

HOUSE FINANCE COMMITTEE  
January 20, 2022  
1:35 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:35 p.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 (via teleconference)  
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

OVERVIEW: GOVERNOR'S FY 2023 OPERATING BUDGET BY THE OFFICE OF MANAGEMENT AND BUDGET

Co-Chair Foster reviewed the agenda for the afternoon meeting.

^OVERVIEW: GOVERNOR'S FY 2023 OPERATING BUDGET BY THE OFFICE OF MANAGEMENT AND BUDGET

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NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced the PowerPoint Presentation: "Overview: FY 2023 Governor's Budget" by the Office of Management and Budget. He began on Slide 2 titled "Budget Lookback" that depicted a summary of the revenue, expenditures, and Permanent Fund Dividend information over the previous years from FY 2019, FY 2022, and FY 2023. He reported a 5.1 percent reduction in overall expenditures, a 5 percent reduction in the operating budget, and a 7.9 percent reduction in the capital budget. He elaborated that there was a 2.2 percent reduction in agency expenditures primarily from reductions in the University of Alaska budget, changes in financing for Department of Transportation and Public Facilities (DOT) projects, and other reductions in agency operating budgets. He qualified that the reductions were offset by increases in public safety and natural resource development. He pointed to the significant reduction in statewide operations of \$146 million from decreased obligations to the state retirement system due to high returns. He highlighted that the capital budget was held to federal match money for federal programs and was a "baseline" budget. Mr. Steininger commented that the budget deficit of over one half a billion dollars was closed, and the FY 23 budget was accomplished without a deficit or draw on savings.

Co-Chair Foster clarified that the committee was currently addressing the FY 23 budget and the last completed budget cycle was FY 21. He wondered why the comparisons were made to FY 19. He suspected that it was because it was the governor's first year in office. Mr. Steininger replied that the FY 19 budget was the budget that was inherited by the current administration. He noted that the table on slide 2 and in presentation data used numbers from the prior fall revenue forecast. He relayed that on January 19, 2022, the Department of Revenue (DOR) provided revenue updated estimates to offer more current information. He would update the information when possible, during the presentation.

Vice-Chair Ortiz asked whether the change column [titled "FY 2019 to FY 2023 UGF Change"] represented changes from FY 19 compared to FY 23. Mr. Steininger replied in the affirmative. He added that in following slides the comparison was between FY 22 and FY 23.

Co-Chair Foster pointed out that the slide showed a surplus of \$27 million. He relayed that the number included \$375 million in American Rescue Plan Act (ARPA) funds in which case there could be a deficit of \$350 million. Mr. Steininger responded that the administration was using ARPA State and Local Fiscal Recovery Funds (SLFRF) funding in place of Unrestricted General Funds (UGF).

Representative Wool queried whether the "FY 2022 Authorized and Supplemental" column represented the supplemental budget that had not been adopted yet. Mr. Steininger concurred that the numbers reflected the governor's proposed supplemental budget.

Mr. Steininger turned to slide 3 titled "Budget Objectives:"

- 50/50 PFD with Constitutional Amendment
- FY2023 operating budget to address baseline needs and priorities
  - Ensure a safe environment for individuals and businesses
  - Public protection, permitting, and resource development
- Continue efforts towards efficiency and operational change
- Use FY2022 surplus and bonding to support a robust capital investment
- Avoid a FY2023 deficit or draws from savings accounts

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Mr. Steininger turned to slide 4 titled "FY 22 and FY 23 Revenues." He discussed available revenue. He pointed to the top 3 lines on the chart portraying UGF revenues and total revenue available from both traditional sources and the Percent of Market Value (POMV) draw. He drew attention to the 50 percent to 50 percent (50/50) POMV draw split between the Permanent Fund Dividends (PFD) and government services. He highlighted the "Carry-forward and Adjustment"

column. The summary was typically limited to prior year appropriations available for expenditure in the current year. However, in the current year it reflected the use of the Statutory Budget Reserve through direct appropriations in FY 22 that reduced the amount of UGF by \$410.7 million and the use of ARPA replacement funding. He informed the committee that ARPA allowed SLERF to replace UGF by offsetting revenue loss due to COVID 19. He elucidated that SLERF funding was coded as UGF where it was replacing funding that was not directly related to COVID response. Effectively, the relief funding acted as UGF. He reiterated that the revenue numbers on the slide were based on the Fall Revenue Sources Book totaling \$4.6 billion in FY 23 and \$4.9 billion in FY 22. The updated figures provided by DOR increased UGF revenue by \$221 million in FY 22 and by \$467 million in FY 23. He noted the significant change, which was the reason the department released the updated estimates.

Co-Chair Foster relayed that DOR issued a caveat that it did not favor relying on monthly updates because they were variable. He wanted the committee to "keep that in mind."

Representative Wool cited the \$1.25 billion carryforward on slide 4 and asked for an explanation.

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Mr. Steininger replied that the amount represented "almost entirely direct federal COVID relief to departments" that was appropriated in FY 20 and FY 21 that carried into FY 22. He added that community relief was included in the figure.

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Representative Wool cited the \$250 million in federal revenue replacement in FY 22 and the \$375 million amount in FY 23. He deduced that the total was approximately \$1 billion, and he wondered if the numbers reflected the remaining amount used for revenue replacement. Mr. Steininger replied in the affirmative and noted that in FY 23 \$375 million was used for revenue replacement and the remainder was expended in direct appropriations.

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Vice-Chair Ortiz referenced the \$1.25 billion in direct relief money from the federal government. He asked if the amount was a one-time spending amount. Mr. Steininger replied in the affirmative. He detailed that it was a one-time revenue appropriation from the federal government that could be expended over multiple years.

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Representative Rasmussen asked about the monthly revenue forecast. She asked if the legislature would be getting more accurate information with additional or monthly reports since oil revenue was variable over time. Mr. Steininger deferred the answer to DOR. He underlined that the tables on the slide was based the information on the fall revenue forecast. The monthly information was only released because the revenue change was so drastic.

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Representative Rasmussen asked that from a budgeting point of view whether it was more useful to have up to date real time information on revenue and if it provided a better picture of available revenue. Mr. Steininger thought it was helpful especially with any dramatic changes occurring after the revenue forecast.

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Representative Josephson asked if the administration would be letting the legislature know what its plan was for the additional revenues through amendments. Mr. Steininger preferred to look at the need for expenditures rather than available revenue for expenditure. The revenue information was merely provided for a more accurate picture. He voiced that the appropriations reflected the true needs of the state and not expenditures based on available revenues. Representative Josephson remarked that in some respects he was aligned with Mr. Steininger's comments. He deemed that the state could become \$700 million wealthier over the following months. He asked if the administration would save the funding. Mr. Steininger indicated the following slide would address the topic of surplus which would be deposited into the general fund and swept into the Constitutional Budget Reserve (CBR) according to the state Constitution.

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Mr. Steininger advanced to slide 5 titled "FY 22 and FY 23 Expenditures." He noted a 2 percent increase in operating expenditures between FY 22 and FY 23 [\$103 million]. He broke down the increase as \$14 million in agency operations, and a \$36 million increase in large formula expenditures such as Medicare and K-12 Education. He noted that there was a decrease of \$21.8 million in agency non-formula items that were the day to day operations. The decrease accommodated an increase in the amount of Designated General Funds (DGF) that was swept.

Mr. Steininger moved to the statewide operations expenditures. He noted a dramatic increase of roughly \$90 million primarily for the payment of oil and gas tax credits per the statutory calculation. It was offset by the retirement system earnings which did well and decreased the liability of the fund. He added that the ARM board did not fund the retirement health system because it was overfunded.

Mr. Steininger turned to the capital budget and noted a decrease of \$88.2 million in UGF by trying to achieve capital needs elsewhere for other than "core needs." He relayed that before counting supplementals the capital and operating budgets were essentially flat with an increase of \$15 million or zero percent change. He restated that the total surplus was \$27 million and including the current revenue adjustment, the surplus for FY 23 would be roughly \$493 million.

Representative Josephson commented on the state's retirement debt. He requested that the committee hold a hearing on the status of the state's retirement accounts.

Co-Chair Foster took note and thought a presentation might be in order. He commented on the balanced budget in FY 23. He thought the budget really reflected a \$350 million deficit because of the use of one-time ARPA funding. He also wanted to maintain consistency going forward as to whether the budget was based on fall and spring forecasts or monthly forecasts. He questioned using monthly numbers as a basis for budgeting and expressed some caution regarding the size of the surplus in relation to the use of one-time ARPA funding.

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Co-Chair Merrick asked how much SLERF funding was used in the budget. Mr. Steininger recounted that the total amount was roughly \$504 million, and a future slide contained a breakdown.

Representative Edgmon questioned the governor's budgeting process. He referenced some of the major expenditures in the budget and noted that the budget did not utilize savings but was concerned that it did not save any money. He warned that he would very closely examine the layers of the budget. He thought the state was building a budget with anticipated money and no contingency factor. He thought the budget reflected spending money the state had not earned yet, used one-time federal funding for typical expenditures, made promises that the FY 22 and FY 23 PFD would be larger than in prior years, and everything would work out fine. He cautioned that future legislatures would need to "pick up the tab." He believed that the budget spent beyond its means. He acknowledged that the operating budget was kept in check but worried that the budget spent money the state did not have and made promises that were unlikely to be kept.

Co-Chair Foster concurred with Representative Edgmon's comments.

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Representative Wool noted there were also items in the FY 22 budget that were not funded including school bond debt reimbursement, oil tax credits, etc. He acknowledged that the budget proposed to backfill the PFD but thought there were other items that were not funded in FY 22 and not proposed in the supplemental or FY 23 budget that could be backfilled.

Co-Chair Foster invited Mr. Steininger to correct him or other committee members if inaccurate statements were made.

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Mr. Steininger replied that the budget was built off the normal process based on the fall revenue projections and was adjusted in March based on the spring forecast. He countered comments that the budget was based on revenue that was not earned relative to the normal budgeting process, where it was always based on projections. He

admitted that although minor, there was a \$27 million surplus, and the budget was balanced. He offered that the budget achieved the outcome without compromises on School Bond Debt Reimbursement or the amount of the PFD payout. He furthered that merely because the federal funding was one-time funding it was available for expenditure, and it was fair count it in a statement of surplus.

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Representative Edgmon asked about the state lawsuit regarding the Higher Education Fund. He ascertained that if the state lost the higher education lawsuit it would lose \$400 million deducted from the CBR. Mr. Steininger agreed with the statement. Representative Edgmon maintained that as a policy maker he had to consider factors like the price of oil dropping to \$45 per barrel in the fall of FY 23. He did not want to put a budget together that merely made things add up. He noted that it was not typical to use \$375 million of one-time federal money for state money that would be needed again the following year. Mr. Steininger contended that the budget was not expending any funding from the CBR, and he did not follow the logic that the state would not use the SLERF funding for lost revenue due to the pandemic. Representative Edgmon appreciated the opportunity for spirited debate. He reiterated the importance of contingency measures and money in savings due to volatile revenue. He was concerned with the possibility of a downturn. He did not view the budget as fiscally responsible. He thought it was his duty to look beyond a short term budget. He thanked Mr. Steininger for the room to address his viewpoint.

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Co-Chair Foster thought it was appropriate to have debate on the issue and stressed its importance. He thought the big picture perspective was import when the subcommittees would be dealing with the budget details.

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Representative Rasmussen thought that if the state had one-time funding, she did not think it was inappropriate to spend it. She thought Alaskans were still dealing with the consequences of the pandemic. She was also concerned that Alaskans might need help with interest rates and a tough

economy. She asked how long the state had to spend the SLERF money. Mr. Steininger responded that the funding was available through December 31, 2024. Representative Rasmussen asked how much money was in the Permanent Fund presently. Mr. Steininger did not have the figure but thought it was greater than \$80 billion. Representative Rasmussen asked whether it was accurate to say that the state had a significant amount of money in an account. Mr. Steininger agreed that there was a substantial amount of money in the Permanent Fund that provided the POMV revenue. Representative Rasmussen opined that it was "disingenuous" to state that the state did not have funding if a catastrophic event happened, and oil tanked to \$20 per barrel. She guessed that there would be "options and time." The state could "maneuver" and fulfill all the government's obligations in the current fiscal year. She hoped the legislature would work with the governor.

Co-Chair Foster commented on the debate regarding one-time funding. He shared an analogy of someone with weekly income of \$500 and the same in weekly expenses with \$200 in savings then their work hours were cut back and only made \$400 per week. One could say using \$100 from savings would balance the budget but eventually savings would run out and not cover ongoing expenses after two weeks. He favored the analogy because it illustrated the result of using one-time funding to cover ongoing annual operating expenses.

Representative Josephson shared testimony from the Ways and Means Committee that at current projections in the 10 - year plan, even at low oil prices with prudent budgeting, the path was predictable and sustainable. He agreed with prior comments regarding sustainability and spending. He was concerned with the public's expectations in the future. He asked for "a sense" of how the FY 23 budget would "play out in FY 24 and FY 25." Mr. Steininger responded that in FY 24 and several of the years in the 10 year fiscal outlook the administration predicted deficits. He offered that the deficit disappeared over time. He detailed that there were many assumptions inherent in developing a 10 - year outlook and it was a long time. The fiscal problems of the state would continue to morph and change. He acknowledged that in the FY 24 the state would be facing a deficit of more than \$100 million. He noted the changing policy decisions involved in each year's budget process. Some funding was based on additional revenue and was discretionary like school bond debt reimbursement and some

funding items were things the state should support no matter what like public protection.

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Co-Chair Foster understood that the SLERF funding was real money that should be used. However, he agreed with Representative Josephson that it was not sustainable revenue.

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Representative Johnson found the vast difference of opinion surprising. She felt that the budget was "well considered" and was "impressed" with the results. She thought that the governor had listened carefully and included increases that were not granted in prior budgets. She opined that the budget reflected many sides across the political spectrum and was "masterfully" crafted. She offered that the budget did not include any of the forthcoming federal infrastructure funding. She restated that overall, the budget was well considered. She appreciated the effort.

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Vice-Chair Ortiz referenced the capital budget totaling \$1.67 billion. He asked whether the proposed amount was a bonding package. Mr. Steininger responded that \$308 million of capital spending would be comprised of General Obligation Bonds (GO) receipts if the bond package was adopted and the bulk of the remainder reflected federal funding. He indicated that it showed up as other funds on a table in the presentation. Vice-Chair Ortiz asked if bonding was recurring debt. Mr. Steininger responded in the affirmative. Vice-Chair Ortiz suggested the possibility of using some of the one-time funding for capital expenditures instead of incurring debt. He offered that it was more appropriate to use one-time money for one-time expenditures. He asked whether his suggestion was possible. Mr. Steininger understood the logic but deemed that in the current low interest environment it would be an opportunity to take advantage of low interest rates for bonding. He shared that it was the reason the bond package was introduced. He reasoned that while it added debt service to the state of roughly \$22.8 million over twenty years the sum was manageable within the amount of debt that was

expiring. The bonding fit within the long-term fiscal plan and was a good opportunity for the state.

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Representative Wool clarified that in FY 22 and FY 23 there was a 50/50 PFD and a surplus. He deduced that looking ahead to FY 24 and FY 25 when the price of oil was closer to \$70 per barrel coupled with a 50/50 PFD payout, the state would be facing a deficit. He asked if he was correct. Mr. Steininger responded in the affirmative and noted the 10- year plan did show a deficit that would close over time. He communicated that the 10-year outlook reflected the December 15, 2022, Fall Revenue Sources Book and did not consider the updated revenue forecast.

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Representative Rasmussen recalled that the state could not use the federal money for certain infrastructure and capital expenses. She asked if she was correct. Mr. Steininger responded that he was not aware of any restrictions on capital expenditures and did use some SLERF funding in the capital budget. He noted the prohibition of using SLERF funding to directly pay debt service. He guessed that there was another pot of federal relief money that had the restriction.

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Representative Edgmon admitted his previous comments were combative. He emphasized that he wanted to find every opportunity to save money for the rainy day that was inevitable.

Co-Chair Foster referenced a bumper sticker that read, "please give me one more oil boom." He agreed with Representative Edgmon's remarks.

Representative Johnson agreed with Representative Edgmon and was in favor of finding efficiencies. She reiterated that the governor's budget was a great starting place.

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Mr. Steininger moved to Slide 6 titled "Fiscal Summary - Savings Balances:"

FY2022 CBR beginning balance reflects an estimated \$490.4m swept CBR under Alaska Constitution Art. IX Sec. 17(d). Audited amounts will be reported in the FY2022 Annual Comprehensive Financial Report.

FY2023 budget includes \$33.6m in UGF to replace fund sources impacted by the CBR sweep. Fully supports all associated programs.

Mr. Steininger communicated that the state had two primary savings accounts: The Statutory Budget Reserve (SBR) and the CBR. He elucidated that the SBR had an approximately \$70 million balance and was available with a simple majority vote. The Constitutional Budget Reserve was available with a super majority or three-quarter vote. The balance was expected to grow over the FY 22 to FY 23 period. The current CBR balance of \$1.17 billion was based on pre-audited financial information. He explained that due to the sweep, the only way to calculate the swept funds was via a pre-audit. The swept amount was \$490 million under Article 9, Section 17 b of the state's Constitution. The balance would be updated once the financial statements were audited. Mr. Steininger continued that the administration had tried to build a budget that did not rely on the savings' accounts to meet the needs of state programs. He reported that the budget contained \$34 million in fund change actions to shift from DGF that were swept and transferred to UGF appropriations.

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Representative LeBon stated his understanding of the state's savings accounts. He asked for discussion regarding how money flowed into both accounts and the sources of the money. Mr. Steininger answered that the SBR balance was directly appropriated by the legislature. He elucidated that there was no automatic mechanism that deposited money into the SBR. It was comprised completely of ad-hoc savings deposited by the legislature. He noted that roughly \$481 million was deposited and \$410 million was spent leaving the balance of \$70 million. The CBR contained certain types of revenues or earnings that flowed into it as automatic deposits via constitutional provisions for things like court settlements. He stated that \$30 million and \$60 million were deposited over two years. Representative LeBon asked whether the CBR balance currently included swept funds and if the largest swept amount was from the Higher

Education Investment Fund (HEIF). He answered in the affirmative. He added that out of the \$490 million pre-audited balance, \$400 million was from the HEIF.

Representative Josephson noted that there were scores of sub funds that were swept. He wondered if the total of the other swept funds was \$33.6 million. Mr. Steininger answered that the \$33.6 million was the difference between anticipated revenue into the sub accounts and the appropriated need for the program. He provided the example of alcohol taxes. If the amount collected was less than the actual needs a fund change was necessary for the remainder. The fund change would accommodate the difference between projected revenue and expenditure need. He voiced that the utilization was greater than \$33 million, but that amount was necessary to protect the programs.

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Representative Josephson cited the Spill Prevention and Response (SPAR) fund and the HEIF. He had received correspondence from concerned citizens regarding the two funds. He asked if there were other groups that were alarmed by having their funds swept. Mr. Steininger responded that the transition to a "post-sweep" period of the budget would take some time to figure out all the implications of the sweep. He explained that the reason the special funds existed was because the revenues were somewhat volatile. The current fund change was predicted for FY 23. He determined that it would be necessary to use variable fund changes each year or reconsider how some of the programs were financed. He concluded that it would require time to look at the structure of some of the programs to figure out how to support the programs without the sweep. He added that many of the programs required relatively small amounts of support.

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Representative Thompson wondered what the balances of unspent money was in COVID relief accounts. He asked how much money had been spent. Mr. Steininger would provide the information.

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Mr. Steininger turned to slide 7 titled "Capital Budget:"

Baseline traditional FY23 capital budget  
\$157.4m UGF; \$1.4b Fed

Minimum level capital budget for federal match and  
core state functions

Use FY22 surplus for additional capital projects \$93m  
UGF

Projects that benefit from expedited construction

GO Bond financing for community projects \$325.2m bond  
issuance

Investment in key infrastructure to maximize public  
benefit around the state

Approved by voters in Fall 2022 general election

Mr. Steininger reviewed the strategy used to increase capital investments beyond the capital budget process. He noted that \$93 million in surplus was included in the supplemental for capital projects. The supplemental capital appropriations enabled obtaining contractors and getting them working earlier. He relayed that with the oncoming infrastructure spending in every state, Alaska would be competing for contractors and crew. He thought it was prudent to get some of the state's projects starting sooner in order to attain commitments from contractors. Mr. Steininger continued by discussing the state bond issuance. The administration viewed it as a means of working on community projects that would come online in the future due to the need for voters' approval.

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Co-Chair Merrick asked if the \$325 million was accurate or updated. Mr. Steininger responded in the affirmative. The bond issuance bill was drafted in the amount of \$325 million. However, one bond project needed to be added to the capital budget bill as an amendment and explained the difference between the \$325 million versus \$308 million.

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Mr. Steininger addressed the graph on slide 8 titled "FY 2023 Operating UGF." The graph was included to depict the relative sizes of the departmental budgets. He noted a change reflected in the separation of the Department of Health and Social Services into the Department of Health and the Department of Family and Community Services. He reported that the retirement debt used to be the fourth column but shifted down to the tenth column.

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Mr. Steininger moved to slide 9 titled "FY 23 Agency Operating Budget Changes." He indicated that the table reflected the major changes in the operating budget. The budget had \$108 million in built-in cost drivers such as a Reverse DOTPF One-Time Fed Relief totaling \$10.9 million, and a Medicaid increase in of \$45 million. There was an increase to the Medicaid budget of \$45 thousand, Central Service Rate Adjustments of \$4.2 million, Salary adjustments of 13 million, Restoring Funding for Sweep Impacts of \$33.6 million, and other small adjustments totaling \$1.1 million. He reported that there was \$136 million in agency reductions. The largest was due to an infusion of \$63.4 million of federal subsidy for the Alaska Marine Highway System (AMHS). He qualified that there was a 5 year rural ferry program included in the infrastructure bill, which reflected the subsidy and was included in the FY 23 capital budget as an exception because it only required a small amount of state match money. He noted the \$16.8 million in the K-12 Formula program, and significant reduction of \$44.5 million in PERS/TERS and from the passage of SB 55, which changed the way the state financed retirement system obligations. He cited the targeted reductions of \$11.8 million. The chart concluded with "Targeted Investments" in the amount of \$42.6 million in public safety and resource development and primacy issues. He reiterated that the budget was flat showing a slight increase of \$13.9 million.

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Representative Wool referred to the \$63 million for the AMHS. He asked if the money was a one-time infusion or spread over 5 years. Mr. Steininger responded that it was a 5 year program distributing \$200 million nationwide, and only two rural ferry programs qualified. The amount offset \$63.4 million UGF and offset the receipts from ferry system

ticket sales. The appropriation removed all but \$5 million of state money. Representative Wool queried whether the appropriation was for FY 23 or whether it continued over 5 years. Mr. Steininger replied that it was a 5 year program and would continue for 5 years. Representative Wool asked if the total amount was \$300 million over 5 years or how much was anticipated over the following 4 years. Mr. Steininger responded that the entire program was \$200 million per year over 5 years. It was a nationwide program with only two states competing for the funding.

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Mr. Steininger turned to Slide 10 titled "Formula Cost Drivers." He explained that formula cost drivers were state programs where the amount of expenditure was based on eligibility or other mathematical formulas resulting in a state obligation. He commented that K-12 Education was fully funded to the \$5,930 base student allocation (BSA). There was a small reduction in Average Daily Membership (ADM) and an increase in correspondence students in the amount of \$19 million primarily because correspondence received less funding than brick and mortar students. He discussed the Medicaid program:

#### Medicaid

- COVID-related enhanced federal match (FMAP) currently expires at end of FY 2022
- Pent up demand for services increases utilization
- \$45m UGF increment restores Medicaid state share to pre-pandemic levels

Mr. Steininger conveyed that more than one-third of Alaskans were on Medicaid due to the pandemic. The administration hoped that recipients could transition to other sources for health care needs.

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Representative LeBon cited slide 9 and the federal money for the Alaska Marine Highway System. He deduced that the funding was for operating costs and wondered if the funds could be used for a capital maintenance fund and use state money to operate the system to build up a maintenance fund

to build the system back up. Mr. Steininger responded that the federal monies used in the FY 23 budget was only from the rural ferry program. He explained that there were other items in the infrastructure bill that the state was eligible for but was awaiting clarity on the rules. Some of the programs covered maintenance but the administration was waiting for a directive on how the money could be spent. He revealed that if the federal funds were slated for only 5 years, the administration wanted to transition the ferry system to a system that was sustainable under full state support. Representative LeBon thought the federal funding was an opportunity to "shore up" the capital funding pool to support maintaining the system over years. He commented that he endorsed a shared approach of come capital and some operating to the AMHS funding. Mr. Steininger commented that one of the benefits of using the federal money replacing passenger receipts left the \$50 or \$60 million in annual revenue free for other things.

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Representative Wool asked if the ferry replacement fund had been swept and was no longer available for the ferry system. Mr. Steininger responded in the affirmative and relayed that the vessel replacement fund was subject to the CBR sweep.

Representative Josephson asked if the BSA was updated to reflect the last 5 years of inflation and what was the cost. Mr. Steininger offered to provide the information.

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Representative Edgmon thanked the congressional delegation for getting infrastructure money to the State of Alaska and specifically operational money for the AMHS. He believed that the AMHS was a critical part of Alaska's transportation chain.

Representative Rasmussen agreed with the previous speaker and applauded the congressional delegation and Senator Murkowski's leadership. She asked if the state had increased ferry service in FY 23. Mr. Steininger replied in the affirmative. He indicated that the rural program allowed the system to run all of the vessels, maximize the schedule, and increase service.

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Mr. Steininger moved to slide 11 titled "Public Protection:"

Over \$30 million operating UGF added for public protection:

- Fully fund filled positions added in previous fiscal years for Public Safety and Law: \$1.3m
- 15 new Trooper positions
- 10 new Village Public Safety Officers and related costs: \$3.9m
- Add 14 DPS support positions so Troopers can focus on policing: \$1.8m
- Add positions for Rural Fire Investigations and increase DNR wildland fire fighting capacity: \$4.5m
- Add 30 Correctional institution support positions, mental health treatment resources, and Hiland Mountain booking: \$4.1m
- Address trial backlogs \$1.8m and defense capacity \$428.7k

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Representative LeBon asked where the 15 new trooper positions would be sent. Mr. Steininger responded that most of them would likely be stationed in the Matanuska-Susitna Valley (Mat-Su). He pointed out that the department preferred to start new troopers in urban areas and send senior troopers to rural areas. Representative LeBon asked why the Mat-Su Valley needed 15 new positions. Mr. Steininger deferred the answer to the Department of Public Safety (DPS). Representative LeBon inquired why Fairbanks was not considered for new troopers. He understood that some of the new troopers would be part of a mobile rapid response unit that could respond in rural communities as needed. He asked if that was still envisioned. Mr. Steininger indicated that the 15 positions were added to help with recruitment and retention issues. He deferred to the department to relay its strategy for the deployment of its troopers. Representative LeBon acknowledged the struggles around trooper recruitment and retention. He hoped that DPS was making progress on the issue.

Co-Chair Merrick reported she had a meeting with DPS and relayed that she would address the issues in the DPS subcommittee.

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Mr. Steininger continued with slide 12 titled "Public Protection:"

People First Initiative UGF:

- Domestic Violence and Sexual Assault
- \$3.5m for victim services provider grants
- \$1.5m to reduce turnaround time on DNA testing and increase forensics lab capacity
- \$1.0m for staff to provide victim services and perpetrator intervention
- Missing and Murdered Indigenous Persons
- Tribal liaisons and additional support for the Missing Persons Clearinghouse \$713.9k
- Homelessness
- Statewide homelessness coordinator, database and data manager \$866.3k
- Foster Care and Office of Children's Services
- \$1.4m for the Tribal Child Welfare Compact

Representative Edgmon asked where the tribal liaison would be located. He heard they would be in the governor's office. Mr. Steininger would provide the answer. He furthered that the tribal liaison engagement would be focused between the governor's office and agencies.

Co-Chair Foster thanked the governor for the services being in both rural and urban areas and the positive efforts taken.

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Mr. Steininger discussed Slide 13 titled "Resource Development and State Primacy:"

Invest in state primacy over resource management

Expand timber resource capacity \$460.0k

\$5.7m to assume primacy from the EPA over resource development permitting

Resource Conservation and Recovery Act \$830.0k

Clean Water Act Section 404 \$4.9m

\$4m to continue statehood defense efforts

Capital funding to develop mariculture and agriculture industries to enhance food security and economic development \$50m

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Vice-Chair Ortiz referenced the Clean Water Act Section 404 at \$4.9 million. He relayed that in the prior year's Department of Environmental Conservation (DEC) subcommittee the agency was encouraged to hire for unfilled positions in SPAR, which they failed to carry out. He asked if the \$4.9 million created a new section in DEC. Mr. Steininger confirmed that the administration was creating a new section and taking on additional activity. He remarked that currently the work was performed at the federal level. The expenditure represented a significant increase in staff and workload. However, the administration viewed it as a benefit to Alaska in the long-term by bringing a "state focus" to the decisions being made. Vice-Chair Ortiz asked if the increment would be one-time only. Mr. Steininger indicated the service would be ongoing and scale up over time as the capacity increased.

[3:13:38 PM](#)

Mr. Steininger moved to slide 14 titled "Improve State Government Functions:"

Executive Order for new Department of Family and Community Services and Department of Health

- DFCS for leadership focus to Children's Services, Juvenile Justice, and 24-hour facilities

- DOH for leadership focus on public health Medicaid, and public assistance

- \$434.3k UGF and \$1.9m Total for new positions

Public Safety Communication Systems transfer to Public Safety

- This function is more aligned with DPS' mission to ensure public safety

- DPS has an existing division that can seamlessly absorb these services

- Net zero budget impact

Transfer Exxon Valdez Oil Spill Trustee Council from ADFG to DEC

- Net zero budget impact

Invest in Department of Administration Information Technology

- "Pandemic Proofing" and avoidance of the next major cyber-attack \$28.9m UGF (capital)

- Restructured how cost of investments in IT and other central services are reflected in the budget. Adds additional accountability for DOA costs. \$4.1m UGF

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Representative LeBon spoke of moving the communication system from the Department of Administration (DOA) to the Department of Military and Veterans Affairs (DMVA). He wondered if the transaction was being reversed. Mr. Steininger responded that it was currently being moved from DMVA to DPS. He added that it became apparent it should be housed in DPS.

Representative Wool cited food security and the \$50 million appropriation and wondered how the appropriation would be spent. Mr. Steininger responded there were 2 separate programs: \$25 million in mariculture and \$25 million in agriculture. He expounded that the mariculture program was

primarily grant focused. The Division of Agriculture would manage the \$25 million for agriculture. There were multiple objectives for the funding. He offered to provide additional information to the committee or subcommittee.

[3:18:48 PM](#)

Mr. Steininger discussed slide 15 titled "Federal Covid Relief:"

American Rescue Plan Discretionary Funding

\$375.4m for revenue replacement

\$20m in Fast Track Supplemental for public health response

\$37.4m FY2023 Operating investments

\$10m for workforce development

\$22.8m to the University of Alaska for critical economic development

Drone Research \$10m

Critical Minerals and Rare Earth Elements \$7.8m

Heavy Oil Recovery Method Research \$5m

\$3.5m for Domestic Violence and Sexual Assault Victim Services

\$1.1m to continue priority DNA collection activities in Corrections

\$72m in Capital projects

\$64m of Coronavirus Capital Project Funds Allocated

\$47.9m remaining to allocate

[3:21:21 PM](#)

Representative Johnson asked for some examples of the \$64 million. Mr. Steininger replied that the money was allocated in the proposed capital budget but not yet appropriated. He delineated that there were 3 proposed

projects. First, a student Information Technology program for the University of Alaska. Secondly, an appropriation for the fire facility in Eagle River built around a community center concept. The third project was for Health Information Systems for DHSS.

[3:22:26 PM](#)

Vice-Chair Ortiz asked if there was a list of projects that made up the \$72 million in capital projects. Mr. Steininger would provide more detailed information in a future capital budget presentation.

[3:23:05 PM](#)

Mr. Steininger continued to slide 16 titled "FY 23 Statewide Operating Items." He noted an increase of \$60 million UGF for Debt Service due to the increment in School Bond Debt Reimbursement. He highlighted the significant reduction in Retirement Assistance Payments for \$116 million. He reported that there was a substantial increase in Fund Capitalizations and Transfers due to the payment of the full statutory appropriation of Oil and Gas Tax Credits in the amount of \$145 million. The chart showed a decrement of \$34 million in the Disaster Relief Fund; however, the request was in the current supplemental budget for continued work for the earthquake disaster in 2017. There was an increase in the REAA fund that went hand-in-hand with School Bond Debt Reimbursement and was fully funded at \$15.6 million. He pointed to the statutory designation of "Other" showing a \$14.3 million reduction and indicated it was due to a recategorization of funds from UGF to DGF and was not truly a reduction.

[3:25:23 PM](#)

Mr. Steininger moved to slide 17 titled "SB 55/Retirement Contributions:"

Strong investment performance in FY21 resulted in significant savings for the public employee retirement systems

Investment performance reduced the State's required contribution to PERS/TRS systems by \$75.4 million UGF

Avoiding overcontribution to PERS/TRS health trusts saved \$71 million UGF

SB55 year two fiscal note reduction of \$14.7 million UGF by shifting to other fund sources

Total FY23 retirement savings: (\$161.1 million UGF)

[3:25:58 PM](#)

Vice-Chair Ortiz asked about the \$161 million reduction in contributions to the retirement fund. He wondered if the state eliminated its unfunded liability. Mr. Steininger answered that the state's funding ratio was less than 100 percent and the state maintained its obligation above the normal costs of paying into the retirement system. The strong investment returns considerably decreased the obligation. The state had been closing the gap between the liability and the assets available. He deferred further answer to the Division of Retirement and Investments.

[3:27:17 PM](#)

Mr. Steininger addressed slide 18 titled "Other Statewide Items:" on

Fully fund municipal school bond debt reimbursement \$79.0m UGF

Fully fund rural school construction contribution (Regional Educational Attendance Area fund) \$32.8m UGF

Full community assistance deposit of \$30m from PCE

Full funding for oil and gas tax credits of \$199m UGF

[3:28:03 PM](#)

Mr. Steininger continued to the final slide 19 titled "Federal Infrastructure Investment and Jobs Act:"

Infrastructure Investments and Jobs Act  
Enacted November 15, 2021

5-year reauthorization of established federal programs and new programs

New program details still pending Some program funding appropriated in the bill, others awaiting an FFY22 budget

Maximizing use in Alaska Marine Highway System to preserve UGF and transition to a sustainable system

Remaining funds to be addressed when further guidance is received

Mr. Steininger cautioned that the administration was attempting to determine how the IIJA funding could be used but the details were actively changing, and the guidance was not yet available. He reiterated that except for the AMHS funding, none of the money was appropriated in the FY 23 budget.

Representative LeBon asked if the school bond indebtedness payment was reimbursing at the statutory amounts and not more. Mr. Steininger replied in the affirmative and added that it depended on the year the municipality entered into the debt, which guided the percentage of payment according to statute. The \$79 million represented the statutory obligation under the program.

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Representative Edgmon referred to slide 19 and the IIJA funding. He wondered what the process to distribute the funding was and if the administration would submit a proposal or amendments. Mr. Steininger ascertained that as more guidance for the funding was known the committee should expect amendments for some of the items, but not all the items. There were many questions that need to be answered and at the current stage of understanding there were no amendments ready to offer. Representative Edgmon asked if the administration would work with the legislature and work through the appropriations process or would some of the funding go through the Revised Program Legislative (RPL) process in the Budget and Audit Committee. Mr. Steininger responded that the administration was happy to work with the legislature and would present additional information regarding IIJA. He reiterated that more guidance was needed from the federal government. He noted that the funding was different than the prior COVID relief

money that was meant to respond to an emergency and was more "open ended." Representative Edgmon thought he had heard the governor had appointed an individual to oversee the activity. He wondered whether the person would be placed in Juneau during session. Mr. Steininger responded that the administration was ready to work with the legislature and would make itself available whether in person or other means. Representative Edgmon found it "dramatically underwhelming" regarding the focus and inertia that was not being generated towards the "generational opportunity being afforded Alaska." He reiterated his thanks for the efforts of the congressional delegation and specifically Senator Murkowski. He was surprised that the issue was not a major focus.

[3:35:12 PM](#)

Representative Thompson referred to slide 18 and cited the \$30 million for community assistance programs from PCE. He recalled that community assistance used to be funded through UGF. He wondered why the money was not used to reduce the costs of power in rural communities. He asked if his assessment was correct. Mr. Steininger replied that the \$30 million was based on the statutory formula waterfall of how the earning should be used. He detailed that first it covered the PCE program itself at \$32 million, then paid the Community Assistance Fund and finally supported other programs that invested in infrastructure in the state. The capital budget contained further PCE appropriations per the statutory calculations that covered programs through the Alaska Energy Authority (AEA) and others. Representative Thompson asked if the \$30 million payout for Community Assistance was statutorily mandated. Mr. Steininger replied in the affirmative.

Co-Chair Foster asked whether there was sufficient funding to pay the \$30 million from the waterfall from the PCE earnings. Mr. Steininger answered in the affirmative and noted that if the fund earned more than the waterfall needs the balance would remain in the fund.

Co-Chair Foster reviewed the agenda for the following day. He thanked Mr. Steininger for appearing before the committee and appreciated the robust discussion.

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ADJOURNMENT

3:38:42 PM

The meeting was adjourned at 3:38 p.m.