

SENATE FINANCE COMMITTEE  
January 24, 2022  
9:03 a.m.

[9:03:54 AM](#)

CALL TO ORDER

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

MEMBERS PRESENT

Senator Click Bishop, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Lyman Hoffman  
Senator Donny Olson (via teleconference)  
Senator Bill Wielechowski  
Senator David Wilson

MEMBERS ABSENT

Senator Natasha von Imhof

ALSO PRESENT

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

SUMMARY

GOVERNOR'S FY 23 BUDGET PROPOSAL

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[9:05:48 AM](#)

NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, began with slide 9 of the presentation, "State of Alaska; Office of Management and Budget; FY2023 Governor's Budget; Senate Finance Committee; January 21, 2022" (copy on file). The slide was titled, "FY 23 Agency Operating Budget Changes."

Senator Hoffman looked at the restoration of funds for the sweep impacts, and wondered which funds were not restored in the sweep.

Mr. Steininger replied that the \$33.6 million was to ensure that any programs funded with swept funds had access to full funding in FY 23. He stated that there were not any funds that were not chosen for restoration. H

Senator Hoffman queried which funds that were restored because of the sweep.

Mr. Steininger replied that the budget proposal did not include a reversal of the sweep. The money for the programs would be from UGF.

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Senator Hoffman queried the funds that were not fully restored in the proposal.

Mr. Steininger agreed to provide that information.

Co-Chair Stedman remarked that there had been a request for a legal opinion on the accounting interpretation of the executive branch.

Senator Wilson wondered how much federal funds would be used, and for how long those funds would be utilized.

Mr. Steininger replied that there were several places in the infrastructure bill where the Alaska Marine Highway System (AMHS) funding would come through, so the portion to allow the offset was a \$200 million per year program for five years for rural ferry systems on the national level, but for only two ferry systems in the country. Therefore, there was an expectation to receive at least half of that \$200 million.

Senator Wilson wondered whether the \$65 million would be for all five years.

Mr. Steininger replied that the funding would be available as long as the federal program was in place.

Co-Chair Stedman announced that there would be discussions about the AMHS and its position after the end of the five-year period.

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Mr. Steininger pointed to slide 10, "Formula Cost Drivers":

K-12 Education

- Fully funded to the \$5,930 base student allocation

Medicaid

- COVID-related enhanced federal match (FMAP) currently expires at end of FY2022
- Pent up demand for services increases utilization
- \$45m UGF increment restores Medicaid state share to pre-pandemic levels

Co-Chair Bishop understood that the boarding school formula was not a part of the Base Student Allocation (BSA). He wondered whether there were conversations with the boarding schools related to their deficit spending.

Mr. Steininger replied that he had not conversations with the boarding schools, but there was an expansion of a residential school in the budget. He deferred to the Department of Education and Early Development (DEED) about the costs of the boarding schools.

Co-Chair Stedman echoed the concern about the boarding school funding.

Senator Wilson asked about the possible failure in the disparity funding.

Mr. Steininger replied that DEED was currently working to discuss with the federal Department of Education about the disparity test. He noted that there was work on alternative calculation to meet the disparity test.

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Co-Chair Stedman queried the dollar amount related to the issue.

Mr. Steininger explained that there were school districts that received federal impact aid, which was approximately

\$70 million to \$75 million. He stated that, in order to count the federal impact aid as a portion of K-12 state funding to the districts, a disparity test must be met.

Co-Chair Stedman queried the concentration of fund location under the new location.

Mr. Steininger deferred to DEED, but reiterated that he was confident that the reinterpretation would take into consideration the unique factors of the state as compared to the rest of the country.

Co-Chair Stedman felt that DEED could present on the new disparity test.

Senator Wilson wondered whether there had been discussions about the Federal Medical Assistance Percentage (FMAP) continuation in the state.

Mr. Steininger replied that there had been a recent extension which stated that there would be 60 days warning before expiration.

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Mr. Steininger looked at slide 11, "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 HilandMountain booking: \$4.1m
- Address trial backlogs \$1.8m and defense capacity \$428.7k

Senator Hoffman asked for the details of the locations of fourteen support positions for the troopers and

correctional support positions in order to understand how these positions were spread throughout the state.

Co-Chair Stedman asked that the request also be sent to the committee.

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Senator Wilson wondered whether the additional Village Public Safety Officer (VPSO) positions were on top of the fulfilled positions, and asked why money was not used for better recruitment and retention efforts.

Mr. Steininger replied that the money was for an addition of ten new VPSO slots. He stated that, in the past, when the positions were not filled, there would be lapsed money in the program. He stressed that the department had renewed their efforts to support the VPSO program.

Co-Chair Stedman felt that the Department of Law should present to the committee about public safety in rural Alaska.

Co-Chair Bishop wondered whether the \$428,000 for Defense Capacity was for the Public Defenders Office.

Mr. Steininger replied in the affirmative.

Senator Olson wondered whether there was specific funding to assist the places that were hard hit by the lack of recruitment and retention.

Mr. Steininger replied that the addition of money for VPSOs was for the overall program.

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Senator Hoffman stressed that the department could give leeway to the contract-ees in the VPSO program to address recruitment, including additional flexibility for moving funds to support the VPSOs themselves.

Co-Chair Stedman remarked that there were horrible family issues across the state, and there needed to be an examination of possible changes.

Co-Chair Bishop stated that Senator Hoffman had captured his comments.

Senator Wilson expressed concern about the trial backlog, and whether there was money assigned for future trials.

Mr. Steininger deferred to the Department of Law.

Senator Wilson noted that with the administration's public protection and People First Initiative, and wondered whether the administration anticipated a larger number of incarcerated people in the state.

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Mr. Steininger pointed to slide 12, "Public Protection continued":

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

Mr. Steininger looked at slide 13, "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

Senator Hoffman noted the disasters related to the salmon industry, and felt that the salmon on the Yukon Kuskokwim Delta were on the verge of extinction. He stated that the residents had not been able to fish for salmon. He felt that there could be an effort to address that critical issue.

Mr. Steininger replied that there were a number of places in the capital budget that address that issue.

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Senator Hoffman stressed that there needed to be a program to add more salmon to the stock in the state.

Co-Chair Bishop felt that the money in the capital budget for the issue barely dealt with the critical issue of salmon.

Co-Chair Stedman explained that hatcheries in Southeast Alaska had turned the salmon industry around since the 1970s, so perhaps something similar could occur in the Yukon Kuskokwim Delta.

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Mr. Steininger pointed to slide 14, "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

Senator Wilson wondered whether the state had cyber insurance to help offset the costs from the cyber-attacks.

Mr. Steininger agreed to provide that information.

Senator Hoffman wondered whether the council had weighed in on the movement of the money.

Mr. Steininger replied that the council was not opposed to the move, and agreed to provide more information about the detail of their involvement.

Mr. Steininger looked at slide 15, "FY23 Statewide Operating Items."

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Senator Hoffman recalled the discussion of the Regional Educational Attendance Area (REAA) Fund which set up to build schools in rural Alaska. He requested an opinion from the Attorney General about the outcome of the decision not to fully fund the Kasayulie Settlement.

Co-Chair Stedman requested follow up information for school bond reimbursement. He said that there was concern that the legislature had never been in agreement with the executive branch on School bond reimbursement. He noted that oil tax credits were fully funded in the governor's budget.

Co-Chair Stedman continued his statement pertaining to liability and the payment schedule for PERS and TRS.

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Mr. Steininger pointed to slide 16, "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 over contribution 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)

Mr. Steininger spoke of the benefits from SB 55.

Co-Chair Stedman asked how much had shifted to the federal government.

Mr. Steininger replied approximately 40 percent of the obligation.

Co-Chair Stedman spoke of the anticipated ARM board presentation.

Senator Wilson feared that the utilization of health care funds could increase, but agreed to comment later at the subject.

Co-Chair Stedman noted Senator Wielechowski had joined the meeting.

Mr. Steininger looked at slide 17, "Other Statewide Items":

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

Co-Chair Stedman He wondered why the additional revenue was not being used to fully fund short, funded items when possible - or why were the extra funds not being put into savings.

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Mr. Steininger agreed that the state had some extra funds. He said that there was \$170 million that would be swept into the CBR - the revenue outlook was better but was not enough to meet all fiscal needs.

Co-Chair Stedman thought that the committee would look at the issue more closely. He spoke of the supplemental budget and expressed concern that future legislatures and administrations could be in a position where savings were depleted. He said \$200 million was essentially a "drop in the bucket"

[10:15:14 AM](#)

Senator Hoffman stressed that the legislature was the appropriating body, and the administration had an obligation to present the budget first. He stressed that the committee must give the supplemental budget due diligence.

Senator Wielechowski wondered whether the oil and gas tax credits were proposed to be fully funded in recent years by the governor.

Mr. Steininger replied that, in the year prior, the request was included in the budget amendments. He furthered that in other years there was a wait to see the outcome of the court case related to financing the debt.

Co-Chair Stedman stated that there would be an examination of the history of those tax credits in recent years.

Senator Wielechowski wondered why the administration felt it was important to fully fund the oil and gas tax credits, but not the statutory obligated programs.

Mr. Steininger replied that the two decisions were not necessarily tied to the other.

[10:20:13 AM](#)

Mr. Steininger pointed to slide 18, "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

Co-Chair Bishop wondered whether the funds were the \$111 million leftover for allocation.

Mr. Steininger replied in the affirmative.

Co-Chair Bishop surmised that the year prior had highlighted those funds as broadband investment.

Mr. Steininger agreed.

Senator Hoffman stressed that they were discretionary funds, and remarked that food security was an allowable expenditure. He wondered whether the administration could look at the collapse of chinook salmon in the state to address that issue.

[10:25:26 AM](#)

Senator Wilson asked about a "score card" of the Coronavirus Aid, Relief, and Economic Security (CARES) Act funds and the remaining fund source. He wondered whether the guidance had changed to any of the dedicated funds.

Mr. Steininger agreed to provide that information.

Senator Wilson remarked that there were some other states' lawsuits, which resulting in some flexibility of the use of the funds.

Co-Chair Stedman shared that there would be a detailed examination of the funds during the discussions of the capital and operating budgets. He stressed that there should not be a constraint put on future legislators and administrations. He wondered whether there was a consideration to backfill some relief money with general funds.

Mr. Steininger explained that the examination of the \$1 billion in relief from the federal government. He stressed that, with the guidance from the federal government, that money acted as UGF.

[10:32:22 AM](#)

Co-Chair Stedman wondered whether the eligibility of the funds remained until December 2024.

Mr. Steininger agreed, but there could be an extension if there was available GF revenue to support some of the costs.

Co-Chair Stedman recalled the efforts of the legislature to forward-fund education, and offered that possibility again.

Senator Wielechowski wondered whether there was an examination of changing tax structure to better receive oil and gas revenue for the state.

Mr. Steininger deferred to DOR for that concern.

[10:38:35 AM](#)

Co-Chair Stedman stated that there would be a conversation with the commissioner of DOR on the tax issue.

Mr. Steininger pointed to slide 19, "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

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Co-Chair Stedman queried the amendment deadline.

Mr. Steininger replied that the statutory deadline for amendments was thirty days from the start of the legislative session.

Co-Chair Stedman wondered whether there would be a request to consider amendments beyond the statutory deadline.

Mr. Steininger replied in the affirmative.

Senator Hoffman noted that an important issue that was not addressed was broadband, and there would be millions of dollars spent to bring broadband to many places in the state.

Senator Wilson felt that there was "masking" of the backfill with the classifications of federal funds.

Mr. Steininger replied that federal receipts were historically under a fund code in the budget.

[10:45:36 AM](#)

Co-Chair Stedman queried the concepts to fund the "cash box."

Mr. Steininger replied that the Rural Ferry Program, which was a federal program, would be used to fund that program.

Co-Chair Stedman surmised that there would be revenue that would be absorbed into the AMHS, and the subsidy would not be set aside.

Mr. Steininger replied that the \$63 million in UGF savings, went toward reducing the total need for general funds in the operating budget.

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RECONVENED

Co-Chair Stedman discussed committee business.

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ADJOURNMENT

10:55:28 AM

The meeting was adjourned at 10:55 a.m.