

HOUSE FINANCE COMMITTEE
March 1, 2021
9:03 a.m.

9:03:55 AM

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 9:03 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Ben Carpenter

ALSO PRESENT

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

SUMMARY

HB 69 APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 69 was HEARD and HELD in committee for further consideration.

HB 71 APPROP: MENTAL HEALTH BUDGET

HB 71 was HEARD and HELD in committee for further consideration.

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

[9:04:47 AM](#)

Co-Chair Foster reviewed the meeting agenda.

#hb69

#hb71

HOUSE BILL NO. 69

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; making reappropriations; making supplemental appropriations; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

HOUSE BILL NO. 71

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; making supplemental appropriations; and providing for an effective date."

[9:04:55 AM](#)

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

[9:04:59 AM](#)

NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced himself and resumed a PowerPoint presentation he had presented the previous week titled "State of Alaska Office of Management and Budget," dated February 24, 2021 (copy on file). He had concluded with the Department of Corrections the previous week (slide 12).

Representative Wool noted the governor's proposal to add six medical positions at approximately \$791,000 for the reopening of the Palmer Correctional Center. He stated his understanding that all other positions needed to open the facility, most notably correctional officers, had been funded the previous year; however, the funding had not been used because there had been no correctional officers at the

time. He asked for verification that the funding was still included in the budget.

Mr. Steininger confirmed that the positions had been added into the budget. He explained that the money added into the budget "in those years" had been necessary for the construction and maintenance work done on the Palmer Correctional Center. There were some appropriations to fund the work necessary to reopen the facility. He noted that the facility had been vacant for some time; therefore, the funding had been necessary. Going forward the funding would be used to hire correctional officers added to the budget; the position control numbers (PCNs) had been added but not filled at the time the decision had been made to reopen the facility.

[9:06:49 AM](#)

Representative Johnson noted that she had previously asked Mr. Steininger when the Palmer Correctional Center would be open. She asked if he had an answer.

Mr. Steininger replied that he had not yet received the information from the department and would follow up with the information shortly.

Representative Rasmussen wondered why operating funds had been used for deferred maintenance and work required to get the facility ready for inmates. She asked why capital budget funding had not been used.

Mr. Steininger answered that when the item had been added to the budget, part of the idea was to phase in the cost of reopening the facility into the operating budget in order to avoid a significant shock to the budget in the year it was added. He stated that knowing the operating cost and that the money needed to be spent once the facility was reopened, the administration believed it was appropriate to add the funding "in this manner." He stated that the item could equally have been funded as a capital project, but the chosen funding mechanism had been an effective way to fund the work necessary to open the facility.

[9:08:39 AM](#)

Mr. Steininger relayed that slides 13 and 14 pertained to the Department of Education and Early Development (DEED)

budget. Slide 13 showed the department's non-formula budget. He highlighted that the budget had been relatively flat over the past decade in terms of all funds. There had been some declines in unrestricted general funds (UGF) followed by an increase in the past couple of years (shown in the upper left graph in dark blue). He pointed to a large spike in federal funds (shown in light blue) representing Coronavirus Aid, Relief, and Economic Security (CARES) Act funding that DEED had distributed out to school districts. He reported that the CARES Act had provided a substantial amount of money that had been distributed based on the allocation through the department's federal title programs.

Mr. Steininger spoke to significant FY 22 budget changes in the DEED non-formula items. He reported a slight reduction in the number of support staff needed, travel, and some redundant expenditures, which would save just over \$100,000 in UGF and eliminate one PCN. Additionally, there were several positions within Alaska State Libraries, Archives, and Museums that had been vacant for quite some time that DEED did not intend to fill. He elaborated that eliminating the one full-time position and two part-time positions would save about \$180,000. The department had also discovered it had a redundant data assessment contract. He expounded that as the department had looked at data it received from school districts on student achievement, DEED determined the work could be done in-house. He relayed that the elimination of the contract would save approximately \$230,000 with no reduction in the actual data analysis. There were other savings of about \$121,000 related to travel reductions and increases in virtual work. He stated that DEED had done a lot to increase its technological communications presence to work with school districts.

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Vice-Chair Ortiz stated that the governor had requested increased funds in FY 21 to enable to the State School Board to meet more frequently in person. He asked if the travel reductions included the board. He wondered whether the board had moved away from the plan to meet more frequently in person.

Mr. Steininger deferred specifics to the department. Given that the board had met remotely during COVID, it had found it may be able to increase the number of meetings, but the

additional meetings would be virtual. He stated that some board members lived in remote areas without good access to broadband; therefore, there was still a need for travel for in person meetings. He noted the board could meet more frequently as it embraced videoconferencing.

Vice-Chair Ortiz asked for verification that Mr. Steininger did not believe the school board was returning to the proposal (from the previous year) to meet more frequently in person.

Mr. Steininger replied in the affirmative. He clarified that the proposal to meet more frequently in person was no longer in effect. He explained that travel had been reduced, but the board was expanding the number of meetings virtually.

Vice-Chair Ortiz asked about the elimination of vacant positions within the Division of Libraries, Archives, and Museums. He asked if the positions had not been filled due to the absence of a tour season. He asked if the decision to reduce the staff was for the long-term or related to COVID.

Mr. Steininger answered that change was for the long-term. He relayed there were additional vacant positions the governor's budget did not reduce because post-COVID-19, when tourism increased, the department would need to be able to fully staff the museum. He remarked that the museum received a significant number of visitors in a normal summer. He explained that the proposed staff reductions had been identified as unnecessary in a "post-COVID world."

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Representative Josephson looked at slide 13 and referenced the triangular shaped bump in the graph reflecting the CARES Act funding. He stated that a couple of years back, the legislature had concluded school districts needed \$30 million in FY 19 and \$30 million beyond the formula in FY 20. He remarked that the \$30 million in FY 19 had been litigated and had ultimately been funded. He recalled that the FY 20 [FY 21] funding had been vetoed on April 7, 2020. He asked how he could know the extra CARES Act funding had backfilled the needs of the districts in place of the \$30 million as had been concluded by the legislature.

Mr. Steininger clarified that the funding vetoed in April [2020] had been for FY 21. He explained that when the governor had vetoed the funding, the administration knew there would be \$38 million in CARES Act funds that would be available for distribution to districts. At the time, the administration had believed it could distribute the money based on the K-12 formula calculation (the same way the \$30 million legislative appropriation would have been distributed); however, they had subsequently learned the money needed to be distributed based on federal title programs, which had a slightly different distribution formula.

Mr. Steininger elaborated that part of the funding that went to DEED had much more discretion than the larger chunk that went out based on the title distribution. When the administration had lined out who would receive the title funds and who would have received the \$30 million there had been some gaps - there had been some districts that received less and some that received more. As a result, the administration had utilized a portion of the more discretionary funds in order to backfill some of the gaps to ensure no district received less than it would have under the legislative appropriation that had been made prior to knowing the funds from the CARES Act would come.

[9:16:50 AM](#)

Representative Josephson considered a scenario where a district's needs for the funds were COVID-19 related and therefore did not truly backfill as the legislature had concluded was necessary. He asked for verification that it would be incredibly complicated and nuanced to know.

Mr. Steininger answered that he could not speak to the specific finances of individual districts as there was significant variability between districts. He explained that generally districts received a large amount of money through the K-12 formula program that contained significant discretion in the way districts could spend the funding. He put himself in the shoes of a district finance officer and stated that he would use the slightly more restrictive federal title money before using the K-12 foundation funding. He communicated that any given district likely had enough COVID related expenditures in the past year to apply to the federal dollars; therefore, the additional restrictions on the federal dollars were not material

because districts could use the most restrictive spending first and would have additional money from the K-12 distribution. The administration had changed the amount districts were allowed to carryover from prior years, which increased the amount of discretionary assets districts had available. The administration believed districts had access to the same amount of funding compared to what had been imagined prior to the CARES Act and appropriated by the legislature.

[9:19:01 AM](#)

Representative Josephson highlighted that the U.S. House of Representatives had recently passed a \$1.9 trillion aid package that the U.S. Senate was likely to take action on in the near-term. He remarked that the state could receive \$800 million to \$900 million [in federal funds]. He asked for verification that the federal funds would postpone the cliff wall where there would be no more backfilling. He asked if Mr. Steininger had any comment on the topic. For example, he wondered how the deficit would be dealt with when the day of reckoning came.

Mr. Steininger stated his understanding of the question. He believed Representative Josephson was asking how the state would manage through once additional federal funds (available for both specific and general purposes) coming to the state were expended. He looked back at how the state had dealt with backfilling some of the American Recovery and Reinvestment Act (ARRA) funding that had expired in the 2009/2010 timeframe. Some of the funds that needed backfilling were predictable - much of it was additional money for new programs that were not necessarily needed post-COVID. He remarked that ideally the state would not need additional money in things like unemployment insurance or social services activities. He noted that hopefully people needing those services would have the ability to go back to work after the end of the pandemic.

Mr. Steininger continued that the federal funding was a fairly large injection into the education system including \$38 million through the CARES Act and between \$130 million and \$160 million through the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA). He highlighted that the state could not pick up a \$130 million increase without cause or need. He elaborated that much of the federal funding was because additional investments

needed to be made due to shortfalls in various areas and programs. He furthered that care needed to be taken to not generate an expectation that the state would backfill all of the federal funding [in the future]. He stated that as decisions were made it was important to recognize that the increased funding was short-term in response to a crisis.

[9:22:17 AM](#)

Representative Wool assumed the reference to Libraries, Archives, and Museums was the SLAM (State Library, Archives, and Museum) located in Juneau. He asked if it was the one museum facility under DEED. He had not known the facility fell under DEED. He referenced Mr. Steininger's testimony about federal funding based on a title system. He asked if Title One schools received the first batch of funding. He asked for an explanation of the title system. He referred to the separate slides showing the DEED non-formula versus formula budget items. He asked if Mr. Steininger would explain what the labels meant. He stated he had not done the education budget in the past. He shared that his school district would have a revenue shortfall due to lack of enrollment and the associated lack in state and federal funding. He assumed it was a formula funding. He asked if future federal funding could help fill the hole. He ventured that every school district had a lack of enrollment in the current year.

Mr. Steininger agreed that Libraries, Archives, and Museums was commonly called SLAM and was located in Juneau; the facility was officially the APK [Andrew P. Kashevaroff]. He noted that DEED also managed the Sheldon Jackson Museum in Sitka. He deferred the question regarding federal title programs to the department for additional detail on how funds were distributed to districts. He intended to review numbers on slide 14 regarding reduced student counts physically in schools versus an increase in correspondence students. He noted the situation impacted different districts differently. He informed the committee that DEED had some good tables showing the impact district-by-district based on student demographic and count changes as well as how it compared to money coming in through the CARES Act and CRRSSA and the ability for districts to carry forward money from prior years. He would provide the data to the committee.

Co-Chair Foster added that the Department of Education and Early Development would present to the committee on Thursday.

[9:25:41 AM](#)

Mr. Steininger reviewed the K-12 foundation formula in the DEED budget (including pupil transportation) on slide 14. He explained that the K-12 formula had been fully funded at the Base Student Allocation (BSA); however, there had been changes in the student count and the way students received education. He pointed to the table on the bottom right of the slide showing a high level summary of the formula calculation. He detailed that regular Average Daily Membership (ADM) represented traditional in classroom students and correspondence reflected students receiving distance education. He highlighted a small but significant decrease in the total number of students in the state from FY 21 to FY 22 in addition to a significant shift from classroom education to correspondence. He elaborated that a correspondence student received less funding in the formula than a classroom student because there were fewer costs associated with educating a correspondence student.

Mr. Steininger explained that the changes in student count and demographics had drove the reduction of close to \$20 million in the overall formula. He reported that the reduction would hit different districts differently. He elaborated that districts running some of the correspondence programs had picked up students, while other districts saw a reduction in the number of kids living in their community or attending school in person. He noted that DEED would go into more detail on the differences district by district.

Mr. Steininger highlighted the last change on slide 14. He referenced a residential school formula program that enabled individual residential schools to be authorized to receive funding. There was a residential school in Anchorage that had been authorized to receive funding several years back, but the school had never opened, and the district no longer planned to move forward on the school. Consequently, the governor's budget removed funding associated with the Anchorage school. He explained that the money had been in the budget for several years, but it had never been used because the school never opened.

Co-Chair Foster asked if the reduction was associated with a school in the Lower Yukon that was working with the Anchorage School District.

Mr. Steininger answered that the funding reduction was associated with a school intended to be in Anchorage. He was uncertain what population the school would have targeted. He stated that he did not know the precise answer to the question. He reiterated that the residential school would have been in Anchorage, but it had never opened.

Co-Chair Foster asked if the residential site had been planned for the old Long House [Alaskan] Hotel.

Mr. Steininger replied that the location sounded familiar, but he did not know exactly where the site was. He deferred the question to DEED.

[9:28:57 AM](#)

Representative Wool considered the ADM reduction of 2,000 for a total of \$20 million. He shared that his school district was reporting a loss of 2,000 [students] and up to \$27 million in other funds. He speculated that perhaps some of the students had gone to correspondence outside the district, so the district did not know exactly where they were. He remarked that the state tracked the entire correspondence system and he imagined it would share some of the data with the local districts. He reiterated that there was a deficit of 2,000 students in Fairbanks alone. He was interested in speaking with DEED about the statistics.

Mr. Steininger continued to slide 15 which showed the budget for the Department of Environmental Conservation (DEC). He highlighted slight reductions in overall funding over the past 10 years with fairly significant UGF reductions. He relayed there was a slight increase in UGF primarily due to a change the administration was proposing for FY 22 to correct a fund source for shellfish testing. He explained that previously shellfish testing had been funded with the Commercial Passenger Vessel Environmental Compliance Fund, which came from head taxes from cruise ship passengers; however, review with the Department of Law had determined that there may be some legal issues with utilizing the fund source for shellfish testing. As a

result, the governor's budget changed the fund source to UGF in order to continue shellfish testing.

Mr. Steininger highlighted a reduction in spill prevention and response activity. He detailed that the account responsible for funding the activity had been in deficit spending for several years and only contained funding for a couple of years. He explained that in order to prevent depleting available resources for the program, the budget included a smaller reduction at present in order to make the account more sustainable going forward. There were also numerous small savings resulting from efficiencies in the Division of Administrative Services within the department. The department had determined it could centralize some things within the division and save approximately \$140,000 UGF and \$120,000 DGF, in addition to some matching funds from federal programs.

Representative Josephson asked why the administration did not fight for more funding for the Division of Spill Prevention and Response (SPAR). He recalled hearing from the administration the previous year that the large tank storage facilities were fine and no longer needed to be monitored. He highlighted the further reductions in the governor's proposed budget. He stressed it was well known that the division was suffering. He asked if the administration cared about the issue.

Mr. Steininger answered that the administration cared about the ability to get the work done. He deferred to the DEC commissioner to talk about how the solution had been determined. He explained that it was necessary to address the issue because there was not an ability to continue the program into the future if something was not done. He detailed that a piece of the solution was to reduce some of the activity done in the division. He deferred to DEC to comment on any of the other proposed solutions that could be pursued.

Vice-Chair Ortiz asked if there would be an opportunity later in the week to hear from DEC on the topic.

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Vice-Chair Ortiz asked about the fund source change to UGF for shellfish testing. He asked about the status of the Cruise Ship Passenger Vessel Environmental Compliance Account.

Mr. Steininger answered that the balances were very low in the Cruise Ship Passenger Vessel Environmental Compliance Account and other accounts associated with cruise ship activity and head tax. He detailed that without the fund change and corresponding fund change in the supplemental budget proposal for FY 21, the account would be near or below zero. He reported that a similar analysis applied to the Ocean Ranger Account, which was also funded with head tax and the normal Commercial Passenger Vessel (CPV) account. He noted the acronyms for the accounts could be confusing because they were very similar. He explained that the accounts were very near or at zero because there had been no cruise ship season in 2020. When appropriations had been made from the accounts for FY 21, projections had assumed half of a cruise ship season; therefore, some of the appropriations had brought the funds much lower than otherwise would be comfortable. He informed the committee there was a sufficient balance in the accounts to meet immediate needs but going forward any appropriations from the accounts for FY 22 needed to be looked at closely, given the uncertainty of cruise ship revenues in 2021.

[9:36:52 AM](#)

Vice-Chair Ortiz pointed out that there should not have been any draws on the ocean ranger subaccount because the program had not been in operation. He asked if funds had been used from the account for another reason.

Mr. Steininger answered that two appropriations had been made in FY 21, one of which had been vetoed. The appropriations had been made to address similar concerns for passive water quality testing for the traditional onboard ocean ranger activity. He reported that the onboard ocean ranger activity had been vetoed, but there had been a \$2 million appropriation for passive water quality testing that DEC was currently working on. He summarized that two appropriations had been made from the account to achieve the same general mission, but not through the program itself.

Vice-Chair Ortiz stated his understanding that the \$2 million appropriation had not gone directly to the ocean rangers. He asked if the funds had gone to water quality testing in various communities. He wondered how the appropriation had been distributed.

Mr. Steininger replied that he would follow up with the exact details. He relayed that the passive water quality testing had been an add by the legislature the previous session to address the concern over water quality.

[9:38:43 AM](#)

Mr. Steininger moved to the Department of Fish and Game (DFG) budget on slide 16. He remarked that all departments had seen significant reductions over the past decade and DFG was no exception. He pointed to an uptick in federal receipts (shown in light blue) in FY 22. He explained the increase reflected a change in budgeting. He expounded that fisheries and wildlife programs had traditionally been in the capital budget. He continued that many of the sportfish and wildlife projects funded numerous operating activities; therefore, the FY 22 budget represented the operating side of the programs in the operating budget, while keeping the capital portions of the programs in the capital budget. The administration believed it gave better clarity to the way DFG operations were funded. The uptick in the blue did not reflect a true increase, but a correction in how the expenditures were reflected.

Mr. Steininger highlighted other significant changes within the DGF budget. The budget replaced some UGF in the Commercial Fisheries Division with program receipts. He detailed that over the past several years the department identified that it collected sufficient receipts to reduce some other UGF spend and replace it with program receipts. The change allowed the department to offset a bit of the general fund need within the program. Additionally, there the budget included a consolidation of budgetary components within the Commercial Fisheries Division. Previously, the division had been budgeted based on distinct divisions within the state; however, staff members worked across the regions. Consequently, there had been significant complexity associated with billing staff member time across the regions and ensuring money was in the budget where needed to pay employee salaries. He added that employees would continue to record their time spent on individual

fisheries projects and the data on the amount of money spent in each region would still be available. The technical change would save some backend work for DFG staff responsible for tracking where the money went and making budget transactions mid-year to ensure payroll could be met.

Mr. Steininger continued to address changes in the DFG budget. He referenced a piece of 2018 legislation impacting the Commercial Fisheries Entry Commission (CFEC) commissioners' salaries, which resulted in a reduction of about \$42,000. The budget increased authority related to federal grants. Additionally, some money had been added for fisheries disaster funding.

[9:42:02 AM](#)

Vice-Chair Ortiz referenced the first bullet point on slide 16 related to replacing UGF with commercial fisheries program receipts. He asked if the money would be generated through hatchery cost recovery fisheries activities.

Mr. Steininger replied the funds came from fees paid by fishermen. He elaborated that previously the department had collected greater than the amount budgeted to spend and had lapsed the money into the General Fund. The proposed budget reflected directly spending the receipts and offsetting the UGF cost. He did not believe it was related to the hatcheries, but he would confirm with the department.

[9:43:18 AM](#)

Mr. Steininger turned to slide 17: "Office of the Governor." He highlighted the transfer of the Alaska Development Team from the Department of Commerce, Community and Economic Development (DCCED), which had been discussed on an earlier slide the previous Wednesday. Additionally, the budget would eliminate the OMB analyst chargeback rate. He detailed that the chargeback rate had been implemented a couple of years back and over time it had been found that the chargeback was not generating the savings from the ability to bill back to the federal government. The budget added \$200,000 UGF and removed \$410,000 in chargebacks because within the past year, some cost saving reductions had been implemented within OMB in order to minimize the impact of the chargeback on agencies and the UGF cost.

Mr. Steininger continued to review the budget for the Office of the Governor on slide 17. The administration was undergoing an initiative to adjust the way central services rates were charged. He explained that central services rates were charged by agencies like the Department of Administration or the Department of Transportation and Public Facilities for services they provided on behalf of other departments. The administration was making the adjustment to create some certainty for departments regarding future rates. He detailed that currently rates were calculated at the beginning of each fiscal year, which was significantly after the department had a chance to determine its budget request for the fiscal year. The proposal would set the rates one year in advance so the departments would know what they would pay for things like human resources (HR) or information technology (IT). However, setting the rates one year in advance created some uncertainty for IT and HR related to how they would pay for any unanticipated cost or if the rate calculation slightly missed the mark. In order to create certainty for agencies, the administration was looking to use prior year lapsing general fund dollars to create a fund that would allow the smoothing of rates and ensure that any decline in the rates collected (compared to the projection) did not harm the ability to provide IT or HR services.

Representative Josephson noted that slide 17 reflected a change during the current administration of -\$3.3 million and 15 more staff. He asked for detail.

Mr. Steininger answered that the 15 new staff were primarily the Administrative Services Directors that were transferred from the departments to the Office of Management and Budget in December 2019.

Co-Chair Foster asked where the Alaska Development Team currently under DCCED was being transferred.

Mr. Steininger replied that the transfer was from DCCED to the governor's office.

[9:47:00 AM](#)

Representative Wool thought the transfer had been denied in the subcommittee process. He speculated that perhaps there

had been a request to move more people into the governor's office. He asked for detail.

Mr. Steininger answered that he was not as familiar with the request from the prior year. The current request would move two positions within the Division of Economic Development to the governor's office to raise the work to cabinet level activity. He stated there may be some overlap with the proposal from the previous year, but generally speaking it was a new proposal to elevate the activity.

Representative Wool asked for verification that the item was a request that had not yet taken place.

Mr. Steininger answered that the proposal would implement the change within the FY 22 budget.

[9:48:19 AM](#)

Mr. Steininger reviewed the non-Medicaid portion of the Department of Health and Social Services (DHSS) budget on slide 18 (slide 19 reflected Medicaid spending). He highlighted a significant spike in federal receipts reflected in light blue in the upper left graph. The increase represented substantial money from the CARES Act as well as in emergency programs. He detailed that the funding included anything related to the mitigation of COVID or response to COVID. He noted that much of the COVID-19 related relief funding had been distributed from DHSS (apart from grant programs within DCCED).

Mr. Steininger spoke to changes in the non-Medicaid portion of the DHSS budget going into FY 22. He relayed that the Division of Public Assistance (DPA) was the "poster child" for efficiencies and savings discovered as a result of telework. He elaborated that when the division sent its staff off to telework, their processes within public assistance and public assistance eligibility were very paper-heavy. He explained that the workflow did not work when employees were all working from home. He shared that the solution had come in the form of an electronic system that allowed the division to scan and catalogue data in a way that enabled lining out data on a document and loading it into IT systems. The change had significantly reduced the time spent by staff on reading documents, typing in names, and moving fields from documents into the digital system. The change would allow the division to reduce 121

positions including 20 positions hired temporarily to address the backlog. He detailed that the positions would be reduced through attrition over the next 1.5 years. The division had already begun by not filling vacated positions where a need did not exist. He clarified that there was no intention to lay anyone off, but there was enough turnover within the unit that the division believed it would be able to eliminate the positions by the end of FY 22. The savings equaled almost \$3.5 million UGF and a corresponding amount in federal receipts, in addition to the expiration of a temporary initiative addressing the backlog. He summarized that the division had worked through its backlog and generated significant efficiencies going forward.

[9:51:36 AM](#)

Mr. Steininger continued to review slide 18. The Division of Public Assistance would see a reduced postage cost from moving to online renewal. The Office of Children's Services (OCS) was looking to replace a Circle of Support grant with direct case work. He explained that the grant included activities involving working with families in the home to try to prevent people from needing the more significant services performed by OCS. The division was looking to move towards using direct casework, which would be a more hands on approach rather than granting out funding for the work. The change would enable OCS to collect federal receipts to pay for the work.

Mr. Steininger addressed the last bullet point on slide 18 related to an increase of \$2.4 million in federal receipts for subsidized adoption and guardianship. He noted there was a corresponding supplemental request as well. He reported that OCS had seen an increase in the number of children being placed in permanent care. He characterized the increase as successful because children were going into permanent care.

Representative Johnson stated that the most recent audit of OCS and Medicaid reported there was about \$130 million in benefits going to people who no longer qualified. She asked what was happening with the information. She wondered if the needed changes were reflected in the budget.

Mr. Steininger answered that he was not familiar with the specific audit, but he expressed interest in reading it. One of the issues the state had been facing with Medicaid

in the past year was that the enhancement to the money coming in through the CARES Act - a 6.2 percent increase in federal reimbursement received by the state - came with some strings attached. During the pandemic, the state was not allowed to make any changes to benefits or enrollment in Medicaid. Consequently, addressing concerns like the one mentioned by Representative Johnson had been hampered in the past year. He clarified it did not mean the department had ceased all activity in trying to review or think about what it would be able to do once the restrictions were lifted. He added that the state was still able to address direct fraud that occurred. He deferred to the department on any specific fraud prevention efforts.

[9:55:12 AM](#)

Representative Johnson stated her understanding that Alaska had been selected as one of the states to be audited for the CARES Act funding. She asked if CARES Act money could be used to finance work related to the audit. Alternatively, she wondered whether the budget addressed the issue.

Mr. Steininger clarified that the state had been randomly selected for a desk review, not an audit. He remarked that the review could potentially become an audit. He explained that the desk review would look at the processes behind the state's reporting of CARES Act expenditures. He relayed that costs associated with the work were generally borne through the state's normal operating costs. For example, some activities looked at in the desk review happened within OMB and the division would accommodate for the work with existing staff time with no need for additional resources.

Co-Chair Merrick asked what year Medicaid expansion had been implemented.

Mr. Steininger responded that Medicaid expansion had occurred in 2016.

[9:57:11 AM](#)

Mr. Steininger detailed the Medicaid portion of DHSS budget on slide 19. He pointed to a graph in the upper left of the slide and highlighted the budget increase reflecting Medicaid expansion. He noted a slight decline, fairly flat

spend in UGF over the time period. He reported that a lot of effort over the past several years had focused on stemming some of the increases to Medicaid and keeping downward pressure on the UGF portion of the cost. Additionally, several Division of Juvenile Justice positions were eliminated that were associated with Anchorage School District Step-Up Program. He explained that the activity had been transferred to the school district and would no longer appear in the state budget. The budget would eliminate a couple of vacant Division of Juvenile Justice positions that had been eliminated. He clarified that the positions were for office support and did not work directly with children served by the division.

Mr. Steininger highlighted a Medicaid program reduction of about \$35 million from FY 21 to FY 22. The administration was looking to utilize some of the money saved through the enhanced federal participation over the past several quarters in order to phase-in cost reductions in the program. He referenced his earlier statement the state was not allowed to make any changes to benefits or enrollment in Medicaid [during the pandemic]. He noted that the restriction did not allow the state to look at people on the eligibility rolls that did not meet current requirements. The state could not make any immediate changes to the program.

Mr. Steininger highlighted that even in the best possible world, it was not possible to make quick changes to Medicaid; making changes required substantial interaction with federal partners and the medical industry within the state in order to come to an agreement on how the program should look. Additionally, changing eligibility standards required legislation. The budget used the excess money to effectively buy the state a year with a target amount at which to budget FY 23. He explained that while the proposed reduction for FY 22 was backfilled with savings from the prior year, it set a standard and objective for partners to work towards for FY 23.

[10:00:30 AM](#)

Representative Josephson stated that [DHSS] Commissioner [Adam] Crum had testified before a Senate committee that because of the 6.2 percent enhanced match, \$35 million had lapsed to the General Fund. He believed the commissioner had stated there would be an enhanced match for the first

two quarters of FY 22. He asked if the commissioner was correct that because of COVID and federal funding, the general fund should have around \$60 million lapsed to it spanning two years.

Mr. Steininger answered in the affirmative. He added that the information reflected the budget the administration had put forward in December [2020], prior to knowing the enhanced Federal Medical Assistance Percentage (FMAP) would reach into FY 22; therefore, the numbers in the budget did not really account for the situation. He explained that at the time the budget had been released, the administration expected the enhanced FMAP to expire in the first quarter of 2021. He informed the committee that it changed what was necessary for the Medicaid program going into FY 22 and how much of the lapsing funding from FY 21 would be needed in order to ensure DHSS could meet its obligations in FY 22.

Mr. Steininger reported there was significant uncertainty about whether there would be another extension of the enhanced FMAP. He noted an extension seemed unlikely because it was so far out; however, he would have said the same thing a year earlier. He stated that it would be necessary to keep an eye on the General Fund need. He pointed out that if money was not spent on the Medicaid program, it lapsed to the General Fund. A significant amount of funding had lapsed in FY 20 as a result of the enhanced FMAP. He predicted that a fairly significant amount, more than was necessary for the phase-in, would be lapsed in FY 21.

[10:03:29 AM](#)

Vice-Chair Ortiz looked at the graph on slide 19 depicting how increased federal revenue began coming into the state with Medicaid expansion. He asked if it was clear that Medicaid expansion did not cost the state any additional money when implemented. He believed an additional 60,000 residents had gained insurance under Medicaid expansion. He asked for verification that expansion had financially been a good deal for Alaska.

Mr. Steininger answered that through a great deal of effort by DHSS, the General Fund spending on Medicaid had remained fairly flat. He reported that there was General Fund spending associated with Medicaid expansion. There had been 100 percent [federal] match in the first year, going

towards a 90/10 [federal/state] match. He elaborated that expansion had also allowed access to federal funds through things like tribal reclaiming. He reported there had been numerous efforts in terms of reforms in eligibility and optional services the department engaged in with the goal of keeping General Fund costs flat. He confirmed that Medicaid expansion had increased the number of people served by the Medicaid program in Alaska. He could follow up with the precise statistics.

Vice-Chair Ortiz asked for verification that the flat line in dark blue [in the graph on slide 19] indicated that from 2015 to 2022 the total [UGF] expenditures had not increased and had decreased slightly.

Mr. Steininger agreed. He explained that there was a General Fund cost associated with expansion. The cost in addition to other cost pressures (e.g., the rising cost of medical services in Alaska) had been challenges the department had confronted in order to keep the budget flat. He stated it had been substantial effort put in by DHSS staff to keep the line flat. He noted the information was necessary context to have regarding whether the line could remain flat for much longer.

[10:06:43 AM](#)

Mr. Steininger discussed the budget for the Department of Labor and Workforce Development (DLWD) on slide 20. He highlighted a gradual decline in General Fund spending over the past decade. The FY 22 budget included a reduction in General Fund match for the Basic Support Federal Grant (the change reflected less UGF spend and increased federal funding for the program at the same level of service). There were some small reductions throughout the department to commodities, travel, and office space for a total savings of about \$214,000. He explained that the savings had been identified as employees had gone to telework and the department found areas where savings could be sustained in the long-term. The department was deleting three vacant positions that it had no need to fill.

[10:08:10 AM](#)

Mr. Steininger reviewed the Department of Law (DOL) budget on slide 21. He highlighted a decrease in funding from FY 16 to FY 17 followed by a gradual increase in UGF as

investments had been made in public protection agencies including the Criminal Division. The proposed budget would add 19 positions and \$3 million to ensure timely processing and prosecution of sexual assault and abuse cases. The budget sought partnership with home rule communities to support the prosecution of misdemeanors. He elaborated that the proposal would allow UGF savings of about \$1.3 million with collection of \$1.3 million to support the activities performed on behalf of the communities.

Representative Wool surmised that the proposal would mean local communities would pay \$1.3 million for the prosecution of misdemeanors, which would save DOL \$1.3 million. He asked if that was the partnership the administration was seeking.

Mr. Steininger replied that currently the home rule communities had the legal authority to prosecute local misdemeanors. He explained that DOL had been picking up the cost for a number of years without any [financial] participation from the communities. The administration was looking to expand the partnership to include compensation from communities for the services rendered on their behalf. The budget item asked communities to assist with the cost incurred on their behalf.

Representative Wool surmised there was currently a partnership where the state was paying for the prosecution and the administration wanted to reduce the partnership by passing the costs to the communities. He remarked that municipalities were not doing well financially. He referenced a past statement by Representative Thompson that Fairbanks did not prosecute driving under the influence (DUI) cases because they did not have a law against it, yet the state did. He did not know if the situation existed in other municipalities. He asked if there would be a reduction in the prosecution of misdemeanors if local communities could not afford the expense. He asked if DOL had contemplated that communities would not be able to do the work because they did not have the funds.

Mr. Steininger answered that the budget item was specific to misdemeanors under a community's misdemeanor code. He clarified that if an offence fell under a state law, it was a state obligation to prosecute. He explained that money paid by a community for the purpose of prosecuting local misdemeanors could only be used for the specific purpose in

the specific community. He stated that at the end of the day, there was other money within DOL to support general activities. He relayed that communities that did not contribute would be dealt with within the resources remaining at DOL. He elaborated that if DOL had the capacity to prosecute a misdemeanor, it would assist. Communities that contributed would have paid for the service and would receive the service, while other communities would not be prioritized as much as communities that had paid.

Mr. Steininger elaborated that there were several home rule communities within the state that prosecuted their own misdemeanors. He was aware of at least one community that had entered into a partnership with DOL to ensure prosecution presence. He noted that the proposal was not necessarily a new concept, but the administration was looking to expand it to all communities with the legal authority and responsibility to prosecute their own misdemeanors to ensure the service provided was funded. He clarified there was not a desire to reduce the prosecution of misdemeanors. The desire was to cost-share an activity that was the responsibility of home rule communities. The administration saw the value of having the service take place within DOL, yet the state was also experiencing difficult fiscal times and when something was not directly the state's responsibility, looking for partnership was important.

[10:13:51 AM](#)

Representative Rasmussen asked how many home rule communities existed in Alaska.

Mr. Steininger answered that he would follow up with the number.

Representative Rasmussen asked how many communities would be impacted by the proposed partnership.

Mr. Steininger answered that all [home rule communities] would be impacted with the exception of two communities that did their own prosecution and one community that had an existing agreement with the state. He noted there may be others, but he only knew of the three.

Representative Rasmussen referenced a note listing Fairbanks, Kenai, Cordova, Ketchikan, Kodiak, Nenana, North Pole, Palmer, Seward, and Valdez. She asked if the list sounded accurate in terms of communities that would be impacted by the budget change.

Mr. Steininger believed there were more communities in addition to the ones listed by Representative Rasmussen and he would follow up with the information.

Representative LeBon noted that Representative Rasmussen's list of home rule communities was not all encompassing, but it provided a good idea of which communities fell into the category. He remarked that the budget item pertained to local misdemeanors in home rule communities that DOL had been prosecuting on behalf of the communities. He stated his understanding that the budget shift was to put the responsibility where it lay with the home rule communities.

Mr. Steininger replied in the affirmative.

[10:16:08 AM](#)

Representative LeBon asked if part of the problem involved home rule communities not paying for trooper service.

Mr. Steininger replied that the proposal did not address trooper service; the state was continuing to directly fund trooper service.

Representative Johnson highlighted that the situation was larger than the one line appearing on slide 21. She shared that in the past, she had been the mayor of a home rule city for six years. She detailed that Palmer had police department and courthouse. She explained one of the things that happened when people were waiting for trial on an ankle monitor. She detailed that a person could not necessarily have an ankle monitor tracked if they were outside a certain radius of the monitoring station; therefore, those individuals often ended up waiting inside the city limits. She remarked that it was not a situation that was organic to the city, but it was something the state had brought in. She highlighted that home rule cities often had their own police departments, but part of the issue was the state bringing people to live inside the city limits for a period of time who had a history of criminal behavior.

10:18:10 AM

Vice-Chair Ortiz asked for the definition of a home rule community.

Mr. Steininger answered that home rule communities had the authority to set their own misdemeanor code and prosecute misdemeanors. He noted that DCCED could speak to the specific definition of a home rule community.

Vice-Chair Ortiz asked if Anchorage was a home rule community. If not, he asked what distinguished Anchorage from a home rule community.

Mr. Steininger answered that Anchorage was one of the communities that provided its own misdemeanor prosecution.

Vice-Chair Ortiz surmised that Anchorage was not a home rule community.

Mr. Steininger replied that Anchorage was already performing the service itself.

Representative Josephson stated that in some respects the powers home rule communities chose were "a la carte." He believed home rule communities did not have to choose the prosecution of misdemeanors if they did not want to. He believed that part of what the budget proposal did was require communities to pay for a service that local governments had elected not to invest in.

Mr. Steininger answered that at issue was the decision being made not to fund the necessary activity. He elaborated that the state took up the prosecution of misdemeanors when the community elected not to because it was a necessary service in public protection. The administration was asking communities to help support a cost of an obligation necessary for the communities. He confirmed that communities had the ability to choose not to prosecute misdemeanors and the state had been picking up the cost. The state was asking the communities to pick up the cost, not the activity itself. He reiterated that the administration was looking for communities to help pitch in on the cost the state was incurring on their behalf through the decisions made by the communities.

[10:21:38 AM](#)

Representative Josephson stated it begged the larger question that had recently been raised about costs associated with law enforcement outside the cities of Wasilla and Palmer for example. He noted that the costs were borne by all of the citizens but benefitted by people living outside of the organized communities. He thought following the budget proposal meant the state would also have to charge for Alaska State Trooper service outside the cities in the Mat-Su Borough.

Mr. Steininger answered that the administration was not proposing to do that. He clarified that the proposal looked only at activities specific to DOL. The administration did not have a proposal to change the way troopers interacted in the state and was continuing to prioritize investment in troopers within the state's means.

[10:22:58 AM](#)

HB 69 was HEARD and HELD in committee for further consideration.

HB 71 was HEARD and HELD in committee for further consideration.

Co-Chair Foster noted that the meeting would adjourn due to House floor session. He discussed the schedule for the afternoon meeting.

#

ADJOURNMENT

[10:23:42 AM](#)

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