

SENATE FINANCE COMMITTEE  
April 6, 2022  
1:02 p.m.

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CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 1:02 p.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

Pete Ecklund, Staff, Senator Bert Stedman; Amanda Ryder, Staff, Senator Bert Stedman; Alexei Painter, Director, Legislative Finance Division; Neil Steininger, Director, Office of Management and Budget, Office of the Governor; Miles Baker, Infrastructure Investment Coordinator, Office of the Governor.

SUMMARY

SB 162      APPROP: OPERATING BUDGET/LOANS/FUNDS

SB 162 was HEARD and HELD in committee for further consideration.

SB 163      APPROP: MENTAL HEALTH BUDGET

SB 163 was HEARD and HELD in committee for further consideration.

SB 241      APPROP: SUPPLEMENTAL; CAPITAL

SB 241 was HEARD and HELD in committee for further consideration.

#sb162

#sb163

SENATE BILL NO. 162

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; making reappropriations; making supplemental appropriations; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

SENATE BILL NO. 163

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; making capital appropriations and supplemental appropriations; and providing for an effective date."

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Co-Chair Bishop MOVED to ADOPT the committee substitute for SB 162, Work Draft 32-GS2686\W (Marx, 4/5/22).

Co-Chair Stedman OBJECTED for discussion.

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PETE ECKLUND, STAFF, SENATOR BERT STEDMAN, discussed "Differences between SB 162(FIN) Version I (AKA CS 0.5) and Version W (AKA CS 1) The Big Picture" (copy on file):

- FY 23 revenue based on \$80 per barrel of oil
  - o The revenue forecasts have been very volatile, the more volatile a forecast, the less valuable it is
  - o The Chair wanted to base the budget on a more realistic, historical revenue assumption, with windfall revenue going to the capital budget and savings

- Replenished the \$660 million savings we used in FY22 to pay out an \$1,100 dividend and to balance the current budget.
- o The Chair wanted to first repay money used from savings, which were taken down to below \$1 Billion, before making new appropriations

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Senator Wielechowski asked whether the replenished savings would go into the Statutory Budget Reserve (SBR) or the Constitutional Budget Reserve CBR.

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Mr. Ecklund stated he was referring to the SBR.

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Co-Chair Stedman added that under revenue assumptions from spring 2021 it had been difficult to get to an \$1100 dividend for every Alaskan without overdrawing the permanent fund. The challenge led to the drawing down of \$660 million in savings to produce the \$1100 dividend. The price of oil had increased, which changed things, but put the state at net zero for the year.

Mr. Ecklund continued:

- Fully funded the following FY22 statutory items that were vetoed or partially funded.
  - o Community Assistance (\$7.1 million added to the FY22 payout to communities so communities receive \$30 Million in FY22)
    - Added \$31.8 million to the community assistance fund (bringing the fund balance to \$90 M) in FY22 to ensure a \$30 million payout in FY23
  - o School Debt Reimbursement
  - o Rural Education Attendance Areas (REAA) Fund
  - o Oil and Tax Credits, \$60 million UGF to bring the FY22 total to the statutory calculated amount

Co-Chair Stedman asked what the REAA Fund was.

Mr. Ecklund replied that REAA stood for the Regional Educational Attendance Area fund. Under statute the formula

connected the amount appropriated for school bond debt reimbursement to the fund.

Mr. Ecklund continued:

Supplemental items agreed upon by the four co-chairs were also added:

The FY23 totals in this bill (rounded) are:

Unrestricted General Funds \$4,663,521.0

Designated General Funds \$870,435.2

Other Funds \$1,643,598.1

Federal Funds \$3,089,157.0

Total Funds \$10,266,811.3

Differences between CS0.5 and CS1 incorporates the following:

- Sections 1 through 6 incorporate the actions of the operating budget subcommittees for FY23.
- I will not be walking through the changes that occurred in section 1 because reports of differences were part of the Senate Finance subcommittee closeout process and are available on the Legislative Finance Division's website.

Because some appropriations in this bill were not part of the subcommittee process, I will be highlighting changes to these sections of the bill.

Pages 58 - 66

- o Sections 7-9 are Governor's operating supplemental items that were agreed upon by the four co-chairs.
- o See the attached Legislative Finance report and detailed reports on the web.

2. Pages 67 - 69. Sections 10-12 add supplemental capital funding for an Information Technology Security Program Assessment project in Health and Social Services. This item, combined with the two supplemental operating requests, completes the requests made by the Department of Health and Social Services to address the impacts of a cyber-attack.

- o As a side note, we will be having a Committee hearing on cyber-security in the near future

3. Page 70. Sec. 13: Added \$1,783,000 funding to the Court System to address the trial backlog. This funding is available FY22 and for FY23.

4. Page 70. Sec 14. Appropriates a total of \$199 million UGF to the principal of the Alaska Permanent Fund to address Legislative Audit Findings that mandatory statutory deposits were not paid in FY18 and FY19.

5. Page 70. Sec 15. Restores the Governor's FY22 veto of half of the statutory formula for School Debt Reimbursement. \$48.6 million

6. Page 70. Sec 16. Adds a lapse extension, through the end of FY25, for the Department of Administration, Labor Relations for labor contract negotiations and arbitration support.

7. Page 70. Sec. 17

a. 17a. Clarifies that the \$1 million of program receipts for actuarial support costs is appropriated to the Division of Insurance.

b. 17b. Fully funds the FY22 Statutory Community Assistance payments shortfall of \$7.1 million.

8. Page 71. Sec 18. Adds the Governor's FY22 supplemental requests for the Department of Health and Social Services.

Subsection a adds \$7.4 million to cover grantee expenses

Subsection b adds \$20 million federal funding (Coronavirus State and Local Fiscal Recovery Funds, CSLRF) for COVID response needs to an existing FY22 \$20 million appropriation and extends the lapse date through FY25.

9. Page 71-72. Sec 19 is a FY22 supplemental request from the Governor to place \$1,953.7 of federal CRRSAA funding in AMHS, where it can be expended, then swap and backfill unavailable federal funds with UGF in Highways and Aviation.

10. Page 72. Sec 20 Adds Election's FY22 supplemental request for \$4.3 million to for voter outreach and other election purposes.

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Mr. Ecklund continued:

11. Page 72. Sec 21. Supplemental Funding Capitalization

21a. Appropriates \$31.8 million to the Community Assistance Fund, bringing the total of the fund to \$90 million. This allows for the statutory payout to communities of \$30 million in FY23.

21b restores Rural Education Attendance Area's \$17 million FY22 veto that occurred last year.

21c. A \$60 million UGF appropriated in FY23 to the Oil and Gas Tax Fund to fully fund the FY22 statutory formula (\$114 million total).

21d: \$50 million UGF to the Disaster Relief Fund  
12. Page 72. Sec 22 appropriates \$660 million of FY22 UGF to build up reserves that were depleted when savings were used to pay an \$1,100 dividend last year.

13. Page 72. Sec. 23 appropriates \$7,050,000 UGF for a capital grant to a named recipient to offset some of the financial impacts for the Alaska Longshoreman Division. This funding will help maintain the health insurance component for their membership and families.

14. Page 73. Sec. 25 adds intent that OMB provide reports to the legislature of all transfers to and from the personal services line.

15. Pages 73-75. Sec 27 includes Legal Services language to ensure that the prior Department of Health and Social Services appropriations are correctly reappropriated to the two new departments created under Executive Order 121.

16. Page 77. Sec 30

- Subsection 30c appropriates \$3.36 billion, the full 5 percent POMV payout, to the general fund
- Deleted the PFD appropriation of \$1.68 billion appropriation to pay a 50/50 dividend.
  - o The dividend will be debated in separate legislation

17. Page 80. Sec 32h. Extended ASMI's American Rescue Plan Act (ARPA) funding through the end of FY24.

18. Deleted the Department of Correction's Manday billing language in anticipation of placing this carryforward wordage in the section 1 in the next CS.

19. Page 81, lines 4-8. Sec 33(d) adds \$1,647,000 UGF to expand WWAMI (Washington, Wyoming, Alaska, Montana and Idaho) seats from 20 to 30. This is a multi-year appropriation to allow expansion of the program in an appropriate time frame

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Mr. Ecklund continued:

20. Pages 81-86. Sections 34 and 35 includes Legal Services reappropriation language to ensure that prior Department of Health and Social Services appropriations are transferred to the two new departments created under Executive Order 121

21. Deleted Labor's Unemployment Insurance open-ended federal language. This was replaced by a \$10 million federal, Section 1 (numbers) appropriation.

22. Deleted Department of Law's \$4 million UGF for litigation relating to defense of state's rights.

23. Page 88. Sec 39 added CDVSA grant funding to the Department of Public Safety. To allow for smoother distribution of declining federal receipts, this funding was moved from the numbers section of the budget and will be available through FY25.

- o \$8 million total, \$3 million UGF and \$5 million federal

24. Page 88. Sec. 40b replaced the originally proposed AMHS funding source in the backstop language with UGF.

Because federal funds should be sufficient, UGF should not be needed.

25. Page 88, lines 30-page91, lin17. Sections 41b-e adds fuel trigger funding that varies based on the price of oil.

- o \$27 million UGF, to be distributed per formula used for many years in the past

26. Page 91, lines 18-24. Sec 41f reflects moving half of the UGF for two of the Governor's Executive Operations allocations and all \$250,000 of the Contingency Fund to the second half of FY23 (effective Jan 1, 2023).

27. Deleted the University of Alaska's request for Drone program funding (\$10 million), Critical minerals and rare earth elements (\$7.8 million), and Heavy Oil Recovery method research and development (\$5 million).

28. Pages 92-93. Sec 43d Adds funding to pay statutory municipalities' debt service obligations for ports, harbors, and other projects that were authorized by the legislature in 2002.

29. Page 97. Sec 44e prohibits authorization of certain federal receipts through the RPL process. In addition, it prohibits AGDC from using the RPL process to add any expenditure authorization.

30. Deleted two appropriations for the Alaska Gasline Development Corporation.

- o SDPR language capped at \$10 million - Removed
- o Open-ended federal authorization - Removed

31. Page 100. Sec 45t replaces an open-ended oil and gas tax credits appropriation with a set amount of \$250 million.

- o Based on oil revenue of \$80 a barrel for FY23

32. Page 103. Subsection 46m appropriates large passenger vessel gaming and gambling tax account funding to the general fund (\$10.2 million).

33. Page 104, lines 9-15. Subsection 48b revises Salaries and Benefits language to reflect the addition of the Alaska Higher Education Crafts and Trades Employees, Local 60 (\$357.6 UGF)

34. Page 106, lines 24-28. Subsection 49g clarifies that calendar year 2022 tax revenue collected from the commercial vessel passenger tax is appropriated to the first seven ports of call, proportionately.

35. Page 107. Sections 52 and 53 include standard retroactivity and effective date clauses.

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Senator Hoffman looked at page 7, item 25. He felt that the fuel trigger was essential for the departments but also directly affected the school districts. He thought school districts could experience higher fuel costs that could take funding away from classrooms.

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Co-Chair Stedman stated that there is more to come, and that schools with oil boilers would be under financial pressure due to the cost of oil.

Co-Chair Stedman WITHDREW their objection.

Co-Chair Stedman RE-OBJECTED for discussion.

Senator Wilson wondered about Page 4, line 8, subsection a. He wondered where the additional information about the grantee expenses could be found.

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AMANDA RYDER, STAFF, SENATOR BERT STEDMAN, replied that she understood that \$7.4 million was to cover grantee expenses She had been told that the Department of Health and Social Services (DHSS) had been struggling to keep up with paperwork and the money would be used to help some providers costs due to increased caseload brought on by Covid-19.

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Senator Wilson requested more information from the department on how the money would be dispersed. He asked about Page 5, line 16 and the deletion of the PFD appropriation. He thought that whatever was decided it would be best not to leave a contingency in the bill.

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Co-Chair Stedman said that the committee was currently crafting a bill to fund the dividend with a fiscal note. He stressed that things were still under discussion and that a dividend would be paid.

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Senator Wielechowski echoed Senator Wilson's dividend concerns. He whether the Department of Environmental Conservation (DEC) assuming primacy was reflected in the budget.

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Mr. Ecklund replied that the DEC budget subcommittee had included it in the subcommittee report, and it could be found in the numbers section of the bill.

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Senator Wilson asked about Page 6, item 22, pertaining to state defense rights. He wondered whether the funding was multi-year.

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Mr. Ecklund replied that there had been a \$4 million appropriation made in the current year. He said \$600,000 had been extended to date. The request was for an additional \$4 million, which would be decided by the legislature.

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Senator Wielechowski asked about full funding for lawsuits.

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Mr. Ecklund replied that Judgements and Claims were not in the bill.

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Co-Chair Stedman WITHDREW the OBJECTION. There being NO OBJECTION, it was so ordered.

Co-Chair Stedman stated that the amendment deadline was 5pm on Monday, April 11.

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Co-Chair Bishop MOVED to ADOPT the committee substitute for SB 163, Work Draft 32-GS2687\G (Marx, 4/5/22).

Co-Chair Stedman OBJECTED for discussion.

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Ms. Ryder explained the committee substitute.

Co-Chair Stedman WITHDREW their objection. There being NO OBJECTION, it was so ordered.

Co-Chair Stedman stated that the amendment deadline was 5pm on Monday, April 11.

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ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, discussed the presentation, "Fiscal Update and Senate Committee Substitute" (copy on file). He looked at slide 2, "Outline":

- Volatility and Spring Revenue Forecast
- Updated Fiscal Summary with Senate CS
  - Outlook at different oil prices
- Operating Budget Growth
- Position Count Growth

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Mr. Painter addressed slide 3, "Oil Price Forecast Update." He explained that the red line represented the DOR spring forecast numbers. He added that the green line represented the futures market, which closely followed the forecasted

projections. He noted a declining pattern in the market; he said that prices were expected to decline to the \$70/bbl. level by the middle of the decade. The current oil prices were temporary.

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Mr. Painter pointed to slide 4, "Oil Prices, FY22 to Date." He shared that the rise in oil prices began before the Russian invasion of Ukraine and was not the sole factor causing the current high prices. He spoke to the volatility point and pointed out that there had been a \$60 range in price from day to day during the market year. He suggested making the budget work at varying oil prices.

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Co-Chair Stedman lamented that the price of oil was the most sensitive variable in the state's revenue projections. He said that taking a point in time and extrapolating out led to projections that were highly improbable. He said that the committee had dismissed the DOR spring numbers when crafting the budget and had used \$80/bbl. for their projections. He related that there would be discussions surrounding what would be done with any money above \$80/bbl. He warned that using \$100/bbl. to balance the budget would require relying on the continuation of the war in Ukraine, which was not practical.

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Senator Hoffman spoke to the \$21/bbl. swing between the committee substitute and the governor's proposed budget. He wondered about what happens to surplus revenue and whether there was contingency for revenue above the projected per barrel price.

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Co-Chair Stedman replied that the committee had crafted a plan for the surplus revenue.

Senator Hoffman shared that he had some ideas.

Co-Chair Stedman noted that each committee member had contributed to the plan, which had stemmed from the concern of improbably sustainable revenue projections. He asked Mr.

Painter to elaborate on the revenue spread that resulted from extrapolating out from specific points in time.

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Mr. Painter noted that there had been three forecasts from DOR in FY 22. He said that the preliminary forecast from October 2021 showed significant increase from spring 2021, the fall forecast was more pessimistic, the spring forecast came out when oil was at the highest point for the year. He encouraged looking at the potential revenues using a sensitivity chart, which offered a range of prices. He explained that there was significant spread just on the difference of \$1/bbl. He said that the differences in price can change the revenue forecast by billions of dollars very quickly.

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Mr. Painter looked at slide 5, "FY23 Oil Price Sensitivity Chart."

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Co-Chair Bishop thought that the smart thing to do would be to pick a point to create a budget that would be sustainable, protect savings, and not require a change in the constitution.

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Mr. Painter replied that in the times of higher oil revenue for extended periods, missing the projections by a billion was not as worrisome because savings were approximately \$13 billion. He spoke to the budget deficit in 2013, which was not a catastrophe because of the savings cushion. He noted that currently having only \$1.3 billion in the CBR should dictate the risk level that the legislature should consider.

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Co-Chair Stedman interjected that the CBR was down to \$700 or \$800 million.

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Mr. Painter agreed. He said that the balance increase was due to the failure of the reverse sweep. The balance of the Higher Education fund was propping up the CBR.

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Mr. Painter highlighted slide 6, "Takeaways on Spring Forecast":

- Oil prices have skyrocketed in recent months, but the market does not appear to expect that this will last over the long term.
- Oil has been extremely volatile recently and there is no consensus on the price outlook in the short term.
- LFD advises the legislature to approach oil prices conservatively given the level of volatility combined with relatively small savings account balances to backstop any shortfall.

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Mr. Painter pointed to slide 7, "Fiscal Summary: Senate Finance CS, Spring Forecast (UGF only)." He noted that the Capital Budget and the PFD had been left out of the projection. He noted line 22. He shared that the forecast for the FY 22 budget was 6,964.7, \$8,331.0 for FY 23. Line 3 showed the marginal increase from the fall forecast. He said that the agency operations number on Line 8, showed that the Senate CS was \$103.2 million about last years level. He added that statewide items had increased 38 percent due to fully funding items and the increased oil tax credits. He explained, assuming the DOR spring forecast, not including the Capital Budget and the PFD resulted in a surplus of approximately \$3.7 billion. He said that the reserves on Line 22 would go to the SBR and CBR.

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Co-Chair Stedman asked about Line 23 and FY22. He reminded the committee that the slide was a snapshot without the Capital Budget or the PFD, neither of which would be excluded, the exercise was become familiar with the amount of potential excess revenue.

Mr. Painter shared that in FY 22 \$400 million and \$250 million combined, which was \$660 million into the CBR to payback draws. He said that in the bill the \$660 million was repaid back into the SBR.

Co-Chair Stedman asked about Line 23.

Mr. Painter replied that it reflected the post transfer surplus if approximately \$1.2 billion in FY 22 and \$3.7 billion in FY 23.

Co-Chair Stedman asked about the viability of projections.

Mr. Painter said that the fiscal year would end June 30th and oil prices would have to drop dramatically for there not to be a significant surplus in FY 22. He believed that even if oil prices were zero for the rest of the fiscal year there would be an FY 22 surplus, barring any additional appropriations on the fiscal year. He said that the entire year of oil prices for FY 23 could change dramatically.

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Senator Hoffman asked about line 23 and the surplus listed there. He wondered whether it would be transferred into the CBR.

Co-Chair Stedman asked for an explanation of the reserve balance in the lower right-hand corner of the slide.

Mr. Painter said that the SBR balance was \$70 million, and he discussed the balances as they pertained to Senator Hoffman's question.

Co-Chair Stedman said that there were large components yet mentioned. Additionally, the committee had some control as to where the surplus funds were put.

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Mr. Painter looked at slide 8, "Fiscal Summary: Senate Finance CS, Spring Forecast (UGF only) - with 50/50 PFD and Governor's Capital Budget." The slide reflected the Senate CS using the spring forecast and including the governor's proposed budget and the 50/50 PFD split. Not included were the governor's recently introduced infrastructure bill. He

said that the additions decreased the surplus, but there was still significant surplus, based on the spring forecast, in FY 22 and FY 23.

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Mr. Painter highlighted slide 9, "Fiscal Summary at \$80 oil: Senate Finance CS, Spring Forecast (UGF only) - with 50/50 PFD and Governor's Capital Budget." The result of the lower oil price was that Line 23 was just over \$100 million. There was still a surplus and the budget balanced - but the surplus was not as large as it was with higher projected oil prices.

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Co-Chair Stedman spoke to the CBR balance and the SBR. He thought that the minimum balance should be discussed for both accounts. He thought that the \$700 million from the previous year was alarmingly low.

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Senator von Imhof asked about more funding for PCE.

Co-Chair Stedman answered that was one of the options under discussion. He lamented that the state could not be run with \$700 million in savings. He reiterated his desire to discuss the matter of savings.

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Mr. Painter pointed to slide 10, "Items Not Addressed in the Senate CS":

- The current CS does not have a PFD appropriation.
- The committee's version of the capital budget has not yet been introduced. The Governor's capital budget was based on the Fall revenue forecast and does not include additional items that the committee may consider based on current revenue expectations such as additional deferred maintenance funding.
- The Governor introduced a new infrastructure bill and several budget amendments on Monday that have not yet been addressed by the committee.
- The House Finance Committee's version of the operating budget included K-12 forward funding, \$57

million outside the formula for K-12, additional payments for oil tax credits, a CBR reverse sweep, and specified where surpluses would go. The Senate CS does not yet address these items.

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Co-Chair Stedman said that there had been discussion about the state savings balance and liquidity. He spoke of actions taken 15 years ago to tackle deferred maintenance. He thought that positioning the state to survive an economic dip and considering the financial security of communities were areas of concern, as well as K-12 forward funding. He spoke to the variety of issues that should be considered in the budgeting process.

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Co-Chair Stedman continued his remarks. He believed that excess revenue should spill over to the permanent fund. He thought that the state should take care to increase its savings positions and tackle deferred maintenance. He added that any excess revenue deposited into the permanent fund would benefit future generations. He hoped the meeting today would set the framework for positioning the state to move forward financially into the future.

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Co-Chair Bishop noted that 14 years ago the state had a \$15 billion surplus, due in large part to the prudent actions of Co-Chair Stedman and Senator Hoffman. He noted that previous committee co-chairs had been grateful while spending those savings. He stressed that those savings must be rebuilt.

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Senator Wilson wondered whether the exemption for the possible additional payment of \$75 million for failure of the disparity test had been granted.

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Mr. Painter replied that he would not know the answer for another month.

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Co-Chair Stedman asked Mr. Painter to explain the situation Senator Wilson cited.

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Mr. Painter replied that in the K-12 formula there was a federal disparity test that compared the best funded and least funded schools. If the state passed the test, it could deduct \$75 million in federal impact aid from its payment. The federal government changed the way it interpreted the test to include the pupil transportation formula, which caused the state to fail the test. The state has appealed but if it lost the appeal, it would increase the cost to the state, and ultimately the districts, by \$75 million.

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Senator Wilson wondered whether the change would affect the overall funding of the K-12 formula.

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Mr. Painter looked at slide 11, "Areas of Growth in FY23 Budget":

- Major increases in FY23 GovAmend:
  - \$45.0 million for Medicaid.
  - \$33.6 million UGF increases to offset DGF lost in CBR sweep
  - \$17.4 million combined increases in Department of Public Safety
- Major increases from GovAmend to Senate CS1:
  - \$59.4 million for AMHS (Governor eliminated UGF)
  - \$27.0 million for fuel trigger to offset high oil prices
  - \$14.5 million in University of Alaska
  - \$13.4 million in Fish and Game

Mr. Painter reminded the committee that the fuel trigger only increased if the price of oil increased. For example, at \$80/bbl. the fuel trigger would only be \$5 million. He stated that there were several other smaller increases in

the governor's budget - the ones listed on the slide were the ones over \$10 million.

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Senator Wilson spoke to the \$45 million increase for Medicaid and asked whether the Federal Medical Assistance Percentage (FMAP) was expected to increase.

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Mr. Painter replied that he had not yet heard of an increase and deferred to the administration.

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Mr. Painter pointed to slide 12, "Many FY23 Increases Reverse Past Budget Reductions":

- Several increments in the Governor's FY23 budget request reverse reductions or vetoes made since FY20:
  - \$45.0 million Medicaid increase - Medicaid was reduced by \$35.0 million in FY22.
  - \$4.0 million University of Alaska increase - UA was reduced by \$54.3 million from FY20-22.
  - \$2.0 million for Legislative per diem - vetoed by Governor in FY22.
  - \$0.7 million - GF/MH items vetoed by the Governor in FY22.
- Several other items reverse reductions made from FY15-FY19 under previous governors:
  - \$4.9 million for DEC 404 Primacy - this was cut in FY15.
  - \$3.8 million for wildfire prevention and academy - this was cut in FY16.
  - \$2.4 million for Village Public Safety Officers - this was cut in FY16.
  - \$1.2 million for Judiciary for increased hours - this was cut in FY16.

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Co-Chair Stedman noted that these were the highlights, and a more extensive list could be found in member's packets.

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Co-Chair Bishop added that the University cuts from 2016 made the total cuts to the University \$110 million with a loss of 1200 employees out of Fairbanks alone.

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Mr. Painter pointed to slide 13, "What's the True Operating Budget Growth Rate?"

- Several changes from FY22-23 give the FY23 agency operations budget a lower starting point than FY22.
- The Governor's FY23 budget increases agency operations by \$94.9 million (2.5 percent) over the FY23 baseline.
- However, the Governor's budget uses temporary federal funds in place of UGF for the Alaska Marine Highway System. Keeping UGF funding level (as the HFIN and SCS1 budgets do) would result in a \$154.3 million (4.0 percent) over the baseline.
- Senate CS1 is \$239.2 million (5.8 percent) over the baseline. HFIN is \$272.9 million (6.7 percent) over the baseline.

Mr. Painter said that the passage of SB 55 moved a portion of retirement funding to agency operations, which resulted in significant savings (\$45 million) in FY 23. He said that much of the savings was due to positive investment performance and the decision by the ARM board not to invest in the Health Care fund. He stated that the savings could decrease if investment returns declined, or the board resumed funding for the Health Care fund. He said that the net of all the automatic changes was a reduction of \$68.8 million. He relayed that when looking at the comparisons between FY 22 and FY 23 the increase in agency operations was undersold because the starting point was \$65.8 million ahead. He pointed to the table on the bottom of the slide, which compared the growth rates of different budgets to the starting point rather than the previous years budget. He related that the governor's FY 23 budget increased agency operations by \$95 million, or 2.5 percent, over the FY 23 baseline. He said that many of the governor's reductions were general funds for AMHS. He noted an error on the slide and said that the box numbers were correct rather than the final bullet point. He said that the growth factors were above the rate of inflation and offered a point of comparison: between FY 05 and FY 13 there had been significant increases in oil revenue and agency operations

had grown 7.9 percent per year on average and doubled over the decade. He stated that in the past when the state had increased oil revenue there had been an increase in savings as well as an increase in Operating Budget spending. He shared that previous budget reductions and flat funding had increased the demand for spending when funds were available, but the growth was rapid in the various scenarios presented so far.

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Mr. Painter looked at slide 14, "Full-Time Position Count Comparison." He focused on the numbers at the bottom of the slide. The governor's budget increased the total position count statewide by 233 full time positions. The House Finance budget increase that by another 34, over the governor's proposal. The Senate CS was 1 higher, over the governor's budget. Legislative Council had recommended the reclassification of security personnel for half to full-time, which increase the count by 8 but was only a technical reclassification. He said that there was significant growth in positions being requested by the governor and being approved by both legislative houses.

Co-Chair Stedman believed the presentation had provided the committee much food for thought.

SB 162 was HEARD and HELD in committee for further consideration.

SB 163 was HEARD and HELD in committee for further consideration.

[2:19:24 PM](#)

AT EASE

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RECONVENED

Co-Chair Stedman handed the gavel to Co-Chair Bishop. Co-Chair Bishop announced that there were no backup documents to accompany the presentation for SB 241. He noted that there were numerous members of the administration online for questions.

#sb241

SENATE BILL NO. 241

"An Act making appropriations for the operating expenses of state government and certain programs; making capital appropriations and supplemental appropriations; capitalizing funds; and providing for an effective date."

[2:31:15 PM](#)

NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced himself.

MILES BAKER, INFRASTRUCTURE INVESTMENT COORDINATOR, OFFICE OF THE GOVERNOR, introduced himself.

Mr. Steininger discussed the presentation, "State of Alaska; Office of the Governor; Infrastructure Appropriation Bill SB241; Senate Finance Committee; April 6, 2022" (copy on file). He highlighted slide 2, "SB 241 Infrastructure Overview." He noted that there were backup documents posted to the OMB website that would be provided to the committee. He discussed the funding for the legislation as it was illustrated on the slide.

[2:34:15 PM](#)

Mr. Steininger pointed to slide 3, "Updated Fiscal Summary." He said that the summary included both the appropriations the bill as well as all the amendments introduced, to date, by the executive branch. Additionally, adjustments had been made to oil and gas tax credits to reflect the current oil price forecast. He summarized that with all the amendments and adjustments the UGF budget for FY 23 was \$4.8 billion, with an All-Funds budget of \$11.7 billion, this with the spring forecast left a surplus of \$2.2 billion in FY 23. He noted that there were differences in this presentations numbers versus the figures just presented by Director Painter. This was because the LFD presentation was based on the Senate CS and the OMB presentation was based on the governor's proposed budget.

[2:35:32 PM](#)

Mr. Baker addressed slide 4, "Federal Infrastructure Bill (IIJA/BIL)":

- Enacted November 15, 2021 (PL 117-58; HR 3684)

- 5-year reauthorization of established federal programs and some new programs
- Only a portion of "Alaska" funding will come through the State of Alaska
- Many program details are still pending
- Much less discretionary than recent stimulus: CARES, CRRSA, ARP
  - No "tranches" of unrestricted federal payments
  - Spending parameters established by federal agencies
- Traditional State/Local capital priorities largely ineligible
- Funding flows by formula (apportionment or allocation) or grants (competitive and discretionary)
  - Approximately 60 percent by formula and 40 percent in grants on a national basis
- Local governments, tribes and other entities eligible for most programs

Senator Wilson asked about the sixth and eighth bullet points. He wondered whether the administration was looking at projects that would normally be state funded that could be offset to local entities that receive federal funding.

[2:39:47 PM](#)

Mr. Baker replied that because of the focused effort on infrastructure part of the process had been understanding the federal bill and how it ties in with other appropriation bills that had already been submitted. He believed that within the next 6 months there needed to be a continued effort to use the best funding sources available.

[2:41:09 PM](#)

Senator Wilson commented on the possibility of offsetting broadband funding. He thought it could be helpful to find other projects that could be offset by federal dollars.

[2:41:51 PM](#)

Senator von Imhof noted the eighth bullet points and asked about audits that could be conducted to assure that the monies were being spent as intended and wondered whether they would be conducted by the state or the feds.

Mr. Baker responded that he had not seen any indication that the federal government would audit the grants any more than normal. There would be checks to assure that the state followed the federal highway and EPA programs. He said that there was no money specifically in the bill for technical assistance for grantees. He did not expect that the state would be expected to conduct audits. He relayed that if local governments were seeking a rise grant for infrastructure projects it would be their responsibility to meet the requirements.

Mr. Steininger added that ARPA and CARES Act funding flowed through the state to subgrantees, which made the state a responsible party in the chain. He noted that those funds were audited. He said that if a state was not a party to the grants, the grantee applying would be subject to the audit.

[2:44:54 PM](#)

Senator Wielechowski wondered whether SB 241 reflected all the funds available to the state under the federal infrastructure bill.

[2:45:22 PM](#)

Mr. Baker replied that the bill was the best effort to appropriate and ask for authority for the funding the administration knew was coming to the state.

[2:46:06 PM](#)

Senator Wielechowski referred to Section 17 of the bill:

**Sec. 17.** SUPPLEMENTAL FEDERAL AND OTHER PROGRAM RECEIPTS. Federal receipts from P.L. 117-58 (Infrastructure Investment and Jobs Act) and designated program receipts under AS 37.05.146(b)(3) that include federal receipts received from P.L. 117-58 (Infrastructure Investment and Jobs Act), received during the fiscal year ending June 30, 2022, and that exceed the amounts appropriated by the Thirty-Second Alaska State Legislature, are appropriated conditioned on compliance with the program review provisions of AS 37.07.080(h). For the purposes of this section, "exceed the amounts appropriated" includes appropriations for which no previous federal receipts

from P.L. 117-58 (Infrastructure Investment and Jobs Act) have been made.

Senator Wielechowski and assumed that there would be no objection from the administration to remove the section from the bill.

[2:46:39 PM](#)

Mr. Baker thought that there were so many unknown variables that balance, and flexibility was necessary, and the administration needed to be able to make decisions when the legislature was not in session.

[2:47:23 PM](#)

Mr. Steininger said that the administration would oppose the removal of Section 17.

[2:48:04 PM](#)

Senator Wielechowski commented that the section would allow the governor to go through a revised legislative program process, which meant that if additional federal funding were received the governor would only have to advise the Legislative Budget and Audit Committee of how he wished to spend those funds. He thought that the process was unconstitutional and that the section should not be in the bill.

[2:49:04 PM](#)

Senator von Imhof requested clarification on the second bullet point "5-year reauthorization of established federal programs and some new programs".

[2:49:52 PM](#)

Mr. Baker stressed that Congress typically reauthorized programs in 5-year increments and all the surface transportation and EPA Water and Sewer programs were up for reauthorization. He relayed that much of the bill was spending that would have occurred anyway and had grown into the infrastructure bill as most of those programs were infrastructure related. Some new programs had been added such as broadband and electric vehicle charging

infrastructure, critical minerals, rare earth elements and clean energy technologies.

[2:50:35 PM](#)

Senator von Imhof asked whether the 5-year authorization for federal programs meant that the programs were funded.

[2:50:48 PM](#)

Mr. Baker stated that traditionally the authorizations were done separately, and Congress would appropriate yearly. In the case of this legislation all 5 years had been appropriated, with some exceptions.

[2:51:55 PM](#)

Senator von Imhof surmised that the bill created forward funding of federal dollars. She wondered about the difference between state and federal forward funding and noted that the governor had sued the legislature for forward funding education. She requested further clarification from legislative legal.

[2:52:31 PM](#)

Mr. Baker responded that the bill did not forward fund. He said that in some cases grants would be given upfront. He suggested some ways that it could be perceived that forward funding was occurring.

[2:53:15 PM](#)

Mr. Steininger furthered that the bill did not forward fund any future appropriations. He said any forward funding was at the federal level where the rules were different from the state level.

[2:53:48 PM](#)

Co-Chair Stedman commented that the process was just beginning. He did not think that the bill would gain traction and that the projects contained in the legislation would likely be handled in other vehicles. He hoped that the issue could be handled in the regular legislative session and hoped that the administration would avoid calling any special sessions. He spoke to Senator

Wielechowski's concerns about Section 17 and noted that in the previous year the legislature had complied with the governor's requests only to have the governor veto his own solicitations.

[2:56:40 PM](#)

Mr. Baker pointed to slide 5, "Federal Infrastructure Bill (IIJA/BIL)":

Transportation

- Roads, bridges, airports, ports and waterways, rail, public transit, electric vehicles (EV), and safety programs

Other Infrastructure

- Energy, power grid, broadband, water, resiliency, and environmental remediation

**Federal Infrastructure Bill:**

\$973 billion over 5 years

\$423 billion in base spending

\$550 billion in new spending

\$284 billion for transportation

\$266 billion for other infrastructure

[2:57:35 PM](#)

Senator Wilson asked whether a portion of the funding would go to the Alaska Railroad Corporation.

Mr. Baker replied in the affirmative. He furthered that the funding was mostly an increase in the federal transit administration formula dollars, which were based on passenger numbers.

[2:58:33 PM](#)

Mr. Baker looked at slide 6, "SB 241 Infrastructure Development":

Key Principals:

- Include identifiable funding coming in FY22 or FY23
- Identify coordination and implementation needs
- Maintain pressure on UGF spending
- Provide Local Government and Tribal Support

- Maintain tight nexus to programs in federal legislation
- Pursue significant competitive opportunities for which Alaska is uniquely positioned

[3:00:24 PM](#)

Co-Chair Bishop queried the baseline UGF match for the programs in the bill.

Mr. Baker replied \$50.8 million.

[3:00:51 PM](#)

Co-Chair Bishop asked about unknown elements of the federal funding. He thought \$50 million might not be enough.

Senator Wielechowski asked whether there was a simple document that could be distributed that defined where the federal funds could be spent.

[3:02:19 PM](#)

Mr. Baker replied that the information was on the next slide.

[3:02:42 PM](#)

Senator Hoffman asked about local government and tribal support. He wondered what support team was in place to provide support for the over 500 tribes in the state.

Mr. Baker replied that the situation was evolving and there was a request for money to expand the effort.

[3:04:14 PM](#)

Senator Hoffman thought that the work to support tribal entities would be significant and hoped that the administration understood the immensity of the undertaking.

[3:04:26 PM](#)

Co-Chair Stedman echoed Senator Hoffman's concern. He added that he hoped for clear definition between the branches of government pertaining to what the executive did in execution and what the legislative did in oversight. He

believed it was in the state's best interest that the branches of government worked as a team to maximize the utilization of the federal funds.

[3:06:16 PM](#)

Co-Chair Bishop asked whether the administration was prepared to come back on Monday with a draft organizational chart.

[3:06:41 PM](#)

Mr. Baker replied that nothing had been solidified as far as administrative support. He expressed willingness to continue the conversation.

[3:07:18 PM](#)

Co-Chair Stedman stressed that space in the Atwood Building in Anchorage could be utilized to house the support staff, which he believed needed to be more than 3 people.

[3:07:59 PM](#)

Senator Wielechowski wondered how much flexibility was allowed in the appropriations and how much authority was available to the legislature. He thought a document that detailed the parameters could be helpful.

Mr. Steininger thought that it was important to note that there was not a large amount of discretionary funding coming, so everything on the list in the bill was directed by the federal government. The funds could not be moved around, and the administration did not have discretion as to where the funds would go. He said that there was more flexibility within the surface transportation program.

[3:10:34 PM](#)

Senator Wielechowski asked whether that applied to the entire bill. He understood that the appropriations in the bill could not be changed.

[3:11:05 PM](#)

Mr. Baker cited the "Governor's Infrastructure Bill Summary (SB 241/HB 414)" (copy on file). He stated that the only

difference for lines 1 through 10 from previous budget requests submitted December 15<sup>th</sup> of every year was that the bill provided supplemental funding in FY 22 and increased funding in FY 23 from what was submitted in December. Lines 12 through 16 contained small UGF augmentations. He noted that the federal earmarks were federally determined. He said that lines 21 through 23 were subjective and that based on conversation at the table would continue to be a focus. He stated that the last four lines were the most subjected and were four areas where the state was uniquely positioned to compete for large amounts of federal dollars. He said that proposal in the bill was for seed money to craft competitive applications for anticipated future funding opportunities expected in the second or third quarter of 2022.

[3:13:18 PM](#)

Co-Chair Stedman believed that money going to Tribal entities should be considered. He thought possible overlap should be identified. He added that broadband was a prime area where duplicate efforts could be an issue.

[3:14:24 PM](#)

Senator von Imhof was pleased to see the \$5,480.0 for the State Infrastructure Planning and Coordination (Slide 15). She hoped that there was a plan for the funding and that all comprehensive guidance was provided by the state to stakeholders. She hoped that some of the Surface Transportation funding could be spent to improve particular trails in the state.

[3:16:37 PM](#)

Co-Chair Bishop understood that Senator Sullivan supported the National Trails Program in the highways bill on the federal level.

[3:16:53 PM](#)

Senator Hoffman voiced his concern that DOT funding would not be spent equitably across the state.

[3:17:47 PM](#)

Co-Chair Bishop felt that there was a common theme at the table, which was to work with all entities and stakeholders

to capture and maximize every federal dollar possible for the state. He noted that DOT consistently worked to bring in above and beyond the expected number of federal dollars to the state.

[3:19:58 PM](#)

Co-Chair Stedman requested an infrastructure list divided by DOT region across the state.

[3:20:19 PM](#)

Co-Chair Bishop noted that the Statewide Transportation Improvement Program (STIP) might have the projects included by house districts.

Co-Chair Bishop discussed housekeeping.

SB 241 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

[3:21:33 PM](#)

The meeting was adjourned at 3:21 p.m.