

HOUSE FINANCE COMMITTEE
May 8, 2023
1:33 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:33 p.m.

MEMBERS PRESENT

Representative Bryce Edgmon, Co-Chair
Representative Neal Foster, Co-Chair
Representative DeLena Johnson, Co-Chair
Representative Julie Coulombe
Representative Mike Cronk
Representative Alyse Galvin
Representative Sara Hannan
Representative Andy Josephson
Representative Dan Ortiz
Representative Will Stapp
Representative Frank Tomaszewski

MEMBERS ABSENT

None

ALSO PRESENT

Alexei Painter, Director, Legislative Finance Division; Bernard Aoto, Staff, Representative Will Stapp; Representative Sarah Vance, Sponsor; Representative Justin Ruffridge, Sponsor; Sylvan Robb, Director, Division of Corporations Business and Professional Licensing, Department of Commerce Community and Economic Development.

PRESENT VIA TELECONFERENCE

Ajay Desai, Director, Division of Retirement and Benefits, Department of Administration; Andrea Mueca, Health Operations Manager, Division of Retirement and Benefits, Department of Administration; Ken Truitt, Legislative Liaison, Department of Administration; Dr. Ashley Schaber, Chair, Alaska Board of Pharmacy.

SUMMARY

HJR 2 CONST. AM: APPROP LIMIT

HJR 2 was HEARD and HELD in committee for further consideration.

HB 21 SCHOOL/UNIVERSITY EMPLOYEE HEALTH INSUR

HB 21 was HEARD and HELD in committee for further consideration.

HB 38 APPROPRIATION LIMIT; GOV BUDGET

HB 38 was HEARD and HELD in committee for further consideration.

HB 112 PROFESSION OF PHARMACY

HB 112 was HEARD and HELD in committee for further consideration.

Co-Chair Foster reviewed the meeting agenda.

#hjr2

#hb38

HOUSE JOINT RESOLUTION NO. 2

Proposing amendments to the Constitution of the State of Alaska relating to an appropriation limit.

HOUSE BILL NO. 38

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

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Co-Chair Foster invited questions on HJR 2 and HB 38.

Representative Coulombe asked if revenue put into accounts such as the Permanent Fund Earnings Reserve Account (ERA) would be included in the spending cap.

ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, responded that one of the exclusions to the cap was any appropriation to the Permanent Fund. Any appropriation to the fund was permitted to exceed the cap. In addition, the Legislative Finance Division (LFD) would not include any appropriations in its calculations of the limit that would require further appropriations to spend. For example, putting money into the Statutory Budget Reserve (SBR) would not qualify as an appropriation towards the limit.

Representative Coulombe asked if monies put into the higher education fund by the legislature would be subject to the cap.

Mr. Painter responded that the situation would invoke the cap because the monies would have to be appropriated out of the fund in order to be spent. Appropriations into the fund would not be subject to the cap but appropriations out of the fund would be subject to the cap.

Representative Ortiz asked whether the spending cap included the Permanent Fund Dividend (PFD) and the capital budget.

Mr. Painter responded that the cap would not include the PFD, but it would include the capital budget; however, there was the ability to exceed the statutory appropriations limit for capital expenditures with a two-thirds vote.

Representative Ortiz asked if it was safe to say that the impact of the constitutional and statutory limit on spending was a limit on the operating budget on its own.

Mr. Painter responded, "to some extent, yes," but it would require a two-thirds vote to exceed the limit.

Representative Ortiz asked if the bill could still act as an effective spending limit without including the PFD, which was the most significant spending item.

Mr. Painter responded that it would act as a limit on expenditures for all other items, but it would not limit how much money could be spent on the PFD.

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Representative Galvin commented that the state has essentially used the Base Student Allocation (BSA) as a regular formula and oftentimes funds outside of the formula had been incorporated in order to cover costs. She understood that the limit was calculated by looking at the past five years of inflation and averaging the increases. She asked what would happen if there was a significant bump in education costs and wondered if there would need to be a two-thirds vote to increase spending.

Mr. Painter responded that the limit was calculated based on a five-year average of gross domestic product (GDP) adjusted for inflation. If there was a spike in inflation in the current year, it would be captured in the inflation adjustment and would impact the prior year's figures. For example, the current year would use the prior year's inflation rate, which was 8 percent. By using prior year inflation, the calculation could be made using a known amount, which was the approach proposed in the legislation. If it was based on projected inflation, the calculation could adjust every minute depending upon what was happening in real time; however, the number would be an estimate as opposed to a known number. There was an inherent tradeoff: the calculation could be based on inflation in the current year but could only be an estimate, or the calculation could be based on the inflation rates in the prior year and be a known number.

Representative Galvin understood that the state was not keeping up with inflation rates, particularly in education spending. She wondered what would happen if the numbers were based on figures that were not accurate. For example, she wondered if the state would be at a disadvantage if the increase was only 2.5 percent as it would still not match inflation rates.

Mr. Painter responded that it was a policy call.

Representative Galvin asked if Mr. Painter would agree that there had not been incremental increases in the last seven years that would have kept up with inflation.

Mr. Painter responded that the BSA had increased by \$30 in the present year which was the first increase since 2017.

Representative Galvin asked what percentage would be represented by the \$30 increase.

Mr. Painter responded that it was about half a percent.

Representative Galvin asked for clarity that it was a 0.5 percent increase.

Mr. Painter responded in the affirmative.

Representative Galvin noted that the percentage floor was important when it came to education.

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BERNARD AOTO, STAFF, REPRESENTATIVE STAPP, responded that the five year trending average when applied to the current year would total \$21 billion. He explained that the 11 percent figure represented the floor, which would equal about \$4.9 billion as proposed by HB 38 and about \$5.1 billion as proposed by HJR 2. The floor could be adjusted according to the percentages.

Representative Galvin asked Mr. Aoto to translate the figures to BSA dollars.

Mr. Aoto responded that a 1 percent increase to the limit would be about \$475 million. The proposed \$680 increase to the BSA would equal to about a \$175 million increase. He suggested that a 1 percent increase would allow for more money to be spent on the BSA.

Representative Galvin understood that instead of there being a \$175 million incremental increase, there would be a \$475 increase if the legislation were to pass. She asked if her understanding was correct.

Mr. Aoto responded that the increase in the percentage would increase the allotted spending amount to about \$475 million. The legislature would need to make a policy call on how to spend the money.

Representative Galvin understood there would be \$475 million available, but the legislature would choose the way in which the money would be spent and whether the money would be incorporated into the spending floor for education.

Mr. Aoto replied that the legislature had the power of appropriation.

Co-Chair Foster suggested that the bill's sponsor respond to the questions.

Representative Stapp commented that any type of appropriation limit had to be tied to something. The existing appropriation limit was tied to a "hard number" while the bills before the committee were tied to a percent of the state's gross economic output. He suggested that if the percentages were changed upwards that there would be more space created in the budget to appropriate money for operating and capital expenditures. If the statutory limit in HB 38 was increased, capital expenditures could theoretically fall underneath the appropriation.

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Representative Josephson recalled the figure \$5.4 billion. He understood neither HB 38 nor HJR 2 required a division between capital and operating.

Mr. Aoto responded that the 11 percent figure under HJR 2 would be \$4.8 billion, and 13 percent would be \$5.1 billion. He clarified that the figures represented the dollar amounts if the legislation was implemented by FY 24.

Representative Josephson commented that regardless of whether HJR 2 or HB 38 were to pass, the capital and operating expenses would not be divided. Both pieces of legislation proposed a single and unified limit.

Mr. Aoto responded that there was a singular limit but there was a provision on page 2, line 4 of HJR 2 stating that a two-thirds vote would be required for the legislature to appropriate an additional amount for capital improvements in excess of the limit.

Representative Josephson asked what was anticipated for capital expenditures when the 11 percent and 13 percent figures were decided upon.

Representative Stapp responded that the 11 and 13 percent numbers were amended downward in the previous committee of referral [House Ways and Means Committee]. He thought that while it was important to have an appropriation limit, he

did not want to implement legislation that would incumber the legislature's ability to make investments in the state. He thought a happy medium could be achieved if the percentages were amended upwards.

Representative Josephson thought Representative Stapp must have had a target dollar amount. He clarified that he wanted to know the size of the capital budget under HJR 2 in the event that a two-thirds vote was not achieved.

Representative Stapp responded that it would be any type of appropriation that fell within the statutory limit of the bill. He noted that it could be amended. He deferred to his staff to elaborate.

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Mr. Aoto responded that the total would be about \$4.8 billion. The operating budget plus the capital budget would need to equal \$4.8 billion if the legislature did not achieve a two-thirds vote.

Representative Josephson asked if a legislature could "suffocate" the capital budget and supplant and grow operating budgets.

Representative Stapp understood that Representative Josephson was asking if the legislature could effectively spend the entirety of the operating budget up to the spending cap and not have a capital budget. He asked if his understanding of the question was correct.

Representative Josephson replied in the affirmative. He wanted information on the de minimis match, which was around \$100 million.

Representative Stapp responded that it could theoretically be done if there was enough revenue. He did not think the legislature would ever intentionally suffocate the capital budget and argued that the legislature already had the ability to do so if it wanted.

Representative Josephson understood that the administration of past Governor Sean Parnell saw revenue that could have "floated all boats." There was \$95 million designated to the Susitna-Watana Dam two years in a row under the Parnell Administration. If a similar circumstance occurred in the

present day and an individual was advocating for a BSA increase, the individual would be at odds with people who wanted a larger capital budget. He understood that there would be plenty of money to satisfy the capital budget and the public school advocate, but the two parties would be battling for space. He asked if his understanding was correct.

Representative Stapp responded that Representative Josephson's description was one way to articulate the situation. He would argue that there was already a battle going on. He thought that a threshold to achieve a capital budget was a more equitable solution for the bulk of the legislature and he would hope that it would be more likely that the legislature would be in favor of a more robust capital budget that met the needs of the entire state rather than a limited amount.

Mr. Aoto added that the financial situation the legislature was presently in was not because of a cap, but because of a lack of revenue.

Representative Josephson understood that if the legislation were to pass, the legislature could have all the revenue it wanted but could not spend beyond the cap to solve identified problems.

Mr. Aoto responded that there was a list of exceptions in which the legislature could appropriate beyond the cap, such as a disaster declaration. The instances that would qualify as exceptions to the limit were subject to the opinion of the legislature.

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Co-Chair Johnson asked if the green section of slide 12 [in the previously presented PowerPoint presentation titled "HJR2 GDP - Based Spending Cap" (copy on file)] represented the full amount of the percent of market value (POMV) revenue that would be drawn. She wondered if the amount was split out in any way.

Mr. Painter responded in the affirmative. The entire POMV draw was shown as unrestricted general fund (UGF) revenue and the PFD was shown as the unfunded expenditure.

Co-Chair Johnson understood that some were concerned about there being taxes without a spending limit and that the PFD was not subject to the limit. She did not think the PFD was being considered in the equation if 50 percent of revenue was not taken out for the PFD. She asked Representative Stapp to expand on the contradiction that some individuals did not want any new taxes unless there was a spending limit, but the PFD was not subject to the spending limit. She asked him to elaborate on the way in which the PFD's exclusion would impact taxes and the spending limit.

Representative Stapp responded that slide 13 of the presentation addressed the question. The slide showed the governor's proposed 15 percent constitutional limit on GDP. The constitutional limit would effectively put all available revenue within the spending cap. The proposed 15 percent of GDP constitutional limit could theoretically allow for all money to be appropriated through government expenditures if there was a \$0 PFD. He recognized that the PFD was the largest appropriation the legislature made. If half of the POMV was appropriated towards the PFD, there would not be enough revenue to reach the current limits unless new revenues were added.

Co-Chair Johnson understood that excluding the dividend from the cap would have a different effect because it was tied to GDP. She thought information was being conflated and wanted to ensure that it was noted that it was tied to GDP and was not based on traditional elements of the spending cap.

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Mr. Painter commented that appropriations were often constrained by revenue and any spending limit would not be as important when revenue was the constraint. A situation in which a spending limit would have made a difference was in the prior year's session because revenue was not as much of a constraint. Instead of a revenue constraint, the constraint was the desire to not spend all of the money. A spending limit would serve to cap the years with high revenue. There could also be a cap set on oil which would provide a different constraint.

Mr. Aoto responded that the value of using a GDP-based spending cap was that it would capture a number of different aspects of the economy that should be monitored

by the legislature, such as general population and inflation. It also would allow the legislature to factor in elements such as consumer spending, business spending, net imports, and net exports when deciding how to appropriate funds. There were previous iterations of spending caps that tried to use one aspect of population inflation that resulted in a more draconian and restrictive spending cap than the one proposed by HJR 2.

Co-Chair Johnson asked if a floor was not needed because of the existence of the POMV. She did not want to craft a situation in which the spending cap would force austerity on the state. She understood that the Permanent Fund draw would always provide the needed funds if it were based on a balanced budget. She asked if there was ever a time in which the GDP spending limit would be so low that the legislature would not be able to meet the needs of Alaskans.

Representative Stapp responded that in the event of a fiscal disaster in which there were multiple years of declining GDP growth, it would be more likely that there would be a revenue limit and not a spending limit. If there was a serious drop in GDP over a five-year period, there would also be a significant drop in the spending limit and there would be an increase in out-migration from the state. The government adjusted its spending downward when there was a major out-migration in state in the 1980s and he thought the same strategy could be implemented if the situation were to happen again. He thought it would be wise to reevaluate spending levels if there was another surge in out-migration. He did not foresee the scenario occurring but suggested that Mr. Painter elaborate on the question.

Mr. Painter commented that when the limit was set in FY 83, expenditures were close to the limit in the first few years and then spending was flat for nearly two decades; therefore, the limit was not a meaningful factor. A similar situation could occur with a GDP limit, but the limit likely would not have grown as quickly as the figure representing population plus inflation because GDP would have also been impacted. In the 1980s, revenue was the reason for the state's limited expenditures.

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Representative Hannan wanted more information about the idea of excluding the PFD from the spending caps. She understood the thought process in comparison to the current spending cap; however, the proposed spending cap seemed to be higher than some of the state's constitutionally mandated spends. She asked for more information on the reason for holding the PFD outside of the spending cap.

Representative Stapp opined that the PFD was a separate political issue that warranted its own resolution. He thought that if the percentages of the cap were to be amended to 14 percent or 15 percent, it would include all available revenue. He thought it was interesting to note that the PFD had been subject to a significant swing in variation of appropriation. If a hard limit was fixed in the bill, it would effectively require a policy call on the dividend within the spending cap. If all available revenue fell under the cap, a dividend amount could be inferred within the cap.

Representative Hannan asked if Representative Stapp found any jurisdictions in which a spending cap was separate from a taxation policy. She acknowledged that there were no individual taxes implemented in Alaska and that most states that had taken on a spending cap did so in order to govern a sales tax, income tax, or property tax. She wondered if Representative Stapp's research found any jurisdictions where revenues and spending caps were separate.

Representative Stapp asked for clarification on whether Representative Hannan was asking if had found a spending cap in his research that was divorced from taxation.

Representative Hannan responded in the affirmative.

Representative Stapp replied that the current spending cap in the state had no bearing on taxation and any variation in spending caps that were indexed at population and inflation had no impact on tax policy. He thought GDP was a better metric to use when coordinating a tax policy because if there was a more robust private sector, there would be a better base upon which to implement taxes.

Representative Hannan suggested ignoring Alaska as the state was the exception and not the rule. She offered Colorado as an example and explained that an implemented spending cap was immediately followed by tax increases. She

asked if there was any state apart from Alaska that had set a spending cap without also addressing taxation policy in the state.

Representative Stapp responded that unlike every other state, Alaska did not have a broad based tax. The concept behind the limit was to encourage responsible government appropriations. He could not think of an example of another state apart from Alaska that had implemented a spending cap withing addressing taxation policy because Alaska did not have a broad based tax.

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Representative Galvin wondered whether a spending cap would bring about more transparency, accountability, and responsiveness, which is what she thought Alaskan voters wanted. She was aware of a paper by the Economic Policy Institute that argued that spending caps were not necessarily beneficial in achieving the goal of transparency. When there was a shock to the economic system such as the 2008 recession, Alaska was not impacted as strongly as other states because Alaska was able to quickly invest. She recalled that in 2008, Alaska invested around 25 percent into the nation's economy and saved over 700,000 jobs. She asked Mr. Painter to speak about the ways in which the state would be impacted if there was a similar event in the future, but the state had implemented a spending cap. She also asked how a disaster would be defined and how it was determined that a situation was dire enough to warrant spending beyond the cap.

Mr. Painter responded that the definition of disaster was in statute and the governor had the power to declare disasters in response to natural disasters, diseases, war, or other similar events. He did not think economic disasters were included in the definition. He thought that if the GDP crashed and a disaster was severe enough, a GDP-based spending limit could potentially mean that Alaska could not respond; however, it was based on a five-year average with a lag. If a GDP-based spending limit was in place during the current session, the data used to determine the limit would be the previous year's GDP and it would not necessarily be restrictive. If the statutory limit was set close to the current expenditures and the constitutional limit was set higher, the expenditures for economic disasters would likely be capital spending, which

was the case in 2008. The capital funds could be spent with a two-thirds majority under the spending cap. It could become problematic if there was a significant long-term disaster, but the state would have had to have significant savings in order to spend the funds in the first place. The spending limit would not be the limiting factor if there was a multi-year depression. The statutory limit could also be amended by future legislatures with a simple majority vote of both bodies.

Representative Galvin asked how long the recession in 2015 lasted in Alaska.

Mr. Painter responded that he did not know as far as a formal definition of recession from a macro-economic perspective. There were deficits from FY 15 through FY 21, but that alone did not necessarily qualify the time period as a recession.

Representative Galvin asked if Alaska was sensitive to extreme fluctuations.

Mr. Painter responded that the economy in the state was more volatile than most states. It was also not necessarily correlated to the nation's economy. Alaska had a relatively volatile economy because of its dependence on a volatile resource.

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Representative Josephson asked what the current constitutional limit from 1982 would be as a percent of GDP.

Representative Stapp responded that he would guess it would be around 25 percent or 26 percent. He deferred to Mr. Painter.

Mr. Painter replied that he thought it would be approaching 50 percent because the 13 percent level represented about \$5.8 billion and the current constitutional limit was about \$11.3 billion. If the figures were doubled it would total about 50 percent. He was not certain of the figure and would return to the committee with a more precise calculation.

Representative Josephson noted that Representative Stapp had mentioned a five-year economic downturn. He asked Representative Stapp to repeat his comments.

Representative Stapp responded that the GDP was based on a five-year rolling average. If there was a severe economic downturn for five consecutive years, downward pressure would be placed on a GDP-based spending limit based on an average.

Representative Josephson noted that there was an economic downturn from 1933 through 1938 and the Roosevelt Recession immediately followed in 1937. He relayed that the response at the time was a Keynesian approach to prime the public and get the economy going and to avoid the European experience of complete political disruption. He noted that the situation would not occur in the same way in Alaska because it was a state and not a country; however, given the countercyclical nature of the state and the fact that the 2008 recession was a "blip" to Alaska, he asked if there would be circumstances in which the state was unable to respond and it would be watching events unfold that the state could theoretically resolve but could not take action.

Representative Stapp responded that the big difference was that the state could control fiscal policy but not monetary policy. In the event of a recession, the state would be limited by a collapse in all available revenue and there would be massive out-migration. He thought that the best way to prepare for a disaster scenario would be to amend the percentages upward. He reiterated that he was not worried about a spending cap having a negative impact on the state in a disaster because there would be a collapse in all revenue and the spending cap would be the least of the state's worries.

Representative Josephson replied that there was a strong governor model in the state and the legislature would need a two-thirds vote to override a veto. In a crisis, it was a limitation on legislative prerogative.

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Representative Ortiz wondered if it would be better to suspend the idea of a spending cap until the question of revenue was resolved. He thought that revenue was in

essence the current spending cap and that it had been a successful model. The legislature was able to address capital projects and deferred maintenance when the state had more revenue in the prior year. He did not understand why a spending cap would be tied to GDP when revenue was not tied to GDP.

Representative Stapp responded that the main issue was how the state allocated the existing revenue it already had. He thought the most valuable information from Mr. Painter on the history of the cap was that both the constitutional limit and statutory limit for appropriations had been violated by the legislature on multiple occasions. He suggested that when a limit existed in statute or in the constitution that had been repeatedly violated, the legislature had the responsibility to do its due diligence to reform the issue and increase accountability to citizens. It was possible to have a tie in terms of overall GDP that would allow for future conversations on revenue and on the PFD amount. The main goal of the bill was to smooth out the boom and bust cycle that was Alaska's revenue picture. He argued that the state likely allocated money in high revenue years such as FY 12 and FY 15 for good purposes, but he thought the state also wasted a lot of money.

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Representative Coulombe asked how the current spending cap related to the private sector.

Mr. Painter responded that the spending cap was tied to a fixed number that grew by population and inflation. The cap did not directly reference the size of the economy in any way.

Representative Coulombe asked if the state needed to respond to the spending occurring within the private sector.

Mr. Painter responded that the spending cap was based on a fixed number which grew by population and it did not matter if the population was employed. However, revenue did originate from the private sector.

Representative Coulombe asked how the proposed spending cap would incorporate the private sector into the equation.

Mr. Aoto responded that the cap would use state GDP and that some of the elements of state GDP were business expenses, business spending, net imports, and net exports, which were all directly related to the private sector.

Representative Coulombe commented that many examples had been brought up during the meeting on what could happen in extreme situations. She thought that the state's revenue had been historically volatile, and Alaska was not financially disciplined in high revenue years. She thought that there would be fewer emergencies if the state invested in a more regimented manner. There would be more stability in the savings accounts to increase education spending and it would encourage savings and "rainy day" finances. She liked the idea of a spending cap because it would force the legislature to think about the future and it would smooth out emergency spending and big deposits.

Representative Tomaszewski thanked Representative Stapp for bringing forth the bill and he thought that it was exactly what the state needed. He thought the state needed the ability to control spending and the cap would allow for steady funding and decreased dependence upon digging into its savings accounts. He commended Representative Stapp for his responses to the questions of other committee members and he looked forward to hearing more about the legislation.

HJR 2 was HEARD and HELD in committee for further consideration.

HB 38 was HEARD and HELD in committee for further consideration.

#hb21

HOUSE BILL NO. 21

"An Act relating to group insurance coverage and self-insurance coverage for school district employees, employees of the University of Alaska, and employees of other governmental units in the state; and providing for an effective date."

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Co-Chair Foster invited the sponsor and her staff to introduce the bill.

REPRESENTATIVE SARAH VANCE, SPONSOR, introduced HB 21. She offered a PowerPoint presentation "HB 21; School Healthcare Consolidation," dated May 8, 2023 (copy on file). School districts were experiencing challenges in recruiting and retaining teachers and staff, which was an issue compounded by the rising costs of health care. She had attended a local school board meeting in her district at which she heard the teacher representative for health insurance plead with school board members to hold an emergency meeting to discuss what could be done to better recruit and retain teachers. The rising costs of health care and premiums for families were forcing teachers to leave the state or the profession. She recommended the introduction of HB 21 after attending the meeting.

Representative Vance advanced to slide 2 and explained that the bill had been offered and heard in prior legislatures, but only as a requirement that all school districts consolidate. She indicated that HB 21 was different in that it supported local control and was completely optional for schools. She moved to slide 2 and relayed that according to an Institute of Social and Economic Research (ISER) study from 2019, there were three aspects of public education costs in Alaska that set it apart from other states: small schools, health care, and energy.

Representative Vance continued to slide 3. Alaska had the highest per-capita health care costs in the nation which negatively impacted private and public sectors of the economy. The high costs put downward pressure on wages which made it difficult for schools to offer nationally competitive salaries to teachers in Alaska. Her goal was to ease the financial burden on school districts and give the state more leverage to negotiate with health care providers. She moved to slide 5 and relayed that the bill would amend current statute to allow the option for school districts, the universities, and governmental units such as cities and boroughs to participate in AlaskaCare. The aforementioned entities would have the choice to opt into the pool and enable the Department of Administration (DOA) to negotiate a better cost of health care.

Representative Vance continued to slide 5. She explained that the main benefit of consolidation was that it would

save money. By expanding the number of participants in a health care pool, the potential for savings increased. Most of the state's school districts were small and carried the cost burden alone. Several school districts had responded to the proposed consolidation and reported possible savings of about \$7 million per year. This would allow for some districts to not only close their budget gap but provide better health care to participants. The Mat-Su school district had reported that if all district employees' bargaining units were to be consolidated, the district could save up to \$7 million. The savings would be about \$3,000 per employee and would equate to a \$125 increase in the Base Student Allocation (BSA). If all districts chose to consolidate, the savings would be about \$200 million per year. The bill would also provide more health care options. Some districts were facing challenges in finding affordable health care options due to high-use numbers and the bill would expand options to offset high-use. An additional benefit would be that the bill would reduce the burden on staff and allow schools to focus on providing quality education.

Representative Vance advanced to slide 6 and concluded that the bill was intended to reduce education costs and better serve the needs of Alaskans.

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Representative Vance offered to review the sectional analysis (copy on file).

Co-Chair Foster replied that he would like to hear the sectional analysis.

Representative Vance relayed that she would provide some highlights of the sectional. She indicated that the one change made by the House Labor and Commerce Committee was Section 9:

Section 9. Authorizes the Department of Administration to investigate the potential costs of any interested school district, local government, or the University of Alaska, and share that report with the Legislature before the Commissioner approves their admission into AlaskaCare

Representative Vance continued by highlighting Section 3 of the sectional:

Section 3. Allows the Commissioner of Administration to expend from the public education fund (AS 14.17.300) to the group health and life benefits fund (AS 39.30.095) a total of \$100,000,000 or less as needed to pay claims submitted by school district employees who are covered by a policy of self-insurance provided by the state; and, requires the Commissioner of Administration to repay the public education fund, over a period of 10 years, the full amount of the commissioner's expenditures from the public education fund

Representative Vance explained that Section 3 had been a particular topic of interest and she deferred to the will of the committee on whether to include it in the bill. She relayed that Sections 4 through 6 contained the majority of the content of the bill. She stated that Section 4 allowed schools districts and the university to be part of the state health care plan. The other sections [Section 5 and Section 6] gave the board of regents, universities, and the Regional Educational Attendance Area (REAA) the legislative authority to optionally participate in the plans. Section 10 authorized DOA to provide group medical insurance to school employees, school district employees, and other governmental employees by means of self-insurance. If it was not beneficial for an entire unit to opt into the pool, DOA could determine that the unit would benefit more through a policy of self-insurance. She emphasized that there were options depending on the cost and the health care provider.

Representative Vance continued on Section 12 and explained that it ensured that the bill was applicable to collective bargaining agreements and other contracts that would become legally binding on or after the effective date of Sections 1 through 8. Section 13 would require self-insured school districts to transfer the closing balance of their self-funded insurance reserve account after enrollment in a health care plan administered by the state. It would require that the amounts be applied to offset reimbursements owed by the school district. She continued that Section 14 noted that the bill would not automatically go into effect and would allow for a one-year transition period to adopt regulations and gauge interest in

consolidation. It would allow DOA to see the cost and benefits and any required further analysis.

Co-Chair Foster invited questions from the committee.

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Representative Stapp expressed his appreciation to Representative Vance for bringing forward the bill. He asked about the actuarial analysis of the impact on AlaskaCare. He thought that small and high-risk groups would flow into the AlaskaCare plan, and he thought it was unlikely that larger entities like the Anchorage School District would consolidate due to the nature of cost. He understood that the last time the state looked at the plan was in 2014 and he thought it would be good to look at it again. He asked if the sponsor or a representative from the Division of Retirement and Benefits (DRB) wanted to comment on the potential influx of a high-risk population into the plan.

Representative Vance responded that she had spoken with DOA and it was not planning on doing actuarial analysis of the bill until it reached the House Finance Committee. She noted that representatives from DRB were available for questions.

Representative Stapp asked if someone could provide comments on the overall impact of the bill and of the influx of high-risk individuals on the overall plan.

AJAY DESAI, DIRECTOR, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION (via teleconference), responded that DRB had not done any actuarial analysis yet. The division had only determined initial operational costs based on the initial analysis of the bill, which had been submitted to the legislature.

Representative Stapp asked for more information on the method of actuarial analysis. He opined that an actuarial analysis was a key ingredient when determining the viability of the long-term impact of the bill.

Co-Chair Foster asked Mr. Desai at what point the actuarial analysis would occur.

Mr. Desai deferred the question to his colleague.

2:49:04 PM

ANDREA MUECA, HEALTH OPERATIONS MANAGER, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, JUNEAU (via teleconference), responded that the division was planning on testing three scenarios when it conducted the actuarial analysis: a neutral cost impact, a reduced cost impact, and an increased cost impact. Depending on who joins the plan, it was unclear whether the state would save money, lose money, or be financially unaffected. She relayed that the division would get updated analysis within three weeks.

Co-Chair Foster noted that part of the reason for the delay was that the cost for the actuarial analysis was substantial. He asked what Ms. Mueca for the expected cost.

Ms. Mueca responded that the request would cost around \$30,000.

Representative Stapp understood that there was a similar analysis conducted in 2014 for the Senate that had a cost of about \$200,000. He asked if Ms. Mueca was sure she could do a thorough analysis for \$30,000.

Ms. Mueca responded that she was not familiar with the 2014 analysis and she would have to look through the study for updated information. She thought the turnaround would be quicker if the division could follow a template for the analysis.

Co-Chair Foster thought he saw an email recently that suggested a range of \$150,000 to \$200,000.

Representative Vance commented that the progress of the bill was at the will of the finance committee.

Representative Hannan understood that there were two districts represented in the packet of letter of support for the bill (copy on file). She noted that some districts had more than one insurance plan because there were different bargaining units represented by different individuals. She wondered if Representative Vance had received direct communication from other school districts indicating interest in consolidation. She was generally a "huge fan" of universal healthcare, but she also had served

on her health plan's trust and understood that teachers were typically expensive to insure. The most expensive periods of time in a person's life were childbearing years and the years proceeding retirement, and many teachers were young women. She asked if the sponsor had heard from the 51 other districts in the state and wondered if other districts were interested in joining the plan.

Representative Vance responded that she had emailed all the districts asking for their interest and input and she had heard back from Ketchikan, Kenai Peninsula, and Mat-Su. The districts as a whole had been quiet and she was unsure if districts were still deliberating. The Mat-Su and Kenai Peninsula districts were some of the larger districts and had indicated that they wanted the health care option to be available.

Representative Hannan commented that the letter of support from Mat-Su was not in her packet and she would like to see the letter. She was unsure if the Mat-Su district had more than one unit represented in the plan or whether the plan was unified.

Representative Vance responded that she would provide the information to the committee. She recalled that Mat-Su had four bargaining units and it was a conversation to see whether some or all wanted to join the plan. She anticipated that each school district or unit would come to DOA and have a conversation about their needs and determine whether the plan would save money while providing the same level of health care, or whether it would be more costly.

Co-Chair Foster noted that there was a representative from DOA available for questions. He asked if DOA could comment on the actuarial analysis.

[2:56:04 PM](#)

KEN TRUITT, LEGISLATIVE LIAISON, DEPARTMENT OF ADMINISTRATION, (via teleconference), responded that DOA would begin an actuarial study when it was requested by the finance committee. It could not begin the analysis until it was formally requested.

Co-Chair Foster asked if Mr. Truitt could provide more information about the cost.

Mr. Truitt responded that the cost was estimated to be around \$30,000.

Representative Ortiz asked what went into determining the costs in the fiscal note [by DOA with Control Code vwuQl] of about \$350 million per year [he later corrected the number to \$350,000]. He asked how the fiscal note was determined.

Mr. Truitt responded that the question would be better answered by Ms. Mueca.

Ms. Mueca responded that the fiscal note totals had to do with the requirements for staffing. She explained that DRB would need three full-time employees, actuaries, and legal counsel in order to conduct the study.

Representative Ortiz noted that he meant to say that the fiscal note totaled \$350,000 not \$350 million.

Representative Galvin commented that the concept of the bill could be a "game changer" for education. She noted that her questions were similar to Representative Hannan's and wanted to know how many districts had indicated interest in the plan. She wondered if districts could help each other if many were interested in the plan. She thought the bill could help the state support its children.

[3:00:47 PM](#)

Representative Stapp asked what the current per employee per year cost was for AlaskaCare.

Ms. Mueca responded that the average per employee per month cost was around \$1,734. She would have to calculate the numbers to provide the annual cost.

Representative Stapp commented that it was about \$20,000 per year based on Ms. Mueca's response. There was a Haight Law Group study [from 2014] that showed a cost of \$18,446 per employee per year for insurance. He understood that the goal of the bill was to bring about savings and that some school districts would choose to consolidate to save money. He thought some groups or districts could drive the cost of AlaskaCare up. He reiterated that he did not understand how the actuarial analysis could be conducted for \$30,000.

Ms. Mueca responded that there was already a starting point for the actuarial analysis which was the reason why DRB was quoted \$30,000 for the analysis. She could provide any additional information about the analysis if Representative Stapp would like.

Representative Stapp asked for a list of the information that the division was going to examine. He thought that the actuaries would want to look at the employee costs, the deductibles, and other factors.

Ms. Mueca would follow up with the information.

[3:03:57 PM](#)

Representative Coulombe relayed that she assumed the university supported the bill. She asked if her assumption was correct.

Representative Vance responded that the university was neutral on the bill and adding the university to the plan was not a necessity. When she introduced a version of the bill four years prior, her school district did not need the plan; however, the district desperately needed the bill four years later. She thought the change spoke to the importance of having health care options for the future because many municipalities that do not currently need the option might need it in future years.

Representative Coulombe asked if DOA would help small school districts decide whether it was prudent for the districts to join the plan.

Representative Vance responded that Section 9 addressed the issue. She explained it was a requirement that there be a report detailing the potential costs before the commissioner authorized acceptance of the units.

Representative Coulombe asked if the prior versions of the bill that mandated participation were driven by Representative Stapp's earlier point that the plan could be overwhelmed by high-needs groups. She asked for Representative Vance's opinion on whether participation should be mandatory.

Representative Vance responded that there had been a conversation about mandatory participation in 2014. She

stated her understanding that some districts wanted to maintain local control and opposed the idea of forceful consolidation. She added that AEA also opposed making participation in the plan mandatory.

Representative Coulombe liked that participation was voluntary.

[3:07:27 PM](#)

Co-Chair Johnson asked if the information requested by Representative Stapp could be provided to all members. She wondered how many districts had a blind health care trust. She understood that Mat-Su did not.

Representative Vance was uncertain of the number. The Mat-Su district had given great support to the bill because it could save \$7 million per year. The district was the first to reach out to her office in support of the legislation because it estimated a \$3,000 savings per employee per paycheck.

Co-Chair Johnson commented that the bill had potential. She understood that some contracts had higher levels of transparency than others. She hoped transparency would be increased if the bill were to pass.

Representative Vance noted that the AlaskaCare 2020 active employees premiums chart (copy on file) as provided by DOA was included in member's packets. She highlighted that she was offering the bill as a tool for the legislature to draw on to examine cost-reducing methods and to make the most of the state's dollars while providing excellent health care to Alaskans. She argued that the state indirectly paid for health care in one form or another through the BSA. She would let the committee determine which entities should be included in the plan but her goal was to put all school districts on equal footing. There were some small districts that needed help and larger ones that did not. The bill was meant to look to the future and recruit and retain teachers by providing great health care.

HB 21 was HEARD and HELD in committee for further consideration.

[3:11:04 PM](#)

AT EASE

[3:16:42 PM](#)

RECONVENED

#hb112

HOUSE BILL NO. 112

"An Act relating to the Board of Pharmacy; relating to the practice of pharmacy; relating to pharmacies; relating to prescription drug manufacturers; relating to prescriptions for epinephrine; relating to the administration of epinephrine; and providing for an effective date."

[3:17:20 PM](#)

REPRESENTATIVE JUSTIN RUFFRIDGE, SPONSOR, introduced HB 112. He explained that the bill came about after being discussed for multiple years by the Alaska Board of Pharmacy. The board was tasked with regulation changes by the administration, and it thoroughly examined the regulations of the profession of pharmacy. The regulation changes were referred to as "right touch" regulations and modernized the profession as it had changed immensely over the past 25 years. The board started keeping a list of the items that would need to be changed in statute in order to implement the right touch regulations. The bill was a collection of the statute changes to help modernize the profession and it would also give the board the authority to continue the regulatory process. He relayed that the chair of the board would offer a presentation to explain the bill in more detail.

DR. ASHLEY SCHABER, CHAIR, ALASKA BOARD OF PHARMACY (via teleconference), introduced the PowerPoint presentation "House Bill 112: Profession of Pharmacy" dated May 8, 2023 (copy on file). She began on slide 2 which detailed the board's 2023 strategic plan. There had been a cumulative effort over the last several years to ensure that the board had statute changes that would allow it to meet its mission. She highlighted that one of the board's four goals [listed on the slide] was to grow the economy while promoting community health and safety. Many of the changes related to the aforementioned goal, particularly to routinely review the effectiveness of regulations that reduced the barrier to licensure without compromising patient health and safety. She relayed that the board

currently had seven members, five of whom were pharmacists and two of whom were public members.

Dr. Schaber continued to slide 3 and offered some background information on HB 112. She explained that the bill would address necessary changes by doing the following:

- Streamlining licensure process while improving public safety
- Compliance with the Drug Supply Chain and Security Act
- Alignment with other professional boards in Alaska and pharmacy boards in other states
- Clarification of pharmacists' roles in epinephrine access

Dr. Schaber indicated that the bill was a collaborative effort between the board and the Alaska Pharmacists Association.

Dr. Schaber continued on slide 4. The first goal was to streamline the licensure process while improving public safety. The bill eliminated unnecessary forms currently required in statute. The forms were redundant and included information that was already part of the licensure process. The elimination of the forms would reduce the burden on the applicant and on the board. It also clarified that only pharmacists who dispensed controlled substances would be required to register with the Prescription Drug Monitoring Program (PDMP). It would also add a national criminal background check for all applicants, which would add another layer of protection. The background check was required in 30 other states and was a statutory requirement for nursing and other professions.

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Representative Hannan asked what details were included in the national background check when it was returned to the board. She asked if included specific information or simply showed whether an applicant had committed a criminal violation.

Dr. Schaber responded that she did not know which details were included in the background check. She thought that the

background check acted as a flag to prompt additional review.

Representative Ruffridge responded that the application for licensure currently had a "self-selection" response, which meant that the application asked whether an individual had been convicted of a crime or was currently under investigation for a crime. Applicants were able to select "no" on the application even if the true answer was "yes," and there would be no follow-up. During his time on the board, there were at least a few cases in which the answer checked on the application was no, but the actual answer was yes. The reason for the request was to ensure that applicants were answering truthfully on their applications. If a person were to lie, there would be reason to deny the individual a license.

Representative Hannan noted that the committee spent time in the prior week talking about background checks for cannabis convictions that were no longer convictions under the law and how the process should be changed. She could see a problematic situation occurring in which a pharmacist applicant had a cannabis conviction in another state, but it was not considered a criminal offense in Alaska. She was hoping that there would be more detail than a yes or no as the answer was often more complicated. She did not think answering yes should be an automatic denial, but she was unsure if federal law would allow nuances to be considered.

Representative Ruffridge responded that marijuana was still considered an illicit substance because it was federally illegal. A violation with a controlled drug of any type would be a flag to prompt additional review of an application. The board considered it an issue in its hiring process even though marijuana was legal at the state level because pharmacists would have access to controlled substances.

Representative Coulombe asked Representative Ruffridge to put his credentials on the record.

Representative Ruffridge responded that he was the previous chair of the Board of Pharmacy. He had a doctorate in pharmacy and had been a licensed pharmacist in the state since 2008.

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Dr. Schaber continued on slide 5. The next goal was to be compliant with the Drug Supply Chain and Security Act (DSCSA). She read from the slide as follows:

- The federal Drug Supply Chain and Security Act (DSCSA) further secures the U.S. drug supply through a system to prevent harmful drugs from entering the supply chain, detect harmful drugs if they do enter, and enable rapid response when such drugs are found.
 - Boards of Pharmacy play a key role in this process through appropriate licensing of drug distributors and pharmacies
- HB 112 ensures the AK Board of Pharmacy powers and duties support the DSCSA related to manufacturers, out-of-state pharmacies, and internet pharmacies to ensure Alaskans receive safe medications

Dr. Schaber explained that the change would be a modernization to the process. Currently, out-of-state pharmacies were required to register based on a statute put in place in 1992. The drug supply chain and pharmacy in general had changed significantly since 1992 when the original statute was put in place. She relayed that compliance with DSCSA would give the board jurisdiction over out-of-state pharmacies. There was a concern that out-of-state pharmacies that were mailing prescriptions into the state might not be providing the same kind of counseling that the in-state pharmacies were required to provide. The concern had been raised many times over the years in the form of public comment.

Dr. Schaber continued on slide 6 and the next goal, which was alignment. To achieve the goal, the bill would replace one of the two public member seats with a pharmacy technician seat. As the field of pharmacy had changed over the years, the role of pharmacy technicians had changed with it. Both public member seats had been vacant for about a year and adding the pharmacy technician seat would allow for an additional perspective. The board also hoped that it would help fill the vacancy. The next change would be to allow the board to adopt language to create a retired pharmacist status. It would align the board with pharmacy boards in other states and with other professional boards in the state. The last change associated with the goal of compliance was to clarify the board executive

administrator's salary which would allow the required flexibility for a pharmacist to serve in the role in the future. The salary was currently not flexible enough to allow a pharmacist to apply for the position. The board did not want to require that a pharmacist serve in the position because applicants with other credentials were able to serve also, but it wanted to allow for the possibility.

[3:34:02 PM](#)

Dr. Schaber continued on slide 7 which detailed the goal of epinephrine access. The changes in the bill would move the epinephrine training program from the authority of the Department of Health (DOH) to be overseen by the board. It also clarified that a pharmacist could administer epinephrine or prescribe epinephrine auto-injectors to an individual who had completed the training program. It would ultimately increase epinephrine access for Alaskans with anaphylactic emergencies or those who might not know they were at risk for anaphylactic emergencies. She added that access was especially important in the rural areas of the state. Some of the changes in the bill also increased access by decreasing barriers to dialysis fluids, which was also important for Alaskans living in rural areas on home dialysis by allowing patients to receive the treatment at home.

Dr. Schaber concluded her presentation on slide 8 and thanked the committee for its time. She urged the committee's support of the bill.

Co-Chair Foster asked for clarity on the uses of situations in which epinephrine would be used.

Dr. Schaber responded that epinephrine was an emergency medication used for allergic reactions, such as eggs, bee stings, or peanuts. Some individuals were aware that they had anaphylaxis, and some were not aware until they were exposed to the substance that causes a reaction.

Representative Hannan asked about the board executive administrator's salary detailed in Section 10 of the bill. She asked how many other professional boards allowed for similar flexibility in salary. She wondered if there was a salary classification for pharmacists in the state pay schedules.

3:37:10 PM

SYLVAN ROBB, DIRECTOR, DIVISION OF CORPORATIONS BUSINESS AND PROFESSIONAL LICENSING, DEPARTMENT OF COMMERCE COMMUNITY AND ECONOMIC DEVELOPMENT, responded that there were other pharmacists that worked for the state and there were pay schedules in place. The pay ranged depending on duties: for example, there was a pharmacist employed in the Alaska Psychiatric Institute (API) as well as DOH pharmacists in for Medicaid purposes with salary ranges from 24 through range 27. Relating to executive administrator of other boards, six of the boards had an executive administrator positions and one other board had a similar position with a different title. Only the Board of Nursing had required qualifications for the executive administrator role as it required that the individual was a registered nurse (RN).

Representative Hannan asked if the nursing board members were paid on the RN pay schedule.

Ms. Robb responded that the members were not paid as nurses. The executive administrator positions were considered partially exempt and the salary for the position was not specified in statute; however, it was the highest paid position because it required that the individual be a licensed professional and have a master's degree, it was the highest paid of the executive administrator positions and was a range 25.

Representative Hannan asked if the phrasing for the pharmacy board's executive administrator was unique or if other boards had similar required competencies. She wondered if the administrators were adequately compensated based on the advanced requirements.

Ms. Robb responded that not all health care boards had executive administrators. The nursing board was the only board requiring the administrator to be a member of the nursing profession. The pay for the executive administrator positions ranged depending on the workload and on whether the pay was dictated in statute. The executive administrator position for the pharmacy board was currently not filled by a pharmacist. If the board hired a pharmacist for the position, it wanted the ability to pay the individual fairly based on the advanced requirements.

Representative Hannan asked what the range increase would be in order to pay the executive administrator as a pharmacist.

Ms. Robb replied that the other pharmacists that worked for the state were range 24 through range 27 depending on their duties. The board would have to work with classification to determine which other state pharmacist position the executive administrator was most similar to in order to determine the range.

[3:41:53 PM](#)

Representative Josephson asked if the licensees of board paid for the executive administrator positions.

Ms. Robb responded in the affirmative and noted that the divisions were funded through receipt-supported services. The cost of all staff for a particular board were paid by the licensees for that particular profession. The Division of Corporations Business and Professional Licensing (DCBPL) conducted time keeping in order to allow staff to indicate which program they were working on to ensure that the charges were allocated appropriately.

Representative Josephson understood that the boards were providing services "out of the kindness of their hearts." He was not aware that some boards had an executive administrator apart from the Medical Board. He asked if the state would pick up the extra costs if a board chose not to hire an administrator.

Ms. Robb responded that all were paid by the licensees of a board, and it would not matter whether the board had an executive administrator.

Representative Josephson asked why each board would not want their own executive administrator.

Ms. Robb responded that it depended on the scope and complexity of the program. The Board of Nursing was a team of 10 individuals that oversaw 28,000 licensees and it made sense for the board to employ an executive administrator. There were some boards with more complex licensing than others and needed more employees. Boards with fewer licensees and less complex licensing processes had less of a need for an executive administrator.

3:44:36 PM

Representative Coulombe understood that out-of-state pharmacies had to be registered but did not have to be licensed. She asked if her understanding was correct.

Representative Ruffridge responded in the affirmative.

Representative Coulombe wanted to ensure that adding the licensing requirement would not be too much of a hinderance. She relayed that there were many individuals who relied on online pharmacies. She asked what licensing would be like for an out-of-state pharmacy.

Representative Ruffridge responded that under the current process, registering with the Board of Pharmacy simply indicated that a pharmacist existed and may or may not send for medications with the state. There was no jurisdiction by the board of the medications that entered the state to ensure that counseling had been provided to the individuals receiving medications. There was no ability for the board to maintain safety measures. Over the years, mail order pharmacies had become more popular and regulations had not kept up with the changes. The change would not be overly burdensome to companies that already mailed a significant amount of medications into multiple states and would simply put Alaska in alignment with many other states in the nation.

Representative Coulombe asked if there were new fees associated with registration or licensing.

Representative Ruffridge responded that there were fees associated with licensing and registration, but the board had gone through multiple iterations of fee reductions over the last few years. He argued that the fee for pharmacy technicians was essentially nonexistent. Technicians were simply required to pay an initial \$25 fee to become registered and licensed, which was reduced from a fee of \$150.

Co-Chair Foster suggested that Representative Ruffridge make closing comments.

Representative Ruffridge thanked the committee for its time. The bill had been well vetted and had been overseen

by three different chairs of the pharmacy board. He thought that the support for the bill was encouraging and that the bill represented the desires of the profession of pharmacy as a whole. He welcomed the support of the committee and was happy to answer any other questions.

HB 112 was HEARD and HELD in committee for further consideration.

Co-Chair Foster reviewed the agenda for the following day's meeting.

ADJOURNMENT

[3:50:04 PM](#)

The meeting was adjourned at 3:50 p.m.