and there was associated legislation to proposed repeal. He noted that all of the form of debt reimbursement was subject to appropriation. He added that school debt reimbursement had been reduced in the past, most recently by Governor Bill Walker. There were several years when School Debt Reimbursement was funded at less than 100 percent, but his was the first proposal to reduce it entirely.

Mr. Barnhill continued to discuss debt reimbursement. The amount proposed for repeal would shift back to the municipalities that issues the general obligation bond to fund the school construction, and the district would be responsible for paying the amount. He understood that the change would have no impact on the state's credit rating.

Mr. Barnhill discussed project debt reimbursement as listed on slide 6. There were two projects through the University

of Alaska, six port projects through the Department of Transportation and Public Facilities, and two utilities projects through the Alaska Energy Authority.

Senator Micciche was supportive of the debt reimbursement changes being discussed on slide 6. He did not support the shift of taxes to local communities. He believed the Senate had passed legislation repealing school debt reimbursement because the state had no control of the burden that local communities could put on the state.

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Senator Micciche appreciated aspects of the budget. He asked if the administration understood his stance of supporting the proposed repeal of debt reimbursement and not the cost shifting of the other proposed tax repeals.

Ms. Arduin thought there were many conversations that had begun as a result of the proposed budget. She thought state and local alignment could continue to be discussed.

Senator Wielechowski asked about school debt reimbursement and asked if the proposals applied to FY 19 or FY 20, or both. He wondered if the proposed debt reimbursement applied for debts that had been incurred in the past when school districts may have been expecting state reimbursement.

Mr. Barnhill stated the proposed change did not apply to FY 19 and would apply to FY 20. If the statute was repealed, it would apply to FY 21 and forward.

Senator Wielechowski asked about debts already incurred. He wondered how many years back debts would go.

Mr. Barnhill stated that the proposed change would apply to projects that had already been incurred. He noted that the state was currently in moratorium for new projects until FY 21. He offered to provide a list of projects. The total inventory of outstanding debt was \$90 million.

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

Co-Chair Stedman stated that the presentation would be continued the following day. He discussed the other items on the agenda for the following day.

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ADJOURNMENT

10:56:04 AM

The meeting was adjourned at 10:56 a.m.