

HOUSE FINANCE COMMITTEE  
April 27, 2021  
9:12 a.m.

[9:12:25 AM](#)

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 9:12 a.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

Brodie Anderson, Staff, Representative Neal Foster; Alexei Painter, Director, Legislative Finance Division; Representative Chris Tuck.

PRESENT VIA TELECONFERENCE

Jeff Jones, Self, Ketchikan; Gerard Asselin, Captain, Anchorage Police Department, Anchorage; Jodie Hettrick, Fire Chief, Anchorage Fire Department, Anchorage; Angie Fraize, Officer, Anchorage Police Department Employees Association, Anchorage; Justin Mack, Alaska Professional Firefighters Association, Anchorage; Nick Davis, Senior Captain, Anchorage Fire Department, Anchorage; Jacob Wilson, Business Agent, Alaska Correction Officers Association, Anchorage; Nick Clark, Paramedic and Fire

Fighter, Fairbanks Fire Department, Fairbanks; Jim Puckett, Deputy Director, Division of Retirement and Benefits, Department of Administration.

SUMMARY

HB 55 PEACE OFFICER/FIREFIGHTER RETIRE BENEFITS

HB 55 was HEARD and HELD in committee for further consideration.

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.

HB 92 ANTICIPATION OF REVENUE; BORROWING; CREDIT

CSHB 92 (FIN) was REPORTED out of committee with a "do pass" recommendation and with one new indeterminate fiscal note from the Department of Revenue.

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."

9:13:15 AM

Co-Chair Foster relayed that the committee would hear the latest changes on the operating budget. He referenced a request from the previous day to take more time reviewing proposed changes in the committee substitute (CS) [adopted on May 23, 2021]. He discussed that the first CS the committee had considered was the governor's budget that had been rolled out on March 9. He shared that the meeting would focus on the operating budget. He indicated the goal was adjournment on May 19 and he was hoping to get the budget over to the Senate. The meeting would focus on the high points of the changes from the governor's budget to the current CS.

Co-Chair Foster detailed that the CS rolled in supplemental and capital items from the governor's operating and capital budgets. He planned to speak about the CS and have committee discussion on the details of traditional budget items. Additionally, he would have his staff to speak about supplemental and supplemental capital additions included for FY 21. He planned to address how the American Rescue Plan Act (ARPA) funds had been included. He referred members to a table titled "FY22 House Committee Substitute (CS1) Summary" (copy on file).

9:17:10 AM

Co-Chair Foster explained the first part of the document included traditional operating budget items and the last part of the document focused on ARPA funding. He detailed that the operating budget summary was broken down by department and included the major changes in the CS compared to the governor's budget.

Co-Chair Foster began with the Department of Administration (DOA) and highlighted that the House Finance subcommittee had accepted the governor's proposal to consolidate human resources procurement. The CS added \$3.3 million in undesignated general funds (UGF) for public broadcasting. He moved to the Department of Commerce, Community and Economic Development (DCCED) budget where the subcommittee had accepted the governor's proposal to move a couple of

economic development positions from DCCED to the Office of the Governor. The CS included \$450,000 for Alaska Legal Services. He detailed that Alaska Legal Services typically received funding from two sources. He explained that the agency received some funding through the language section via court fees. He highlighted an addition of \$450,000 in the numbers section. He believed the \$450,000 had been included because it had been vetoed by the governor in the past. He asked his staff if his recollection was accurate.

BRODIE ANDERSON, STAFF, REPRESENTATIVE NEAL FOSTER, replied that Alaska Legal Services funding had been maintained at that level for a few years. He elaborated that the governor had attempted to veto the funding several years back; however, the funds had been replaced by HB 2001 at the time. He explained that the governor had not vetoed the funding since that time, but he continually attempted to remove it from the numbers section of the operating budget each year.

Co-Chair Foster stated that the governor had not included the funding for Alaska Legal Services in the budget, but the CS added the amount to maintain flat funding from the prior year. Additionally, the CS included \$370,000 UGF for the Kuskokwim Ice Road grant. He detailed the item was new and was a grant to named recipients for the maintenance of an ice road from Bethel connecting 10 to 15 communities.

[9:20:24 AM](#)

Co-Chair Foster highlighted changes under the Department of Corrections (DOC). The CS denied \$4.3 million UGF to replace restorative justice lost funds. Additionally, the CS denied structure change proposal relating to putting electronic monitoring and community residential centers (CRC) into population management. He detailed that the bill included intent language for DOC to renegotiate contracts with CRCs to flat rate contracts.

Co-Chair Foster moved to the Department of Education and Early Development (DEED). He reported that the House had early funded and forward funded education, which was included in separate legislation. He believed there may be a misconception that the legislature was double funding education in the current year and future years by potentially increasing the budget. He clarified the early funding for education funded the FY 22 budget and the

forward funding component funded education one year in advance and used FY 23 revenue. He elucidated that the action did not increase the budget, it just pertained to the timing of the budget. The CS added \$5 million for Pre-K. He noted that Pre-K had been funded in the past, but the governor's budget did not include an increment. He highlighted that the CS funded \$640,000 for the Statewide Library Electronic Doorway (SLED) program and Alaska Library Catalog using DGF funds. He asked Mr. Anderson about the DGF fund source.

[9:22:31 AM](#)

Mr. Anderson replied that the DGF fund source was the Higher Education Fund.

Co-Chair Foster continued to review changes to the DEED budget. The CS denied the governor's proposed deletion of a State System of Support position. The CS retained the \$109,000 using DGF.

[9:23:10 AM](#)

Co-Chair Foster moved to the Department of Environmental Conservation (DEC). The subcommittee would continue to use the Commercial Passenger Vessel (CPV) fund to pay for shellfish testing. He reported that no significant changes had been made to the Department of Fish and Game budget.

Co-Chair Foster advanced to the budget for the Office of the Governor. The CS accepted the transfer of economic development positions from DCCED to the Office of the Governor. Additionally, the CS accepted the governor's request for \$690,000 UGF for the Division of Elections for ranked choice voting. He noted ranked choice voting had passed by ballot initiative and the increment would go towards notifying the public. The CS included intent language that the Office of Management and Budget (OMB) review single audit costs (for amounts billed to the federal government) and reimbursements.

Co-Chair Foster moved to the Department of Health and Social Services (DHSS) and addressed the addition of \$3.4 million UGF related to a tribal compact. He asked Mr. Anderson for verification the funds were for child welfare.

Mr. Anderson replied in the affirmative. He elaborated the tribal compact was between tribal organizations and the Office of Children's Services. The \$3.4 million DGF increment helped take care of Native adoptions. He explained the increment was a one-time allocation to provide the level of funding typically expended in a single year and encourage the development of a partnership for other fund sources going forward.

Co-Chair Foster asked if the DGF fund source was restorative justice funds.

Mr. Anderson replied that the fund source was recidivism funds.

Co-Chair Foster continued to discuss the changes made to the DHSS budget. The CS used \$16 million in mental health funds instead of the governor's proposal to use Alaska Mental Health Trust Authority (AMHTA) reserves. Additionally, the administration proposed using \$35 million in lapsing Medicaid carryforward, which had been denied by the subcommittee. The CS would reappropriate lapsing funds to the language section for school bond debt reimbursement [and Regional Educational Attendance Area (REAA)].

[9:26:36 AM](#)

Co-Chair Foster moved to Judiciary and stated that the CS accepted the governor's \$480,000 increment for therapeutic courts. There were no significant recommendations for the Department of Labor and Workforce Development. Under the Department of Law, the budget eliminated \$267,000 UGF for the chief of staff position. Additionally, in FY 21, the governor had vetoed a new \$20,000 line item for Janus v ASCME. The CS reinstated the structure and \$20,000 in FY 22. He reported that \$1 million UGF was added for the Division of Legislative Audit. He highlighted interagency charging for time and work related to audits. He detailed that the funds were not always paid back to the Division of Legislative Audit. The increment would go directly to legislative audit for compensation instead of sending the money through a department first. He believed there had always been a question about who owes what and the goal was to cut out the middle person. He asked his staff to elaborate.

Mr. Anderson confirmed the statements. The \$1 million was a one-time increment while OMB and the Division of Legislative Audit worked out the details for billing through the RSA [reimbursable services agreement] or interagency receipts. He highlighted intent language in the Office of the Governor for OMB to work with some cooperation. He stated that while the entities figured out the rates for different things, it would also be a time to determine how Legislative Audit would be able to bill departments for work, primarily the Comprehensive Annual Financial Report (CAFR), which was constitutionally required. He explained that Legislative Audit audited each department; therefore, some sort of cooperation for providing funds to the division was necessary. Until the parties determined how to get the rate established, the \$1 million increment would enable the production of what was formerly known as the CAFR to be produced for the coming year.

[9:29:44 AM](#)

Co-Chair Foster moved to the Department of Military and Veterans Affairs. The department identified various savings (i.e., eliminated vacant positions) all of which the subcommittee accepted. He advanced to the Department of Natural Resources. The subcommittee had recommended filling six Alaska Conservation Corps positions, but only if enough fees were collected and no UGF funds were required.

Co-Chair Foster briefly moved to the Department of Public Safety. The subcommittee had denied a \$1.4 million UGF capital outlay request for troopers in addition to \$1.4 million UGF for the full funding of vacant trooper positions. He highlighted the Department of Revenue (DOR) and relayed that \$210,000 DGF was added for two tax auditors. He explained that the cost of the two positions would be outweighed by the potential revenue. He asked Mr. Anderson to elaborate on the associated DGF fund source.

Mr. Anderson believed the document contained an error. He corrected that under the Department of Revenue the tax auditor positions at a cost of \$210,000 should be UGF not DGF. He elaborated the first attempt had been to pay for the positions with DGF program receipt authority pushed to DOR to help offset the cost of the two new positions; however, the effort had not been successful.

Co-Chair Foster continued discussing DOR. He highlighted the incentive compensation for the Alaska Permanent Fund Corporation (APFC). He moved to Department of Transportation and Public Facilities (DOT) and referenced the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) funding of slightly over \$50 million. He detailed that the funds in addition to language from the language section of the bill would go towards providing for 18 months of forward funding for the Alaska Marine Highway System (AMHS). He would elaborate on the funding later in the meeting.

Co-Chair Foster turned to the University budget. The subcommittee accepted the governor's \$20 million decrement, which was the third year of the three-year compact between the administration and the University Board of Regents. Additionally, the subcommittee added \$15.7 million for lost revenue relief at a net decrease to the University budget of \$4.3 million.

Co-Chair Foster moved to the language section of the CS. He detailed that the Permanent Fund Dividend (PFD) would be addressed in a separate bill that should be heard on the coming Thursday or thorough the budget amendment process. He discussed that the governor had originally put out a supplemental to pay the balance of the 2020 PFD in addition to a separate bill that would pay a full PFD in the current year. He shared that "we have been looking at rolling out our own version" of a PFD. He added that the issue may come up in the form of an amendment from any committee member regardless of the introduction of a separate bill.

[9:34:43 AM](#)

Co-Chair Foster continued to review changes in the language section of the bill. He moved to 18-month forward funding of AMHS via CRRSA FTA [Federal Transit Administration] and FHWA [Federal Highway Administration] funds. He asked for verification the amount was around \$110 million.

Mr. Anderson answered that the total funding for the 18-month forward funding of AMHS was \$193 million, including \$53 million UGF.

Representative LeBon asked about oil tax credits. He stated his understanding that the original \$60 million to pay oil tax credits with Alaska Industrial Development and Export

Authority (AIDEA) reserves had been amended to \$114 million. He asked if the funds were all UGF or if the funding source was split.

Co-Chair Foster answered that the governor's original budget allocated \$60 million in AIDEA reserves to pay for oil tax credits, which had been the full statutory amount based on oil prices at the time. The governor had later submitted an amendment to change the fund source to UGF and increase it to the current statutory amount of \$114 million.

Co-Chair Foster continued addressing the language section of the budget. He highlighted an increment of \$950,000 to cover the costs to elections for implementing the new redistricting plan and a separate increment of \$1 million for the redistricting board. He shared that had chaired the Legislature subcommittee and the \$1 million had been added at the request of the redistricting board. He elaborated that the legislature had appropriated \$2.5 million for the redistricting board in FY 21/FY 22. The board had since come back to the legislature requesting the additional \$1 million, bringing the amount to \$3.5 million. He explained the board was anticipating legal challenges, as was the case 10 years back. He believed the board's budget had been \$7 million at the time.

Mr. Anderson confirmed that the board's budget [10 years back] had started off at \$7 million and ended at \$10 million.

Co-Chair Foster asked Mr. Anderson to touch on the \$950,000 increment to cover the cost of implementing the new redistricting plan.

Mr. Anderson replied that the \$950,000 increment would go to the Division of Elections for implementing the redistricting plan after the board had rolled out its plans. He elaborated it would be up to the division to produce the new maps and distribute new voting cards to citizens. The \$950,000 was to cover new costs required due to some of the problems related to implementation.

Co-Chair Foster asked for verification it was part of the governor's proposal.

Mr. Anderson agreed.

[9:38:56 AM](#)

Co-Chair Foster addressed school bond debt, which was fully funded at \$83.5 million. The funds were made up of \$30.8 million from the School Trust Fund and \$52.7 million from Medicaid lapsing funds. He noted that the governor had proposed carrying forward Medicaid lapsing funds within DHSS, but the CS would reappropriate the lapsing funds for school bond debt. He reported that the REAA Fund was fully capitalized at \$34.2 million with Medicaid lapsing funds. He explained that school bond debt and REAA were typically tied together, meaning if one was fully funded the other typically received full funding as well. He noted that the CS contained backstop language specifying the increments would be funded with UGF in the event lapsing funds were not available.

Co-Chair Foster highlighted the large difference in community assistance funds between the governor's proposal and the CS. He detailed that community assistance was fully capitalized at \$90 million. He explained that the legislature had added \$21.3 million in FY 21 and \$17 million in FY 22 to bring the fund back to its fully capitalized level of \$90 million. He added that the fund had to be replenished annually.

[9:41:46 AM](#)

Co-Chair Foster addressed ARPA funding. The legislature anticipated the state would receive about \$1.9 billion in federal funding. He explained that a significant portion was restricted for specific purposes. He highlighted the spending flexibility related to \$1 billion of the funds commonly referred to as the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF). He noted that in some ways the allocation approach in the CS was similar to the governor's and in some ways it diverged. One of the large differences was in the amount spread out over the years. He explained that the governor had appropriated the full \$1.1 billion under HB 181 using a multiyear appropriation from FY 21 through FY 24. The CS would spend 70 percent in FY 21 and FY 22 and 30 percent in FY 23. The strategy centered around the belief that most of the impacts to the cruise ship industry and other related areas had occurred in 2020 and in the coming summer. He expected the hit to be less in

the following year; therefore, more of the funds had been weighted towards the present than later on.

Co-Chair Foster looked at the last page of the document and noted that \$30 million had been allocated to nonprofits compared to a \$50 million allocation the previous year. He pointed out that things had been done differently under the Coronavirus Aid, Relief, and Economic Security (CARES) Act when compared to ARPA. The \$30 million increment for nonprofits reflected flexible money. He explained that when accounting for the non-flexible funding that automatically went to nonprofits, the number could be larger than \$30 million. Additionally, he reminded members the CS did not appropriate the full \$1 billion like the governor had proposed; the CS would appropriate 70 percent of the total for the current budget cycle. He explained that between the two sources nonprofits may receive between \$60 million or \$70 million.

Co-Chair Foster addressed public testimony the committee had received about the unexpected loss of Victim of Crimes Act (VOCA) federal funds. The CS included \$6 million to backfill lost federal funds in addition to any reductions seen on the state side. He asked Mr. Anderson to expound on the topic.

Mr. Anderson elaborated that the committee had heard about a \$6 million reduction in federal VOCA funding during public testimony. The CS included funding to restore the reduction. He stated there had been some confusion about the reduction during public testimony. He clarified there had been some incremental reductions to domestic violence shelters at the state level beginning in FY 18. The CS restored the federal loss but did not address increasing the Council on Domestic Violence and Sexual Assault (CDVSA) funding levels back to FY 18 or FY 19. He stated that while the CS restored the federal loss, the funding remained lower than in previous years.

[9:47:52 AM](#)

Co-Chair Merrick had been under the impression the loss of the federal funds had been \$1.3 million and the \$6 million included previous state cuts.

Mr. Anderson clarified that the \$6 million covered the federal loss for the next three years.

Representative Rasmussen asked if there had been any conversation with advocates in the VOCA sector about a one-time \$6 million payment. Alternatively, she asked if the funds would be broken up over three fiscal years.

Mr. Anderson answered that the CS included \$6 million over three years. He explained there would have to be an amendment or adjustment to the CS to inject all \$6 million in one year.

Representative LeBon asked about \$80 million in grants to local governments for community relief [listed on the last page of the document under ARPA funds]. He interpreted the language to mean the funds were targeted to organized cities, municipalities, and boroughs. He asked if the distribution formula was population driven.

[9:50:03 AM](#)

Co-Chair Foster recalled that the Alaska Municipal League (AML) had testified to the House Finance Committee that it anticipated receiving about \$185 million in ARPA funds.

Mr. Anderson agreed.

Co-Chair Foster explained that even after receiving the federal funds, AML had been expecting to come up short by about \$133 million. He stated the idea was to get as close as possible in terms of providing some community relief. The ARPA community relief funds added up to almost \$125 million. He used the cruise ship head tax as an example and stated that the amount of the shortfalls was clear. The community relief funds included \$42 million for FY 21 and FY 22 to address the cruise ship head tax losses. Additionally, the funds included \$2 million for fish landing tax shared between state and local communities. The \$80 million was a broad amount to get close to the \$133 million shortfall. He noted that the federal guidelines were anticipated to come out on May 11. He relayed that in conversations with the Senate there had been a decision to move the budget process along instead of waiting for the federal guidance. There was an understanding that some of the numbers in the CS were broad and once guidelines came out, the House would work with the Senate to refine the numbers.

[9:52:40 AM](#)

Representative LeBon understood there was still limited information. He wanted to ensure there was transparency in the process and fairness for all communities.

Co-Chair Foster referenced Representative LeBon's question about whether the community relief distribution formula was population based. He asked if Mr. Anderson had a comment.

Mr. Anderson followed up on Representative LeBon's questions. He informed the committee that the \$80 million in grants to local governments included an FY 21 capital supplemental item to account for the current absence of clarity on all of the incoming funding. He explained that by including the item as a capital supplemental item, the legislature would have the ability to go back with better clarification on the program DCCED would be required to use for the grant distribution process. He explained that before a community applied for grants from the \$80 million, a community's shared taxes and other ARPA or state funding would be factored into a community's eligibility percentage. He explained that communities that may have been hit harder per capita would be able to get a piece of the pie comparable to some of the "leviathan" lost revenue sections.

[9:54:46 AM](#)

Representative LeBon stated his understanding that lost revenue was a primary factor for determining who received the grant funding. He asked if his community would be disadvantaged in the formula if it did not have tourism, loss of cruise ship revenue, and other associated items.

Mr. Anderson responded that the issue would have to be addressed when there was more communication between OMB, the Senate, and the department to ensure the distribution was equitable to all communities.

Representative LeBon remarked that some communities relied heavily on property taxes. He noted that rates had remained static, and the collection of property taxes had not materially changed over the past year or two. He stated that if a community did not have a sales tax or other revenue process, they relied on property taxes. He commented there was a mechanism to treat communities with

equality or equity if they did not have a sales tax program.

Vice-Chair Ortiz addressed the federal community relief funding. He stated that the \$80 million in grants to local governments to offset lost revenue was intended to bring relief to communities that had lost significant sales tax revenue due to a loss of the tourism season. He highlighted that in prior federal relief packages, resources had not been available for lost revenue. He stated his understanding that it was possible to use some ARPA resources to backfill lost revenue including lost sales taxes. He thought the intent was to assist communities hit hard by sales tax revenue losses in relationship to COVID and loss of tourism.

[9:57:31 AM](#)

Representative Wool stated his understanding that the \$80 million could be used to fill gaps left due to various shortfalls in other funding formulas. He knew there had been various formulas from the federal government and the state had distributed funding through an RPL [Revised Program Legislative] process, which used a formula based on lost revenue instead of per capita. He knew there had been some discussion that some communities without a sales tax (e.g., Fairbanks) did not fair as well even though they may have been impacted. He stated the other ARPA funds for communities were strictly per capita; therefore, Fairbanks, Anchorage, and some large communities fared alright. He furthered that communities like the Denali Borough with a low population did not have fish landing tax or cruise ship head tax and fell in a hole of not receiving sufficient funding; however, those communities fared alright under the distribution of CARES funding.

Representative Wool wondered if the ARPA grant program would consider all of the funding previously received by communities to determine where it could assist. He thought the funds should be able to fill gaps. He remarked that none of the funding mechanisms that had come around were perfect - some helped based on population, some helped based on lost cruise ship tax, and some helped based on lost sales tax and other. He hoped the \$80 million could be used in a more customized way to help communities for a particular need based on past funding they had received.

Mr. Anderson stated it was the hope and it would take cooperation between both legislative bodies, OMB, and the department to work out the specifics related to equity.

Co-Chair Foster shared his intent and hope to avoid using the one-time \$1 billion in ARPA funds to create new programs that would result in recurring future obligations. He looked at UGF replacement funding of \$410 million at the bottom of page 4 of the document. He detailed that \$235 million of the total had been set aside for FY 21 capital items and \$83 million had been used to offset FY 22 operating expenditures.

Mr. Anderson added that he would address the UGF swaps for the \$235 million in the operating supplemental section.

Co-Chair Foster continued speaking about UGF replacement funds on the last page of the document. He highlighted a \$91.5 million swap with UGF debt service funds for FY 22. The funds could be used to offset money being paid to service debt for correctional facilities including the Goose Creek Correctional Center and a facility in Anchorage. He briefly addressed community relief funds of \$124.5 million. The total included \$42 million for lost cruise ship head tax in FY 21 and FY 22.

Co-Chair Foster discussed tourism relief funding totaling \$30 million. He detailed that a portion [\$20 million] would go to ARDORs (economic development entities throughout the state). The remaining \$10 million would go to the Alaska Travel Industry Association (ATIA).

Co-Chair Foster highlighted that \$30 million in ARPA funds would go to small businesses in the form of grants to offset lost revenue. Additionally, \$30 million would go to nonprofits in the form of grants to offset lost revenue. There was \$310 million allocated for capital including \$75 million in ARPA funds and another \$235 million already accounted for as UGF offset. He relayed the governor's proposal had included \$325 million. He noted the difference between the two totals was not an apples-to-apples comparison because the CS allocated 70 percent to the current budget. He highlighted that the full 100 percent would be a higher number. Additionally, it was necessary to add in the funding from the inflexible part of the federal funds.

[10:05:03 AM](#)

Co-Chair Foster summarized the expectation of receiving about \$1.9 billion in ARPA funding, of which about \$1 billion had flexible spending. He asked Mr. Anderson for verification that \$112 million for broadband was not included in the \$310 million for capital projects.

Mr. Anderson agreed. He elaborated that [the U.S] Treasury had indicated that \$112 million set aside in the Congressional bill for infrastructure related to remote education, work, and other. He detailed that Treasury had ruled the \$112 million was specifically for broadband expansion. He explained the capital budget would need to reflect \$112 million for broadband only.

Co-Chair Foster explained that while the document showed \$310 million set aside for capital, the actual amount was higher because the \$310 million only reflected the flexible portion or 78 percent of the \$1 billion.

Representative LeBon highlighted the slippery slope of using the words "lost revenue." He stated that communities had suffered economic setbacks from the COVID crisis including employment losses and the closure of businesses. He referenced many communities relying on property taxes as a primary revenue source and explained there would be some property tax defaults and inability for individuals and businesses to pay their property taxes. He thought it should all be part of the lost revenue debate.

Representative Josephson stated his understanding that in order to use the \$1 billion in CSLFRF funding, it was necessary to show a shared tax or state tax implication. He thought the property taxes referenced by Representative LeBon sounded like a local lost tax rather than a shared or state tax loss. He asked if he was accurate that it was one of the difficulties in Representative LeBon's suggestion.

Mr. Anderson answered that OMB was waiting on better clarification on the term "state lost revenue" included in the Congressional bill. He explained there had been a question about the community portion under CSLFRF, which had yet to be answered.

[10:08:26 AM](#)

Representative Josephson looked at the nonprofits line on page 5 of the document (also located on page 61 of the bill). He asked whether the grants to nonprofits line also included funds to assist in additional burden due to surges in need of service.

Mr. Anderson replied that the grants to nonprofits was very similar to the FY 21 capital supplemental item, which would be worked out in more detail as the process progressed. The issue would take collaboration between the two legislative bodies, OMB, and the department. The factors should be taken into consideration for the management of the program.

Representative Josephson asked whether the governor intended to ask for assistance for public defenders to provide parity with money the legislature provided to the district attorney.

Mr. Anderson replied that he had not heard anything about the possibility. He deferred to the Legislative Finance Division (LFD) for further detail if desired.

Co-Chair Foster remarked that he did not recall seeing any governor's amendments adding more funding for public defenders. He noted that LFD staff were nodding in agreement.

Representative Josephson referenced domestic violence relief funding. He believed the CS did a good job restoring lost federal funding. He discussed that the state had begun cutting grants to domestic violence shelters in FY 18, which he characterized as an unfortunate policy call. He asked for verification that the CS did not remedy the lost state funds.

Mr. Anderson answered that it was his current understanding.

[10:10:53 AM](#)

Representative Wool referred to the \$75 million in ARPA funds allocated to capital projects [at the bottom of page 5]. He asked if the funding was for things like water, sewer, and broadband. He asked if there were rules attached to the funding.

Mr. Anderson answered that the \$75 million in CSLFRF funds for the capital budget were reserved for sewer, water, and/or broadband.

Co-Chair Foster added that how the money would be spent would be determined in the capital budget process.

Representative Carpenter referenced the \$1.4 million UGF capital outlay for troopers under the Department of Public Safety [that had been denied by the subcommittee]. He highlighted the \$410 million [in UGF replacement] coming from the federal government. He asked if there was room within the federal funds to find \$1.4 million for public safety.

Co-Chair Foster answered that the committee could certainly discuss the issue currently or it could be addressed in the amendment process. He believed Representative Carpenter made a good point about the ARPA funding coming in. He explained that during the budget subcommittee process there had been a lot less clarity in terms of the incoming federal funds and how much the state could use to offset. He thought that the committee could be more open to the issues as more information was received. He opened the question up to the DPS subcommittee chair, Co-Chair Merrick.

Co-Chair Merrick replied that the \$1.4 million capital outlay was for tasers and different equipment for troopers that were not hired.

[10:13:15 AM](#)

Co-Chair Foster relayed that he was hoping to allow the public to get a better understanding of the changes in the CS compared to the governor's budget. He highlighted some of the changes in the bill. The CS added \$3.3 million for public broadcasting, \$450,000 for Alaska Legal Services to maintain flat funding, and \$370,000 for the Kuskokwim ice road starting in Bethel. The CS did not contain any education formula funding as early and forward funding had been included in a separate bill. The bill added \$5 million for Pre-K. Under DHSS, \$3.4 million for a tribal compact regarding child welfare using recidivism funds. The bill reversed the governor's proposal to use \$16 million in AMHTA funds and used UGF instead. Under DOL, the chief of staff position was removed and the Janus funds of \$20,000

were restored. He added that the CS reinstated the structure and funds that had been vetoed in FY 21. Under DPS, the CS denied \$1.4 million in capital outlay for troopers and \$1.4 million for funding vacant trooper positions. The CS added \$210,000 UGF for two tax auditor positions under DOR. Under DOT, the AMHS was forward funded for 18 months primarily with CRRSA funds and some UGF. The CS accepted the governor's \$20 million decrement to the University budget and backfilled \$15.7 million for lost revenue relief at a net decrease to the University of \$4.3 million.

Co-Chair Foster noted the bill did not contain a PFD; the governor had a separate bill, and the committee may hear a bill on the topic later in the week. He imagined the PFD would be taken up during the amendment process in committee and on the House floor.

[10:16:07 AM](#)

Co-Chair Foster continued to highlight the major changes in the CS. School bond debt and REAA were funded at 100 percent. The CS fully funded community assistance using \$21.3 million in FY 21 and \$17 million in FY 22 to bring the fund back to its fully capitalized level of \$90 million. The CS accepted the governor's proposal to use \$60 million in AIDEA reserves. He noted it had been determined later that the number needed to be \$114 million. He stated the issue would be taken up during the amendment process. The CS added \$1 million for the redistricting board.

Co-Chair Foster moved to ARPA funding highlights. The CS included \$6 million for VOCA. He detailed that the CS used 70 percent of the ARPA funds for the current budget and 30 percent for the following year. The CS allocated \$125 million to community relief, \$30 million to small businesses, \$30 million to small businesses, \$30 million to nonprofits, and a minimum of \$310 million in capital funds (the inclusion of broadband funding increased the capital number to \$420 million). He asked if there were any questions prior to moving to the capital and operating items in the supplemental budget.

Representative Carpenter asked about the assessment of where the budget put the state in regard to the deficit.

Co-Chair Foster replied that the budget was below the adjusted base of the previous year by \$197 million. He believed the budget was a good deal below the budget passed the previous year. The budget could be compared to the enacted budget from the previous year, the management plan, and the adjusted base. He explained the adjusted base was the hardest to get under. He reiterated that the budget was below the adjusted base by \$197 million. He noted that the governor's budget used \$60 million in AIDEA reserves and if the legislature swapped that fund source with UGF, it would mean the budget was \$137 million below the adjusted base. Additionally, the same applied for school bond debt if the legislature did not use Medicaid lapsing funds it would also impact the numbers. He asked his staff for any additional comment.

10:19:39 AM

Mr. Anderson confirmed that the current CS for FY 22 was \$197.5 million under the FY 21 adjusted base. He elaborated that the way the governor had funded his budget would have required a small draw. The CS was \$233.7 million under the governor's budget. There was a small surplus in the current CS prior to consideration of the PFD. He stated it could also be compared in the spring forecast and any increased revenues.

Representative Carpenter stated his understanding that the CS was roughly \$200 million [below the adjusted base]. He noted the legislature had not yet had conversations about new revenue measures. He referenced the deficit of around \$1 billion. He asked if the goal was to roughly fix the deficit by approximately \$200 million with \$1 billion in federal funds coming in. He surmised that the CS would only dedicate about \$200 million in debt reduction.

Co-Chair Foster answered that it was in comparison to the prior year's numbers. He asked Mr. Anderson to elaborate on the surplus.

Mr. Anderson replied that he did not have the surplus total on hand. He agreed that Representative Carpenter was correct that the CS only designated \$410 million UGF swap to create room [inaudible]; for FY 22 the number was \$175 million. He stated it was a decision for the legislature to determine how and where to use the funds and how to balance what the legislature had chosen for UGF swaps to take care

of the necessary items versus money going directly to take care of communities and nonprofits that could not be used toward a surplus or paying down the deficit.

10:22:56 AM

Co-Chair Foster asked to hear from LFD. He knew LFD had been working to identify the surplus, which had been a bit of a moving target because it depended what ARPA funds were used to offset [other funds]. Initially the issue was that revenue had been a moving target. He noted that the spring revenue forecast had provided a better idea. They were working to pin down the revenue number in order to determine how much could be applied to the PFD for example, and how much the legislature may want to draw from the Constitutional Budget Reserve (CBR) or Permanent Fund Earnings Reserve Account (ERA).

Representative Carpenter looked at the high level picture and stated the document did not include a line item specifying how much would be spent on deficit reduction. He remarked it was not clear to him or the public that the legislature was dedicating a certain amount of money to reduce the state's deficit by a given amount. He was curious what the thinking was when the state was taking in \$1 billion in federal funds and one of spending requirements was reducing the deficit. He stressed that the deficit had to be addressed somehow. He stated that the deficit reduction would either come from revenue from tax of some sort or in reductions to services the state did not have enough funding to pay for in the long-term. He wondered if [federal] funds would help bridge to either of the solutions. Alternatively, he wondered whether the money would be spent only on services, which would result in kicking the can down the road until the federal funding was gone.

10:25:25 AM

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, provided remarks on the conversation topic. He explained that between the CS and the education funding bill, not including the capital budget or PFD, there was a surplus of about \$640 million. The governor's capital budget was about \$62 million, which included over \$100 million of Alaska Housing Finance Corporation (AHFC) bonding. He noted the bill had not been heard by the committee. He estimated that

the capital budget could potentially use up to \$200 million of the \$640 million surplus. He elaborated that on the higher end, there would be \$440 million of the surplus remaining for a PFD before draws from another source would have to be found.

Mr. Painter addressed Representative Carpenter's question on the amount used for debt reduction in FY 22. He referenced the \$83 million of UGF swap [with ARPA funds] in FY 22 and \$91.9 million UGF debt service swap [with ARPA funds] for FY 22 [at the bottom of page 4 and top of page 5 of the document]. Combined, the total was about \$175 million for deficit reduction in FY 22.

Representative Wool stated that he did not really know what it meant when people said the state's deficit \$1 billion. He noted that the CS and the governor's budget were within \$200 million of each other. He remarked that the deficit jumped out when looking at a statutory PFD at a total of \$2 billion. He stated that the PFD was not addressed in the CS, and it included a \$600 million surplus, some of which would go to a capital budget and some would go to a PFD. He continued that if it was enough of a PFD to satisfy legislators and the governor, there would be no deficit; however, if it was not enough, the legislature would have to find more funds in the CBR; or in the ERA, which he did not support. He stated that without the PFD as a budget item, there was no deficit. He remarked that it was even more difficult to put a number on it because there was currently no PFD number.

Co-Chair Foster addressed Representative Wool's question about whether there was a deficit. He stated that even when backing out the \$175 million in federal funds, the CS was still below the prior year budget by almost \$200 million. He considered the surplus of \$640 million and backed out the federal funds used to offset UGF, the money used for the AHFC bond proposed by the governor, and the ARPA funds, which still resulted in a surplus. He noted the scenario assumed not paying a PFD. He stated that Representative Wool was saying there was no deficit, it just depended on the size of the PFD. He played devil's advocate and considered the perspective of Alaskans who wondered why the PFD was playing second fiddle to everything else. He highlighted a belief that the PFD should be paid out at the start; therefore cuts [to government services] were

necessary. He stated that the issue all depended on how a person saw the deficit being calculated.

10:30:30 AM

Representative Rasmussen asked how much the state had received in royalties for FY 21 and the anticipated amount in FY 22.

Mr. Painter answered that he did not have the numbers on hand.

Co-Chair Foster moved to the supplemental budget items. He shared that many of the supplementals had been submitted in the governor's budget. Additionally, there were some ARPA supplementals. He asked Mr. Anderson to provide detail.

Mr. Anderson referenced two documents titled "Capital Supplementals" and "Operating Budget FY21 Supplementals" dated 4/27/21, distributed by Co-Chair Foster's office (copy on file). He relayed that the documents had previously been one document the committee had received the previous week.

Representative Carpenter asked for clarification on the documents Mr. Anderson was speaking about. He noted he had three documents, two with the same name.

Mr. Anderson clarified that the correct "Operating Budget FY21 Supplementals" document included columns labeled "item" and "request." The addition of the columns allowed him to quickly reference the items. He explained that the "request" column [in the Operating Budget FY21 Supplementals document] and the "requested" column [in the "Capital Supplementals" document] referred to where each item came up in the conversation about being added to HB 69. Identifiers included: governor's request, ARPA (with limited flexibility, original governor's supplemental items, and House Finance Committee changes (labeled "(H)FIN ARP." [note: there was a last identifier "(H)FIN" discussed by Mr. Anderson at approximately 10:35 a.m.]

Mr. Anderson pointed to the document titled "Operating Budget FY21 Supplementals" and addressed item 5 for the Department of Corrections institution management under the director's office. He detailed there was a fund source swap of \$5 million UGF with \$5 million in federal funds. He

explained that the references added up to the \$235 million UGF swapped with CSLFRF funds [previously discussed in the document titled "FY22 House Committee Substitute (CS1) Summary"]. He highlighted that the document showed where the CS replaced funds. He explained that the method had been used because the governor's HB 81 had included an unallocated fund source swap, specifying the legislature would give OMB the authority to determine the funds at a later time. He elaborated that Legislative Legal Services had advised that the method was not sound practice and could open the legislature to the risk of a lawsuit. Legislative Legal had recommended a line item swap to show OMB and the governor's office where the legislature wanted to swap fund sources. He explained that the fund source swap items in the CS were large pots of money in an effort to avoid a "nickel and dime" approach.

Mr. Anderson moved to item 30 on page 2 related to the Alaska Psychiatric Institute with the identifier "(H)FIN." He explained the identifier meant the change was a House Finance decision. He detailed that the governor had requested a supplemental item using \$6 million of AMHTA reserve funds to fund the Alaska Psychiatric Institute (API). He elaborated that the CS swapped all AMHTA reserve funds used in the governor's proposed budget with UGF.

[10:36:04 AM](#)

Mr. Anderson relayed he would not go through each of the line items unless requested by the committee. He moved to the FY 21 "Capital Supplementals" document. He remarked it was untraditional to include capital supplemental items in the operating budget, albeit it was becoming less and less untraditional. He explained that there were certain things that worked better to roll into one supplemental with operating and capital items because of the relationship FY 21 had with the FY 22 budget due to COVID funding including CARES, CRRSA, ARPA, and the Elementary and Secondary School Emergency Relief Fund (ESSER). He added that some of the capital items had not been funded the prior year. He explained it had been easier to include all capital budget items (that were easily taken care of) in one location.

Mr. Anderson referenced the "Capital Supplementals" document and explained the identifiers under the "requested" column. The identifiers were the same as the ones used in the operating supplemental document, with the

addition of one new identifier shown on lines 13 and 14 on page 2 labeled "Gov/(H)CS Mod." He explained the governor had designated a different fund source for the two Department of Environmental Conservation capital supplemental items. The CS swapped the funds with the traditional AHFC dividend funding source per direction by the co-chairs. The remainder of the capital items included were mostly governor items that had been easy to accept with no major questions.

Representative Josephson asked about the \$4 million the Department of Law sought for the recruitment and housing of prosecutors. He stated that the governor had wanted to use Higher Education Fund money. He wondered where the request ended up and thought it would have been included in the supplemental.

Mr. Anderson answered that the item was not currently included in the budget. He noted that the item was still out there for consideration. He relayed there had been numerous questions about whether DOL should be in the housing industry. He detailed that as the budget increment had been written, DOL would own and operate the housing.

Co-Chair Merrick interjected that the item was being considered for the FY 22 capital budget.

[10:40:06 AM](#)

Representative LeBon looked at lines 25 and 26.

Vice-Chair Ortiz asked if Representative LeBon was referencing the "Capital Supplementals" document.

Representative LeBon pointed to lines 25 and 26 of the "Capital Supplementals" document related to the AHFC HOME Investment Partnership Act in the amount of \$5 million [line 25]. He asked if the funding source was prior COVID funding receipts or ARPA. He asked how AHFC utilized home ownership assistance. He asked if it was supplementing mortgage or rent payments.

Mr. Anderson deferred the question to LFD.

Mr. Painter answered that the funding was an ARPA appropriation. He relayed there had been a previous RPL for similar funds from CRRSAA; the bill included a carryforward

of the funds. He clarified the increments referenced by Representative LeBon were associated with new funds in CRRSA the governor submitted as a separate amendment. He explained the funds were not included in the governor's ARPA bill because he had already submitted it as an amendment; therefore, the committee added the governor's amendment to the bill. He did not know how AHFC planned to administer the program. He remarked that nationally there had been discussion in many states about how the program would work because it was a new funding source. He believed someone from AHFC could answer the question.

Representative LeBon stated that the devil was in the details. He looked at the home ownership assistance increment [on line 26]. He asked if the state would be helping people to purchase a home and stay in a home. Additionally, he wondered if the state would look to see if there was a claim made on the money by a homeowner. He stated it could be statewide and was not targeted for one community. He highlighted that AFHC was responsible for underwriting mortgages statewide. He asked if a homeowner was required to be in default in order to receive assistance. He wondered whether a homeowner was ineligible for assistance if they had been able to maintain their current payment to protect their credit rating but had struggled in other ways. He noted he was not looking for an answer at present, but the increment brought forward the questions.

[10:43:19 AM](#)

Representative Carpenter looked at line 77 under the "Operating Budget FY 21 Supplementals" document showing a reduction of \$21 million of other funds. The increment was classified as "(H)FIN ARP." He observed that the increment related to Commercial Passenger Vessel (CPV) tax. He asked for an explanation related to the fund source.

Mr. Painter clarified that item 77 should be labeled as governor [instead of (H)FIN ARP]. The item was part of the governor's budget, correcting an error in the FY 21 appropriation bill. He explained that the FY 21 operating budget inadvertently funded the incorrect year for the shared taxes for the CPV tax. He detailed that instead of funding the calendar year 2020, the budget inadvertently funded calendar year 2019 for the second consecutive year. Item 77 corrected the error. He furthered that in calendar

year 2020 there were no cruise ship sailings, resulting in a reduction of \$21.2 million. The House Finance bill used ARPA funding to backfill lost revenue, whereas the governor's bill had only included the reduction due to correction of the error from the previous year.

Representative Wool referenced lost revenue from cruise ship gambling receipts. He asked where the money was normally used. He wondered whether it was being made up with federal funds.

Mr. Painter answered that it was a UGF fund source that was allocated various places determined by the legislature. He detailed that the funding was deposited into the General Fund in FY 20 and in some years, there had been proposals to use the funds in the Capital Income Fund or another source. He explained it was included in the broader calculation of lost revenue as it was a UGF source.

Co-Chair Foster shared that he wanted to give members time to look over the documents. He relayed members could ask additional questions during the afternoon meeting. He proposed pushing the amendment deadline to the following day at noon with the intent to take up amendments on Thursday.

[10:47:57 AM](#)

Representative Thompson appreciated the additional information provided during the meeting and believed it was helpful for the public process.

Co-Chair Foster thanked Representative Thompson for making the request [to hear additional information]. He believed it was important for the public to understand the work being done by the legislature.

Representative Wool asked what CSLFRF stood for.

Mr. Anderson replied that CSLFRF stood for [Coronavirus] State and Local Fiscal Relief [Recovery] Funds.

Mr. Anderson responded to a question [that was inaudible] by confirming CSLFRF was one fund source from the federal legislation that had passed.

Representative Edgmon asked for verification CSLFRF was the \$1 billion [in federal funding coming to Alaska].

Mr. Anderson confirmed that the funding was \$1 billion in what some people termed to be discretionary funding.

Representative Wool understood the guidance was coming out from the federal government on May 10 [11]. He interpreted that the words state and local [in the acronym CSLFRF] implied it was possible the funds could be used to offset local lost revenue in addition to state lost revenue. He referenced the \$80 million [in grants to local governments] for community relief. He thought it sounded like the distribution rules may allow funding to offset a local revenue loss.

Mr. Anderson answered that everyone was awaiting clarification on the issue. He noted there was a bit of concern about how much to trust the current information on the topic. He shared that he had spoken with OMB the previous day and highlighted an example related to bed tax. He detailed that communities had lost bed taxes due to lost tourism. He noted there was not a statewide bed tax. He explained that rating the risk of allowing bed tax to be used as lost revenue, there was a chance Treasury may determine bed tax was not an allowable use of the funds, which would mean communities would be responsible for paying the money back. He explained there was currently some caution on the parameters and OMB was trying to get clarification and was working with LFD. He highlighted the importance of collaboration between the legislature and administration in terms of the sideboards the legislature would implement for the grant programs.

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

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

[10:52:13 AM](#)

AT EASE

[11:14:46 AM](#)

RECONVENED

Co-Chair Foster announced that LFD was available to help committee members with the amendment writing process. He noted there were no bills on the afternoon meeting. He intended to answer any additional questions on the operating budget that afternoon. He handed the gavel to Co-Chair Merrick.

[11:15:55 AM](#)

AT EASE

[11:15:59 AM](#)

RECONVENED

#hb92

HOUSE BILL NO. 92

"An Act relating to borrowing in anticipation of revenues; relating to revenue anticipation notes; relating to line of credit agreements; and providing for an effective date."

[11:16:15 AM](#)

Representative LeBon MOVED to ADOPT Amendment 2, 32-GH1707\A.3 (Wallace, 4/23/21) (copy on file):

Page 3, following line 5:

Insert a new bill section to read:

"\*Sec. 7. AS 43.08.050 is amended by adding a new subsection to read:

(b) Within 30 days after an agreement to borrow money is executed under this chapter, the commissioner shall notify the Legislative Budget and Audit Committee that an agreement has been entered into and include

(1) the financial terms of the agreement; and

(2) an explanation for the determination that the agreement was in the best financial interests of the state."

Renumber the following bill sections accordingly.

Representative Rasmussen OBJECTED for discussion.

Representative LeBon explained the amendment would require the Department of Revenue (DOR) report to the Legislative Budget and Audit Committee on the details of any agreements entered into related to current asset financing, a line of

credit, working capital loans or whatever process may follow. He explained that the notification would occur within 30 days of the execution of an agreement. He detailed that the report should include a summary of the financial terms of the agreement and an explanation for the determination the agreement was in the best financial interest of the state.

[11:17:32 AM](#)

Co-Chair Merrick clarified the amendment number was 32-GH1707\A.3.

Representative Rasmussen WITHDREW her OBJECTION.

There being NO further OBJECTION, Amendment 2 was ADOPTED.

[11:18:07 AM](#)

Representative LeBon MOVED to ADOPT Amendment 1, 32-GH1707\A.2 (Wallace, 4/22/21) (copy on file):

Page 1, line 2:  
Delete "line of credit agreements"  
Insert "short-term borrowing"

Page 1, line 12:  
Delete "line of credit agreements"  
Insert "other forms of short-term borrowing"

Representative Rasmussen OBJECTED for discussion.

Representative LeBon explained that the amendment cleaned up bill language. He detailed that page 1, line 2 of the amendment would delete the phrase "line of credit agreements" and insert the phrase "short-term borrowing." Additionally, page 1, line 12 would delete the phrase "line of credit agreements" and insert the phrase "other forms of short-term borrowing." He stated the reason for the clean up was the legislature did not know precisely what pathway the DOR would follow to secure short-term financing options such as lines of credit or other short-term borrowing agreements.

Co-Chair Merrick clarified the amendment number was 32-GH1707\A.2.

Representative Rasmussen asked for verification that the other forms of short-term borrowing would encompass the line of credit agreements.

Representative LeBon replied in the affirmative. He explained that the amendment broadened the options. He detailed there were a variety of municipal market and bank options for short-term borrowing with a variety of flexibility, interest rates, and the ease in which temporary financing was secured for the state's working capital needs. The language change was to give DOR as much flexibility as possible to achieve its goal.

Representative Rasmussen asked for verification that line of credit agreements would be included under one of the other forms of short-term borrowing.

Representative LeBon replied affirmatively. He interpreted the phrase short-term borrowing to be broad enough to include a line of credit agreement.

Representative Rasmussen WITHDREW her OBJECTION.

There being NO further OBJECTION, Amendment 1 was ADOPTED.

[11:20:50 AM](#)

Representative Rasmussen appreciated the amendments to make the legislation a bit stronger. She thought the bill was an important tool to give DOR to enable it to manage the financial interests of the state in the best way possible.

Co-Chair Foster MOVED to REPORT CSHB 92(FIN) out of committee with individual recommendations and the accompanying fiscal note.

There being NO OBJECTION, it was so ordered.

CSHB 92(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new indeterminate fiscal note from the Department of Revenue.

[11:21:36 AM](#)

AT EASE

[11:24:47 AM](#)

RECONVENED

#hb55

HOUSE BILL NO. 55

"An Act relating to participation of certain peace officers and firefighters in the defined benefit and defined contribution plans of the Public Employees' Retirement System of Alaska; relating to eligibility of peace officers and firefighters for medical, disability, and death benefits; relating to liability of the Public Employees' Retirement System of Alaska; and providing for an effective date."

11:24:53 AM

Co-Chair Merrick OPENED public testimony.

11:25:19 AM

JEFF JONES, SELF, KETCHIKAN (via teleconference), testified in support of the legislation. He shared that he was a fire medic and had been with the Ketchikan Fire Department since 2007. He stated a return to a DB [defined benefit] plan could help the state and municipalities mitigate the cost the associated with training and turnover with existing DB plans. He provided information about the various positions he had held with the [fire] department. He stated he was not irreplaceable; however, it would be a long time before someone new could receive the numerous certifications he had obtained. He did not want to relocate his family to another state with a DB program. He remarked it was well known that firefighters working after the age of 55 put them in greater risk of dying. He wanted to be able to hold his grandchildren and enjoy his retirement. He started his career when he was 28 years old and at 58, he would have 30 years with the department, but not enough to retire. He emphasized that responding to a fire at that age put the employee, coworkers, and the public at greater risk. He believed the relatively small increase for the DB program would be money well spent when considering the value of retaining employees throughout their career. He encouraged the committee to pass the bill.

11:27:24 AM

GERARD ASSELIN, CAPTAIN, ANCHORAGE POLICE DEPARTMENT, ANCHORAGE (via teleconference), shared that he is a

lifelong Alaska resident. He supported the legislation. He had been honored to serve his friends and neighbors for the past 23 years with the department. He provided information about his job duties. He worked with over 200 officers providing critical service around the clock. Additionally, he oversaw the field training program. He saw the direct impacts of the recruitment and retention challenges that existed within the profession in Alaska. He highlighted that the department was fundamentally and increasingly in search of qualified, educated professionals to work in the career. He stressed that demands on the policing profession had increased, making it more difficult to recruit people into the profession and causing officers to reevaluate their desire to stay. He detailed that after officers received training, they became a valuable commodity.

Mr. Asselin shared that recruitment had become more competitive and challenging than ever before. The department saw officers leave on a monthly basis for departments in other states. He spoke to the loss of productivity that occurred with academy and field training and the proficiency that came with experience. He witnessed the loss of productivity daily with the department's training programs. He reported that over the past month he had interviewed 20 patrol sergeants and almost all had vocalized the number one problem was young officers and recruitment and retention. The situation led to inexperience and a loss of productivity. He appreciated any tools that could be given to improve recruitment and retention for the department. He stated that the bill provided an opportunity to put Alaska in a competitive position to maintain the best public safety professionals. He urged support of the bill.

[11:31:14 AM](#)

JODIE HETTRICK, FIRE CHIEF, ANCHORAGE FIRE DEPARTMENT, ANCHORAGE (via teleconference), spoke in support of the bill. She detailed that the Anchorage Fire Department was the largest in the state with about 400 employees. She shared that one of the department's biggest stumbling blocks for recruitment and retention of members was the retirement system. The situation was compounded by members' ineligibility for social security. She explained that the department was trying to get people to spend 20 to 25 years serving the community and when they left, they only had a 401k. She explained it had significantly contributed to a

reduction in recruitment opportunities. She reported that the department's application numbers were approximately 25 percent of what they had been pre-Tier IV. Additionally, employees were leaving typically within their first five to seven years. She shared that an employee had reached his benchmark for his 401k under the Tier IV system, so he retired at the age of 34 after working with the department just under 10 years. She explained it was an investment of close to \$2 million the municipality had put into the individual for training and other and it had gone right out the door. She detailed that the department was not only losing employees to other states, but to retirement because they were comfortable living at a fairly low wage without having to deal with the negative effects of a career in emergency services.

Ms. Hettrick stated that without an adequate retirement system in place, it would be even more difficult to recruit and retain valuable employees to serve the community. She believed the bill went in the right direction and she strongly urged support for its passage.

Representative LeBon referenced the retirement of the young individual in Ms. Hettrick's example. He asked if the individual had left the profession to seek other employment. He remarked that retiring and drawing on a 401k at the age of 34 would be very unusual. He wondered if the individual had moved to another employer within the profession or left the profession completely.

Ms. Hettrick answered that the specific individual had left the profession entirely. The person had moved to a community in the Lower 48 where he could live for much less stable income. The individual had another career field in woodworking and photography and would supplement his income with retirement income. The department had never experienced someone leaving that early for an official retirement.

[11:36:10 AM](#)

ANGIE FRAIZE, OFFICER, COMMUNICATIONS OFFICER, ANCHORAGE POLICE DEPARTMENT EMPLOYEES' ASSOCIATION, ANCHORAGE (via teleconference), spoke in favor of the legislation. She shared that the organization represented over 570 police employees. She stated that the committee's support of the legislation would directly and indirectly impact the

department's employees and the greater Anchorage area. She shared it was her 20th year and she was eligible to retire with a pension. Additionally, she loved the department and was born and raised in Alaska. She emphasized that the department was seeing its employees leave in droves after their first five years. She relayed that the department recruited a high number of military employees leaving the military. She noted that the individuals were not from Alaska and did not have extended family in the state, but they were starting their families with the department. She detailed that after about five years the officers started having young children and were pulled away by family in the Lower 48 and by lucrative offers from lateral departments out-of-state offering more money and pensions. She emphasized that the department was spending a substantial amount on the employees. She added that the loss of employees had resulted in a very young department. She explained that it would have a huge impact on the community. Additionally, due to the national narrative that police were facing, professional, experienced, and educated officers were needed.

She shared that there were only two officers left in the department from her 2007 academy. She emphasized that the department was hurting for experienced and professional police officers. She hoped the committee considered supporting the legislation.

Representative Rasmussen asked Ms. Fraize to speak to the benefit a more experienced officer could bring in situational awareness.

Ms. Fraize replied that there were many studies showing the more education experience, the less force an officer used. She noted it was a topic nationwide and fortunately the department had not experienced the situation. She shared that the department had a very junior patrol division and over 80 percent had been there for three to five years. She shared that when she had worked as an officer downtown, it had taken her about five years to feel completely confident in her handling of all situations. She explained that the junior officers did not have the experience, through no fault of their own. She stressed the need to continue a highly educated and experienced department in order to avoid seeing the community suffer like Ferguson and Minneapolis.

Representative Rasmussen stated she found it astounding there was only 20 percent of the department that had over five years of experience. She observed that incoming officers likely were not receiving the training they could if there were more experienced officers serving as mentors.

11:41:18 AM

JUSTIN MACK, ALASKA PROFESSIONAL FIREFIGHTERS' ASSOCIATION, ANCHORAGE (via teleconference), supported the legislation. He shared that he had worked for the Anchorage Fire Department for 10 years and currently served as a captain for Fire Station 3. He relayed there was widespread support for the bill within the organization of over 500 professional fire fighters and EMS personnel throughout the state. The association had been advocating for a shared risk solution where employees, employers, and the State of Alaska shared a responsibility in addressing recruiting and retention. He detailed that since the change to Tier IV, there had been many unintended consequences. He stated that perhaps the clearest consequence was the competitive disadvantage Alaska faced in recruitment and retention. He reported that the problem was widespread throughout the state's fire departments. He pointed out that Alaska was one of the only states to offer a mandatory defined contribution (DC) for public safety employees.

Mr. Mack relayed other states had switched back from a DC plan to a DB plan specifically to address the problems currently happening in Alaska. The bill aimed to make Alaska competitive in the hiring and retaining of public safety employees. He stated it was a conservative plan built by incorporating best practices of some of the most successful plans in the country, including establishing a minimum retirement age, removing DB medical, and using a five-year average rather than a three-year average. He remarked that the changes drastically reduced the state's liability. He detailed that the plan also offered mechanisms to address any adverse experience the plan may have, including increasing employee and employer contributions and withholding inflation proofing.

Mr. Mack stressed there was a significant cost of doing nothing. He highlighted that too many public safety employees had left the state who cited lack of retirement as a primary cause. He stated that departments across the state were hiring police, fire, and corrections officers

who would receive excellent training, yet had no long-term plans to remain in Alaska. He informed the committee it was becoming well known that Alaska employees were ripe for the picking; the department received emails and flyers from other states attempting to recruit its employees. Employers were having to reinvest recruitment and retention dollars several times over, which was wreaking havoc on public safety budgets. He pointed out that the most talented public safety officers were leaving the state. The organization strongly supported the bill.

[11:44:35 AM](#)

NICK DAVIS, SENIOR CAPTAIN, ANCHORAGE FIRE DEPARTMENT, ANCHORAGE (via teleconference), shared that he had about 17 years with the Anchorage Fire Department and was one of the lead recruiters and testers for the department. He added that he was in the Tier III retirement system. He detailed that he had left for commercial fishing but had returned for the Tier III defined benefits. He relayed it was one of the only reasons he was in Alaska. He stated that his retirement benefits kept him with the department. He stressed it was very challenging to work in a fire station where half the employees had retirement and half did not. He underscored that the job was dangerous. He supported the bill and plead with the committee to pass the legislation.

[11:46:47 AM](#)

JACOB WILSON, BUSINESS AGENT, ALASKA CORRECTION OFFICERS ASSOCIATION, ANCHORAGE (via teleconference), spoke in support of the legislation. He detailed that the organization represented over 900 correctional officers across the state. He shared that throughout his 10 years in the job he had spoken with thousands of correctional officers concerning their retirement and the reason they came and left the profession. He emphasized that correctional officers put their lives on the line every day. He stressed that there was currently a recruitment and retention crisis. He shared that one of the root causes was the state's DC retirement system, which was not competitive with other law enforcement retirement systems around the country. He detailed that between January 2015 and January 2021, 650 correctional officers or just under 70 percent of the total workforce had left the bargaining unit.

Mr. Wilson emphasized the high turnover had serious and negative safety, security, and financial impacts on the state. Every time an experienced officer left, the position was backfilled with an inexperienced new officer. He stressed there was significant cost to the state for recruitment and training. He emphasized that hiring over 100 new recruits per year compromised safety and security in the institutions. The DOC was not currently able to keep up with demand for new officers. He reported that a study published five years earlier found the institutions were currently operating with insufficient staffing levels to meet basic security operational requirements. The legislation would help with recruitment and retention problems. He stated the bill was a step in the right direction. He reported that the Tier IV retirement system did not offer enough incentive for officers to stay past their five year mark. The association fully supported the legislation.

[11:49:36 AM](#)

Co-Chair Merrick asked how the problems with recruitment and retention lead to overtime.

Mr. Wilson replied there had been a substantial uptick in overtime over the past five or so years. He explained that the amount of mandatory overtime could result in 16 hour days. He detailed officers serving 12 hour shifts could be instructed to stay for four additional hours. Additionally, officers being ordered to come in for work on their off week had significantly increased over the last year. He highlighted that COVID-19 illustrated the department's understaffing.

Co-Chair Merrick asked Mr. Wilson to share the [written] data with the committee.

[11:50:48 AM](#)

NICK CLARK, PARAMEDIC AND FIRE FIGHTER, FAIRBANKS FIRE DEPARTMENT, FAIRBANKS (via teleconference), shared that he is a Tier IV member and had been with the Fairbanks Fire Department for almost 10 years. He reported that currently 34 out of 45 of the department's members were Tier IV. He detailed that within nine years, the last seven Tier IV members would be eligible to retire with their 25 years. He elaborated that five of the Tier IV members were currently

in or moving into officer positions. He pointed out that the top leadership of the department was about to be under Tier IV. He shared that the academy had six new recruits the past year, which was the largest group since the 1990s. He shared that the department had hired four new members and was on track to hire a total of eight in the current year. He reported the department was running at least two academies per year. Prior to Tier IV, the department ran one academy every two years. He stated that Tier IV employees who had left the department had lasted an average of 2.3 years. The current Tier IV employees averaged 2.8 years with the department. He stressed the situation left a large knowledge gap in the department. Additionally, it cost the department approximately \$120,000 in the first year of bringing on a new recruit.

Mr. Clark explained that seeing so many people leave was a morale killer. He reported that the candidate pool was shrinking as people left the state. He relayed there was no security with the Tier IV retirement, with no social security, supplemental benefits system, and no chance of successful retirement income. He shared that he had worked with the department for nearly 10 years because he loved Fairbanks and Alaska. Additionally, he was confident there would be a return to a modified DB system. He wanted to move away from Tier IV and improve things for future generations. He urged the committee to pass the bill.

[11:55:26 AM](#)

Representative LeBon thanked Mr. Clark for calling in. He referenced Mr. Clark's testimony that 38 members of the Fairbanks Fire Department were in Tier IV. He asked if the members were waiting for the legislation to pass to commit to working for the department long-term. He asked if there was a sense of what the response would be if the bill passed.

Mr. Clark answered that the department had several employees currently testing for jobs out-of-state. He reported that many members were asking whether the bill would pass and wanted to stay but were thinking about their future. He believed the bill would help retain members. He was confident the passage of the bill would give him more security and help him feel more comfortable staying. He stressed the turnover was hard on morale. He believed members would stay.

Representative Thompson thanked Mr. Clark for calling in. He asked how the large turnover within the department impacted having experienced people move up the ranks in the department. He asked if the department had enough experienced members to move up to leadership positions.

Mr. Clark replied that there would be a big impact. He reported there was currently one Tier IV employee in a captain position and likely there would be a couple more in the coming months. He explained that about half the captain positions would be held by Tier IV members in the current year. He noted that those four members had been with the department the longest. He explained that beyond those members, the experience gap dropped off substantially. The knowledge the department was losing due to retirement and the departure of employees was substantial. He stated the situation would continue if turnover persisted.

Co-Chair Merrick CLOSED public testimony. She thanked the testifiers for their service and testimony.

[12:00:08 PM](#)

Co-Chair Merrick asked to hear the Division of Retirement and Benefits' perspective on the bill.

JIM PUCKETT, DEPUTY DIRECTOR, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION (via teleconference), shared that he did not have any prepared remarks. He was available for questions.

Representative LeBon stated that the shared upside risk in a DB program was capped at 10 percent for participants. He noted the initial employee contribution rate was at 8 percent. He asked what the financial impact would be if the ceiling was raised to 12 percent.

Mr. Puckett replied that the question should go to the division's chief financial officer. He would follow up with the answer.

Representative Josephson remarked that Buck, the state's actuary, had stated the plan was around 99.3 percent solvent in the past year. He asked if there was anything that would change the number.

Mr. Puckett was not aware of anything that would change the number. The division would hear an updated analysis the following day and he would provide the information to the committee.

HB 55 was HEARD and HELD in committee for further consideration.

Co-Chair Foster announced that the Legislative Finance Division could help members with amendments.

Co-Chair Merrick reviewed the schedule for the following meeting.

#

ADJOURNMENT

[12:03:42 PM](#)

The meeting was adjourned at 12:03 p.m.