

SENATE FINANCE COMMITTEE  
July 19, 2019  
11:03 a.m.

11:03:55 AM

CALL TO ORDER

Co-Chair von Imhof called the Senate Finance Committee meeting to order at 11:03 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Senator Lyman Hoffman  
Senator Peter Micciche  
Senator Mike Shower

ALSO PRESENT

Senator Cathy Giessel; Senator Chris Birch; Senator Mia Costello; Senator Shelley Hughes; Senator Gray-Jackson; Senator Jesse Kiehl; Senator Lora Reinbold; Representative Andy Josephson; Representative Tammie Wilson; Paloma Harbour, Budget Director, Office of Management and Budget; Donna Arduin, Director, Office of Management and Budget; Shelly Wilhoite, Capital Budget Coordinator, Office of Management and Budget; David Teal, Director, Legislative Finance Division; Shareen Crosby, Staff, Senator Natasha von Imhof Rob Carpenter, Analyst, Legislative Finance Division.

SUMMARY

SB 2002    APPROP: CAPITAL; SUPP; OTHER APPROP

CSSB 2002(FIN) was REPORTED out of committee with a "do pass" recommendation.

Senator von Imhof reviewed the agenda for the meeting.

#sb2002

SENATE BILL NO. 2002

"An Act making appropriations, including capital appropriations, supplemental appropriations, and other appropriations; repealing appropriations; making appropriations to capitalize funds; and providing for an effective date."

11:04:46 AM

Co-Chair von Imhof commented that SB 2002 was the only item on the agenda. It was the governor's appropriation bill for capital, supplemental, and other appropriations. She explained that in the previous month both bodies passed SB 19, the capital budget. However, the necessary three-quarter vote for funding many of these items was not secured, leaving large gaps in the state capital budget, including critical appropriations for federal highway match.

Co-Chair von Imhof added that the legislature had not addressed the Constitutional Budget Reserve (CBR) reverse sweep', which was discussed at length the prior day. It left further gaps in the budget, including funding for the crime bill.

Co-Chair von Imhof thanked the administration and the Office of Management and Budget (OMB) for providing the capital bill to address the gaps in the state's fiscal year 2020 budget. She continued that the appropriations were critical, as Alaska was large and spread out. She asserted that the state needed to maintain capital infrastructure for its roads, airports, and ports, so Alaskans can stay connected to their livelihoods, natural resources, and to each other.

Co-Chair von Imhof invited Paloma Harbour and Shelly Wilhoite from OMB to present the bill. She asked committee members to hold their questions to the end of each slide.

11:06:23 AM

PALOMA HARBOUR, BUDGET DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, introduced herself and thanked the committee for the opportunity to present SB 2002. She would be reviewing the budget at a high level, as she thought the committee was familiar with the included projects. She began the presentation, "SB 2002 FY2020 Capital Budget" (copy on file).

Ms. Harbour showed slide 3, "SB 2002 FY 2020 Capital Budget (\$Thousands). The bill provided over \$170 million in unrestricted general funds (UGF) that were necessary to meet federal match requirements, maximize federal funding for project grants, and support projects that were unfunded when a draw from the CBR was not approved during the passage of SB 19.

Ms. Harbour turned to slide 4, "SB 2002 FY 2020 Capital Budget (\$Thousands)," which showed a summary of both the operating and capital funding in the bill by agency. She would walk through them in the presentation.

Ms. Harbour displayed slide 5, "SB 2002 FY2020 Capital Budget (\$ Thousands)" which addressed the Department of Commerce, Community and Economic Development, the Department of Corrections, and the Department of Environmental Conservation:

Department of Commerce, Community, and Economic Development

- Community Block Grants \$60.0 UGF (matching \$6,000.0 Fed)
- Alaska Travel Industry Association \$7,420.0 UGF
- Hope Community Resources, Inc. \$85.0 UGF

Department of Corrections

- Mental Health: \$2,540.0 UGF for Renovations Required to Accommodate the Women's Mental Health Unit at Hiland Mountain
  - This will match funds provided by the Alaska Mental Health Trust appropriated in SB 19 of \$1,145.0 (Mental Health Trust Authority Receipts)

Department of Environmental Conservation

- Village Safe Water and Wastewater Infrastructure Projects \$12,080.0 (matching \$52,250.0 Fed)

Ms. Harbour continued to slide 6, "SB 2002 FY2020 Capital Budget (\$ Thousands)" which applied to the Department of Fish and Game, the Office of the Governor, and the Department of Natural Resources:

Department of Fish and Game

- Cook Inlet Stock Assessment \$1,000.0 UGF

Office of the Governor

- Capital Costs Related to Executive Branch Office Buildings, Facilities, and IT Systems \$2,500.0 UGF

Department of Natural Resources

- Critical Minerals Mapping \$600.0 UGF (matching \$3,000.0 Fed)
- Geological Mapping for Energy Development \$300.0 UGF (matching \$300.0 Fed)
- Arctic Strategic Transportation and Resources (ASTAR) \$2,500.0 UGF

[11:09:39 AM](#)

Senator Olson asked if there was more detail pertaining to the governor's request for \$2.5 million. He queried the detail. He wondered if there was any federal match finding associated with the appropriation.

Ms. Harbour stated that the money was not for matching federal funds. She explained that in the approved SB 19 there was a reappropriation of unspent general funds at the end of FY 19 to be used for capital projects for the governor's office. The funding lapsed and was swept as part of the sweep. There was currently a hole in funding for capital projects, renovations, and maintenance that needed to be funded. The Information Technology (IT) Systems funding was related to the Elections System Replacement Project. The funding would go towards a number of projects.

Senator Olson asked if the funds would be necessary if a reverse sweep occurred. Ms. Harbour stated that the funding was still necessary, as it was an operating appropriation, regular general funds 1004, which were not included in the traditional reverse sweep language. The funding was an appropriation that lapsed and was returned to the account.

It was not a special fund where there was a balance, and the money was returned to the fund.

Senator Bishop asked about Arctic Strategic Transportation and Resources ASTAR funding. He asked how far the funding would take the project. He indicated she could get back to the committee with an answer. Ms. Harbour would get back to the committee.

Co-Chair von Imhof referenced Senator Olson's questions. She noted in the previous capital budget there were about \$7.5 million of reappropriations that were put into a parking lot, so-to-speak, for future appropriations that were vetoed by the governor. The appropriations were for a variety of things including harbors and other projects throughout the state. It was not limited to the Office of the Governor. She asked if any of the items were highlighted in the new budget other than the Office of the Governor.

Ms. Harbour stated there was also an appropriation to the legislature reflecting the same issue where the legislature had operating funds that had been reappropriated for its capital costs. The funding was no longer available due to the sweep.

Co-Chair von Imhof indicated the committee would look at the issue further when it came up in the presentation.

[11:12:48 AM](#)

Ms. Harbour advanced to slide 7, "SB 2002 FY2020 Capital Budget (\$ Thousands)" which covered the Department of Public Safety and the Department of Revenue's Alaska Housing Finance Corporation:

Department of Public Safety

- Reappropriation of \$1,059.0 for Maintenance/Renovation of Rural Trooper Housing

Department of Revenue - Alaska Housing Finance Corporation (AHFC)

- AHFC Competitive Grants for Public Housing \$350.0 UGF (matching \$750.0 Fed)
- AHFC Federal and Other Competitive Grants \$1,500.0 UGF (matching \$6,000.0 Fed)

- AHFC Housing and Urban Development Federal HOME Grant \$750.0 UGF (matching \$4,000.0 Fed)
- AHFC Rental Assistance for Victims - Empowering Choice Housing Program (ECHP) \$1,500.0 UGF
- AHFC Senior Citizens Housing Development Program \$1,750.0 UGF
- AHFC Supplemental Housing Development Program \$3,000.0 UGF

Ms. Harbour read slide 8, "SB 2002 FY2020 Capital Budget (\$ Thousands)" which addressed the Department of Transportation and Public Facilities, the Judiciary, and the Legislature:

#### Department of Transportation and Public Facilities

- Decommissioning and Remediation of Class V Injection Wells \$2,200.0 UGF
- Alaska Marine Highway System Vessel Overhaul, Annual Certification and Shoreside Facilities Rehabilitation \$13,500.0 UGF
- Other Federal Program Match \$1,300.0 UGF (matching \$10,000.0 Fed)
- Federal-Aid Highway State Match \$60,000.0 UGF (matching \$690,000.0 Fed)
- Federal-Aid Aviation State Match \$12,000.0 UGF (matching \$187,200.0 Fed)
- Highway Safety Grants Program \$238.3 UGF (matching \$8,000.0 Fed)

#### Judiciary

- Cyber Security Courts \$973.0 UGF
- Statewide Deferred Maintenance \$1,500.0 UGF

#### Legislature

- Capital Costs Related to Legislature, Legislative Council, Council and Subcommittees for Renovation of Legislative Buildings and Facilities \$4,195.0 UGF

Ms. Harbour indicated that the bill also included just over \$14 million in operating funding to replace Power Cost Equalization (PCE) funds that were not available due to the CBR sweep. She indicated that slide 9 and slide 10 simply listed what the fund source changes were for.

Co-Chair von Imhof asked if the changes mostly applied to the crime bill. Ms. Harbour responded, "That's correct." Most of them were related to the crime legislation. They were all fiscal notes. There were multiple fiscal notes reflecting a fund source change from UGF to PCE funds. The funds were being replaced.

Senator Olson asked how the \$14 million total was derived. Ms. Harbour responded that it was the addition of all of the different fiscal notes that were part of legislation that passed but without funding behind them.

Ms. Harbour reported that OMB separated the crime bill funding to the Department of Corrections in a separate slide, slide 11, for HB 49 [Legislation passed in 2019 regarding crimes, sentencing, drugs, theft, and reports] specifically.

[11:16:20 AM](#)

Ms. Harbour turned to slide 12, "SB 2002 FY2020 Capital Budget - Section 8 - Fund Transfers":

An amount equal to deposits in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) for fiscal year 2019 from subfunds and accounts in the general fund including the power cost equalization endowment fund (AS 42.45.070) by operation of article IX, sec. 17(d), Constitution of the State of Alaska, not to exceed the amount necessary after appropriations and deposits to the subfunds and accounts from fiscal year 2020 revenues, to fund appropriations from those subfunds and accounts made in ch. 1 -3, FSSLA 2019, and any other appropriation bills effective in fiscal year 2020, the general fund to the subfunds and accounts from which those funds were deposited into the budget reserve fund.

Ms. Harbour reported that the last substantive part of the bill appropriated funds from the general fund to subfunds and accounts necessary to cover appropriations from those subfunds in FY 20. The funds would be used to fill holes resulting from the CBR sweep.

Co-Chair von Imhof thought the slide was similar to what was discussed in the previous day regarding the reverse sweep gaps in funding.

Co-Chair von Imhof observed that the general fund appropriation for capital items plus the crime notes equaled approximately \$168 million. She noted that OMB had estimated the previous day that the funding for the fiscal gaps due to the reverse sweep was about \$115 million. The total combined amount was about \$282 million. She wondered if there was sufficient money in the general fund to cover all of the expenses.

Ms. Harbour indicated that Chair von Imhof had asked for an accounting in terms of how much money was available and how much was needed for each item. She was still working on the calculations. She reported there being some overlap between the legislation, the holes being filled, and the \$115 million figure.

Co-Chair von Imhof noted that David Teal, the director of the Legislative Finance Division was available to assist the committee. Based on his presentation in the previous week, there was slightly less than \$200 million in the general fund after all of the governor's vetoes. She thought there was a small deficit.

Co-Chair Stedman considered the current cash balances without the proposed bill and with the vetoes in place. He asked for an estimate of the cash position of the state. Ms. Harbour assumed that Co-Chair Stedman was asking for the balance to cover the holes.

Co-Chair Stedman noted there was a general fund balance available for appropriations. He recognized there was about \$1 billion of the vetoed Earnings Reserve Account (ERA) draw. He assumed the number was possibly \$200 million. He wanted to know OMB's position on the cash balance.

Ms. Harbour stated that OMB also believed the figure to be about \$200 million. However, she wanted to make sure she was providing the committee with a good number.

Co-Chair von Imhof asked if Ms. Harbour could provide a good number by the following day. Ms. Harbour thought the request was reasonable. Co-Chair von Imhof thought that in

consideration of the bill it was important to know if there was enough funding for it.

[11:20:04 AM](#)

Senator Wilson wanted to clarify the only new items were the governor's office, the legislature, and the crime bills' reallocations restored.

Ms. Harbour affirmed that the funding for the governor's office and the legislature were both in SB 19 [The appropriation, capital budget, and supplemental legislation passed in 2019] that passed. She indicated that because the three-quarter vote failed the funding was no longer accessible.

Co-Chair Stedman referenced Section 8 of the bill related to fund transfers. He was sure there were questions from the public and noted there were new people in the audience. He thought it was important to discuss the bill section in order to be clear what was and was not included in the fund transfer.

Co-Chair von Imhof indicated on the previous day Mr. Teal had discussed the impacts of the lack of a reverse sweep. She reported that in a high-level overview it was estimated to be about \$115 million in total funding gaps statewide. She asserted that one of the well know gaps was \$18 million for the Alaska Performance Scholarships, about \$3 million for the Washington, Wyoming, Alaska, Montana, and Idaho (WWAMI) Program, and about \$30 million for the PCE Program, among others. She invited Ms. Harbour to comment.

Ms. Harbour appreciated the opportunity to make a clarification. The amount simply filled the holes for FY 20. It was not the same as a reverse sweep and did not put all of the funding back in the funds. She suggested that if there were enough funds in the general fund, it would take a majority vote, rather than a three-quarter vote required to draw from the CBR. It would help to address immediate needs and would ensure that unanticipated needs were also covered. For example, for a fund that was not thoroughly analyzed yet, if it were to run out of money in March and \$60,000 was needed, the language would cover it.

[11:23:27 AM](#)

Senator Wielechowski asked about the rationale for not including university scholarship funding in the budget. Ms. Harbour did not understand the Senator's question. Senator Wielechowski clarified that the Higher Education Fund was not listed like the PCE fund. He was curious why it was the case.

Ms. Harbour stated that the only items specifically listed in the bill to replace PCE funds were where UGF should have been used to support the programs like those resulting from the crime bill and regular operating programs. She indicated in the original fiscal notes the funds were UGF. She indicated they should be UGF rather than PCE funds. The solution for PCE and the Higher Education Fund could be found in Section 8 of the bill along with the rest of the funds. They were part of the \$115 million being discussed.

Senator Wielechowski noted that there were 5,000 students who received scholarships funds for the university through the Higher Education Fund. He asked if the scholarships were covered in Section 8 of the bill. Ms. Harbour answered in the affirmative.

Co-Chair von Imhof emphasized that Ms. Harbour had iterated "If there was enough in the general fund." She wondered if the scholarship was awarded on a first-come, first-serve basis. She wondered what students would be covered. She discouraged Ms. Harbour from answering her question.

Senator Wielechowski wanted an answer to Co-Chair von Imhof's questions. He asked about the determination of recipients.

Co-Chair von Imhof added that it was not necessarily student-wide but program-wide.

Senator Wilson requested an at-ease.

[11:25:44 AM](#)

AT EASE

[11:27:56 AM](#)

RECONVENED

Co-Chair Stedman commented that some of the concern at the finance table had to do with having an accurate account of

the general fund balance. As the legislature drew the general fund balance down, if there were shortfalls, there might also be prorating. He thought something would not get funded which was what the legislature wanted to avoid. He referenced Section 8. He recalled from the previous day's meeting that there was approximately \$2 billion that was added in the cash balances of numerous accounts including PCE and the Higher Education Fund. He thought the policy discussion was pertinent to the committee as to the question of a reverse sweep. He believed the language would backfill FY 20 appropriations. He wanted to hear from OMB about the administration's position on the reverse sweep. Depending on the administration's position, the legislature would have to have certain discussions about the assets of the state.

11:30:33 AM

DONNA ARDUIN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, responded that the administration supported the constitution. In the governor's budget proposal, a reverse sweep was not proposed. Rather, the programs were funded with general funds.

Co-Chair Stedman assumed that the administration did not support the reverse sweep and reconstituting the fund balances. He suggested at some point the committee needed to have a discussion and a thorough understanding of the account balances. The legislature needed to talk about how to deal with sinking funds and other things such as major renovations for which the legislature wanted to set money aside. He wanted it to avoid a misunderstanding of thinking money was set aside when it was not. He wanted everyone to be on the same page. He asked if the administration had contemplated a discussion between now and the following May as to how the state would operate going forward without a reverse sweep. He noted that it was an undisputed fact that in the constitution the sweep was required. He wondered how the legislature should go forward with not having a reverse sweep.

11:33:26 AM

Ms. Harbour opined that the bill language was perfect in that the state would have a year to find out the true costs associated with operating the programs. The costs could then be built into the budget every year moving forward.

The costs could also be reduced if needed. She thought the language was very similar to the CBR headroom language and provided an example. She concluded that it would be an accounting exercise.

Ms. Arduin clarified that every year revenues could fall from projections. Every year that revenues fell from projects the state had to evaluate the general fund situation.

Co-Chair von Imhof addressed Ms. Harbour's assertion that it was an accounting exercise. She emphasized that the vaccine assessment fund was not an accounting exercise. Rather, it was an emergency response. She continued the reason there were millions of dollars in the fund was for the legislature to be able to draw on them for emergencies such as a measles outbreak. She added to Co-Chair Stedman's comment. She suggested that rather than making a blanket statement about each of the hundreds of funds that would be swept based on the administration's interpretation of the Alaska Constitution, it would make sense to look at some of the funds and make changes to them protecting them. She returned to the example of the vaccine fund where the state was a day short.

Senator Bishop noted that the state had its first case of confirmed measles in Kenai. He returned to the notion of a different way of accounting and fund source changes going forward. He thought a wholesale change of the magnitude proposed in the bill was not a wise move. He believed that with such a change, the committee needed to fully understand it. He did not want any surprises and suggested the administration needed to be very careful about how a change was rolled out. He wondered if the bill placed the Alaska Performance Scholarships back in the budget.

Ms. Arduin stated that the bill language covered all the programs that would have otherwise been funded with the reverse sweep. The programs would be covered for the year.

Senator Bishop wanted to confirm that the recipients would be funded. Ms. Harbour responded in the affirmative. Senator Bishop assumed that the state would have a university for students to attend.

[11:37:59 AM](#)

Senator Olson commented on the uncertainty of the budget and reflected on deadlines that were creating significant consternation. His comments were based on what he had been hearing traveling throughout the state.

Senator Wielechowski asked what was being repealed in Section 9 of the bill. Ms. Harbour thought it was the PCE appropriation. She would verify her answer and get back to the committee.

Co-Chair von Imhof asked if it was an accounting exercise. Ms. Harbour responded that there was contingency language in SB 19 related to the funding of the Palmer Correctional Center. Section 9 was repealing the contingency language. She would get back to the committee with additional information.

[11:40:01 AM](#)

SHELLY WILHOITE, CAPITAL BUDGET COORDINATOR, OFFICE OF MANAGEMENT AND BUDGET, indicated that the fiscal notes had contingency language based on population. She could provide exact numbers to the committee later. The funding was contingent on having a certain population at the Palmer Correctional Center, which was repealed.

Co-Chair von Imhof indicated the committee would take a brief at-ease before hearing from Director David Teal from the Legislative Finance Division (LFD) who would focus on answering additional questions and review the short fiscal summary he provided the committee.

[11:41:24 AM](#)

AT EASE

[11:43:35 AM](#)

RECONVENED

Co-Chair von Imhof indicated Mr. Teal with the Legislative Finance Division (LFD) would be reviewing the balances of the general fund.

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, noted the committee had asked him to extend a spreadsheet that he had shared two weeks previously to include SB 2002. The spreadsheet entitled "FY20 Surplus/Deficit under Various Scenarios" (copy on file) currently reflected the

inclusion. He reported the budget adopted by the legislature reflected spending of \$4.4 billion and \$5.2 billion in revenue with a surplus of \$800 million before dividends. He continued that with the governor's vetoes, the surplus was reduced to \$180 million. With the addition of the governor's version of SB 2002 to the enacted budget, total expenditures equaled \$4.3 billion.

Mr. Teal continued that the additional expenditures were the fiscal notes related to the crime bill funded through PCE and being replaced with general funds; the capital budget of \$131 million; and \$100 million of GF expenditures for the shortages in programs that would be affected by the reverse sweep. The governor's bill added \$282 million in appropriations creating a deficit of \$102 million.

Mr. Teal recalled that Governor Walker had to veto a number of items because he believed it to be unconstitutional to sign appropriation bills that left the state in a deficit situation. His point was that if the legislature were to give the bill back to the governor exactly as he submitted it, he could not sign it with a deficit. It was possible that if the sweep were reversed, the \$115 million [In transfers to address the lack of a reverse sweep] would go away. The money would not be swept or needed, and the \$35 million in fiscal notes would not be incurred. Essentially, the budget would switch from a deficit of \$102 million to a surplus of \$35 million making it a legal budget to sign. However, he pointed out that there would not be access to the CBR to handle any shortage in revenue in the year.

Mr. Teal also brought up the fact that if the state met expectations in revenue, there would be no headroom other than the \$35 million surplus to spend on fire suppression, which he anticipated to be a sizable supplemental in the current year or for earthquakes. The legislature had only funded about half or more of what the department believed it would need for earthquake response. He mentioned other programs that could potentially need supplemental funding such as Medicaid. The legislature might have to get a super majority vote to access money from the CBR to pay for the supplemental needs of the budget.

[11:48:18 AM](#)

Co-Chair von Imhof commented that as the bill was presented, based on Mr. Teal's calculations, there was a

yield of a \$101 million deficit in the general fund. She asked if she was correct. Mr. Teal replied, "That's correct."

Co-Chair von Imhof noted Mr. Teal's comment previously that technically, the governor could not sign a bill with a known deficit at the time of signing a bill. She asked if she was accurate. Mr. Teal concurred. Additionally, he offered that he was talking about the sum of all of the bills rather than just SB 2002. Senate Bill 2002 itself was not a deficit bill. However, when it was added to the bills that were already enacted the state would be thrown into a deficit situation.

Co-Chair von Imhof noted Mr. Teal's remarks about the potential hardy amount of additional funding that might be needed for wildfire suppression in the form of a supplemental request in the following year. Currently, the legislature was not leaving much headroom in anticipation of that need. She asked if she was correct. Mr. Teal responded, "Correct, Madam Chair."

Co-Chair von Imhof thought Mr. Teal had indicated that if the legislature obtained a three-quarter vote in the future, it would have to do the accounting for all of the funds for 6 months of detail from July 1st to the date of the three-quarter vote. She asked if she was correct.

Mr. Teal thought it was a difficult question for him to answer, as he was not an accountant. He thought there was confusion and concern about retroactive dates and when the actual date of the reverse sweep would occur. It was known when the effective date would occur, June 30th. However, the accountants would not know what the numbers would be until much later. He added that as OMB testified on the impact of Section 8 (the governor's answer to not doing the reverse sweep), they did not know what the costs were. The estimate from OMB was \$115 million and LFD's estimate was approximately \$125 million, the difference of which he did not think was worth quibbling over. He reiterated that OMB would not know what Section 8 would cost until 1.5 years from the present day.

Senator Bishop thought Mr. Teal had made his point. He advocated moving cautiously, as the state was in unchartered waters.

11:51:39 AM

Senator Wielechowski referenced an earlier discussion about the applicability of Section 8 and the Higher Education Fund. He questioned how the funds would be appropriated if there was not enough money in the general fund.

Mr. Teal did not know how the funds would be spent, since the state had never been in a situation where it had been short-funded. It was not merely a matter of Section 8, as it was an appropriation just like any other. He explained that the funds were all GF appropriations, without one having priority over another. He assumed it would be up to the governor to restrict various programs. He recalled a court case which Governor Sheffield chose which expenditures to reduce. The court case decision required that the legislature must be involved in the determination of the appropriation of general funds.

Mr. Teal continued that if Section 8 threw the state into a deficit situation might require the legislature into a special session. The legislature might not know it was in a deficit situation until regular session. It was difficult to determine timing and impacts on programs.

Senator Olson was glad Mr. Teal had mentioned Governor Sheffield and the massive cuts incurred as a result of a drastic decrease in the price of oil per barrel. However, at the time things were different. For example, a CBR was not in place. Now that there was a CBR in place the perspective was different in terms of being able to find answers if the state budget was short-funded. He asked if what he stated was true.

Mr. Teal stated that it was the reason the CBR existed. He reminded members that the CBR did not do the state any good if there was no access to it. Access to the CBR required a super majority vote. Acquiring a super majority vote had been a problem. If the legislature had a super majority vote to reverse the sweep, many of the problems being discussed, including the deficit, would be eliminated. The CBR vote ensured that if revenue fell during the year, even though the legislature submitted a balanced budget, government would not shut down. Money would be taken from the CBR needed to continue all programs. The legislature was currently in uncharted territory. Other state had

procedures in place to handle such circumstances, whereas, Alaska did not.

[11:55:29 AM](#)

Senator Olson considered what happened in the time of Governor Sheffield, where he took the bull by the horns to figure out an answer to the issue in front of him. He wondered if the present governor would step in to put pressure on legislators to come up with a three-quarter vote. Mr. Teal could not answer the question. Thus far, it did not appear the governor supported a three-quarter vote. He had not discussed the issue with the governor.

Senator Wielechowski asked if the governor could veto partial amounts of a reverse sweep. Mr. Teal did not believe the governor could, as it was an appropriation of unnamed funds. He would not be able to add a list of funds he wanted to reverse to the budget. He could only cross out line items. He thought the question was legal in nature and would be better directed to Megan Wallace [Director of Legislative Legal Services].

Senator Wielechowski asked if Mr. Teal was familiar with the repeal language in Section 9 and what it would repeal.

Mr. Teal recalled that the repeal was the Department of Corrections' fiscal note regarding \$16 million of PCE funds to reopen the Palmer Correctional Center. He added that there was an important distinction in the way the matter was addressed. The fiscal note was added in the original bill because of a desire to add specific limitations. The limitation included population counts. If the facility population reached a certain level, one wing could be opened. If the department's projections were reached, the entire correctional facility could be opened. The money was prohibited from being used for anything except the Palmer Correctional Center.

Mr. Teal continued that the change currently in the bill removed any conditions associated with the \$16 million. The Department of Corrections would receive the funding regardless of population or prisoner count. There was also a structural change. Instead of being limited to reopening the Palmer Correctional Center, the money could be used for management of inmate population for anything within the

appropriation including moving prisoners out of state or purchasing equipment unrelated to the Palmer facility.

11:58:48 AM

Senator Wielechowski asked, if the repeal language passed, whether the Department of Corrections could shift prisoners to out-of-state private prisons. Mr. Teal replied in the affirmative.

Senator Wilson asked about the version of the bill that passed over to the other body and whether the language provided a broader use of the funds. Mr. Teal could not answer the question.

Co-Chair von Imhof clarified that Mr. Teal was present to discuss cash balances. Mr. Teal stated that there had been so many versions of the bill that he was unclear which version Senator Wilson was referring to.

Co-Chair von Imhof thanked Mr. Teal for putting the spreadsheet together, as it was clear and informative. She would be setting the bill aside. The committee would be recessing to the call of the chair.

12:00:35 PM

RECESSED

6:14:00 PM

RECONVENED

Co-Chair von Imhof relayed that earlier the committee had heard an overview of SB 2002 as introduced by the governor. The governor's bill was introduced to fill critical funding gaps in the capital budget. However, the bill did not include all of the items in SB 19 as was passed by both bodies. Both bodies worked on their respective capital budgets throughout the regular session, the extended session, and the first special session and reached an agreement over which projects should be included. The committee substitute before the committee reflected the agreements. However, it was still a bare-bones capital budget which paid for essential capital items and ensured the state's federal highway and aviation match monies were secured. The funding for the capital budget was the CBR unless otherwise noted.

Co-Chair von Imhof continued that the committee also heard extensively on the impacts of the failure to reverse the CBR sweep. The legislature had learned that failing to reverse the sweep would cost the state more than \$100 million in general funds to fill budget holes and thousands of hours of staff time. Without the reverse sweep the state had no funding for the crime bills, the Alaska Performance Scholarships, power cost subsidies for rural Alaskans, the WWAMI program, or basic operational funding for the Department of Commerce, Community and Economic Development to issue business licenses.

Co-Chair von Imhof relayed that all of the capital items before the committee had been previously heard and vetted. Therefore, the committee would not be taking additional public testimony in the present day. As always, she encouraged Alaskans to reach out to specific offices or to send a message to [finance.committee@akleg.gov](mailto:finance.committee@akleg.gov).

Co-Chair Stedman MOVED to ADOPT proposed committee substitute for SB 2002, Work Draft 31-GS3565\M (Caouette, 7/19/19) (copy on file).

Co-Chair von Imhof OBJECTED for discussion.

[6:17:15 PM](#)

SHAREEN CROSBY, STAFF, SENATOR NATASHA VON IMHOF, recounted that in June the House and Senate voted to concur on the bill that had concurred on a vote on the capital budget, SB 19. She relayed that in the budget many items were funded through the CBR which required a three-quarter vote. Due to the failure of the three-quarter vote, a large portion of the bill was not funded, including critical appropriations needed for federal match for state highways and airports. Other appropriations in the capital budget were vetoed by the governor, including Alaska Housing Finance Corporation grants. The bill in front of the committee was essentially the bill that both bodies passed in June minus the items that were enacted, including federal funds. She added that the appropriations in the bill were either lost when the CBR vote failed in the other body or vetoed by the governor. If the bill did not pass the fiscal notes for the crime bill would not be funded. The primary funding source for the bill was the CBR account. There were a few appropriations being funded through other funds, which she would point

out. The bill also included language for the CBR reverse sweep. She offered to go through the sectional analysis.

Co-Chair von Imhof asked Ms. Crosby to review the sectional analysis.

Ms. Crosby presented the sectional analysis beginning on page 2, Section 1 which reflected agency capital projects as passed in SB 19 minus the enacted items. She referenced page 8, Section 2 and Section 3 which represented funding sources for departments. The total equaled \$161,431,629. She reiterated that the funding source was the CBR account. She continued to page 11, Section 4 which showed supplementals. Section 5 and Section 6 detailed the funding sources for the supplementals for agency funding totaling \$3,220,200. She highlighted page 14, Section 7 which reflected the Alaska Mental Health Trust Authority (AMHTA) capital appropriations.

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Senator Wilson referenced page 14 of the bill and asked if the UGF dollars would be used to supplement the AMHTA Alaska Mental Health Trust Authority budget that was already a separate appropriation. Ms. Crosby responded that the items were projects vetoed by the governor.

Senator Wilson clarified that the fund source for the original items was UGF dollars to supplement the AMHTA. He asked if the appropriation was a subsidy outside of the AMHTA budget that had already passed. Ms. Crosby stated that AMHTA encouraged a state match when using additional mental health funds. It was the state's portion towards state programs.

Co-Chair von Imhof asked Mr. Carpenter to offer additional comments.

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ROB CARPENTER, ANALYST, LEGISLATIVE FINANCE DIVISION, stated that Ms. Crosby was correct in her assertion that AMHTA proposed a comprehensive mental health plan for the required program, of which a large portion was state funded, and a large portion was paid from the mental health trust. He furthered that AMHTA submitted the proposal to the legislature. The legislature then vetted the proposal

and decided on the funding level. The governor chose to veto all of the state money leaving only the trust money. The current bill reinstated the state money.

Senator Wilson asked for the total amount of the AMHTA portion.

Co-Chair von Imhof asked if what was being proposed in the bill was consistent with previous years' funding. Mr. Carpenter replied that it was consistent with past years. He did not have the total amount but thought it was approximately \$15 million, of which \$11 million was state funding.

Ms. Crosby was happy to get the amount to Senator Wilson.

Co-Chair von Imhof noted that it was a policy to include the mental health capital projects in the bill into one capital bill. The items were vetoed. She felt that the AHFC Homeless Assistance Program was important in addressing a critical issue in the state. The trust had indicated it had only two priorities: homelessness and behavioral health therapy. The Trust was acting in line with their priorities and had asked the state to help them leverage their funds. She continued that there were several entities trying to make progress in the area of homelessness. She noted devoted an entire finance committee hearing to the issue of homeless and heard from a variety of stakeholders. There was a call to place the amount back in the budget.

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Ms. Crosby returned to page 15, Section 8 and Section 9 reflected funding sources for mental health trust capital appropriations for a total of \$11,700,000. She continued to page 17, Section 10 which contained ratifications. The change was a technical addition requested by the administration. It righted a wrong granting the administration authority for prior years' expenditures.

Ms. Crosby stayed on page 17 to discuss Section 11(a). The section showed an appropriation of \$200,000 EVOS [Exon Valdez Oil Spill] earnings to Prince William's Science Center. She continued to Section 11(b), an appropriation of \$2 million to the Alaska Industrial Development and Export Authority. She explained that it was for the construction and major maintenance of the Northwest Arctic Borough

School. She addressed Section 11(c) on page 18. It contained an appropriation of \$4 million for the construction and expansion of the Liquified Natural Gas Storage Facility in North Pole, AK. The funding source was the Sustainable Energy Transmission and Supply Development Fund (SETS).

Ms. Crosby continued on page 18 of the bill. Section 12 contained intent language for the Department of Education and Early Development regarding the proceeds of the sale of land in Sitka to Mt. Edgecombe School. Section 13 was a reappropriation of \$34,577 for Flat Top Mountain Trail Clean Up Pilot Project. Section 14(a) reflected intent language for the Alaska Marine Highway System (AMHS) regarding the proceeds of sales.

Ms. Crosby continued to page 19, Section 14(b) reflected a reappropriation of \$1.6 million of harbor facility grant projects to the Harbor Facility Grant Fund. Section 15 outlined a scope change for the Ketchikan Moorage Facility Project. She remained on page 19, Section 16 which showed reappropriations of past capital projects to Alaska Housing Capital Corporation. She reminded members that the reappropriations in Section 16 were funds that would be sitting available for the committee to discuss and reappropriate in the following year.

Ms. Crosby moved to page 24, Section 17 was the reverse sweep language. Section 17(b) contained deficit filling language. If revenues were lower than projected for all appropriation bills, the CBR would be used to balance the budget. The language was standard. On page 25 in Section 17(c) she reported headroom for supplementals requested for FY 20 which was capped at \$250 million. Section 17(c) made appropriations from the CBR.

Ms. Crosby indicated Section 18 on page 25 repealed population triggers enacted in SB 19 for the Palmer Correction Center. Section 19 detailed lapse provisions for when appropriations would lapse. Retroactivity could be found on page 26 in Section 20 and was standard language. Section 21 contained contingency language regarding the reverse sweep. The last section of the bill, Section 22, indicated an immediate effective date.

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Senator Olson referenced page 8 of the bill and the Office of the Governor. He asked if there was a list of what was included in the \$10,700,000 figure.

Co-Chair von Imhof directed Mr. Carpenter to respond to the senator's question.

Mr. Carpenter asked if Senator Olson was speaking to page 4, line 28.

Senator Olson clarified he was referring to page 8, line 17 referring to the Office of the Governor. He asked for an itemization of the funds.

Mr. Carpenter referred to page 4, line 28 which denoted the project associated with the funding source. The funding was for the statewide deferred maintenance and renovation to the Office of the Governor to manage the project for all state facilities.

Senator Olson asked if the funds were primarily for deferred maintenance. Mr. Carpenter responded, "100 percent."

Co-Chair von Imhof thought Senator Olson had a question about a bill that had been heard earlier in the day. She reported that \$2 million was going towards an Information Technology item. She did not think the item that was discussed earlier was reflected in the \$10 million. She asked if she was correct.

Mr. Carpenter believed so. He did not recall the IT project unless it was related to the reappropriation that was added back in the governor's bill because of the reappropriation sweep. He thought it was different.

Senator Olson referenced Section 18 on page 25 of the bill. He noted that earlier in the day the committee had a presentation in which he heard the repeal had to do with the Palmer Correctional Center. The money that was slated for the facility could also be used for out-of-state transport of prisoners. He wondered if it was still the case.

Ms. Crosby answered in the negative. The funds were designated for the Palmer Correctional Center only. The section simply repealed the language that the facility was

required to have a certain number of inmates in order to use the facility.

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Senator Wielechowski asked if the bill restored funding for homelessness grants, PCE, WWAMI, and University scholarships. Mr. Carpenter answered that it did with the reverse sweep.

Senator Wilson wanted the committee to be cautious with the bill. He referenced the separation of powers issue. He did not want anything to threaten his road safety projects in action. He noted most people were aware of the KGB highway [Knik Goose Bay Road], the deadliest highway in the state, and the importance of the associated road upgrades. He noted the doubling of the page length in the bill. He did not want to jeopardize the good faith and trust of finding a path forward to ensure the capital project bill, or what he called the state's "job appropriation" bill across the finish line.

Co-Chair von Imhof thought it was the intent of the committee to meet the July 31st deadline for federal matching funds. She opined that connecting the state with its people, resources, and lands was a legislative priority.

Senator Wielechowski asked if the repeal language in Section 18 deleted the reports that the Department of Corrections would issue. Mr. Carpenter answered in the negative. The language merely deleted the inmate count contingencies for the release of the monies.

Ms. Crosby confirmed that she had verified the information many times, as it was the intent of the co-chairs to remove the contingencies.

Co-Chair von Imhof WITHDREW her objection. There being NO OBJECTION, it was so ordered. The committee substitute for SB 2002 was adopted.

Co-Chair Stedman MOVED to report CSSB 2002(FIN) out of Committee with individual recommendations.

There being NO OBJECTION, it was so ordered.

CSSB 2002(FIN) was REPORTED out of committee with a "do pass" recommendation.

Co-Chair von Imhof thanked the presenters and her staff. She reported the next meeting would be announced and posted online.

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ADJOURNMENT

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The meeting was adjourned at 6:36 p.m.