

SENATE FINANCE COMMITTEE
February 25, 2019
9:01 a.m.

9:01:00 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 Mike Shower
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Lacey Sanders, Budget Director, Office of Management and Budget; Cheryl Lowenstein, Administrative Services Director, Department of Administration, Office of Management and Budget; April Wilkerson, Administrative Services Director, Department of Commerce, Community and Economic Development, Office of Management and Budget; Shawn Henderson, Administrative Services Director, Office of the Governor; Brad Ewing, Administrative Services Director, Department of Revenue, Office of Management and Budget; Mike Barnhill, Policy Director, Office of Management and Budget; Paloma Harbour, Director, Division of Administrative Services, Department of Labor and Workforce Development; Senator Cathy Giessel; Senator Gary Stevens; Senator Mia Costello.

SUMMARY

SB 20 APPROP: OPERATING BUDGET/LOANS/FUNDS

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

#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."

[9:04:17 AM](#)

LACEY SANDERS, BUDGET DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, discussed the presentation, "State of Alaska; Office of Management and Budget; FY 2020 Governor's Amended Budget; Presentation to the Senate Finance Committee; February 25, 2019; Budget Director Lacey Sanders" (copy on file).

^DEPARTMENT OF LABOR and WORKFORCE DEVELOPMENT

[9:04:33 AM](#)

PALOMA HARBOUR, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, looked at slide 3, "FY2020 Budget: Department of Labor and Workforce Development."

Senator Micciche queried the detail on the shift to DGF as realizable revenue.

Ms. Harbour spoke to the question in the following slide.

Ms. Harbour highlighted slide 4, "FY2020 Budget: Department of Labor and Workforce Development Snapshot (\$ Thousands)":

- Discontinued Alaska Mental Health Trust Agreement (-\$125.5 GF and -1 FT)
- Decrease UGF to Offset Technical Vocational Educational Program (TVEP) funding for the Alaska Vocational Technical Center (+/- \$261.7 Net Zero Change)

- Statewide Support - Executive Branch 50 percent Travel Reduction (-\$146.7 GF)

Co-Chair von Imhof wondered whether it was adjusted annually based on expected DGF.

Ms. Harbour replied that it changed every year, depending on the amount believed in the fund based on projections. She stated that, in the last three years, there were declines in the TVEP funding for the recipients of the funding. She furthered that there were currently increases.

Co-Chair von Imhof requested commented on the anticipated increase, and how it would be extrapolated to FY 21.

Ms. Harbour replied that the fund was doing well, and total wages had not declined as anticipated. She stated that, for FY 20, the total increase for all recipients was \$1.5 million. She remarked that there was an economist in the department that provided future year projections, and it was expected to grow moving forward.

Senator Shower wondered whether the 50 percent travel reductions was relative to the growth or decline of the budget.

[9:10:23 AM](#)

Ms. Sanders replied that the travel reduction was applied to the FY 18 actual expenditures in the travel line.

Ms. Harbour furthered that it was addressed in her third bullet.

Senator Olson queried the impact of the second bullet on TVEP.

Ms. Harbour agreed to provide the list of the full recipients. The total increase was \$1.5 million for all recipients, but the amount by recipient depended on the statutory formula.

Senator Olson wondered whether the proposal was in increase or decrease.

Ms. Harbour replied that it was an increase.

Senator Bishop stressed that it was important to note that it was paid for by the employees.

^DEPARTMENT OF ADMINISTRATION

[9:12:55 AM](#)

CHERYL LOWENSTEIN, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF ADMINISTRATION, OFFICE OF MANAGEMENT and BUDGET, addressed slide 6, "FY2020 Budget: Department of Administration."

Co-Chair von Imhof looked at slide 7, which showed two bullet points. She wondered whether her question could be addressed on the slide.

Co-Chair Stedman replied in the affirmative.

Co-Chair von Imhof noted that the internal services had increased in the Department of Administration (DOA) in consolidating the duties of other agencies. She wondered whether there was a corresponding reduction in other agencies.

[9:20:07 AM](#)

Ms. Lowenstein replied that between FY 18 and FY 19 there was a transfer of 140 positions. The funding remained in the agencies, and the utilization of the services resulted in charging of the agencies. She remarked that there could be a reduction in the charge back once more efficiencies were addressed.

Co-Chair von Imhof wondered whether the \$26 million was an increase.

Ms. Sanders noted that there were duplicated fund sources in DOA. She noted that the agencies were paying into the duplicated funds, which is why there was not a net reduction in the agencies.

Co-Chair von Imhof queried the reason for the \$26 million increase.

Ms. Sanders replied that the amount was the budgeted cost to DOA for the duplicated fund sources.

Co-Chair Stedman surmised that it was a net zero.

Ms. Sanders disagreed. She explained that the departments were paying DOA for their services.

Senator Micciche noted the increase. He remarked that he was the subcommittee chair for DOA, and wanted detail on the interagency interplay specific to that shift.

Senator Shower requested a list of consolidated services into DOA. He queried the number of vacant budgeted positions statewide, and how it compared to the necessary vacancy rate.

Senator Hoffman wondered whether the positions were not physically moving to a facility in DOA.

Ms. Lowenstein replied in the affirmative.

Senator Hoffman queried the circumstance that would cause that not to occur.

Ms. Lowenstein replied that it would occur, should there be a service that only one person could provide to that agency.

Co-Chair Stedman asked for more detail about that question, and requested that it be submitted to the subcommittee chair.

[9:25:01 AM](#)

Senator Hoffman wondered whether there would be an expectation that the position stay in the same community.

Ms. Lowenstein replied that there were some positions that were transferred and unable to fill.

Senator Olson noted that there was no money for managing the assets in public broadcasting.

Co-Chair Stedman asked that slide 7 be addressed before answering Senator Olson's question.

Ms. Lowenstein highlighted slide 7, "FY2020 Budget: Department of Administration Snapshot (\$ Thousands)":

- Withdraw State Grant for the Alaska Public Broadcasting (-\$3,496.1 GF)
- Statewide Support - Executive Branch 50 percent Travel Reduction (-\$459.1 GF)

Senator Olson noted that there was no money for managing the assets in public broadcasting.

Ms. Lowenstein agreed, and replied that no funding was available for grants to the stations.

Co-Chair von Imhof recalled a discussion about adding \$23 million, and wondered who would see the savings.

Ms. Lowenstein replied that it was savings to the Health Trust, so it would reduce the health care costs.

Senator Shower queried the number of budgeted but vacant positions.

Ms. Sanders agreed to provide that information.

Co-Chair von Imhof wondered whether the financials of the Health Care trust public.

Co-Chair Stedman and if not, why not.

Ms. Lowenstein replied that the financials were published in the comprehensive annual financial report from the Division of Finance, so she agreed to provide that information.

^DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT

[9:30:40 AM](#)

APRIL WILKERSON, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, OFFICE OF MANAGEMENT and BUDGET, looked at slide 9, "FY2020 Budget: Department of Commerce, Community and Economic Development."

Ms. Wilkerson highlighted slide 10, "FY 2020: Department of Commerce, Community and Economic Development Snapshot (\$ Thousands) ":

- Reorganize and Consolidate the Division of Economic Development (-\$243.4 GF and -2 PFT)
- Realign Local Government Support and Services (-\$1,000.0 GF)
- Withdraw Subsidy to Alaska Legal Services Corporation (-\$450.0 GF)
- Power Cost Equalization (PCE) Program Fund Source Change (+/- \$32,355 Net Zero Change)
- Statewide Support - Executive Branch 50 percent Travel Reduction (-\$354.2 GF)

Senator Wilson noted that the governor's budget had increases in focusing on crime and reducing rates of domestic violence. He remarked that most domestic violence victims were often fought in the civil process. He queried the reason for the reduction in Alaska Legal Services Corporation to assist those victims.

Ms. Sanders replied that it was a named recipient grant that was not statutorily required, and was identified outside of the core services for Department of Commerce, Community and Economic Development (DCCED).

[9:35:46 AM](#)

Senator Wilson asked whether the money be better placed in the Department of Public Safety (DPS).

Ms. Sanders replied that it was placed within DCCED, because the department had authority to issue named recipient grants.

Senator Shower felt that Senator Wilson's concerns were placed in the crime bills.

Ms. Sanders replied that she was not familiar with inclusion, but agreed to provide more information.

Senator Hoffman remarked that DOA wanted to protect savings accounts, and stressed that the Power Cost Equalization (PCE) fund was a savings account that did not follow that philosophy. He wondered whether the intent was to transfer the amount in the fund to GF.

Ms. Sanders replied that the proposed legislation would eliminate the PCE fund, and return the funds to GF. The PCE program would continue with general funds.

Senator Hoffman felt that there were inconsistencies with how the savings accounts were being protected, and went against what the administration had asserted. He felt it was a major mistake to not protect the particular savings account.

Co-Chair Stedman requested more information on the PCE endowment fund.

Ms. Sanders recalled that the legislature had passed legislation that allowed for the excess earnings of the funds to be utilized for specific programs. The excess earnings were only utilized after the initial program was funded. The governor's amended budget had funds for PCE had been replaced with general funds.

[9:40:32 AM](#)

Co-Chair von Imhof expressed concerns about rolling the funds into the GF. She stated that the original spirit of PCE was to help rural Alaska address high energy costs. She noted that there were other agencies that could help rural Alaska with their energy costs, and the PCE provided that assistance.

Senator Micciche queried discussions about eliminating the DCCED and absorb their costs into other departments, and the reasons why or why not.

Ms. Sanders replied that there were conversations for all agencies in reviewing core services and programs. She stated that DCCED's budget was not being proposed to be consolidated within another agency.

Senator Bishop remarked that PCE was a working program, and felt that the earnings were more as an endowment than would be earned in the general fund.

Senator Olson remarked that PCE was not designed as a subsidy for rural Alaska, rather it was designed for all residents of Alaska. He wondered whether there were complicated fund shifts in the community assistance program, with the addition of the alcohol tax. He queried the ultimate outcome of those shifts.

Ms. Sanders replied that along with the PCE, the community assistance fund was also proposed to be eliminated.

[9:45:35 AM](#)

Senator Olson wondered what the communities could anticipate in the following year.

Ms. Sanders replied that there would be an annual appropriation of \$30 million in the operating budget.

Co-Chair Stedman wondered whether that appropriation was a commitment.

Ms. Sanders replied that there was \$30 million that would flow out directly in FY 20. She stated that there would be future proposals with general funds.

Senator Hoffman asserted that after community assistance, the funds would go toward rural energy. He explained that there was a law that gave the funds to the renewable energy to program to encourage people to apply to get renewable energy to put less pressure on the PCE.

Co-Chair Stedman noted that that it was difficult to level the energy costs throughout the state.

^OFFICE OF THE GOVERNOR

[9:49:40 AM](#)

SHAWN HENDERSON, ADMINISTRATIVE SERVICES DIRECTOR, OFFICE OF THE GOVERNOR, looked at slide 12, "FY2020 Budget: Office of the Governor."

Mr. Henderson addressed slide 13, "FY2020 Budget: Office of the Governor Snapshot (\$ Thousands)":

- Reduce Contingency fund (-\$300.0 GF)
- Consolidate Administrative Services Directors (+2,706.3 I/A and +13 PFTs)
- Statewide Support - Executive Branch 50 percent Travel Reduction (-\$618.7 GF)

Senator Olson wondered how many of the added positions were partially exempt or exempted positions.

Mr. Henderson agreed to provide that information.

Co-Chair von Imhof wondered whether it was a net zero with the adjustment of positions.

Ms. Sanders replied in the affirmative.

Senator Hoffman wondered how much would be left with the reduction of \$300,000 in the fund for the last two years.

[9:55:06 AM](#)

Mr. Henderson replied that the contingency fund would be reduced by \$300,000, which left the balance at \$250,000. The only funding used out of that account in the year prior were transition related costs.

Senator Micciche wanted to understand the shift in responsibilities showing an approximately \$30 million increase.

Ms. Sanders responded that the \$3 million was reflected in the green bar, but was not familiar with the \$30 million change.

Senator Micciche explained that there was a jump in DOA.

Ms. Sanders remarked that it showed in the green bar, but was significantly less.

^DEPARTMENT OF REVENUE

[10:00:20 AM](#)

BRAD EWING, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF REVENUE, OFFICE OF MANAGEMENT and BUDGET, looked at slide 15, "FY2020: Department of Revenue."

Co-Chair von Imhof noted the blue bar large jump. She stated that "cash is king" in the world of finances. She heard the statement about bonuses and compensation for the Department of Revenue (DOR) was paid in net fees.

Mr. Ewing stated that, in the Permanent Fund Corporation, 60 percent of the investments were externally managed and

40 percent were internally managed. There were fees associated with the externally managed funds.

Ms. Sanders requested a "lifeline."

10:07:12 AM

AT EASE

10:07:35 AM

RECONVENED

10:07:52 AM

Mr. Ewing highlighted slide 16, "FY2020 Budget: Department of Revenue Snapshot (\$ Thousands)":

- Align Management Fees with Actuals:
- Alaska Permanent Fund Corporation (+\$269,501.3 Other)
- Alaska Retirement Management Board (+\$60,000.0 Other)
- Treasury Division (+\$117.2 GF and +\$70.4 Other)
- Deregulate Small Charitable Gaming (-\$212.2 Other and -2 PFT)
- Statewide Support - Executive Branch 50 percent Travel Reduction (-\$53.3 GF)

10:09:15 AM

MIKE BARNHILL, POLICY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, shared that there had been various practices in the different contexts for illiquid investment management fees be paid directly from the cash flow of those investments. For all other liquid investments, the fees were paid by check or wire from either the Permanent Fund Corporation or the Department of Revenue. He explained that only the latter category for which an appropriation had been sought historically. The investment management of illiquid funds was not free, and was substantially more expensive than the active investment management of domestic, international and fixed income securities.

Co-Chair von Imhof noted that the \$328 million was increased from FY 19 to FY 20 in the management fees. She wondered whether it was an additional cash outflow from the DOR to illiquid investment managers.

Mr. Barnhill replied that DOR had switched the billing, so it was almost all paid from cash flow. He furthered that there should be a focus on the total cost of investment management for the funds.

Senator Micciche wondered where the cash outflow was previously located, and why it was an increase in DOR for \$330 million.

Mr. Barnhill replied that, in the past for illiquid investments, the investment management fees were paid from the cash flow of the investment.

Co-Chair Stedman surmised that it was paid without an appropriation.

Mr. Barnhill agreed.

Co-Chair Stedman stated that it was usually off of the balance sheet.

Mr. Barnhill replied that there were different treatments about the reporting of investment management fees.

Senator Hoffman wondered whether there was similar legislation to charitable gaming on the House side.

Mr. Barnhill replied that he was not aware of similar legislation currently in the House.

Senator Hoffman asked for the reason there was not similar legislation.

Mr. Barnhill agreed to provide further information.

[10:15:14 AM](#)

Senator Micciche wondered why it mattered that it be reported as a gross rather than net when there was not an increase or decrease in the investment fees.

Mr. Barnhill replied that transparency with respect to investment management fees was something that was a focus. He remarked that the more investment fees one had would impact the returns.

Co-Chair Stedman recalled that the committee had examined for years about whether it was net or gross of fees in the presentation and performance.

Senator Micciche requested a list of the liquid and illiquid categories.

Mr. Barnhill replied that the investment management fees in the Permanent Fund liquid investment with the expenses of the corporation totaled just over \$151 million.

10:17:21 AM

AT EASE

10:17:36 AM

RECONVENED

10:17:38 AM

Mr. Barnhill restated that the management fees associated with the liquid investments paid for by appropriation was just under \$119 million. He that the management fees associated with the illiquid investments paid for by appropriation was \$276.4 million. The fees for the corporate expenses were just under \$24 million.

Senator Hoffman wondered whether there was a difference in the funds that were contracted, and the funds that were invested internally.

Mr. Barnhill agreed to provide that information.

Senator Wielechowski queried the plan for the dividend payout.

Mr. Barnhill replied that the position of the current administration was that the dividend be paid outside of the operating budget, so there was separate legislation.

Senator Shower surmised that it was the most transparent way to see the spending by the administration. He wondered whether there were other places to show actual spending.

Mr. Barnhill replied that there were a variety of ways to show transparency in management fees.

Senator Wielechowski wondered whether there was a separate appropriation for the dividend or whether there would be an automatic transfer.

Mr. Barnhill replied that there would not be an automatic transfer, and there would be a separate bill for an appropriation for the dividend.

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

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ADJOURNMENT

10:23:14 AM

The meeting was adjourned at 10:23 a.m.