

SENATE FINANCE COMMITTEE
April 27, 2021
9:23 a.m.

9:23:20 AM

CALL TO ORDER

Co-Chair Bishop called the Senate Finance Committee meeting to order at 9:23 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; Jasmine Martin, Staff, Senator David Wilson; IntiMayo Harbison, Staff, Senator von Imhof.

PRESENT VIA TELECONFERENCE

Thor Bue, Chief Procurement Officer, Department of Administration; Charlie Franz, Self, Homer; Bert Houghtaling, Self, Big Lake.

SUMMARY

SB 10 FREE/REDUCED TUITION FOR ESSENTIAL WORKER

CSSB 10(FIN) was REPORTED out of committee with a "do pass" recommendation and with two new fiscal impact notes from the Department of Education and Early Development.

SB 95 SEARCH AND RESCUE SURPLUS STATE PROPERTY

CSSB 95(STA) was REPORTED out of committee with a "do pass" recommendation and with one previously published zero fiscal note: FN 1(ADM).

SB 101 ADVISORY COMMISSION ON FEDERAL MGT AREAS

CSSB 101(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from the Department of Natural Resources.

SB 75 APPROPRIATION LIMIT

SB 75 was HEARD and HELD in committee for further consideration.

#sb101

SENATE BILL NO. 101

"An Act extending the termination date of the Citizens' Advisory Commission on Federal Management Areas in Alaska; and providing for an effective date."

[9:24:23 AM](#)

Co-Chair Bishop discussed housekeeping.

Senator Olson MOVED to ADOPT proposed committee substitute for SB 101, Work Draft 32-LS0620\B (Fisher, 4/24/21).

Co-Chair Bishop OBJECTED for discussion.

[9:25:06 AM](#)

ERIN SHINE, STAFF, SENATOR CLICK BISHOP, offered an Explanation of Changes for SB 101(copy on file):

Updated Title

Page 1, lines 1-2

Adds "relating to the membership of the Citizens' Advisory Commission on Federal Management Areas in Alaska"

New Section

Section 1

Amends AS 41.37.180 to require that at least three appointments to the Citizens' Advisory Commission on Federal Management Areas by the governor are representatives from corporations organized under the Alaska Native Claims Settlement Act.

New Section

Section 3

Page 2, lines 3-13

Provides transition language to comply with the requirement of Section 1.

Co-Chair Bishop discussed a new fiscal note from Department of Natural Resources, OMB Component 2733. He read from the analysis:

The Citizens' Advisory Commission on Federal Management Areas in Alaska (CACFA) was active from 1981 until 1999, at which time funding was eliminated. In 2007, AS 41.37 reestablished CACFA and was active from FY2008 through FY2017, when funding was eliminated. This bill will extend the termination date of the CACFA through June 30, 2029.

[9:26:57 AM](#)

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

Senator Olson MOVED to report CSSB 101(FIN) out of Committee with individual recommendations and the accompanying fiscal note.

CSSB 101(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from the Department of Natural Resources.

#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."

[9:27:37 AM](#)

Co-Chair Bishop discussed housekeeping.

Senator Wielechowski MOVED to ADOPT proposed committee substitute for SB 10, Work Draft 32-LS0127\N (4/26/21, Klein).

Co-Chair Bishop OBJECTED for discussion.

Ms. Shine addressed an Explanation of Changes document (copy on file):

Section 1

Page 3, line 3

Reduces the amount available for appropriation each fiscal year from \$10,000,000 to \$2,500,000.

Section 3

Page 4, line 10

Changes repeal date for the Essential Worker Grant Program established in Section 1 from December 31, 2025 to June 30, 2025.

Section 4

Page 4, line 11

Changes repeal date for the Essential Worker Grant Program Report established in Section 2 from December 31, 2026 to June 30, 2026.

[9:29:28 AM](#)

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

Senator Wielechowski discussed a new fiscal note from the Department of Education and Early Development, OMB Component 3096.

Senator Wielechowski discussed a second new fiscal note from the Department of Education and Early Development, OMB Component 2738.

[9:31:55 AM](#)

Senator Wielechowski MOVED to report CSSB 10(FIN) out of Committee with individual recommendations and the accompanying fiscal notes.

CSSB 10(FIN) was REPORTED out of committee with a "do pass" recommendation and with two new fiscal impact notes from the Department of Education and Early Development.

#sb95

SENATE BILL NO. 95

"An Act relating to the right of first refusal of a volunteer search and rescue group with respect to surplus state property."

[9:32:31 AM](#)

Co-Chair Bishop discussed housekeeping.

[9:33:06 AM](#)

Senator Wilson provided a Sponsor Statement (copy on file):

This legislation allows a volunteer search and rescue organization to exercise the right of first refusal on items related to search and rescue before the property is sold, leased, licenses, or disposed of. Right of first refusal means the organization can buy the equipment at a fair market value set by the department of administration. This bill enables these volunteer search and rescue groups to more easily obtain the equipment they need to fulfill their lifesaving mission.

[9:33:52 AM](#)

Senator Wielechowski expressed concern that an unregistered organization could obtain the title to an asset, disband shortly after, and leave the title ownership under question.

[9:34:33 AM](#)

JASMINE MARTIN, STAFF, SENATOR DAVID WILSON, explained that the properties in question would be titled to organizations themselves, not to individuals. She added that the department would have authority to set regulation as what happened if a group disbanded soon after obtaining a property. She detailed that the asset would need to be used for search and rescue missions for at least twelve months after purchase from the state.

[9:35:28 AM](#)

Senator Olson did not understand who would retain the asset should the organization disband.

THOR BUE, CHIEF PROCUREMENT OFFICER, DEPARTMENT OF ADMINISTRATION (via teleconference), explained that if the organization disbanded prior to the twelve-month period the state would have the authority to take the property back and allow the property to be awarded to another organization.

Senator Olson understood that the item would be repossessed by the state.

Co-Chair Bishop thought that was the protocol.

Co-Chair Bishop discussed FN 1 from the Department of Administration, OMB component 3291.

Senator Wilson MOVED to report CSSB 95(STA) out of Committee with individual recommendations and the accompanying fiscal note.

CSSB 95(STA) was REPORTED out of committee with a "do pass" recommendation and with one previously published zero fiscal note: FN 1(ADM).

[9:37:51 AM](#)

AT EASE

[9:39:22 AM](#)

RECONVENED

#sb75

SENATE BILL NO. 75

"An Act relating to the duties of the legislative finance division; relating to an appropriation limit; relating to the budget responsibilities of the governor; and providing for an effective date."

Co-Chair Bishop relayed that this was the first hearing of the legislation.

[9:39:44 AM](#)

Senator von Imhof, Sponsor, discussed a presentation entitled "SB 75" (copy on file). She believed that the state should have a spending cap. She thought that the current constitutional spending cap did not work that it was imperative that a steady and predictable spending plan be established. She asserted that the cap would allow the state to spend new revenue on annual operating expenses based on what was allowable inside of the cap, while saving excess funds for disasters, emergencies, and low revenue years.

[9:40:48 AM](#)

Senator von Imhof looked at slide 2, "Why a spending cap?":

1. Restrain the growth of the state budget over time.
2. Save during the good times so we have a savings account to draw from in the tough times.

•Spending Cap aka: TEL (Tax and Expenditure Limit)

She shared that if the state had an effectual spending cap in place more would have been saved during the time of high revenues in the mid-2000s, and less would have been spent out of the CBR in low revenue years (mid to late 2000s) to the tune of approximately \$15 billion.

[9:41:48 AM](#)

Senator von Imhof spoke to slide 3, "What are other states doing?" She related that in 2020, 25 states had imposed limits on their government spending. States that had a spending limit were represented in dark orange on the slide; states with revenue limit were yellow; states with both were blue. She said that some states had their spending caps in their constitutions and some in statute. She said that the state currently had a constitutional spending cap with too high of a growth rate. She felt that there was a revenue limit in place with the annual POMV on the Permanent Fund.

[9:42:48 AM](#)

Senator von Imhof referenced slide 4, "Four Decision Points:

1. Growth rate
2. Starting point

3. What is included under the cap
4. What is excluded outside the cap

Senator von Imhof said that the goal today was to understand the pro and cons for each decision point, as well as the pros and cons of the spending cap in statute versus the constitution.

[9:43:21 AM](#)

Senator von Imhof turned to slide 5, "Growth Rate:"

- Usually a function of annual income and/or sales tax collected
- And/Or change in annual population
- And/Or inflation growth

SB 75: 75% of CPI (inflation) + 25% of population

Senator von Imhof explained that most states had some form of personal taxes a part of the spending cap or the revenue cap growth rate, an income tax, or a sales tax. She asserted that the personal taxes were a true measurement of economic activity in the state. She stated that an increase in economic activity would be reflected in the taxes collected, which meant that state budgets would fluctuate to meet the demand. She noted that Alaska did not have personal taxes, so it used inflation, which was reflected as the CPI for urban Alaska and population. She related that the state used 100 percent growth of population and inflation, which was too high. She shared that in her modeling she had found that 75 percent of the change of annual inflation, plus 25 change of population, seemed to be a comfortable equation.

[9:45:07 AM](#)

Senator von Imhof considered slide 6, which showed a graph entitled "Population vs CPI." The red line showed total growth of CPI since 1980, which present day denoted by the vertical grey dotted line. The blue bars represented population. She noted that both measures had been on a steady upward trajectory, until recently when CPI and population decreased.

[9:45:45 AM](#)

Senator von Imhof displayed slide 7, "Historical Revenue and Spending," which showed a line graph entitled 'Expenses vs Revenue (Current Cap).' She said that the slide began in 1980, roughly when the current spending cap started, and oil became a major contributor to state revenue. The red line was all UGF spending, including the Permanent Fund Dividend (PFD), the green line was all UGF revenue, including the money allocated to pay the PFD. She said that the black line on top represented the current cap. She stated that according to the rate the UGF spending should be approximately \$10 billion in 2021. She asserted the cap was too steep and the rate too high, combining both 100 percent of the CPI growth and population.

Senator von Imhof said that between 1980 and 2005 revenue and spending had not fluctuated much. She pointed to the change in 2005 when revenue and spending experience extreme highs and lows. She lamented that during the fluctuating 13 years the state spend \$13 billion from the CBR to offset budget deficits. She pointed to 2019 when the POMV passed the legislature. She asserted that more could have been put in the CBR during those volatile years if there had been an effective spending cap.

[9:48:07 AM](#)

Senator von Imhof highlighted slide 8, "What If: SB 75 Started @ \$2.58 in FY83 - What If: Current Spending, With SB 75 Model Looking back," which showed a line graph depicted on the previous slide, with the addition of a hypothetical model showing a hypothetical growth rate. The yellow dotted line considered today's spending doing a lookback of the SB 75 growth rate calculation. She stated that at this rate spending grew at \$3 billion per year, rather than the \$billion swings experienced in the recent decade.

[9:49:27 AM](#)

Co-Chair Stedman pondered the spike in spending between FY 05 and the present. He considered the spike in spending between FY06 and FY10, which he attributed to deferred maintenance spending in the Capital Budget. He reminded the committee that at that time there had been a significant deferred maintenance backlog. He thought the same deferred maintenance backlog problem was applicable currently as there had been small Capital Budgets the past few years. He

thought actual expenditures were suppressed by underspending on maintenance. He recalled that the increases in the Operating Budget were recommended and pushed through by the agencies themselves and the governors at the time had pulled agency budgets back. He stated that the legislative body had struggled to fill holes in the Operating Budget while supporting the administration's desire to hold back agency growth. He thought it would be helpful to take a more detailed view of agencies when discussing the bill. He asserted that the growth rates in agencies came from the agencies themselves, which the legislature struggled with year after year.

[9:52:43 AM](#)

Co-Chair Stedman addressed the POMV draw, which had a revenue cap; the state could not spend what it did not have.

[9:53:04 AM](#)

Co-Chair Bishop added that the legislature needed to consider the good public policy regarding the 1 percent replacement rule on deferred maintenance to eliminate the spike in spending.

[9:53:47 AM](#)

Senator Wielechowski referenced the red line on the slide, and assumed it included the PFD.

Senator von Imhof answered in the affirmative.

Senator Wielechowski asked whether the \$1200 supplemental dividend of 2008 was represented in the line.

Senator von Imhof answered in the affirmative.

Senator von Imhof commented that it was important to remember that Alaska was unique in that prior to passing the POMV draw, the state's primary income was from oil. She noted that oil was volatile. She referenced a document from the Palin Administration that indicated between 1993 and 2005, the legislature appropriated over \$4.8 billion from the CBR. Cash was borrowed from the CBR in 1994, 1995, 1996, 1998, 1999, 2000, 2002, 2003, 2004, and 2005 to balance revenue and expenditures. She asserted that the

state had a history of funding annual budgets from the CBR. She thought the CBR was currently under \$1 billion and would not be available to supplement future budgets.

[9:55:49 AM](#)

Senator Hoffman thought that the CBR had been protected because it required 40 out of 60 votes to access, which had once been a high bar to meet. He thought there was a potential to ignore SB 26 when it came to deficits because statutes were not always followed. He noted that there had been \$17 billion in the CBR, and with use of the three-quarter vote it had been drained overtime.

[9:58:51 AM](#)

Senator von Imhof looked at slide 9, "Proposed SB 75," which showed a line graph. She explained that the black line showed the current spending cap; the red line depicted the governor's proposed expenditures, including all UGF and the proposed 50/50 PFD spending; the green line showed anticipated revenue, including the POMV transfer and anticipated mineral revenue; the green dotted line showed the governor's line item of undefined revenue; the blue and yellow lines was the SB 75 growth rate starting at \$6 billion. The blue was the LFD numbers and the yellow Senator von Imhof's numbers - she assured the committee that her office had worked to mirror the LFD numbers in their model.

[10:00:29 AM](#)

Senator von Imhof addressed slide 10, "Comparison SB 75 Start in FY83 @\$2.5B to SB 75 Start," which removed the CBR from the model so the discrepancy could be identified.

[10:00:47 AM](#)

INTIMAYO HARBISON, STAFF, SENATOR VON IMHOF, relayed that the SB 75 limit, starting at \$2.5 billion in FY 83, had been added back for comparison between the proposed SB 75 model and current spending.

Senator von Imhof noted that there was currently a \$1.2 billion shortage in undefined revenue.

[10:01:38 AM](#)

Senator Hoffman asked about the proposed funding level for the PFD.

Senator von Imhof replied that the governor's proposed PFD for FY 22 was the full statutory dividend, and then the 50/50 POMV split from FY 23 and into the future.

[10:02:12 AM](#)

Senator von Imhof advanced to slide 11, " Starting Point = \$6.0 billion (UGF)," which showed a table of UGF and POMV revenues. The slide showed revenues, which were well below the \$6 billion mark.

[10:03:21 AM](#)

Senator von Imhof looked at slide 12, "As a comparison: Expenses," which showed a data table of spending from FY19 through FY26. She noted that the spending cap bill did not include debt - retirement debt, school bond debt, reimbursement, or general obligation bond debt, all indicated in the red numbers on the slide. The bill did include the spending for the PFD, with the governor's POMV 50/50 split starting in FY23. She noted that the bright orange line reflected that the numbers were below the cap for this scenario.

[10:04:14 AM](#)

Senator von Imhof showed slide 13, "What is included versus excluded":

Included

Anything with UGF

- Agency Spending
- Retirement
- Capital *
- Permanent Fund Dividend

Excluded

- Permanent Fund Principal (Corpus)
- Debt payments
- Disaster Funding
- Deposit into Savings
- Federal Funds and Designated Funds

* There is a provision in section 4(c) that limits additional capital to 5% of total cap in the event we have excess revenue.

Senator von Imhof relayed that the provision in Section 4 allowed the legislature to appropriate an additional capital amount in excess of the appropriation limit, not exceeding 5 percent of the total appropriation limit for the year. She explained that this was to avoid flooding the industry with too much capital dollars in one year. She said that Alaska's finite amount of construction companies and construction workers, coupled with the short building season, limited the state's capacity to absorb funds in a given year.

[10:05:54 AM](#)

Co-Chair Stedman considered the state's unfunded liability for PERS and TRS. He thought that, under the SB 75 scenario, the state would need to decrease other operational costs in order to meet the PERS and TRS payments. He assumed any disaster funding would be broad in scope and would include federal dollars.

Co-Chair Stedman discussed the concept of overheating the economy and too many capital dollars. He felt that the large Capital Budgets in the past had helped to build the state labor pool, which had been drained as Capital Budgets were cut.

Co-Chair Stedman brought up debt payments, and asked about the reason for excluding debt service from the proposed spending cap.

[10:08:57 AM](#)

Senator von Imhof affirmed that debt service was not included in the current constitutional spending cap, and the bill was consistent with that. She said she was open to including debt in the cap.

[10:09:55 AM](#)

Senator Wilson asked whether the spending cap would limit the state's ability to take advantage of federal infrastructure dollars.

Senator von Imhof responded that a future slide would speak to the question.

[10:10:25 AM](#)

Senator Hoffman discussed including the PFD in the calculation. He said that currently the PFD was excluded, which was constitutionally established. He reminded that there was a constitutional 120-day legislative session and a statutory 90-day session. He thought the body had only once achieved the 90-day statutory legislative session but had always honored the constitutional 120 days. He asked whether the inclusion of the PFD appropriation limit would allow for future legislators to ignore statute.

[10:12:32 AM](#)

Senator von Imhof went back to slide 9 and discussed the constitution versus statute. She pointed out the green line, which showed UGF revenue including oil taxes and the POMV draw. She said that taxes would need to be raised to balance the budget. She thought there were factors to Senator Hoffman's point; if the state wanted to issue a PFD at the statutory amount then new revenue would be necessary.

[10:13:54 AM](#)

Senator von Imhof referenced slide 14, "Additional Issues to consider:"

1. Constitution versus statute
2. Can the legislature over-ride
3. What happens if we have excess revenue
4. Legislative Finance report requirements
5. Governor budget provision

Senator von Imhof reiterated that the growth rate of the current constitutional spending cap was too high, and combined inflation and population. She noted imperfect factors going into the growth rate and that the constitutional rate did not work. She asserted that a statutory spending cap had "no teeth" and that any legislature could override a statute. She contended that a spending cap in the constitution would make overspending more difficult. She thought that her cap should be written into statute as a test run over the next several years. She

said that LFD would analyze the limit and prepare a report every three years starting in January 2024 so that the legislature could review the effectiveness of the statute on a periodic basis. She added that when the governor submitted his budget in December it would include a report stating that the budget was under the statutory spending cap.

[10:17:01 AM](#)

Co-Chair Bishop commented on item 3 on the slide. He agreed with the concept but highlighted that the constitution stated that the CBR must be paid back at the end of each year using excess revenue. He asserted that it would take 120 years, at \$100 million per year, to pay back what had already been borrowed from the CBR.

[10:17:46 AM](#)

Co-Chair Stedman referenced numerous discussions over the years regarding a spending cap. He thought many members had faced the same issue at the municipal level. He thought the best way to control spending was to constrain cash flow, and not spending what was not there - not to borrow for operational costs. He noted that POMV was the state's major source of revenue and he suggested a lower spending rate. He stressed that to successfully implement cost controls across the state cashflow should be restricted. He supported putting a lower spending rate into the constitution. He spoke to the structural deficit issue, which required revenue enhancements or spending reductions. He believed that legislatures would likely ignore statute when it suited them.

[10:20:57 AM](#)

Senator Olson referred to Slide 13. He asked about the 25/75 split.

Senator von Imhof clarified that the 25/75 split was the growth rate for the proposed legislation reflected on slide 5. She said that there was nothing in the bill that addressed excess revenue.

[10:22:11 AM](#)

Mr. Harbison addressed a Sectional Analysis (copy on file):

Sec. 1: Amends AS 24.20.231 to add analyzing and preparing a report on the appropriation limit, enacted by this bill, to the duties of the Legislative Finance Division.

Sec. 2: Enacts AS 24.20.236, which requires the Legislative Finance Division to deliver a report about its analysis of the appropriation limit, enacted by this bill, and the allowed growth rate to the chairs of the finance committees every three years.

Sec. 3: Amends AS 37.05.540 to remove a reference to the current statutory spending limit, which is repealed in this bill.

Sec. 4: Enacts AS 37.05.545, which is the new Appropriation Limit.

(a) Establishes the parameters of the limit:

Includes all Unrestricted General Fund (UGF) appropriations for agency spending, Permanent Fund dividends, retirement obligations, and capital projects.

Does not include reappropriations, federal funds, Designated General Fund

(DGF) spending, program receipts, money received from non-state sources for specific purposes, or the exclusions listed in (b).

Starting point is \$6 billion for FY 2022, with a growth rate based on 75% of the cumulative change in inflation and 25% of the cumulative change in state population. Defines how the growth rate is calculated.

(b) Lists the exclusions to the appropriation limit:

(1) Appropriations to the Permanent Fund principal (corpus);

(2) Debt payments;

(3) Disaster funding; and

(4) Deposits into savings accounts and transfers into accounts that require additional legislative action to spend.

(c) Allows an additional five percent above the limit to be spent on capital projects.

(d) Defines the terms "debt obligation", "program receipts", and "unrestricted general fund" for the purposes of this section.

Sec. 5: Enacts AS 37.07.020(f) which requires the governor to submit, along with the annual budget, a

report noting whether the proposal is within the spending limit. The report must be updated to include any supplemental appropriations and budget amendments.

Sec. 6: Repeals the current statutory appropriation limit in AS 37.05.540(b); a section made obsolete by that repeal in AS 37.05.540(c), and outdated language related to the statutory budget reserve in AS 37.04.540(e).

Secs 7 - 10: Applicability, transition, and effective date language that specifies when the new appropriation limit and reporting requirements would take effect. The limit would apply to the FY2022 budget, the governor would be required to file the necessary reports for the proposed budgets starting in December 2021, and Legislative Finance would prepare the first analysis report in 2024.

[10:25:51 AM](#)

Co-Chair Bishop OPENED public testimony.

[10:25:59 AM](#)

CHARLIE FRANZ, SELF, HOMER (via teleconference), testified in opposition to the bill. He supported the intent of the legislation but thought that the bill was ineffectual. He believed that appropriation limits should be based on projected revenue rather than past spending.

[10:27:18 AM](#)

BERT HOUGHTALING, SELF, BIG LAKE (via teleconference), spoke in opposition to the bill. He thought the bill was another way to solidify the theft of the PFD by putting it under the spending cap. He expressed concern for increased Capital Budgets and decreased PFDs.

[10:29:11 AM](#)

Co-Chair Bishop CLOSED public testimony. He discussed housekeeping.

SB 75 was HEARD and HELD in committee for further consideration.

ADJOURNMENT
10:29:37 AM

The meeting was adjourned at 10:29 a.m.