

HOUSE FINANCE COMMITTEE
February 24, 2021
1:32 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:32 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Kelly Merrick, Co-Chair
Representative Dan Ortiz, Vice-Chair
Representative Ben Carpenter
Representative Bryce Edgmon
Representative DeLena Johnson
Representative Andy Josephson
Representative Bart LeBon
Representative Sara Rasmussen
Representative Steve Thompson
Representative Adam Wool

MEMBERS ABSENT

None

ALSO PRESENT

Neil Steininger, Director, Office of Management and Budget, Office of the Governor.

SUMMARY

OVERVIEW: GOVERNOR'S FY 2022 BUDGET and 10-YEAR PLAN

Co-Chair Foster reviewed the agenda for the day.

^OVERVIEW: GOVERNOR'S FY 22 BUDGET and 10-YEAR PLAN

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NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced the PowerPoint Presentation: "FY 2022 House Finance Overview."

Mr. Steininger began the presentation with slide 2 titled "Historical Savings Balances" depicted on a graph. He provided a background of how the state arrived at its present financial condition. He referred to the solid gold line on the graph representing traditional Unrestricted General Fund (UGF) revenues. The solid red showed the state's UGF expenditures. He expounded that prior to 2013 the state experienced a period of budget surpluses. Much of the surplus was deposited into the state's savings accounts; the Statutory Budget Reserve (SBR) and the Constitutional Budget Reserve (CBR). He commented that the dark blue bars represented the savings balance that peaked at over \$16 billion in FY 2013. The balance really helped the state to weather the last decade of revenue shortfall. Deficit spending began in FY 15 as revenues began a precipitous decline. He indicated the gap between revenues and expenditures had continued since then. He indicated that the yellow dotted line represented draws from the Earnings Reserve Account (ERA) and the dotted red lines represent the addition of the Permanent Fund Dividend (PFD) payments to expenditures. Prior to FY 19, the draws from the ERA were only used for dividends. Beginning in FY 19, the state moved to a Point of Market Value (POMV) percentage draw from the ERA. The POMV created a rule based stable way to generate extra revenues for the state. Even with the sustainable draw, by FY 21 and FY 22, the state did not have enough revenue to meet basic operational needs and the gap was even greater when the statutory PFD draw was accounted for. He furthered that despite significant efforts to constrain spending and create more access to revenue a significant fiscal problem persisted.

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Mr. Steininger discussed slide 3 titled "Elements of Fiscal Package" on slide 3:

Operating Budget Reductions

Fast Track Supplemental Budget

Utilize Bonding for Capital

- \$59 million UGF leverages \$1.4 billion total capital spending with use of \$101 million AHFC bond financing

- \$356 million general obligation bond package for shovel-ready critical infrastructure investment to jumpstart economy

Constitutional Amendments

- Set framework for a path to fiscal stability
- Statutory PFD change to compliment constitutional amendment

Mr. Steininger elaborated that the proposed fiscal package contained an operating budget that offered core services and restrained spending. The fast track supplemental budget addressed unresolved items due to COVID 19 precipitating an early adjournment in 2020. The governor was also offering a suite of constitution amendments.

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Mr. Steininger reviewed slide 4 titled "Fiscal Summary as of February 16, 2021." The chart showed a condensed version of the fiscal summary. He explained that the top of the chart reflected revenues available for government. There were reductions of about \$40 million in UGF compared to the Department of Revenue's projections. The budget proposed using the entire POMV draw for government spending excluding the PFD. He stated that there was not enough funding to support government spending if paying a statutory dividend. He delineated that the Carryforward and Adjustments line reflected the federal revenues approved through the Revised Program Legislative (RPL) process to address the pandemic response that totaled roughly \$1.2 billion. The \$95.8 million UGF was largely Department of Health and Social Services (DHSS) appropriations for COVID response. Mr. Steininger continued to explain the fiscal summary. He pointed to a net operating reduction of \$225.6 million in the lower expenditures section of the chart due to the expiration of some multi-year items. He indicated that statewide operations spending was relatively flat. The amount included an increase in school bond debt reimbursement to 50 percent. In FY 21 no money was appropriated for the school bond debt reimbursement. He offered that in total there was a reduction of \$253.4 million. The reduction of \$50.8 million in the Capital Budget included the proposed utilization of the Alaska Housing Finance Corporation (AHFC) bonding for capital projects, which would typically increase the capital budget

but was shown as a decrease due to bonding. He furthered that there was a deficit of about \$81 million that was covered by the CBR.

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Mr. Steininger continued to slide 5: "FY 2022 Projected Draws." The slide showed the different balances in state reserves; the ERA and the CBR. He pointed to the beginning balance in the CBR that was \$1.7 billion in FY 21 and decreased to \$915.3 million for FY 22. The proposed deficit draw of \$80.7 million would leave an end balance of \$860 million. He remarked that there was significant discussion as to what was the "right balance" to maintain in the CBR. He reported that the state counted on the CBR daily for the purpose of cash flow; at any given time, the state had up to \$500 million in cash expenditures in advance of revenue collections received. The account provided a bridge between revenues coming in and payments going out. He cautioned against draining the CBR any further than the ending balance to ensure it could meet the state's basic cash flow needs. He related that was the reason the proposed budget utilized the ERA to pay a PFD. He directed attention to the ERA balance on the left of the slide that showed the POMV draw and an additional draw for paying a statutory FY 21 and FY 22 dividend.

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Mr. Steininger advanced to slide 6 titled "Five-Year Fiscal Outlook (From OMB 10-Year Plan)," which showed a 5-year fiscal outlook from the Office of Management and Budget's (OMB) 10-year plan. He commented that trying to project out 10 years was not a valuable exercise. He thought a short-term outlook was more helpful. The slide compared the status quo outlook versus the governor's plan. The governor's plan included the constitutional changes being proposed. He reported that the blue represented the 50/50 split between the POMV draw and the dividend. The difference in deficit amounts was illustrated on the PFD line between the blue versus brown (representing the status quo budget) sides of the chart. He highlighted that the suite of reforms did not solve all the state's fiscal problems. He thought that the chart reflected that resolving the dividend formula debate and the ERA were the first priorities and the key pieces to resolving the

longstanding fiscal issues and move forward with a "robust fiscal plan."

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Mr. Steininger moved to slide 7: "State of Alaska Operating Budget." He noted that the chart and graph portrayed a high level snapshot of the operating budget. He spoke to the philosophy behind the FY 22 budget and future years. He explained that the governor considered efficiencies and reductions. He indicated that efficiencies were discovered while dealing with the COVID crisis over the last year that led to savings through working from home and finding new ways of doing business. He reported that such savings were peppered throughout the budget. He exemplified that some significant savings were discovered in the Department of Health and Social Services (DHSS) related to the reduction of paper processes. He reported that federal COVID relief was utilized to reduce GF in the operating budget. He acknowledged that the federal relief funding was a short-term measure but saved GF for a future budget until a long term solution was implemented. He remarked that the small savings added up.

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Mr. Steininger pointed to the Budget Change Summary at the top right of the slide. He communicated that since FY 2019 through the FY 22 proposed budget, UGF spending was reduced by \$389 million.

Mr. Steininger reviewed Slide 8 titled "Budget Cost Drivers:"

From FY2019 to FY2022

State assistance to retirement has increased \$70.3 million

Employee salary adjustments for cost of living and health insurance have increased \$50.0 million

Public protection services including law enforcement, prosecution, defense, courts, and corrections have required investment of \$52.8 million

\$173.1 million in UGF reductions to maintain a flat budget

Mr. Steininger indicated that just maintaining a flat budget, the state had to accommodate natural cost drivers in areas like public safety before reductions could be realized.

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Mr. Steininger turned to slide 9 titled "FY 22 Department UGF Budgets," which showed the FY 22 undesignated general fund budget for each department compared to the statutory PFD. He communicated that the statutory PFD was over \$2 billion, and the next highest spending was the Department of Education and Early Development (DEED) that included the foundation payments to school districts and departmental expenditures. He highlighted that DHSS was the next highest where roughly \$650 million reflected the cost of Medicaid and other formula programs that provided assistance payments to individuals. The Department of Corrections (DOC) was next; its budget was significantly lower than the prior three with the remaining agencies following.

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Representative Rasmussen referred to slide 6. She asked if the POMV projection reflected the losses that might occur with the loss of revenue by drawing down the ERA above the POMV percentage. Mr. Steininger answered in the affirmative. He indicated that the reduction in revenue was included on the POMV line comparing the status quo to the Governor's plan. He pointed to the brown section or status quo section for FY 26 and noted the draw amount was \$3.4 billion versus the blue section \$3.25 billion.

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Representative Wool referred to slide 6. He drew attention to the bottom of the blue chart that showed the draw from the ERA at over \$2 billion primarily to pay for the PFD in FY 22 and the zero remaining surplus on the bottom line. He noted that in FY 23 the remaining surplus was \$1.23 billion. In FY 22 the ERA would be used to fill the gap. He wondered about the following year. Mr. Steininger agreed with Representative Wool's understanding. He continued that the deficit would be reduced by the proposed change to the

PFD statute and operating budget constraints. However, the measures did not address the entire deficit that needed to be addressed through other ways via spending or revenue. He shared that the administration felt that addressing the PFD formula first would drive the discussion on how to resolve the remaining deficit.

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Representative Wool referred to slide 8 which indicated that to maintain a flat budget a reduction of \$170 million would need to be made each year. He deduced a reduction of that size would be hard to find. He noted that the public safety budget surpassed the University's budget and was increasing. He mentioned revenue measures took time to implement. He did not think it was too soon to have the discussion regarding deficits. He was glad Mr. Steininger had mentioned revenue in response to his questions.

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Representative Thompson referred to slide 6 and asked whether bond payments were figured into the out years. Mr. Steininger indicated that the information was based on the 10-year plan put forward in December 2020. The numbers were not inclusive of any amendments nor were the bond payments explicitly included in the Statewide Items line. The projections for the statewide items decreased and was associated with some debt service expiring. He noted that the roughly \$400 million bond package payments would need to be accommodated in future budgets.

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Representative Josephson referred to slide 7. He reiterated that the administration cut UGF spending by \$389 million. He inquired whether that was net of the \$173.1 million reflected in the following slide. Mr. Steininger replied in the affirmative. Representative Josephson wondered if it had the net effect of cutting half of \$1 billion to provide the same service. Mr. Steininger answered in the affirmative. He elaborated that slide 8 illustrated that in order to make reductions in the operating budget some "natural increases" had to be considered. Therefore, in order to maintain a \$389 million reduction over \$500 million had to be reduced.

Representative Josephson queried about the utilization of COVID relief bullet point on slide 7. He asked for the main categories or items where the relief money was used to backfill the budget. Mr. Steininger responded that the primary areas were the Department of Transportation and Public Facilities and the Medicaid program. The governor proposed utilizing some of the Medicaid savings from FY 21 and using it in FY 22 to allow changes to the program to be phased in over time. Representative Josephson asked if he was talking about the 6.2 percent increment from the federal government. Mr. Steininger responded in the affirmative and added that the savings amounted to about \$15 million per quarter.

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Representative LeBon asked what the minimum balance was for the CBR to function as the working capital resource for the state. Mr. Steininger repeated that the amount was \$500 million. Representative LeBon asked whether the utilization of the CBR as an operating line of credit was an "implied authority." Mr. Steininger replied in the affirmative. He furthered that besides the authority to deficit draw from the CBR, the administration had the authority to borrow between accounts in advance of revenue within a fiscal year. He noted that the term for borrowing between accounts for cash flow purposes was "interfund borrowing."

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Representative LeBon pondered that if the administration drew on the CBR and the amount could not be paid back at the end of the fiscal year, would the administration have to report the shortfall to the legislature. Mr. Steininger responded in the affirmative and added that for almost a decade every CBR draw included deficit language.

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Representative Rasmussen referred to slide 6 again. She asked about returning the \$16 billion that had been borrowed from the CBR. She wondered if a repayment provision was included in OMB's 10-year plan. Mr. Steininger responded that one of the proposed Constitutional amendments included eliminating the CBR payment provisions. He indicated that the status quo scenario did not address the CBR debt nor could any

scenario address the CBR debt presently. Representative Rasmussen asked him to identify the governor's proposed constitutional amendment that eliminated the need to repay the CBR funds. Mr. Steininger thought it could be found in one of the amendment proposals but could not remember which one. He would get back to her. Representative Rasmussen believed that it was disturbing that the Legislature was considering the same type of borrowing from the ERA as was done at the beginning of 2013 from the CBR. She thought that at the time, the legislature could not comprehend a point when the CBR would be practically empty, and the state would be functioning on a basic level.

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Representative Wool referred to slide 7. He noted a reduction of about \$191 million from FY 19 to FY 22. He wondered if the reduction between FY 21 to FY 22 was due to COVID funding and asked whether in FY 23 spending would increase to provide the same level of services. Mr. Steininger responded that the administration had utilized federal COVID money for operational expenses. The administration realized the challenge to accommodate natural cost pressures and backfilling the federal revenues in FY 23. A significant amount of the COVID revenues could be spent over a period of fiscal years. Representative Wool asked if the Medicaid items had the same multi-year horizon for spending. Mr. Steininger shared that the administration was currently setting aside a Medicaid amount for FY 23 to utilize any lapsing Medicaid money. He discerned that the set aside provided enough time to work with the Center for Medicaid Services (CMS) and subject matter experts to reform to the Medicaid program. He expounded that certain Medicaid item requirements could not be altered during the pandemic. However, it allowed time to identify changes in service levels and reforms to meet the target number for FY 23. Changes to Medicaid required a significant amount time to work with other partner entities and CMS before implementation of the changes. He did not anticipate having to backfill any Medicaid funding for FY 23.

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Representative Edgmon referred to slide 6. He was trying to understand the numbers in the FY 22 and FY 23 Remaining Surplus/(Deficit)columns. He discerned that something major would have to occur in the following year for the governors

proposed numbers to work. He implied that either major budget reductions, substantial new sources of revenue, major overdraw of the ERA, or liquidation of the Power Cost Equalization Endowment Account (PCE) would need to occur to reach the governor's numbers. He wondered how the legislature would accommodate the large change within FY 22 to FY 23 (a deficit of \$1.2 billion) without turning to one of the options he listed. Mr. Steininger agreed that the administration needed to find a way to accommodate a \$1.2 billion deficit. The governor welcomed conversations regarding addressing the deficit. He noted that in FY 22 the administration proposed some operating reductions and an overdraw of the ERA. However, overdrawing the ERA would not be sustainable in FY 23. He reported that one of the governor's amendments would limit the ERA draw to the POMV formula. He reiterated that discussions regarding the major formula programs that were the cost drivers of state spending and revenue were necessary. He repeated that the first step was to solve the question of the PFD formula. Representative Edgmon suggested that this would all have to occur during an election year. He spoke of the lag time in putting a significant new revenue stream in place when it typically took at least 18 months to implement. He was struggling to comprehend how the governor's proposals could be considered a plan when there were "no steps to get from point A to point B" included. He did not understand how the plan could be implemented and how the legislature would fill a \$1.2 billion gap when either adoption of the constitutional amendments or new revenues would not be available until FY 24. He suggested that the plan had a gap in "logic." He stated that he "did not understand how this can be presented to me or to my constituents or any of us in a way that suggests that this could actually happen." He asked for further clarification on how the \$1.2 billion fiscal gap could be filled by FY 23. Mr. Steininger was not qualified to speak to what could happen in an election year. He acknowledged that the task was difficult and some of the plan's framework did not solve the entire problem. He reiterated that the administration put forward the most important piece of the framework that needed to be addressed first, addressing the access to the ERA and setting a statutory change to the PFD. He pointed out that the fiscal problem was not new. He suggested that part of the solution could not be implemented through the operating budget. He asserted that additional major conversations needed to occur regarding budgetary cost drivers that could not be solved through "transactional changes in an

operating budget." He acknowledged that "very real timing considerations" existed and that the plan did not solve the entire problem but considered it as "a step in the right direction."

Representative Edgmon judged that major cuts, major new revenue, and major overdraws from the ERA were necessary. He did not see a plan for any of the three options in the presentation. He wondered whether the governor was planning a major revenue proposal but voiced that he did not see any evidence of that. He wondered where major cuts could come from without severely harming Alaskans' quality of life. He did not want to consider overdrawing the ERA for a second year in a row in FY 23. Any constitutional vote of the people or new revenues interfered with the time constraints and could not be accomplished by FY 23. He believed many elements of the plan hindered the legislature's ability to make major decisions regarding the budget.

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Representative Josephson shared some of Representative Edgmon's concerns. He believed that his constituents had sent him to do a job without asking for any additional authority except where the constitution required it. He cited slide 7 and referred to the \$85 million in DGF reductions. He wondered if a portion of the funding was COVID related or whether a suspension of fee or receipt programs had occurred. Mr. Steininger offered to provide him with a list.

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Vice-Chair Ortiz referred to slide 6 and the transition from FY 22 to FY 23 and the \$1.2 billion deficit. He understood that the governor had proposed \$900 million to \$1.2 billion in additional revenue. He asked whether it was included on the slide or in the presentation.

Mr. Steininger indicated that it was recognized in the 10-year plan that the \$1.2 billion deficit required an additional \$1.2 billion in new revenues even after the \$50 million and \$100 million in year one and two of the plan were met. Vice-Chair Ortiz asked if the governor was anticipating an additional revenue amount of \$1.2 billion in FY 23. Mr. Steininger answered in the affirmative. Vice-Chair Ortiz asked for specificity and if the governor had a

proposal for additional revenue. Mr. Steininger responded that some of the amount could be derived from changes to existing sources of revenue and proposals still under consideration like a gaming revenue measure. However, he could not speculate on a full revenue plan. He deferred to the commissioner of the Department of Revenue for further answers.

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Vice-Chair Ortiz suggested that if reductions to the largest cost drivers were considered, it meant significant reductions to education. Mr. Steininger proposed that it was necessary to look at how money was spent on the largest cost drivers. The decisions needed to be based on policy related to the programs. The objective and goal were not to simply make budget cuts but to ensure students received an "adequate" and good education in the state. He characterized it as a policy decision that had budget impacts. He advised that policy discussions about how the state spent money to achieve its policy goals was necessary to address the deficit. He suggested that the policy discussions were much wider than the transactional decisions in the states budget.

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Representative Wool hoped that adequate education was not the goal of the state. He mentioned Ms. Rodell's [Angela Rodell, Executive Director, Alaska Permanent Fund Corporation] presentation the prior day. She articulated concerns about additional draws from the ERA. He expressed his own concern about an overdraw from the ERA. He noted the \$1.2 billion deficit in FY 23, but no mention of an overdraw on the ERA. He noted that a fourth option to reduce the deficit not mentioned by Rep. Edgemon was to dramatically reduce or eliminate the PFD. He wondered if Mr. Steininger felt the same concern about overdrawing the ERA in FY 22 and whether the ERA would end up like the CBR. He thought that the administration's approach to the withdraw was nonchalant. Mr. Steininger replied that the overdraw proposed by the governor was not taken lightly. He explained that it was proposed due to the unusual circumstances of the time. He noted the impacts of COVID to the economy. He restated that the governor had proposed the constitutional amendment so that drawing down the ERA in additional years could not occur. He emphasized that the

governor saw the overdraw as a one-time occurrence and was not something to take lightly. The constitutional amendment in concurrence with the one-time overdraw was of "paramount importance."

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Representative Wool mentioned the constitutional amendments regarding taxation. He aligned with Representative Josephson's comments that legislators were elected to make the tough decisions. He appreciated the constitutional amendment to "lockup" the ERA.

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Representative Carpenter referred to slide 2. He looked at the blue bars representing savings that had been dwindling. He thought it reflected doing business as usual without making hard decisions by both, prior governors and legislatures. He expressed concern regarding the ERA and "business as usual." He characterized prior budgets as "kicking the can down the road." He wanted it to stop in the current year. He asked if the executive branch was the only branch that had the ability to propose solutions for revenue. Mr. Steininger indicated that the legislature could make revenue proposals as well. Representative Carpenter declared that the House and Senate Finance Committees were the best place to begin the process for new revenues and asked if he was correct. Mr. Steininger agreed with the statement.

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Representative Edgmon asked if the administration would be a willing participant in revenue discussions. Mr. Steininger related that the administration was "open" to conversations on solving the deficit issue.

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Representative Thompson referred to slide 5. He cited that the statutory payout of the POMV for the PFD in FY 21 was \$680 million. He noted that a further draw of \$1.2 billion in FY 21 and a draw of \$2 billion in FY 22 was projected. He deduced that a PFD of over \$3 thousand would be paid. He spoke of the taxes owed related to the dividend. He commented that people would have to be educated about the

tax burden. Mr. Steininger responded that part of the PFD application process included a notification of taxes owed. He remarked that the PFD was considered federal taxable income.

Co-Chair Foster asked Mr. Steininger to continue with his presentation.

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Mr. Steininger advanced to slide 10 titled "Administration." He explained that the Department of Administration's (DOA) budget included duplicated funds. Duplicated funds were monies that were spent from one department and repaid to another department for services rendered. The bulk of the business of DOA, as part of its mission was to provide services to other agencies. He highlighted the significant drop-off between FY 21 to FY 22 indicated on the graph. The decrease represented a transfer out of some of DOA's functions. The department transferred public building facility management and lease administration to the Department of Transportation (DOT). However, DOA reduced activity in the Office of Information Technology: State Microsoft license change. The license was upgraded, which allowed for cost reductions elsewhere in services and amounted to a net decrease of \$1.25 million in total IT costs. In addition, the governor proposed closing 6 Division of Motor Vehicle (DMV) offices saving \$582.5 thousand. The administration was also making a significant adjustment by how it billed for centralized services. He relayed that from FY 19 to FY 22 DOA realized a decrease of 8.7 percent UGF and 22.7 percent DGF.

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Representative Rasmussen was curious why the changes were summarized from FY 19 to FY 22. She thought that it obscured the 28 position increase from FY 21 to FY 22. She was curious what positions were needed. Mr. Steininger answered that the increase was due to the consolidation of procurement staff into DOA. He explained that the procurement for all departments was being centralized into the Office of Procurement and Property Management within DOA. The centralization would also allow for the procurement staff to look for further consolidation and savings opportunities. He added that a governor's amendment for the department contained another increase in DOA staff

due to consolidation of Human Resources activities. Representative Rasmussen asked if 28 positions were eliminated from other agencies. Mr. Steininger responded that the staff were transferring between agencies.

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Vice-Chair Ortiz asked which DMV offices would be closing. Mr. Steininger replied that the Tok, Delta Junction, Haines, Eagle River, and Homer. He would provide the complete list later. Vice-Chair Ortiz asked if those areas would be served by a private service. He wondered what the intent for those areas was to receive services. Mr. Steininger replied that in several of the locations a private service partner already existed and other locations were working on arrangements with private providers to ensure each location had an in-person option. In addition, DMV expanded the services offered online.

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Mr. Steininger continued to slide 11 to review the budget for the Department of Commerce, Community and Economic Development (DCCED). He pointed out that the graph portrayed a significant reduction in UGF over the last 10 years from \$60 million in 2013 down to approximately \$7 million in FY 22. He noted a portion of the change was due to the transfer of the Alaska Development Team to the Office of the Governor where it became a cabinet level activity. He furthered that the budget eliminated a DGF grant to Alaska Civil Legal Services [-450.0 UGF]. He delineated that the grant was the last UGF recipient grant distributed by DCCED and legal services received a different grant. Also, a vacant position in Division of Economic Development was deleted. The governor deleted departmental positions that were vacant for 6 months to 9 months lacking a goal to fill them. He added that there was also the deletion of 3 Alaska Gasline Development Corporation (AGDC) positions. However, the department added 2 Regulatory Commission of Alaska (RCA Utility Master Analyst positions. The final change replaced UGF authority at Alaska Energy Authority (AEA) with Power Cost Equalization funds [-847.3 UGF, 847.3 PCE]. The transaction removed the last of the UGF appropriated to AEA.

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Representative Johnson remembered that the legal services grant had been removed by the governor in FY 19 but was replaced and endorsed by the governor. She wondered what factors had changed to bring elimination of the grant again. She wondered if it would affect domestic violence services. Mr. Steininger could not speak to the change in position from FY 19. However, he explained that the state provided money to legal services through court filing fees. The question had to do with whether to retain the last remaining UGF funded discretionary grants in DCCED. It did not have anything to do with the work provided by the organization.

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Representative Josephson countered that aside from the court filing fees, rescinding the grant was a large cut to the agency. He stated that it left legal service "seriously underfunded." Mr. Steininger indicated that the court filing fees amounted to \$350 thousand and the \$450 thousand grant reduction was in addition to the fee funding. He observed that the cut would not reduce the amount to state funding to zero. Representative Josephson remarked that he "effectively just said that." Representative Josephson inquired whether the transfer of the Alaska Development Team was the same proposal that the legislature had rejected in a prior budget. Mr. Steininger responded that the transfer was a new proposal related to economic development and transferred the positions over to the governor's office. He deferred to the department for details.

Co-Chair Foster asked Mr. Steininger to further explained the amount related to PCE. Mr. Steininger retorted that AEA had roughly \$850 UGF in its operating budget for activities primarily related to energy access throughout the state and some grant funding. He noted that while the work AEA carried out was not specifically delineated in the statute directing PCE fund use, it supported the overall goal of equal energy access to the state. The administration felt that the appropriation was an appropriate use of the fund source. The transaction was an attempt to constrain costs and look for different ways to pay for activities through existing funds that had a "nexus" to the activity. Co-Chair Foster commented that the PCE statute only included a waterfall provision, Community Assistance, and Renewable Energy Grants. He asked if the connection was associated

with the grants. He did not think the use was consistent with the statute. Mr. Steininger answered that the AEA use fell within the "broader context" of PCE; to equalize the cost of power throughout the state. He contended that the appropriation was still in general support of equalizing the cost of energy throughout the state. Co-Chair Foster voiced that the issue would be addressed further in subcommittee.

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Representative Edgmon would be working with DCCED in subcommittee and would be scrutinizing the suggested appropriation. He commented that the proposal was clearly outside the confines of the PCE statute.

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Representative LeBon asked whether the shift away from using DGF to PCE was a one-time transaction or a permanent change in budgeting. Mr. Steininger responded that the change was permanent.

Representative Carpenter wondered what the excess balance was in PCE aside from program requirements. Mr. Steininger would provide the answer later. Representative Carpenter thought that if the legislature was discussing shifting AEA funding from UGF to PCE permanently it was beneficial to know the balance of the PCE fund to determine its sustainability.

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Mr. Steininger discussed the budget for the Department of Corrections (DOC) on slide 12. The department had seen significant growth over the past few fiscal years to ensure correctional facilities were adequately supported. The reductions that had occurred in earlier prior fiscal years did not adequately support the department. He reported that additional beds in Community Residential Centers (CRCs) were being proposed [3,975.0 UGF] and added GPS tracking to CRC residents [461.5 UGF]. In addition, an effort to utilize federal and municipal man-day receipts to offset UGF [-3,500.0 UGF, 2,400.0 GFPR, 1,100 Fed]. He elucidated that man-day receipts were collected for federal inmates housed in state correctional institutions. The man-day funds were variable year-to year and they had been "under-

reflected" in the budget. The department appropriated the average collection amount of \$3.5 million to offset UGF. There was a technical change that resulted in the replacement of insufficient Restorative Justice Account funds with UGF [4,344.9 UGF, -4,344.9 Other]. He explained that the account was for the PFDs of incarcerated or convicted individuals that was distributed primarily to DOC. The number dramatically decreased to \$4.3 million due to the lower PFD amounts and less people incarcerated or convicted of felonies. In order to keep the department whole funding had to be backfilled with UGF. Finally, the budget restored positions and funding to meet the Palmer Correctional Center staffing needs [791.7 UGF, 6 PCN].

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Representative Johnson asked about the projected opening of the Palmer facility. She inquired whether the additional PCN number was for an entire year or the partial year from the projected opening. Mr. Steininger replied that he was unaware of the projected date of the opening. He added that the positions would be filled by FY 22 and reflected a full year's worth of funding.

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Representative Josephson asked about the \$2.4 million of municipal man-day contributions. He deduced that the accounting was similar to the effort to shift costs for prosecutions to municipalities that were not paying for them. Mr. Steininger answered that there were already existing agreements between DOC and municipalities that house inmates. He deferred to DOC for further information regarding the agreements. He reported that the transaction was not like the Department of Law (DOL) proposal. Representative Josephson expressed concerns about shifting the financial burden from the state to municipalities. He believed that it was not beneficial to the people of the state. He characterized the governor's budget as narrowly reflecting the state's obligations. He asked if he was correct. Mr. Steininger responded that where there was a responsibility that belonged to the state, the state should meet its responsibility. He maintained that if the service the state was providing a municipality was the municipality's responsibility, like the DOL example, a level of cost sharing was expected.

[3:16:36 PM](#)

Representative Carpenter referenced the man-day accounting. He wanted clarification whether the request was related to new authority to collect for man-day services or if the federal authority was not utilized in the past. Mr. Steininger explained that in the prior year that the state expended federal man-day monies that had accrued over several years for supplemental healthcare. Therefore, the state had been spending UGF. Once the department discovered that the man-day collections were available for the supplemental need it realized the funds were not utilized when collected. The proposal to expend the man-day funds when they were collected was a more appropriate way to budget. The proposal was offsetting UGF. It was advantageous in the prior year because the built up collection was available for a supplemental need but was not reflective of accurate budgeting.

[3:19:01 PM](#)

Representative Carpenter was concerned with the municipal man-day funds. He did not want the change to be a surprise to the municipalities. Mr. Steininger responded that it was not a surprise to the municipalities and wanted DOC to explain the process in detail when appropriate.

Representative Wool cited the Regulatory Commission of Alaska Master Analyst positions and compared them to the DOC positions. He deemed that the DOC positions were more costly because they were medical in nature. Mr. Steininger responded in the affirmative. He offered that the additional positions were nursing staff. Representative Wool noted that the additional positions did not include correctional officers. He asked for further clarification. Mr. Steininger replied that most of the positions related to the Palmer facility had already been added to the budget in FY 19. The PCNs were reflected in the budget numbers.

[3:21:44 PM](#)

Representative Wool asked for further clarification. He did not see the increase in staff in the PCN count to open a new prison. Mr. Steininger relayed that the increase took place in FY 19 to FY 20 and were PCN's only. The medical professionals were not added at the time but were brought in to provide services.

[3:23:35 PM](#)

Representative Thompson returned to the topic of charging municipalities for prosecutions. He indicated that the City of Fairbanks did not have a Driving Under the Influence (DUI) law. A municipal office charged an inebriated driver under state law. He did not know how the City of Fairbanks could be billed for state law prosecutions. Mr. Steininger answered that the DOL proposal was related to misdemeanor prosecutions, which would be municipal laws. The state laws would remain the responsibility of the state. He deferred further explanation to DOL.

[3:25:12 PM](#)

Representative Rasmussen returned to the PCNs at the Palmer Correctional Center. She wondered if the positions had been funded without occupancy. Mr. Steininger replied that if the staff was not hired there were no costs. The PCN's allow the department to hire the staff when necessary. The costs in FY 20 and FY 21 were related to staff needed to the reopening the facility. Representative Rasmussen asked about the 150 new PCNs from FY 19 to FY 21 and wanted more clarification. Mr. Steininger responded that the correctional officer PCNs were sitting vacant. The PCN number reflected the maximum number of employees DOC could hire but not necessarily the number of current employees. The department may have used some of the PCN's for correctional officers for other correctional facilities. He noted that trying to tie PCNs to actual counts was a difficult endeavor.

Co-Chair Foster reviewed the agenda for the following day.

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ADJOURNMENT

[3:29:03 PM](#)

The meeting was adjourned at 3:29 p.m.