

SENATE FINANCE COMMITTEE
January 28, 2020
9:02 a.m.

[9:02:14 AM](#)

CALL TO ORDER

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

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Neil Steininger, Director, Office of Management and Budget, Office of the Governor; Brian Fechter, Chief Policy Analyst, Office of Management and Budget, Office of the Governor; Senator Cathy Giessel.

SUMMARY

^GOVERNOR'S FY21 BUDGET

[9:04:15 AM](#)

NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced himself, and discussed his professional background.

[9:04:53 AM](#)

BRIAN FECHTER, CHIEF POLICY ANALYST, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced himself, and discussed his professional background.

Mr. Steininger discussed the presentation, "State of Alaska Office of Management and Budget; Senate Finance Committee; FY 2021 Budget Overview; January 28, 2020" (copy on file). He highlighted slide 2, "FY2021 Budget by Agency (UGF) - \$Thousands":

K-12 Formula: \$1,273,493.2

Medicaid: \$644,304.3

Collectively 44 percent of Operating Budget

Co-Chair von Imhof stated that she had her own graph to distribute to the committee members related to the Permanent Fund Dividend (PFD) (copy on file).

[9:07:46 AM](#)

AT EASE

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RECONVENED

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Co-Chair Stedman remarked that the chart reflected a statutory calculation of the PFD, which was \$2.005 billion. He requested comment on the chart, which showed the relative significance of that addition.

Mr. Steininger remarked that adding the statutory PFD number would add a column of approximately \$2 billion on the chart. The chart attempted to illustrate the examination of agency spending. He noted that the operational decisions revolved around agency spending. The PFD in statutory calculation was a formula program. He remarked that a significant portion of his presentation touched on the large cost drivers to the state. He remarked that the various formula programs were set out in statute. He shared that K-12 and Medicaid fell into agency operations, and were the largest cost drivers. He stressed that there were large cost drivers that were impacting the deficits.

Co-Chair von Imhof noted that only looking at agency costs in the full revenue showed a \$450 million surplus before paying a PFD. She noted that the next slide showed a large budget deficit, so she assumed that the PFD was incorporated into the current slide but not the next slide.

She wanted to ensure consistency, because there was no budget deficit before paying a PFD.

Co-Chair Stedman looked at the chart presented by the Office of Management and Budget (OMB). He noted the Base Student Allocation (BSA) under Education, and remarked that it was difficult to adjust downward. He felt that there had never been a cut to the BSA. He remarked that the committee had reduced the Department of Health and Social Services (DHSS) budget in the year prior by \$70 million, and the governor reduced it by another \$50 million. He expected a supplemental request to add back the \$120 million to the DHSS budget. He felt that the net affect would be near zero in terms of changes. He stressed that it took 55 percent of the current struggle and "put it under a microscope that is very difficult to move." He expected difficulty in the Department of Corrections (DOC) subcommittee budget, and controlling the growth of DOC.

[9:16:23 AM](#)

Mr. Steininger looked at slide 3, "Alaska's Revenue and Expenditures: Look back." He stated that the slide showed that the budget tracked expenditures as revenues spiked.

Senator Wielechowski wondered whether OMB believed that there could be a \$1.5 billion cut from the budget.

Mr. Steininger responded that OMB had not presented a budget that cut \$1.5 billion. He stated that the budget fully funded the statutory obligations, and the resulting deficit was \$1.5 billion. He felt that OMB could not solve a \$1.5 billion problem through decrements to state budget, but rather significant change to programs. He stated that the presentation would show some of the major cost drivers that were resulting in the deficit. He felt that policy change and change to those programs that would alleviate the deficit situation.

Co-Chair Stedman felt that there was a statutory issue within the debt reimbursement that was 50 percent funded.

Mr. Steininger agreed. He stated that the program had been flat funded from the 50 percent level that was there the year prior.

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Mr. Steininger highlighted slide 4, "FY2021 Revenue Outlook - \$Millions."

FY2021 Revenue Sources

- ANS West Coast FY2021 Projection: \$59.00/Barrel
- Petroleum Revenue: \$1,410.0, 28 percent
- POMV Revenue: \$3,091.5, 61 percent
- Non-Petroleum and Non-Permanent Fund Investment Revenues: \$557.5, 11 percent

Co-Chair Stedman wondered what "total unrestricted general fund statutorily available for government use" meant relative to "totally unrestricted general fund."

Mr. Steininger explained that there was an attempt to illustrate the amount of general fund revenue that was available for government operational use. He stated that those departments that were the basic operations of state government. He shared that the statutory permanent fund dividend (PFD) amount was removed to illustrate what would be left, statutorily, for government operations.

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Co-Chair Stedman noted that there many discussions about plans. He felt that the presentation showed that there would be roughly \$500,000 in the CBR. He queried the proposal to get to year 2023 and 2024.

Mr. Steininger replied that the deficit in the proposed budget was not intended to be more than one year. He shared that the way forward was to make meaningful changes to the programs, and eliminate some of the statutory pressures that was forcing the high budget.

Co-Chair Stedman queried the capital draw on the permanent fund required in 2022. He stressed that next year the state would be \$1 billion short. He noted that he wanted to work with OMB on a "three-year survival plan", because of the increasingly shortened time horizon.

Mr. Steininger agreed that the time horizon had been shortened. He stated that prior budgets were balanced based on short funded statutory programs, but that could not solve the problem in the following year. He stated that the statutory program would still dictate how much should be

spent. He announced that solutions needed to last more than one year. The solutions could not be made in only a budget bill.

Co-Chair Stedman agreed. He wanted the Legislative Finance Division (LFD) to present a five-year or three-year projection of positions that would occur without addressing the formula-driven programs.

Co-Chair von Imhof remarked that the governor had acknowledged a budget deficit, and that certain formula programs and statutes needed to change. She wondered whether there were any bills from the administration or anything in the presentation that gave recommendations how to decrease the formula and statutory funding that created the deficit.

Mr. Steininger replied that his presentation did not directly recommend any change to the program, rather he was laying out the factors that built the operating budget. He shared that he was available to discuss the factors in the formula programs to come to a workable solution for everyone and the future.

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Co-Chair Stedman felt that the legislature and the administration needed to work together to address the formula drivers.

Senator Wielechowski wondered whether the structural fiscal deficit could be solved with cuts alone, or whether the state needed new revenue.

Mr. Steininger responded that all options needed to be on the table, but some options required input from the people of Alaska. He stated that some of the issues were large for the future of the state.

Senator Hoffman felt that the answer to Senator Wielechowski's question was evident by the State of the State from the governor. He felt that the governor came up with a status quo budget, and in order to pay for the budget in the long run additional revenue must be found. He recalled that the governor had addressed his drastic budget cuts from the year prior, and felt that there may be some tweaking. He noted that the legislature had passed a draw

from the Permanent Fund Earnings Reserve Account (ERA), and wondered whether the administration was committed to a possible draw. He asked whether the governor would be willing to veto amounts larger than that draw, other than reinvestments.

Mr. Steininger could not speak to any future veto considerations.

Senator Hoffman surmised that the governor wanted to follow the law. The law outlined that there could be a draw of \$5.25 million. He offered that the governor could veto amounts above that limit.

Mr. Steininger responded that the goal of his office was to present a budget that did not require draws in excess of the POMV.

Senator Hoffman wondered how OMB was helping the legislature without offering any solutions.

Co-Chair Stedman noted the balanced budget concerns.

Senator Wielechowski stressed that the state would be broke in the next year. He wondered whether the governor would be proposing legislation to put something on the ballot for new revenue.

Mr. Steininger responded that he could not speak to any yet to be proposed legislation.

Co-Chair Stedman stated that there would be work to fix the precarious budgetary position.

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Senator Olson felt that it was incomprehensible to require the people of Alaska to find budgetary solutions. He stressed that the people of Alaska did not vote on a budget, which is why he and others were elected. He felt that the legislature was within 24 months of facing some significant issues that could not be overcome without a plan. He did not hear a plan in the State of the State message, except for approximately \$2 million from a lottery. He was troubled that the governor did not have a plan.

Senator Bishop welcomed Mr. Steininger to the committee.

Co-Chair Stedman remarked that it was unfortunate that Mr. Steininger's first time in committee with his new position was at a time of serious budgetary issues.

Senator Bishop stressed that the POMV transfer was "a different shade of ink." He noted that there were less projected payments of PFDs. He announced that the lightly shaded box considered a full PFD.

Mr. Steininger agreed.

Senator Bishop wondered whether the ink shades indicated some amenability to readjusting the formula.

Mr. Steininger replied that the intention was to break out to a subtotal. He furthered that there should be consideration of all formula programs.

Co-Chair Stedman appreciated the knowledge of the major departments and the culture issues within the state.

Mr. Steininger looked at slide 5, "FY2021 Fiscal Summary." He stated that the slide showed the revenues coming in that were available for operational costs of the state. He shared that the slide showed the major categories of those operational costs, that would lead to the \$1.5 billion deficit in FY 21.

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Co-Chair Stedman remarked that the negative \$1.5 billion was for the statutory PFD. He shared that, if the dividend was not there, there would be a roughly \$400 million surplus. He remarked that there would be a positive of \$2 billion if there was an examination of all revenues. He felt that there were multiple ways of examining the situation. He stressed that there would be a focus on the cash flow in order to avoid a continued problem.

Co-Chair von Imhof looked at FY 21 UGF total capital of \$125 million, and believed that it was the minimum to accept matching funds from the federal government for highways and airports.

Mr. Steininger agreed. He explained that there was roughly \$65 million dedicated to highway improvement, and another \$10 million in reappropriations from old projects. He stated that there was a slide with the exact number.

Co-Chair von Imhof recalled the most recent State of the State address from the governor, which stated that inexpensive energy, especially electricity, would be the basis that drove the future economy. She stressed that investing in cheaper forms of energy cost money. She wondered how there could be grandiose visions and desires to be a leader in alternative energy without state money for that investment.

Mr. Steininger replied that there would be a presentation on the capital budget that would address the question. He noted that there were many operational costs that were "crowding out" spending on capital. The cost pressures from the formula program took up the bulk of the budget, with not much room left for the capital budget. He remarked that there was a focus on projects that would receive a federal match, but strategic choices needed to be made for investment in the state.

Co-Chair Stedman stressed that the Alaska Marine Highway System (AMHS) did not need a state match. He stressed that there could be federal money for a new fleet.

Senator Wielechowski looked at FY 2020 deficit of \$269.7 million, and surmised that there was actually about \$200 million that could be added to that deficit.

Mr. Steininger stated that thy FY 2020 management plan plus supplementals included the items discussed on December 11, such as Medicaid and firefighting. He shared that there would be more details on the supplemental items, when the supplemental budget was released the following week. He remarked that the \$270 million deficit included the bulk of the supplemental items.

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Co-Chair Stedman shared that the committee would be interested in the supplemental number, and the number adjusted for paying the statutory oil tax credits that had not been included in the current budget.

Senator Hoffman wondered what would occur if the legislature followed the administration's recommended budget and included no money for the credits with a Court ruling coming against the state after adjournment.

Mr. Steininger replied that once the Court case was decided there would be a decision about how to fund the outcome. He felt that a speculative appropriation would be prudent.

Senator Hoffman felt that it would be prudent for the administration to explore avenues of direction. He wondered how the credits would be paid, if the legislature was not in session.

Mr. Steininger replied that the administration would address it once there was a decision in the Court case.

Co-Chair Stedman surmised that there were ways of addressing the issue.

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Mr. Steininger addressed slide 6, "Significant Highlights (\$Thousands)":

- Public Safety Investment: \$84,566.7 UGF
- Alaska Development Team: \$2,843.6 DGF
 - Pilot program through FY2023
- Fully Funded K 12 Formula: \$1,273,493.2 UGF
 - \$19,817.4 UGF increase
- Estimated PFD: \$2,005,100.0 UGF (\$3,074 per Alaskan Estimate)
 - Full Statutory Amount
- Capital Spending: \$135,639.2 UGF
 - Leveraging available Federal Funds (\$1.1B)

Senator Bishop shared that the Alaska Development Team would be addressing the committee about possible projects in the state.

Senator Olson queried the breakdown of the Public Safety Investment to the Village Public Safety Officer (VPSO) program. He stressed that the VPSO was currently at an all-time low of 38 officers, but they had the ability to hire 100 officers.

Mr. Steininger replied that the upcoming slide may address the question. He did not know the exact number of the rural and urban breakdown.

Senator Olson felt that it would be minimal at best.

Mr. Steininger agreed to provide further information.

Senator Hoffman recalled that the governor was in support of compacting in education for Alaska Native Tribes. He wondered whether the governor saw that support as revenue neutral, or whether it was not highlighted because the governor no longer wanted to accomplish that effort.

Mr. Steininger replied that there was nothing in the budget for Tribal compacting, because that would occur in a fiscal note for a bill related to Tribal compacting.

Mr. Steininger discussed slide 7, "Significant Changes: Public Safety Capital and Operating: \$84,566.7 UGF." He stated that \$32 million would restore general funds to items funded through the Power Cost Equalization (PCE) Fund. He remarked that it would ensure that those appropriations made the year prior were sustainable in the long term, and funded from the general fund. He noted the significant amount of \$24.7 million in the Department of Corrections (DOC). He also relayed some smaller strategic investments in DOC, such as drug dogs and mail copying which would stop contraband from entering the correctional institutions. He noted that in the Department of Public Safety (DPS), there was a great success was that they had been filling some long-time vacant State Trooper positions.

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Senator Wilson wondered whether the DOC number referred to the reopening of a closed correctional facility.

Mr. Steininger replied that the money added to DOC was for inmates and the deferred discussion of inmate management to the DOC commissioner.

Senator Wilson wondered whether there would be a decrement or increment to the current number.

Mr. Steininger agreed to provide that information.

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Senator Wielechowski recalled that in the year prior the governor had a policy that all the departments would flow through the OMB director. He wondered whether that policy would be the same in the current year.

Mr. Steininger replied that the commissioners had significantly more input on the budget in the current year, and would be engaged in the budget process with the legislature.

Senator Bishop wondered whether there would be anything in the budget related to the rehabilitative services.

Mr. Steininger could not comment on pending legislation.

Senator Hoffman followed up to Senator Olson's question. He recalled that the governor had mentioned that it did not matter where people lived, but he felt that everyone should be safe in the state. He wondered how the governor would accomplish the safety of Alaskans without funds for significant changes to the VPSO program.

Mr. Fechter replied that a number of the items were rural public safety items, and stated that many trooper positions would be assigned to rural Alaska.

Senator Hoffman wondered whether there would be a trooper in Hooper Bay.

Mr. Fechter replied that the trooper would not necessarily be in the rural area, but would be considered in a "coverage area."

Senator Hoffman stressed that there was a major issue about public safety in rural Alaska. He remarked that it could take a day or two for a trooper to reach the rural areas.

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Co-Chair Stedman relayed that there would be a subcommittee to address the issue, and noted that there were similar issues that affected rural families across the state.

Mr. Steininger displayed slide 8, "Selected Department items --\$Thousands":

Administration

- Public Defender and Advocacy Support: \$1,756.0 UGF
- OIT Capital Investments in Standardized Systems: \$5,370.0 UGF
- OIT and Personnel Consolidation Efficiencies: (\$3,728.3) Other

Commerce

- Alaska Development Team Pilot Program (FY20 FY23): \$2,843.6 DGF
- Community Assistance: \$28,731.5 DGF
- Deposit per statutory calculation

Fish and Game

- Various Reductions to Research and Stock Assessments with Minimal Impact to Fisheries: ((\$1,329.2) UGF

Senator Wilson asked for more information about the mission and activities thus far of the Alaska Development Team pilot program, and how it had interacted with the budget.

Mr. Steininger replied that it was a public/private partnership. The goal for the end of FY 23 was to transition it to be an entirely self-sufficient entity, following the model of tourism management. He stated that he would provide more details and an update of the program.

Co-Chair Stedman remarked that the capstone issue was that the project was funded through a program that may disappear. He remarked that the Department of Fish and Game (DFG) would be relatively flat for the year, and remarked that there were some reductions in that budget consumed by the escalation of employee costs. He remarked that moving forward while holding the budget flat would show that issues that research and stock assessments would be "eaten alive" by step increases of the employee wage structure. He felt that the committee should examine the wage issue, because it would "eat the budget alive." He stressed that the DFG subcommittee would examine the issue, and requested that the other subcommittees examine the same issue.

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Co-Chair von Imhof noted the DGF designations, and looked at slide 5 that had \$972 million in DGF. She wondered

whether there were some holes in the budget in the upcoming months when the reverse sweep issues were brought to light.

Mr. Steininger replied that some of the DGF was revenue earned during the year, and some were draws on the funds that were subject to the sweep provisions of the Constitution. He shared that the budget included reverse sweep language. He recalled that the last year showed the impacts of the sweep, and OMB attempted to understand the state's ability to continue operations. He hoped that OMB would not have to deal with the impacts of the sweep.

Co-Chair von Imhof wondered whether the reverse sweep language was a blanket language for all funds or there exclusions. She asked whether the provision required a three-quarter or majority vote.

Mr. Steininger responded that the reverse sweep language included in the budget was language included in prior years to cover the entirety of the swept funds. He shared that it required a three-quarter vote, because it was a draw on the CBR.

Co-Chair Stedman explained that at the end of the fiscal year there was a litany of accounts that had a positive account balance. He stated that, according to the Constitution, those funds needed to be swept into the general fund that would then flow into the CBR. He stated that those accounts would then be left empty, resulting in severe cash flow problems.

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Senator Hoffman remarked that the PCE fund had not been deemed a sweepable item in years past. He was prepared to provide documents to the committee that gave strong support that PCE was not a sweepable item. He stressed that PCE was located in AEA since its inception in 1984. He shared that the Supreme Court suggested that the fund was non-sweepable. He wondered whether PCE was listed as a sweepable item.

Mr. Steininger replied that the issue of what funds would be subject to the sweep was something that he had paid close attention. He shared that he would have a discussion with OMB to see whether there had been a change in that position.

Co-Chair Stedman felt that there would be a meeting to compare the historical methodology to ensure there was no misunderstanding in the policy of the legislature and the executive branch.

Senator Hoffman remarked that the governor had expressed strong support of the program, and that the governor wanted to clarify the PCE issue. He shared that the governor had suggested legislation to make it clear that PCE was non-sweepable; and the other was through a Court process to determine one way or another whether it was a sweepable item. He felt that either item for resolution could be taken, and suggest both routes.

Co-Chair Stedman stated that he wanted to finish the presentation.

Senator Bishop wondered whether the commissioners would present to the committee during discussion of the items.

Co-Chair Stedman replied that the commissioners would defend their budgets in the subcommittee with OMB.

Senator Bishop yielded to the chair for the discussion.

Mr. Steininger looked at slide 9, "Selected Department items - \$Thousands":

Education

- K-12 Aid to School Districts Fully Funded: \$1,260,501.9 UGF, \$29,774.2 Other
- Residential Programs for North Slope Borough School District and Lower Yukon School District: \$900.2 UGF
- Discontinue Online with Libraries Video Conference System: (\$232.9) UGF
- Outsource Federal Family Education Loan Program Servicing: (\$586.3) Other
- Transition Public School Trust Fund to Language Section to Maximize Investment Returns
- Additional Foundation Funding from Dividend Donations to the Dividend Raffle: \$488.2 Other
- Increase to Support WWAMI Contractual Obligation: \$50.8 DGF

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Co-Chair Stedman recalled that in 2010 there were bonds issued for several projects, and those would be before the committee in the upcoming weeks. He remarked that there was roughly \$5 million in appropriations to fund the bond projects in the state. He shared that there was a concern about \$30 million in state subsidy put into the operations of the other projects, and \$500,000 in the Mt. Edgecumbe pool with half siphoned off for Department of Transportation and Public Facilities (DOT/PF) for maintenance. He stressed that the current year's budget had \$650,000 for operations of the pool, but it was all receipt authority and no cash. He remarked that there were high drowning rates in the state, so he would be examining the issue. He expressed concern about using receipt authority.

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Mr. Steininger discussed slide 10, "Selected Department items - \$Thousands":

Governor

- Cost of Statewide Primary and General Elections: \$1,847.0 UGF
- Deferred Maintenance: \$30,000.0 UGF

Health and Social Services

- Medicaid Services Cost Drivers: \$128,273.6 UGF
- Transfer Parents as Teachers from Dept. of Education: \$474.7 UGF
- Pioneer Homes Payment Assistance: \$5,000.0 UGF
- Add Authority for Electronic Visit Verification Maintenance and Operation: \$137.5 UGF, \$412.5 Federal
- Restore Adult Public Assistance Payment Maintenance of Effort Requirements: \$7,471.2 UGF
- Alaska Psychiatric Institute Projects to Comply with Corrective Action Plan: \$1,619.3 DGF
- Utilize Available Marijuana Education and Treatment Funds to Offset UGF: (\$11,400.0) UGF, \$11,400.0 DGF

Co-Chair von Imhof hoped that the commissioner from DHSS would begin the conversation with what was realized in 2020 and the hope for realization again in 2021. She wondered whether the supplemental budget had been incorporated in the FY 21 budget.

Mr. Steininger replied in the affirmative. He furthered that it was incorporated into the FY 21 budget. He

explained that those savings were continued in the departments.

Co-Chair Stedman understood that the payment structure of the Pioneer Home resulted in some people moving out that were level 1. He remarked that there was a concern about the rate structure, because people were coming in after people no longer needed the services. He wanted to examine the rate structure, to ensure the survival of the Pioneer Homes. He also wanted to examine the structural differences between the rural, urban, and privatization issues. He hoped that the subcommittees would address that subject. He shared that his mother and his step-mother were both on public assistance and living in the Pioneer Home.

Mr. Steininger looked at slide 11, "Selected Department items - \$Thousands":

Labor and Workforce Development

- 4 percent AVTEC Tuition Increase: \$250.0 DGF
- AVTEC: Restructuring Savings: (\$226.7) UGF

Military and Veterans Affairs

- Business Process and Contractual Savings: (\$523.0) UGF
- Armory Divestiture Savings: (\$50.0) UGF

Natural Resources

- Aquatic Farm Application Processing: \$187.3 DGF
- Land Sales Fairbanks Project Development Team: \$98.8 SDPR
- Arctic Strategic Transportation and Resources (ASTAR) -Phase 2: \$2,900.0 UGF
- Geological Mapping for Energy Development (USGS): \$600.0 UGF, \$600.0 Federal
- Critical Minerals Mapping -Earth MRI (3DEEP): \$750 UGF, \$200.0 Other, \$1,500.0 Federal
- Geologic Materials Center Multispectral Scanning Equipment: \$1,290.0 (UGF, DGF, Other)

Co-Chair Stedman wondered whether there were any imbedded budget elements to help with the concept presented the night before on land sales.

Mr. Steininger believed that it would be a separate issue in the fiscal note.

Mr. Steininger highlighted slide 12, "Selected Department items - \$Thousands":

Revenue

- PFD Division Technology Enhancements: (\$527.6) Other
- Investment Management Fee Savings (Treasury): (\$5,000.0) Other
- Investment Management Fee Savings (Permanent Fund): (\$21,098.1) Other
- Move Tax Revenue Management System Costs to Operating \$1,650.0 UGF
- AHFC Homeless Assistance Project: \$6,350.0 UGF, \$950.0 Other

Transportation

- Marine Highway: \$3,903.2 UGF, \$1,507.0 DGF increase to increase weeks of service from 254.3 to 263.1 (8.8 week increase)
- Deposits to the AMHS Fund: \$16,088.9 UGF
- AMHS Vessel Certification: \$15,000.0 DGF
- Highway and Aviation Match:
 - \$64,295.1 UGF, \$10,858.3 Reappropriations, \$1,946.6 DGF: Leverages Federal at 90 percent/10 percent

University

- Reduction per compact: (\$25,000.0) UGF
- Single appropriation

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Co-Chair Stedman stated that the DOT/PF subcommittee would examine the Alaska Marine Highway System. He shared that there was an expectation of 280 weeks of service in the year prior's budget discussion. He noted that the current budget showed 254 weeks increased to 263, so that would be less than anticipated in the current year's budget.

Senator Hoffman noted the DOR, and the management fees. He recalled that it was suggested by the Board that spending less on fees would show higher returns. He wondered whether the Board supported the reductions.

Mr. Steininger agreed to provide that information.

Co-Chair von Imhof looked at the AHFC Homeless Assistance Project. She wondered whether that was in the Mental Health budget. She believed that the AMHTA submitted a list of

projects each year to OMB. She wondered how much of their recommendations were incorporated into the budget.

Mr. Steininger replied that OMB chose which recommendations to put forward. He shared that there was a letter that went into detail on every recommendation.

Co-Chair von Imhof requested a copy of that letter.

Co-Chair Stedman requested comments on the Department of Environmental Conservation (DEC) budget.

Mr. Steininger replied that he had no critical points on the DEC budget.

Senator Bishop stated that he would ask DEC about the dairy and mariculture funding in the budget.

Mr. Steininger addressed slide 13, "Budget Drivers - \$Thousands":

- Medicaid
- Restore \$128,273.6 UGF
- K-12 Formula
- \$19,817.4 UGF increase
- Retirement
- \$37,631.3 UGF Increase to a total of \$345,567.4 UGF
- Debt
- \$12,233.7 UGF increase to a total of \$134,987.0
- State Employee Costs (Cost of Living Adjustments and Health Insurance)
- \$9,661.5 UGF, \$18,782.9 All Funds increase
- 28 percent of Agency Budget

Mr. Steininger looked at slide 14, "Budget Drivers: Formula Programs Medicaid (UGF)." He shared that OMB changed the eligibility categories and expanded the covered population. He stated that new provider types were added, and increased rates paid to those providers. He declared that the cost of the Medicaid program in state general funds was almost triple than what it was in 2004. He stressed that it was a significant increase to that program. He noted that the significant increase was also for the number of covered people.

Co-Chair Stedman wondered the chart showed nominal or real dollars.

Mr. Steininger replied that they were nominal dollars.

Co-Chair Stedman felt that there could be an additional view.

Mr. Steininger agreed.

Co-Chair von Imhof felt that the cost per enrollee had declined, because she noted the differences in the bars.

Co-Chair Stedman agreed that was the case since 2015.

Mr. Steininger discussed slide 15, "Budget Drivers: Formula Programs K 12 Foundation Formula." He stated that over the time period, the BSA had increased 42 percent due to other changes in population demographics of those students. He shared that there was an almost doubling of the program. He noted that the line showing the average daily membership had stayed relatively flat over the time period. He remarked that there was a significant increase, but did not serve a much larger average daily membership.

Co-Chair Stedman stated that LFD might come with a presentation on the issue.

Mr. Steininger highlighted slide 16, "Budget Drivers: Pension Liabilities." He noted that in 2015, a \$3 billion deposit was made into the funds that was not included on the graph. He stated that the graph only showed the annual costs to the operating budget. He explained that the \$3 billion deposit could decrease the amount owed by the state for retirement payments. He noted that, since then, the amount was increasing.

[10:35:05 AM](#)

Co-Chair Stedman wondered why the \$3 billion was excluded, because it was positive for the public to observe.

Mr. Steininger replied that adding the \$3 billion would flatten the upward trend, but agreed that it had made a significant difference.

Co-Chair Stedman felt that it might be nice to break the bar with the deposit.

Mr. Steininger displayed slide 17, "Budget Drivers: Debt Service Obligations." He noted that it was a variable item, as debt was paid off. He remarked that there was a slight trend upward, and it was a significant portion of the operating budget.

Co-Chair Stedman recalled a presentation that showed a declining debt service going into the future, but remarked that he would examine that issue later.

Mr. Steininger looked at slide 18, "Budget Drivers: State Employee Costs." He remarked that the grey line was the budgeted positions. He noted that it peaked around the time of the peak revenue.

Mr. Steininger addressed slide 19, "Historical CBR/SBR Balances." He stated that the slide showed the current problem that a \$1.5 billion was not something that could be repeated for two years. He stressed that the issues with the formula programs needed to be addressed in order to prevent the final column in the graph where the reserve balances went to zero. He noted that there were difficult decisions in addressing the formula programs and the cost drivers in order to move to a more long-term sustainable budget.

[10:39:24 AM](#)

Co-Chair Stedman remarked that most of the discussions about the minimum balance of the CBR was around \$1.5 billion. He stressed that there must be a \$500 million to reduce the deficit to \$1 billion in FY 22. He remarked that the committee would be asking both OMB and LFD the recommended carry-forward savings for the state.

Co-Chair von Imhof felt that the slide was alarming, because of the low balance in the CBR. She recalled that the governor had stated that every decision made in the year should be made with children and grandchildren in mind. She stated that she would also be asking LFD for their recommendation. She stressed that it was critical to keep a healthy balance in the CBR. She felt that \$500 million was "anemic." She remarked that the obvious choice was to pivot to the ERA to begin raiding the Permanent Fund. She did not want to see that happen. She wondered whether the PFD payment lined up along side the formula programs. She announced that the state had a moral

imperative to provide the best education for every Alaskan child. She wondered if there would be a cut to education to pay a PFD.

Co-Chair Stedman stressed that there would be a concentration on the current year and how to "set the table" for FY 22 and FY 23. He remarked that most would be back to deal with the issue raised by Co-Chair von Imhof.

Senator Olson recalled that the governor had proposed a lottery position to try to enhance the state's treasury. He noted that that project would require a fair amount of infrastructure. He did not see any money to pay for that infrastructure.

Mr. Steininger replied that the money for that infrastructure would be included in a fiscal note to a bill creating the lottery.

[10:44:56 AM](#)

Senator Olson remarked that the mayor of Nome had been medevacked out to Anchorage for some medical issues. That mayor did not currently have a Real ID, and if it was not obtained by October, the mayor would have a difficult time returning to Nome. He did not see any money to help those people, especially the elderly in rural Alaska, who would require several trips to the Division of Motor Vehicles (DMV) to acquire a Real ID. He shared that he had written a letter to the governor, hoping that he would use his influence with President Trump to attempt to ask for another waiver to postpone the Real ID deadline. He had not received a response from the governor. He wondered if there was no money for Alaskans to obtain the Real ID.

Mr. Steininger replied that there were no specific appropriation for the Real ID. He furthered that the DMV was working with existing resources to try to solve the access to DMV services for rural Alaskans.

Co-Chair Stedman felt that the subcommittee would work on that issue.

Senator Olson stressed that asking the private sector to donate to a governmental mandate was "uncalled for."

Co-Chair Stedman thanked the presenters for their comments and testimony. He discussed the following day's agenda.

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ADJOURNMENT

10:49:00 AM

The meeting was adjourned at 10:48 a.m.