

SENATE FINANCE COMMITTEE

March 4, 2020

9:01 a.m.

[9:01:47 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 Donny Olson
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Alexei Painter, Analyst, Legislative Finance Division; Pete Ecklund, Staff, Senator Bert Stedman; Caroline Schultz, Staff, Senator Natasha von Imhof; Nils Andreassen, Executive Director, Alaska Municipal League, Juneau; Vikki Jo Kennedy, Gramma Brigade, Juneau; Senator Cathy Giessel.

SUMMARY

CSHB 234 (FIN)

APPROP:SUPP; REAPPROP; CAP; AMEND; CBR

CSHB 234 (FIN) was HEARD and HELD in committee for further consideration.

^LEGISLATIVE FINANCE REVIEW OF GOVERNOR'S AMENDMENTS

[9:02:58 AM](#)

ALEXEI PAINTER, ANALYST, LEGISLATIVE FINANCE DIVISION,

discussed, "Governor's Amended Budget; Overview; Senate Finance Committee; March 4, 2020" (copy on file). He highlighted slide 2, "Short Fiscal Summary - FY19 to FY21." He stated that the slide showed UGF only. He remarked that the FY 20 figures showed the management plan and the governor's proposed supplemental amendments.

Co-Chair Stedman asked for a specific addressing of the document.

Mr. Painter agreed.

Mr. Painter looked at line 6, which was the total operating budget. He remarked that line 7 showed that \$120 million was in agency operations. He stated that line 8 reflected that \$109 million was statewide items.

Co-Chair Stedman noted that the numbers were from FY 19 to FY 21.

[9:05:12 AM](#)

Mr. Painter continued to discuss slide 2. He looked at the reserve balances in the bottom right corner. The Statutory Budget Reserve (SBR) balance was zero after FY 20, and the entire balance was used for the dividend. He noted that the Constitutional Budget Reserve (CBR) balance, which was an updated balance, was \$429.8 million.

Co-Chair Stedman wondered if that was a concern.

Mr. Painter replied that the governor's budget had a budget deficit of \$1.6 billion, which was approximately three-quarters of the remaining CBR balance. He noted that there would not be a possibility to use the SBR in FY 22.

Co-Chair Stedman stressed that the hearings were for people to understand the impact of using the CBR.

Mr. Painter replied the other accounts would be addressed in the conversation about the reverse sweep.

Co-Chair Stedman surmised that the Earnings Reserve Account (ERA) was the non-constitutional protected portion of the Permanent Fund. He noted that the SBR had been liquidated, so it was not usable. He asked how much of the CBR had been used to arrive at the \$429 million number.

Mr. Painter explained that at its peak, the CBR had approximately over \$12 billion, and the SBR had over \$5 billion. The total draw for both accounts was approximately \$18 billion since FY 13.

Co-Chair Stedman stressed the magnitude of the situation.

Senator Hoffman remarked that from FY 19 to FY 20 the ERA showed a reduction of \$5.2 billion. He noted that the reduction was not spent by the legislature, but was transferred to the corpus of the fund.

[9:10:23 AM](#)

Co-Chair Stedman agreed with the point. He wanted to continue to point out that transfer.

Senator Hoffman wondered how it was possible to make the allocation, which was larger than authorization of 5.25 percent.

Mr. Painter replied that inflation proofing was a transfer from one account to another, so it did not count toward the 5.25 percent draw. He stated that it was counted as a net zero in the budget, because it was moved from one account to another.

Senator Hoffman asked whether the same logic applied to moving funds from the ERA to the CBR.

Mr. Painter replied that he was not sure that it would fall under the percent of market value (POMV) limit, but would be in two different lines.

Co-Chair Stedman asked why the ERA had a reduction.

Mr. Painter looked at line 15 of slide 2, which address inflation proofing.

Co-Chair Stedman stated that there was not a balance, because the legislature chose to use the entire royalty payments for the Permanent Fund.

[9:15:27 AM](#)

Senator Bishop pointed out that the legislature had put \$7.2 billion above the statutory formula for inflation proofing.

Co-Chair Stedman asked that Legislative Finance address the different years, and what makes the expenditures move to see the major components.

Mr. Painter addressed slide 3, "Agency Operations Detail."

Co-Chair Stedman surmised that the reductions were "gobbled up" by K-12 increases. He felt that the state was in the same place as one year prior.

Mr. Painter agreed, and explained that the fire suppression would require the make-up funds.

Co-Chair von Imhof noted that removing the fire suppression activity, would show that the reductions were in Alaska Marine Highway System (AMHS), University of Alaska (UA), and Medicaid. She felt that there should be an examination of each of those divisions. She felt that those divisions were significant impacts.

[9:20:25 AM](#)

Co-Chair Stedman remarked that the AMHS reductions were buried in the Department of Transportation and Public Facilities (DOT/PF), and their total number did not have significant adjustment.

Senator Bishop remarked that the different departments required extraordinary amounts of money.

Co-Chair Stedman requested highlights from FY 20 to FY 21.

Mr. Painter continued to discuss slide 3.

Co-Chair Stedman felt that it was unlikely that the committee would put forward a budget with the expectation of a supplemental budget. He felt that the committee should address the probable fire suppression issue.

Senator Wilson wondered whether there were expendables that had not been reimbursed from the last fire season.

Mr. Painter replied that the fire suppression numbers in the supplemental was before all of the reconciling of the federal cross billing. He explained that the amounts in the supplemental budget was based on an estimate, but may be reimbursed more by the federal government.

[9:24:53 AM](#)

Senator Hoffman noted that Department of Education and Early Development (DEED) had a net increase of \$5 million, Department of Corrections (DOC) had net increase of \$39 million, the AMHS had a net reduction of \$40 million, UA had a net reduction of \$50 million, and Medicaid had a reduction of \$32 million. He remarked that DOC money might be beyond control, but there was more control over the other organizations. He noted that UA had the largest reduction of any proposal.

Co-Chair Stedman asked for some verbal comparisons from FY 19 to FY 21.

Mr. Painter replied that the total difference from FY 19 to FY 21 was just over \$120 million, and almost all of the difference came from FY 20 and FY 21. He stressed that almost all of the difference was because of fire suppression.

Co-Chair Stedman pointed out that it was extremely difficult to continually reduce, after significant reductions in recent years.

Mr. Painter looked at slide 4, "Statewide Items Detail." He stated that the slide showed comparison from FY 19 to FY 21 in statewide items.

Co-Chair Stedman asked for a definition of school debt reimbursement.

Mr. Painter explained that school debt reimbursement was the program where the state reimburses municipal governments for funding of school construction.

Co-Chair Stedman asked about the Regional Educational Attendance Area (REAA) fund.

Mr. Painter replied stated that it was created to bring equity to rural districts.

9:32:03 AM

Co-Chair Stedman surmised that it was the unfunded liability.

Mr. Painter furthered explained the slide.

Co-Chair Stedman noted that the school debt reimbursement was a transfer to the major municipalities.

Co-Chair von Imhof stressed that the two school funds did not resolve the debt, but the state was no longer on the hook to pay that debt.

9:35:44 AM

Senator Wielechowski recalled that there were some bonds that were issued that had not been spent, and asked for more information.

Mr. Painter replied that the most recent issued bond package was in 2012, and was still substantial unissued bonds that would add to the debt service.

Co-Chair Stedman stressed that the committee should take up the issue of the bonds, because the legislature had a substantial amount of authority over those bonds.

Senator Hoffman noted that the result of the Kasayulie case was a formula for rural schools. The formula was primarily based on the amount of school debt in the state. He remarked that there was a potential that the state would still need to pay \$20 million.

Co-Chair Stedman remarked that there was a policy concern because the state was responsible for education but was not required to reimburse the local municipalities.

Mr. Painter explained that the total difference from FY 20 to FY 21 was an increase of \$68 million.

Co-Chair Stedman stressed that there was not yet legislative action on the FY 21 budget, and it was currently in the subcommittee process. He stated that the subcommittee reports may not reflect the governor's proposed budget.

Mr. Painter pointed to slide 5, "Impact of Natural Disasters":

- FY19 and FY20 saw unusually high spending on natural disasters due to the Southcentral earthquake and the record-breaking fire season.
- However, the fire suppression activity budget is underfunded so supplementals for this item are routine, even in normal fire years.

Mr. Painter displayed slide 6, "Short Fiscal Summary Less Disasters."

[9:44:35 AM](#)

Co-Chair Stedman noted that there was an attempt to provide clarity on the major components.

Mr. Painter discussed slide 7, "A Note on Revenue":

- Spring Revenue Forecast is expected later this month
- Based on current prices (\$50.85 per barrel on 3/2) and production, FY20 revenue may end up below the fall forecast by \$100-200 million
- The FY21 forecast is based on an oil price of \$59 per barrel. FY21 Brent futures are currently several dollars below that. This could reduce FY21 revenue by \$100-200 million as well
- The CBR balance projection at the end of FY21, \$429.8 million, may be optimistic by \$200-400 million

Co-Chair Stedman felt that without the adjustments, there was an expectation of around \$429.8 million balance in the savings. He stressed that accounting the changes could result in a zero balance in the savings if there was a payout of a statutory calculated Permanent Fund Dividend (PFD). This would result in the Permanent Fund being the only savings in the state.

Mr. Painter replied in the affirmative.

Co-Chair Stedman asked that there not be a complete draw on the savings.

Co-Chair von Imhof looked at the second and third bullet, and noted that the FY 20 and FY 21 were both reductions.

Co-Chair Stedman pointed out that the adjustments were very sudden and extreme, and there would be an updated revenue forecast before the operating budget.

[9:51:08 AM](#)

Mr. Painter explained that there was an amendment from the governor that would address the coronavirus, which was a supplemental amendment. He stated that it was approximately \$4 million of UGF, and \$9 million of federal funds.

Co-Chair Stedman stated that there was an additional \$1 million for the statewide audit, and who would receive the payment.

Mr. Painter addressed slide 8, "Reverse Sweep":

- \$1.7 billion was swept to the Constitutional Budget Reserve (CBR) from subaccounts at the end of FY19 and subsequently appropriated back to those accounts in FY20 (the reverse sweep)
- The FY21 Governor's budget appropriates \$651 million from these funds. The failure to get a reverse sweep in FY21 would cause major issues for appropriations of many of those funds

Co-Chair Stedman asked for more information about the significance of the sweep.

Mr. Painter explained the sweep of the general fund to the CBR because the use of the CBR was considered a "borrowing", so must be repaid.

[9:55:54 AM](#)

Co-Chair von Imhof remarked that the funds were not considered static funds.

Mr. Painter replied that the only time that the sweep was not reversed in a timely fashion was FY 04.

Senator Olson recalled that in FY 04, there were no significant impacts to the services provided by the state.

Mr. Painter replied that in subsequent years, funds would have more immediate impacts.

[9:58:53 AM](#)

Mr. Painter highlighted slide 9, "Reverse Sweep Impacts":

- Example 1: Alaska Higher Education Fund
 - This fund is used for the Alaska Performance scholarship, Alaska Education Grants, and WWAMI
 - Its balance at the end of FY20 is estimated to be \$346 million. Scholarships are paid using earnings on that balance. The Governor's budget appropriates \$22.5 million from this fund
 - Sweeping the balance would leave no funding for those scholarships

Co-Chair Stedman asked for an outline of slide 8.

Mr. Painter addressed slide 8, "Reverse Sweep":

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[10:01:07 AM](#)

Co-Chair Stedman stressed that there were many considerations of billings and settlements in accounting before the determinations of the sweep could be finalized. He stated that there would be cash flow problems in the agencies.

Mr. Painter agreed, and explained that revenue may not be made until later in the year.

Co-Chair Stedman asked about her concerns about the draw in the Permanent Fund.

Co-Chair von Imhof stated that the ERA was not cash, and the POMV was converted into cash on a periodic basis. She stated that if the GF needed cash, the GF would look to the SBR and ERA.

[10:05:17 AM](#)

Co-Chair Stedman stressed that it was a significant issue.

Senator Bishop stated that the going to the ERA would break the model of cash flow.

Co-Chair Stedman explained the intent of the GF.

Mr. Painter highlighted slide 9, "Reverse Sweep Impacts":

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 - Sweeping the balance would leave no funding for those scholarships

Mr. Painter addressed slide 10, "Reverse Sweep Impacts (cont.)":

- Example 2: Alcohol and Other Drug Abuse Treatment and Prevention Fund
 - This fund is used to support alcohol and drug abuse programs
 - Its balance at the end of FY20 is estimated to be \$2.9 million. Revenue collections to the fund are estimated to be \$21.0 million, but the Governor's FY21 budget spends \$21.6 million from the fund
 - Sweeping the balance would leave a shortfall of \$642.5 for those programs

[10:11:11 AM](#)

Co-Chair Stedman remarked that creating a cash flow constraint, also caused a problem with the audits. He noted that there were no gains on the oversight in the finances, because there was a larger amount needed in the Department

of Administration (DOA). He felt that there was an inability for DOA to respond to a significant accounting quagmire.

[10:14:01 AM](#)

Senator Hoffman felt the unintended consequences of audit exemptions would result in a substantially messy audit, which may have impact on the state's bond rating.

#hb234

CS FOR HOUSE BILL NO. 234 (FIN)

"An Act making supplemental appropriations, reappropriations, and other appropriations; amending appropriations; capitalizing funds; 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."

[10:17:52 AM](#)

PETE ECKLUND, STAFF, SENATOR BERT STEDMAN, noted a spreadsheet titled, "Supplemental (HB234) as passed by the House" (copy on file).

Co-Chair Stedman wanted to address the larger items on the spreadsheet.

Mr. Ecklund noted that the UGF total was a little over \$298 million for the supplemental bill for FY 20. He noted the \$12.8 million in DGF, \$7.5 million in other funds, and \$207 in federal funds. The total was just over \$526 million.

[10:20:40 AM](#)

Co-Chair von Imhof stressed that the committee had worked closely with the administration in the year prior to seek reductions in Department of Health and Social Services (DHSS), and remarked that there was a significant request in that department. She explained that it was largely due to the difficulty in maintaining the reductions.

Co-Chair Stedman noted that there was a supplemental request that was originally vetoed in the operating budget from the year prior.

Co-Chair von Imhof agreed.

Co-Chair Stedman recalled that there were assurances the year prior that there would not be a supplemental budget, but this was the largest supplemental budget in the history of the state.

Mr. Ecklund remarked that the \$120 million for Medicaid services was currently evaluated to determine whether that was enough to cover the costs in the current year.

Co-Chair Stedman explained that there could be an adjustment to that number.

Senator Hoffman wondered how the \$250 million in DEED would be addressed.

Mr. Ecklund explained that there was \$150,000 of UGF and \$150,000 for receipt authority, which would help the facility to stay open in the spring.

[10:25:44 AM](#)

Senator Hoffman heard that it might be impossible for the school to receive funds.

Co-Chair Stedman explained that the project was in a list of bond packages in the state.

Mr. Ecklund discussed the Department of Public Safety (DPS) requests.

Co-Chair Stedman wanted to know the exact impact of the strike.

Mr. Ecklund agreed to provide that information.

[10:31:06 AM](#)

Mr. Ecklund looked at page 2 of the spreadsheet.

Co-Chair Stedman stated that there was work on discussions with the agency.

[10:32:54 AM](#)

Senator Olson did not see any requests for Village Public Safety Officers (VPSOs).

Mr. Ecklund agreed.

[10:33:25 AM](#)

Senator Wielechowski felt that the biweekly payroll would end up costing the state millions of dollars.

Mr. Ecklund noted the largest impacts to the state.

Co-Chair Stedman asked for description of the \$24 million request.

[10:36:47 AM](#)

CAROLINE SCHULTZ, STAFF, SENATOR NATASHA VON IMHOF, explained that there was a late amendment for Covid-19 of \$4 million to the DHSS.

Co-Chair Stedman stated that there would be a joint meeting with the House with Dr. Zink. He stated that there would be ample resources to respond to the virus.

Senator Olson wondered whether the \$4 million included a quarantine facility.

Ms. Schultz replied that the money would be used to fund the new positions, and not for infrastructure.

Senator Olson surmised that the money would not be used for hospitals to prepare for a quarantine facility.

Ms. Schultz agreed to provide further information.

Senator Wilson looked at the first page of the spreadsheet. He wanted more information about the Division of Motor Vehicles (DMV) office location move from the current location, and whether the building was owned by the state.

Ms. Schultz replied that the lease costs to the facility had increased, so they were moving to a building that was owned by the university, resulting in a cost savings to the state.

[10:40:14 AM](#)

Senator Bishop wondered what the "fleet" referred to.

Ms. Shultz replied that DPS requested money for 32 new trooper cars.

[10:40:43 AM](#)

Co-Chair Stedman explained that Senator Bishop was the chair of the DPS subcommittee.

Mr. Ecklund clarified the money related to the strike.

Ms. Schultz stated that there was some funding for Covid-19 quarantine.

[10:41:46 AM](#)

Co-Chair Stedman OPENED public testimony.

[10:42:17 AM](#)

NILS ANDREASSEN, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL LEAGUE, JUNEAU, felt that the supplemental budget presented some issues important to local government. He supported the increases to the Alaska Marine Highway System (AMHS). He felt that many communities relied on those services. He spoke in support of the state's response to fire suppression. He spoke in support of Alaska Land Radio. He highlighted the lack of response to recapitalizing community assistance and not following up on fully reimbursing municipalities for school bond debt. He noted some unanticipated expenses related to the repeal of SB 91 for community and regional jails. He explained that those levels were at 2002 funding levels. He expressed support for providing reimbursement funding who have charter boats to fill the gap of cancelled ferry service. He noted that first responders would feel the impact of coronavirus, and they were gearing up for the virus emergency.

[10:46:49 AM](#)

VIKKI JO KENNEDY, GRAMMA BRIGADE, JUNEAU, stated that her home is Kodiak. She thanked the committee for their work in the legislature. She expressed her appreciation for the explanation of acronyms. She spoke in support of more funding the AMHS. She was upset with what was going on in

the state. She wanted to see the legislative per diem be reduced and a portion given back to the state. She remarked that more people died of diseases that were already in hospitals than the flu or other viruses. She spoke against the adjustment to biweekly payroll. She testified in support of funding for the Pioneer Home. She shared that she had heard many stories from seniors in the state.

Co-Chair Stedman explained the definition of "BRENT."

Co-Chair Stedman CLOSED public testimony.

Co-Chair Stedman hoped to conclude the discussion on the bill within the upcoming days.

Co-Chair von Imhof further explained the definition of "BRENT."

CSHB 234(FIN) was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

10:53:16 AM

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