

SENATE FINANCE COMMITTEE
April 21, 2021
9:04 a.m.

9:04:31 AM

CALL TO ORDER

Co-Chair Bishop called the Senate Finance Committee meeting to order at 9:04 a.m.

MEMBERS PRESENT

Senator Click Bishop, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Lyman Hoffman
Senator Donny Olson
Senator Natasha von Imhof
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Erin Shine, Staff, Senator Click Bishop; Senator Tom Begich, Sponsor;

PRESENT VIA TELECONFERENCE

Scott Jordan, Division of Risk Management, Department of Administration; Paloma Harbour, Fiscal Management Practices Analyst, Office of Management and Budget; Charles McKee, Self, Anchorage; Noah Klein, Counsel, Legal Services, Legislative Affairs Agency; Sana Efird, Executive Director, Alaska Commission on Postsecondary Education, Department of Education and Early Development;

SUMMARY

SB 10 FREE/REDUCED TUITION FOR ESSENTIAL WORKER

SB 10 was HEARD and HELD in committee for further consideration.

SB 20 OUT OF STATE TEACHER RECIPROCITY

CSSB 20(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from the Department of Education and Early Development.

SB 71 COUNCIL ON ARTS: PLATES & MANAGE ART

CSSB 71(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from the Department of Education and Early Development and one previously published fiscal impact note: FN 1(ADM).

SB 88 STATE INSUR. CATASTROPHE RESERVE ACCT.

SB 88 was HEARD and HELD in committee for further consideration.

#sb20

SENATE BILL NO. 20

"An Act relating to recognition of certificates of out-of-state teachers."

9:05:14 AM

Co-Chair Bishop relayed that the bill was being heard in committee for the third time.

Senator Wilson MOVED to ADOPT proposed committee substitute for SB 20, Work Draft 32-LS0202\G (Klein, 4/19/21).

Co-Chair Bishop OBJECTED for discussion.

9:05:52 AM

ERIN SHINE, STAFF, SENATOR CLICK BISHOP, relayed that the committee substitute (CS) incorporated the amendment adopted in the previous hearing on the bill. She noted that on Page 2, lines 20-21, and lines 24-25, the time period

for an out of state teacher to complete course training, as lined out in AS 14.20.020(K), from 2 years to 90 days.

Co-Chair Bishop WITHDREW his objection. There being NO OBJECTION, it was so ordered.

[9:06:45 AM](#)

Senator von Imhof discussed a new fiscal impact note from the Department of Education and Early Development. There was an appropriation of \$6,000 for FY 22. The fiscal note stated that an educator with a valid out of state teaching certificate would qualify for an Alaska teaching certificate and had two years to satisfy the Alaska Studies and Multicultural coursework. She read from the analysis on page 2 of the fiscal note, which read that a process would be adopted to issue a certificate to a spouse of an active duty member of the Armed Forces of the United States.

[9:07:36 AM](#)

Senator Hoffman asked whether the state could afford the fiscal note.

Co-Chair Bishop replied that it remained to be seen as budget discussions were still underway.

Senator Wilson MOVED to report CSSB 20(FIN) out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CSSB 20(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from the Department of Education and Early Development.

[9:08:32 AM](#)

AT EASE

[9:08:51 AM](#)

RECONVENED

#sb71

SENATE BILL NO. 71

"An Act relating to special request registration plates celebrating the arts; relating to artwork in public buildings and facilities; relating to the management of artwork under the art in public places fund; relating to the powers and duties of the Alaska State Council on the Arts; and providing for an effective date."

Co-Chair Bishop announced that this was the third hearing of the bill in committee.

Senator Olson MOVED to ADOPT proposed committee substitute for SB 71, Work Draft 32-LS0310\W (Fisher, 4/19/21).

Co-Chair Bishop OBJECTED for discussion.

[9:09:37 AM](#)

Ms. Shine relayed that the proposed CS contained amendments adopted in the previous bill hearing in committee. She noted that the first change was a title amendment, which added the establishment of the Alaska Arts and Cultural Investment fund. She furthered that in Section 1, page 2, lines 12-13, were conforming changes to Section 6. She added that Section 2, page 2, lines 14-15, added the fund created in Section 6, to AS 37.05.146(C). She detailed that Section 4, page 3, line 11, which added the management of the fund as they duty of the Alaska State Council on the Arts. The new Section 6 detailed that the fund was created in the general fund and consisted of money appropriated by the legislature, including donations, monies from other sources, and interest earned on the fund. She related that Section 5 had been removed.

[9:11:05 AM](#)

Co-Chair Bishop WITHDREW his objection. There being NO OBJECTION, it was so ordered.

[9:11:16 AM](#)

Senator Wielechowski discussed a fiscal note from Department of Education and Early Development, OMB Component number 3193, which listed a one-time expenditure of \$6,000 for legal fees to implement the necessary regulation changes and for policy review.

Senator Wielechowski addressed a fiscal note from the Department of Administration, which projected expected revenue from license plate cost increases that would annually raise 55,560 between FY22-FY27.

[9:12:05 AM](#)

Senator Olson MOVED to report CSSB 71(FIN) out of Committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSSB 71(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from the Department of Education and Early Development and one previously published fiscal impact note: FN 1(ADM).

#sb88

SENATE BILL NO. 88

"An Act relating to the state insurance catastrophe reserve account; and providing for an effective date."

[9:12:57 AM](#)

AT EASE

[9:13:57 AM](#)

RECONVENED

SCOTT JORDAN, DIVISION OF RISK MANAGEMENT, DEPARTMENT OF ADMINISTRATION (via teleconference), discussed a presentation "Senate Bill No 88" (copy on file).

Mr. Jordan spoke to slide 2, "History of the Catastrophic Reserve Account (CATFund)". He detailed that the purpose of the bill was to allow a change of the CAT fund from an unencumbered balance of \$5 million to \$50 million, which would allow the state to self-insure for property coverage. He shared that the state currently had two lines of business that it self-insured for: Worker's Compensation (1992) and General Liability (2002). He stated that the global property insurance markets had hardened over the last 3 years, resulting in a 30 percent increase in the previous year's premium costs, with an additional 15 to 20 percent increase in FY22. He relayed that the current limit that could be purchased for catastrophic coverage was \$50

million for annual premium, which would be saved through self-insuring.

[9:15:52 AM](#)

Mr. Jordan discussed slide 3, "Expenditures from the CATFund since inception," which showed a data table.

[9:17:53 AM](#)

Senator von Imhof noted that the title of the slide differed from what was before the committee.

[It was determined that the presentation being viewed was old and a new presentation was uploaded.]

[9:19:04 AM](#)

AT EASE

[9:19:54 AM](#)

RECONVENED

[9:19:56 AM](#)

RECESSED

[9:30:53 AM](#)

RECONVENED

Co-Chair Bishop asked Mr. Jordan to restart his presentation.

Mr. Jordan spoke to slide 1, "Purpose":

[paste in]

Mr. Jordan discussed slide 2, "What other states are doing?":

[9:32:48 AM](#)

Co-Chair Stedman asked whether a "sinking fund" would be included set up as a result of not being required to pay the previous premiums.

Mr. Jordan was not familiar with the term "sinking fund," and explained that the state would not be paying any premiums to excess insurance for property loss, which would result in a reduction to agencies and rates.

Co-Chair Stedman asked where the savings from reduction of premiums in agencies would go.

Mr. Jordan replied that he was not sure what every agency would do to offset the reductions.

[9:34:01 AM](#)

Senator von Imhof asked about the amount of annual savings with unpaid premiums. She wondered whether it would make sense to set aside part of the savings for catastrophic losses.

Mr. Jordan anticipated that the savings in the first year would be approximately \$3 million; \$6 million by FY25. The set-aside amount would be the catastrophic fund, with the maximum amount being \$50 million.

Senator von Imhof understood that the fund would start at zero, and eventually increase to \$50 million over 8 years.

Mr. Jordan replied that there was currently \$5 million in the fund, which was the maximum amount allowed. He said that the annual sweep done by the Division of Finance would allow the fund to increase to \$50 million. He hoped most of the increase would occur in the coming year.

[9:36:15 AM](#)

Co-Chair Stedman thought his question had not been answered. He wanted to track the cash flow. He asked whether agencies would still be billed \$5 million. He asked for history on the state's losses. He wanted a conversation concerning risk exposure to the state and why the state differed from the broader marketplace.

Mr. Jordan stated that the anticipated reduction was \$3 million and would be passed to agencies. He thought someone from the Office of Management and Budget (OMB) could address what agencies would do with the savings.

[9:38:40 AM](#)

PALOMA HARBOUR, FISCAL MANAGEMENT PRACTICES ANALYST, OFFICE OF MANAGEMENT AND BUDGET (via teleconference), explained that any savings would be spread out across agencies, who would be billed less in their rates.

[9:39:14 AM](#)

Senator Wielechowski asked for an explanation of the legal obligation of the CAT Fund.

Mr. Jordan noted that there was a slide that spoke to the question. He summarized that the CAT Fund could be used for catastrophic losses, claim settlements, and paying insurance premiums. He added that if the fund were not increased, and current premiums were paid, there would be no funds left to pay for catastrophic losses.

Senator Wielechowski asked what was considered a "catastrophic loss".

Mr. Jordan thought a typical catastrophic loss within the State of Alaska was property driven and usually involved an earthquake or a flood. He said the fund had been used to pay settlement claims but was typically used for first-party losses to the state, such as vessels or aircraft. He noted that a future slide addressed what the fund had been previously used for.

Senator Wielechowski understood the fund only covered state assests.

Mr. Jordan answered in the affirmative.

Senator Wielechowski noted that Per- and polyfluoroalkyl substances (PFAS) claims were listed in an upcoming slide. He asked whether those payments were to private individuals or corporations.

Mr. Jordan stated that those claims were paid out to individuals and were considered state claims because they were liabilities to the state.

[9:42:08 AM](#)

Senator von Imhof referenced slide 7 and confirmed that the discussion pertained to property only and not liability associated with property.

Mr. Jordan responded that the fund could pay a property or a liability claim. He explained that the intent of the legislation was to insure for property claims.

Senator von Imhof expressed concern with the wide-ranging coverage. She referenced the November 2018 Anchorage earthquake and recalled that repairs cost the state over \$35 million in undesignated general funds (UGF). She referenced wildfires in Southcentral Alaska that had cost the state hundreds of millions of dollars. She wondered whether this fund would help to pay for events similar to the earthquake and wildfires.

Mr. Jordan stated that currently the fund was used to pay what the state would pay on insurance claims. He said that property losses due to the earthquake had been paid; however, coverage for things like collapsed roads and bridges would not have been paid out of the fund.

[9:44:38 AM](#)

Co-Chair Stedman asked people to avoid acronyms in the conversation.

[9:45:00 AM](#)

Senator Wilson asked about the space center in Kodiak. He wondered whether the fund would pay out the claim made due to an explosion.

Mr. Jordan shared that the state had paid about \$1.5 million out of the CAT fund and the insurance company had paid the balance of the claim while collecting against the customer who had owned the rocket that exploded.

[9:46:11 AM](#)

Senator Wielechowski asked whether the proposed bill was like increasing the state's deductible.

Mr. Jordan thought it was possible to look at the proposed change that way, currently the state's excess property coverage had a \$1 million retention, which was essentially

a deductible. He detailed that the legislation would self-insure the state; a deductible would not be paid, there would simply be a fund available to cover claims.

[9:47:01 AM](#)

Senator von Imhof had concerns about the fund being depleted from one or two catastrophic events. She wondered if it made sense to pay a higher deductible and maintain insurance for catastrophic events with insurance companies.

Mr. Jordan noted that some other states were raising the deductible up to \$40 million or \$50 million. In 2012 the state had self-insured property under \$5 million and those properties were not on the state's insurance property schedule. He said that insurance markets had suggested that it was better to lower total insured values than to raise deductibles.

[9:48:47 AM](#)

Senator Wielechowski asked if the raising from \$5 million to \$50 million meant that the maximum liability was \$50 million. He wondered whether the bill would cap the state's maximum liability for catastrophic events.

Mr. Jordan stated that the bill did not cap the state's liability.

[9:49:56 AM](#)

Co-Chair Bishop mentioned premiums increases and asked whether states went to the same insurance pool for purchasing insurance. He asked whether Mr. Jordan had spoken with other states to form a coalition in order to keep insurance premiums down.

Mr. Jordan did not believe that states had tried to form a coalition. He affirmed that states went to the London market, the Bermuda market, and the domestic market. It was typical for the insurance amounts to be so high that it took five or six companies, and two and three layers, to insure states.

[9:51:35 AM](#)

Mr. Jordan reviewed slide 3, "What other states are doing?":

Through the State risk and Insurance Management Association (STRIMA) we asked other states what they were doing to combat the rising premiums in property coverages;

- Just pay the higher premiums. Some states, mostly Southeast states are forced to maintain excess coverage due to benefits paid by FEMA which requires "Obtain and Maintain" agreements when FEMA pays for a catastrophic loss.
- Set up Captive Pans
- Increase self-Insured Retentions (SIR), in some cases \$40mil to \$50mil retention
- Some states are coming off multi-year premium price guarantees.

We received responses from 12 states

[9:54:14 AM](#)

Co-Chair Stedman wanted more detail about the Federal Emergency Management Agency (FEMA). He asked whether states could be limited by entering into agreements with FEMA.

Mr. Jordan detailed that FEMA had an "obtain and maintain" provision. He had spoken with FEMA about the state meeting the "obtain and maintain" requirement if the CAT fund were increased. He had learned that a new agreement would need to be submitted to FEMA to maintain the requirement.

Co-Chair Stedman asked whether the FEMA claims had been from state claims.

Mr. Jordan replied in the affirmative. He said that the state was requesting that FEMA pay the claims for several structures that had been damaged in the earthquake. He added that agencies had requested FEMA funds for things that were not covered by the state.

Co-Chair Stedman asked whether the state paid premiums to FEMA.

Mr. Jordan stated there were no premiums paid to FEMA. He explained that once FEMA made a payment the state agreed to maintain insurance on the structure into the future. Should the state fail to maintain the building, FEMA could stop coverage.

[9:57:00 AM](#)

Co-Chair Stedman related that his office, while working on a FEMA package for the state, had discovered that FEMA premium payments were structured in classifications nationwide, which meant that Alaskans were paying premiums driven out of the Gulf of Mexico and of the East Coast hurricanes. He lamented that the state was paying premiums to FEMA and receiving very little in claims. He expressed concern that, in addition to other states driving up premiums, FEMA had building restrictions. He worried about the threat of FEMA refusing assistance to states that did not pay premiums, while those rates were inordinately high, higher than any rate the division of insurance would allow under regulations. He believed the issue was significant.

[9:58:44 AM](#)

Co-Chair Bishop wanted to discuss the obtain and maintain agreements as previously discussed by Mr. Jordan and Co-Chair Stedman. He understood that the agreement meant that if FEMA paid for work on a building, in order for the state to get FEMA payments into the future an obtain and maintain agreement must be entered into.

Mr. Jordan stated that Co-Chair Bishop was correct. There was no written agreement. He said that FEMA kept track of the buildings and could elect to not pay for damages on buildings outside of the agreement.

[10:00:09 AM](#)

Mr. Jordan referenced Co-Chair Stedman's comments and noted that that the state had seen similar issues within the global market. He remarked that Alaska did not have large claims and had to deal with the capacity issues from other states and countries. He stressed that payments made out on other catastrophic losses were affecting the state's rates.

[10:00:50 AM](#)

Mr. Jordan referenced slide 4, "History of the Catastrophic Reserve Account (CATFund)," which showed //

[paste ?]

[10:01:32 AM](#)

Mr. Jordan turned to slide 5, "Expenditures from the CAT Fund since inception," which demonstrated expenditures from the fund since its inception in FY88. A total of \$149 million had been expended out of the fund since 1988, or \$4.5 million per year. He believed that this illustrated the need for a raising of the cap.

Co-Chair Bishop observed the \$4.5 million per year average claims.

[10:02:45 AM](#)

Senator Wielechowski wondered whether the amount that was needed to pay out claims would rise to the amount that was used from year to year.

Mr. Jordan hoped that was not the case. He had an upcoming slide that showed claims paid within the previous 10 years. He noted that, historically, large claims had not been made. He pointed out that the largest claim was the Crystal Lake Hatchery in Petersburg for \$4.2 million. He did not believe that there would be an increase in the size of claims.

Senator Wielechowski looked at FY05 and observed the whole \$5 million was used in that year.

Mr. Jordan answered affirmatively.

Senator Wielechowski noted that in FY06, and FY07, less than \$100 remained in the account at the end of the fiscal year. He said that there were years when the payments had been very close to \$5 million and wondered if how much would have been spent had the fund had been at \$50 million in those previous years.

Mr. Jordan thought that expenditures in previous years had included claims that could have been paid under Judgement Claims expenses rather than the CAP fund. His planned practice was to continue to pay claims that were unexpected

to Risk Management. He did not anticipate paying claims larger than what had been previously paid. He said that there had been years (such as FY92) where the fund had expended \$10 million. He related that some funds could be encumbered and not paid out until several years later.

[10:06:22 AM](#)

Co-Chair Stedman considered changes in the fund since its inception. He asked Mr. Jordan to discuss using inflation-adjusted numbers.

Mr. Jordan acknowledged there had been inflation since 1988. He said that the Risk Management appropriations had increased since 1988. He stated that when he started with the division in 1998, the budget was \$32 million and was currently at \$41 million. He felt the budget had increased to accommodate increase standard costs of claims and not because of unexpected claims.

[10:07:56 AM](#)

Co-Chair Bishop interjected that the state did not follow the one percent rule on deferred maintenance.

[10:08:19 AM](#)

Mr. Jordan showed slide 6, "10-year history of property premiums/losses," which showed a small table and a line graph. He pointed to the blue line, which showed the property premiums that had been paid over the past decade. He noted that the coverage had doubled over 10 years, with a substantial increase between FY 11 and FY 12. The orange line showed property losses paid by the state and did not include funds from insurance companies. There had been a spike in FY 15 due to the Crystal Lake Hatchery. Another spike in FY 20 was due to claims from the earthquake and retention paid on a Department of Transportation maintenance shop that had been damaged by snow.

[10:11:10 AM](#)

Senator von Imhof thought Mr. Jordan had mentioned it was getting harder to find insurers. She asked whether companies were being forced to leave the market due to excessive payments. She wondered what was happening to the insurance market.

Mr. Jordan mentioned there had been companies that went out of business due to catastrophic losses Down South, while other companies were increasing premiums and becoming more selective in their coverage. He said that when capacity went down it raised premiums, which was a problem.

[10:12:46 AM](#)

Co-Chair Stedman was curious about the \$1 million retention paid for a DOT maintenance shop snow collapse. He wondered why the amount was not absorbed within the normal operation of the agency.

Mr. Jordan affirmed that the state's program covered the loss. He knew that in some cases the agency requested additional appropriation if the replacement building exceeded the amount of the original building.

Co-Chair Bishop added that DOT should know snow load factors on its buildings.

[10:14:27 AM](#)

Senator Wielechowski thought that if the bill passed, the state could be paying out up to \$50 million, per year, and he wondered whether that was an actual savings over just paying the insurance premiums.

Mr. Jordan relayed that the \$5 million premium was strictly for property coverage. The CAT Fund had paid for losses other than property; the bill proposed the increase so that the state could completely self-insure. He stressed that savings to the state are anticipated. He acknowledged that it was difficult to determine if the state was going to save by self-insuring rather than buying at high excess limits.

[10:16:06 AM](#)

Senator von Imhof queried the payments other than property payments. She wondered about state workers who might be killed or injured in the collapse or damaging of a state-owned building. She asked how the state would pay the liability claims.

Mr. Jordan noted that worker's compensation claims would cover the event of employee loss of life or injury. He

related that in the case of the snow collapse, the total coverage anticipated by the state was \$3.8 million. He said that the state's retention at the time of the collapse was \$1 million and the insurance company would eventually pay the additional \$2.8 million. He felt that the issue was that the excess insurance was \$2.8 million, and a CAT fund of \$50 million would have covered that without the state having to pay the \$5 million premium to get the \$2.8 million back.

Senator von Imhof asked whether the graph on slide 5 showed what the state paid, and what it received from insurance. She probed the value the state had received from insurance premium payments since 1988.

Mr. Jordan responded that the numbers had been run back to FY 10. He noted that the only claim that the state had collected excess insurance on between FY 10 and FY 20 was for the Alaska Aerospace Kodiak Launch Facility rocket explosion.

Senator von Imhof thought it would be helpful for the committee to see a report on how much the state had paid in premiums, how much the state had been paid in claims, and how much the state had paid each year from FY 10 to the present.

Mr. Jordan stated that slide 6 showed property losses shown on the table indicated funds that the state had paid. He said that in FY 18 the state recouped the funds for the Alaska Aerospace rocket explosion. He admitted that the state benefitted from insurance in that instance but believed that increasing the fund to \$50 million would cover the losses, without requiring premium payments. He agreed to provide the requested information to the committee.

[10:20:52 AM](#)

Mr. Jordan showed slide 7, "10 year history of property payments compared to all lines of business." He explained that the top portion of the slide showed property premiums paid by the state since FY 10. He noted that half of the premiums paid out every year for excess insurance was for property. He cited that worker's compensation was one of the largest areas for payout every year. He said that the

majority of the premiums were paid out in aviation and property.

[10:22:15 AM](#)

Mr. Jordan reviewed slide 8, "Larger claims paid out of the CRA (CATFund) ":

- AMHS LeConte Grounding May 2004 \$1,187,330
- F&G Crystal Lake Hatchery fire March 2014 \$4,078,137
- Alaska Aerospace Kodiak Launch Facility rocket explosion August 2014 \$1,513,667
- PFAS claims starting in November 2017 \$5,877,555
- Earthquake related claims November 2018 \$1,263,631

*In the last 10 years, this is the only claim the State has collected excess insurance on.

[10:23:33 AM](#)

Senator Wielechowski asked why the state was paying PFAS claims. He thought the claims should be paid by the private companies that were responsible for the water table pollution.

Mr. Jordan explained that the state had initially looked at the PFAS issue as a potential liability claim and had started looking into providing clean drinking water to residents by bringing in bottled water. He shared that the eventual solution had been to connect residents to the city water system. He lamented that the division had never been advised of the potential PFAS pollution in other communities. He said that the state's policy was to not collect a premium for this type of incident; the policies did not cover hazardous release. He relayed that there were 5 areas currently covered for temporary water and working toward a final solution. He believed DOT would be taking the lead on cleanup areas. The state was pursuing litigation against 3M and Dupont for the initial chemical pollution.

Co-Chair Bishop understood that the state would be joining a class action suit with numerous other states regarding the issue.

Mr. Jordan was not involved in the litigation. He believed there were other states pursuing litigation.

[10:26:03 AM](#)

Mr. Jordan looked at slide 9, "Lapse Appropriations Summary":

The State Insurance Catastrophic Reserve Fund, Fund # 3209, (Cat Fund) is part of the General Fund and Other Non-segregated Investments (GeFONSI). The GeFONSI are funds that have been pooled together for investment purposes. The Cat Fund is part of the NonMOU group, which allows for the interest earned to be deposited back into the General Fund.

- The budget includes lapse appropriations to shore up certain state accounts up to statutory limits
- The Risk Management lapse appropriation is last to ensure sufficient lapse for the other accounts
- The total FY2021 projected UGF lapse is \$110.7 million

[10:27:37 AM](#)

Co-Chair Stedman understood that the proposal was to take the unused surplus at the end of the fiscal year and move it to create the \$50 million account.

Mr. Jordan answered in the affirmative.

Co-Chair Stedman stressed the importance of transparency when discussing the financial state of the state. He wondered whether an appropriation from the legislature into the fund would be a cleaner. He thought that if agencies had surplus money, their budget could be trimmed, and the surplus could be deposited into the constitutional budget reserve (CBR). He thought that the inter-agency receipts that were charged to create the funds could be used as a self-funding mechanism, which could be easily tracked.

[10:29:50 AM](#)

Senator von Imhof referenced lapsed funds and asked, in the event that the reverse sweep did not occur, a sweep of

excess funds in various accounts would be used to fund the \$50 million.

Mr. Jordan deferred to OMB.

Co-Chair Stedman asked whether the fund would be sweepable.

Ms. Harbour stated that the lapsed balances that would be moved to the CAT fund would be put into the fund before the timing of the reverse sweep from the general fund into the CBR. She affirmed that the CAT fund was not sweepable because it is not subject to further appropriation.

[10:31:48 AM](#)

Senator von Imhof wondered how the fund would be funded to \$50 million.

Ms. Harbour responded that a considerable amount was expected to lapse in FY 21 because of the federal Covid-19 dollars; specifically, the federal match for Medicaid.

Senator von Imhof thought Ms. Harbour had indicated that OMB would be eyeing federal Covid-19 dollars for the building of the insurance fund.

Ms. Harbour clarified that the state had not spent as much general fund on Medicaid as was anticipated when developing the FY 21 budget because of additional federal participation in the program. She added that there may be other areas of general fund lapse.

[10:33:20 AM](#)

Co-Chair Stedman referenced his earlier point that Covid-19 funds coming from different sources would offer opportunity to offset general funds. He cautioned that the committee should be careful when offsetting general funds that it was clearly understood what was being offset. He expressed concern that that it could become difficult to track the funds overtime. He urged the committee to error on the side of transparency.

[10:35:43 AM](#)

Senator Olson thought it looked as though the lapsed funds should go through the reappropriation process rather than being shuffled around by a non-appropriating body.

Ms. Harbour stated that the operating budget bill included language specifically stating that if there was excess general fund at the end of the fiscal year that would lapse, it could be used to replenish the CAT fund up to the amount set in statute.

Senator Olson asked about the difference between the intent of the bill and going through the normal reappropriation guidelines. He asked whether this was an attempt of trying to avoid the reappropriation process.

Ms. Harbour referenced that it was the legislature's choice whether or not to fund the program. She said that lapse fund balances had been used in the past to keep the fund balance up.

[10:37:54 AM](#)

Co-Chair Stedman understood that the language section of the operating budget had limits and gave the legislature power of appropriation. He asked that the fiscal note be reconsidered, and thought it would be cleaner and easier to follow the money.

[10:39:26 AM](#)

Co-Chair Bishop OPENED public testimony.

[10:39:36 AM](#)

CHARLES MCKEE, SELF, ANCHORAGE (via teleconference), mentioned the bill. He mentioned the Court system. He referenced corporations. He shared that he had been charged with a crime. He discussed the Department of Administration.

Co-Chair Bishop set the bill aside.

SB 88 was HEARD and HELD in committee for further consideration.

[10:42:33 AM](#)

AT EASE

[10:43:50 AM](#)

RECONVENED

#sb10

SENATE BILL NO. 10

"An Act establishing a grant program to provide to essential workers the tuition and fees to attend a state-supported postsecondary educational institution."

[10:44:19 AM](#)

SENATOR TOM BEGICH, SPONSOR, discussed the legislation and introduced his support staff. The bill would provide for essential workers up to 4 years of free tuition at state institutions.

[10:45:28 AM](#)

Co-Chair Bishop MOVED to ADOPT Amendment 1:

Page 3, Line 4:

Delete "\$10,000,000"

Insert "2,500,000"

Co-Chair Stedman OBJECTED for discussion.

Co-Chair Bishop spoke to Amendment 1. He noted that the amendment sought to fix an inconsistency between the intent of the bill and the language in the legislation.

Co-Chair Stedman WITHDREW his OBJECTION. Amendment 1 was ADOPTED.

Senator Wilson MOVED to WITHDRAWN Amendment 2. There being NO OBJECTION, it was so ordered.

Senator Wilson MOVED to ADOPT Amendment 3:

Co-Chair Bishop OBJECTED for discussion.

Senator Wilson spoke to Amendment 3. He relayed that the amendment would add a section to the bill recommending that at least 20 percent of the grants went to trade schools. He said that there was a shortage of skilled labor in the

state and the amendment would insure the preparation for a skilled workforce in the state.

Co-Chair Bishop asked for the Division of Legislative Legal to speak to the amendment.

[10:47:40 AM](#)

Senator Wilson referenced a memo.

NOAH KLEIN, COUNSEL, LEGAL SERVICES, LEGISLATIVE AFFAIRS AGENCY (via teleconference), said that Article 1, section 7, of the Constitution of the State of Alaska prohibits the expenditure of public funds for the direct benefit of private educational institutions. He said that amendment 3 raised questions because it allowed for the potential of fund to be spent to the direct benefit of a private school.

Senator Wilson noted that the Alaska Performance Scholarship provided funds for many vocation and skilled labor schooling. He said that previous Covid-19 funding had gone to Alaska Bible College and Alaska Christian College. He felt that the state had consistently funded private programs and if there was a constitutional issue with the amendment then the state should cease funding all of the programs he mentioned.

Mr. Klein offered to get back to the committee on the issue. He pointed out Alaska Supreme Court precedent involved a postsecondary school, Sheldon Jackson College, and provided a three-part test to determine whether public funds were being provided to a private entity.

[10:50:19 AM](#)

Senator Begich asserted that CARES Act funding had included a requirement to fund private schools. He was not opposed to the principal of the amendment, but he was concerned with the legal memo questioning the amendment's constitutionality.

Senator Wilson asked whether there was someone online who could speak to the issue.

[10:51:18 AM](#)

SANA EFIRD, EXECUTIVE DIRECTOR, ALASKA COMMISSION ON POSTSECONDARY EDUCATION, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT (via teleconference), stated that under AS 14.43.830, the state had institutional authorization to qualify certain postsecondary institutions based on specific eligibility criteria to be eligible to receive public funds.

[10:52:16 AM](#)

AT EASE

[10:53:35 AM](#)

RECONVENED

Senator Wielechowski wondered whether the amendment would allow for funds to be expended to schools outside of the state.

Senator Wilson stated the intent was for the provision to apply to schools within the state of Alaska.

Co-Chair Bishop thought Amendment 3 needed more scrutiny.

Co-Chair Bishop MAINTAINED his OBJECTION.

Senator Wilson WITHDREW Amendment 3. There being NO OBJECTION, it was so ordered.

[10:55:00 AM](#)

Senator Wilson MOVED to ADOPT Amendment 4.

Co-Chair Bishop OBJECTED for discussion.

Senator Wilson spoke to Amendment 4. He said that the intent was to replace the state supported postsecondary institution with a postsecondary institution approved by the Commission on Postsecondary Education, which would allow grants to be used for both state supported and private institutions.

Senator Wielechowski asked for an opinion from a legislative attorney. He thought the amendment had the same problem as the previous amendment.

Co-Chair Bishop agreed.

[10:56:22 AM](#)

Mr. Klein thought the same constitutional question arose from Amendment 4 as had for the previous amendment.

Senator Wilson believed that there were mechanisms in place in statute allowed for public dollars to be spent on private schools. He stressed that if the practice was not constitutional then the statutes should be changed.

Co-Chair Bishop WITHDREW his OBJECTION.

Senator Wielechowski OBJECTED.

Senator Begich shared that he did not think the amendment met the intent of the bill.

[10:58:35 AM](#)

Co-Chair Bishop asked how much, if any, money did the state approve for money going out-of-state for educational training.

Ms. Efird stated that money that was appropriated as grants under the Alaska Performance Scholarship and the Alaska Education Grant did not go to students out of state. In statute, the funds were to provide scholarships for high school graduated, who are Alaska residents, for institutions within the State of Alaska.

Co-Chair Bishop queried the wording needed to make the amendment more constitutionally palatable.

Ms. Efird thought the amendment might need work to add that she was happy to work with the amendment sponsor to determine how the amendment could be best crafted. She reiterated that currently performance scholarship money and education grants did not go to out-of-state institutions.

[11:00:27 AM](#)

Senator von Imhof thought perhaps if the amendment sponsor could refine the language to add a reference for Alaska-based schools only. She shared that she would feel comfortable waiting for a day to act on the bill. She asked the sponsor of the bill about the language surrounding "essential workers".

Senator Begich stated that the bill was not intended to limit "essential workers" in the state to only Alaska residents. He added that he had received a loan in the past from the APEC to attend an out-of-state college. He clarified that the state approved student loans for students going to institutions outside of the state.

[11:02:53 AM](#)

Senator Olson asked whether the bill would provide for a student attending a private facility or institution outside of the state. He noted that there was not a medical school or law school in the state.

Senator Begich explained that the bill had been narrowly designed to take advantage of the current moment and to apply it to Alaskan institutions to avoid the anticipated constitutional challenges. The bill was to ensure that essential workers in the state would have the opportunity to pursue a four-year education within the limits of what is available within the state.

[11:04:04 AM](#)

[11:04:05 AM](#)

AT EASE

[11:04:57 AM](#)

RECONVENED

Senator Wilson MOVED to WITHDRAW Amendment 4.

Senator Begich clarified that Page 2, line 7, specified that the recipient must be a resident of the state for at least 12 months.

SB 10 was HEARD and HELD in committee for further consideration.

Co-Chair Bishop discussed housekeeping.

#

ADJOURNMENT

[11:05:32 AM](#)

The meeting was adjourned at 11:05 a.m.