

SENATE FINANCE COMMITTEE
January 24, 2023
1:00 p.m.

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CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 1:00 p.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Donny Olson, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Jesse Kiehl
Senator Kelly Merrick
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Neil Steininger, Director, Office of Management and Budget, Office of the Governor; Representative Dan Ortiz.

SUMMARY

SB 40 APPROP: OPERATING BUDGET/LOANS/FUND; SUPP

SB 40 was HEARD and HELD in committee for further consideration.

#sb40

SENATE BILL NO. 40

"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."

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NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, He discussed the presentation, "State of Alaska; Office of Management and Budget; FY2024 Governor's Budget; SB40,SB41,andSB42; Senate Finance; January 24, 2023" (copy on file). He highlighted slide 2, "Budget Lookback." He stated that the slide showed the history of the enacted budgets since Governor Dunleavy was first elected in 2019. He noted the significant savings in statewide items, which were fixed costs, that dropped by nearly 50 percent. He noted some specific areas of investment. He looked at the revenue side, and noted the 2.9 percent increase in traditional revenue.

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Senator Wilson looked at the deficit line, and felt that it was higher than the Revenue Source Book.

Mr. Steininger replied that a slide in the presentation would address that question. He stated that there were some other adjustments that were not included in the Revenue Sources Book. He remarked that there would be information that was about sources of funds, and not just revenue.

Co-Chair Olson remarked that the governor had proposed a fifty-fifty split for the Permanent Fund Dividend (PFD) in the past, but the current proposal was for a larger PFD. He wondered whether the governor was still advocating for a fifty-fifty split.

Mr. Steininger stated that there was not a fifty-fifty split proposal, and the current budget was following the existing statute.

Co-Chair Olson noted that the governor's proposed dividend that was higher than the year prior.

Mr. Steininger replied that the current budget had a PFD draw from the savings accounts. He stated that the proposed carbon bill package was expected to fill the funding gap for the PFD.

Co-Chair Stedman remarked that the carbon revenue bill package had not yet been submitted to the legislature.

Mr. Steininger agreed, and stated that the bill should be submitted shortly.

Co-Chair Olson felt that using the CBR was off limits, because of the difficulty in getting a three-quarter vote from the legislature.

Mr. Steininger remarked that there were challenges in getting the votes for use of the CBR. He stated that he was willing to work to get the appropriations funded for state government.

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Mr. Steininger pointed to slide 3, "FY23 and FY24 Uses of Funds." He stated that the phrase "uses of funds" better matches the statutory wording, and better reflects some of the revenue adjustments.

Co-Chair Olson wondered whether the funding difference would be utilized in education funding.

Mr. Steininger wondered whether Co-Chair Olson was referring to the \$4.8 million change.

Co-Chair Olson clarified his question, and queried the source of the decline from the current budget proposal to the following year's proposal.

Mr. Steininger replied that the capital budget in FY 23 was significantly higher than previous years, therefore the proposal for FY 24 was primarily state match with a small amount of discretionary capital.

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Co-Chair Stedman recalled that in the previous year there was some concern by members regarding not funding health care. He asked for the proposed health care expenditures.

Mr. Steininger replied that the proposal was the amount offered by the Alaska Retirement Management Board (ARMB). He stated that the ARMB chose not to fund the health contribution to the retirement trust in the previous year

because the health portion of the trust was funded in excess of the need.

Senator Bishop wondered how much would be lost in the healthcare portion.

Mr. Steininger agreed to provide that information.

Co-Chair Stedman shared that there would be a presentation from the ARMB to examine the solvency, and the management of the cash flow. He queried the efforts related to community assistance.

Mr. Steininger replied that the community assistance deposits and fund distributes funds to communities at one-third of the value of the fund on the first day of the fiscal year.

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Co-Chair Stedman remarked that there should be a discussion on how to distribute the community assistance fund.

Mr. Steininger discussed slide 4, "FY23 and FY24 Sources of Funds." He stated that the slide showed a combination of current year revenue and uses of saving or other sources of money available for appropriation.

Senator Kiehl wondered why the proposed \$225,000 draw from the CBR did not show up as an appropriation.

Mr. Steininger replied that it was a technical nuance within the reports. He explained that a direct appropriation from a savings account was categorized as a direct appropriation from savings.

Senator Kiehl felt that the explanation made sense, but did not match with the title of the slide.

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Co-Chair Stedman wondered whether the supplemental shown was up to date.

Mr. Steininger felt that the number was optimistic.

Co-Chair Stedman asked that the information be provided to the committee related to the fire safety supplemental budget request.

Mr. Steininger agreed to provide that information.

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Mr. Steininger addressed slide 5, "Fiscal Summary - Savings Balances":

- Minimum savings balance of \$500m required to maintain cash flows.
- Savings balances assume status quo revenue.
- Based on unaudited financial data.

Co-Chair Stedman felt that there needed to be a current "cushion" of \$1.5 billion. He wanted to have a further analysis of the proper cushion.

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Mr. Steininger replied that it was not specifically for the presentation.

Co-Chair Stedman stressed that he was pointing to normal oil price volatility, and remarked that there was not much cushion.

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Mr. Steininger pointed to slide 6, "Budget Challenges - Revenue Volatility":

FY2023 revenue estimates when the Legislature passed the budget were \$2.2b higher than the day the Governor released his initial budget proposal.

From the day the Governor signed the FY2023 budget to today revenue estimates have declined \$1.8b

Co-Chair Stedman recalled that the year prior saw some high oil prices during the budget process, but the committee was not comfortable focusing on those high oil prices. Therefore, the committee forward funded education with the excess revenue.

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Mr. Steininger looked at slide 7, "Budget Challenges - Vacancy":

- Most departments are experiencing significantly greater vacancy than pre-pandemic levels.
- Recruitments are taking longer and are less likely to result in a hire.
- Recruitment incentives being used to address most critical public needs.

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Senator Wilson queried the specific issues and analyses regarding the recruitment and retention.

Mr. Steininger replied that there would a couple of inclusions in the budget that address root cause issues brought forward by commissioners.

Senator Wilson wanted something more tangible than a response, "hey we are working on this." He queried the issue in retention.

Co-Chair Hoffman felt that there needed to be a greater examination of the \$70 million, because those funds could have been used to address the supplemental budget.

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Senator Bishop wanted to examine the employment vacancy factors within the budget.

Mr. Steininger displayed slide 8, "Budget Challenges - Medicaid Match Rate":

- Under the COVID public health emergency the state received an enhanced federal medical assistance percentage match (eFMAP) of 6.2 percent resulting in \$17.3m in state savings per quarter.
- Dec 29, 2022 federal government authorized phase out of the eFMAP over state FY23 and FY24
 - 5 percent April 1, 2023 -Increases state share \$3.3m for Q4 FY23
 - 2.5 percent July 1, 2023 -Increases state share \$10.3m for Q1 FY24

- 1.5 percent October 1, 2023 -Increases state share \$13m for Q2 FY24
- 0 percent January 1, 2024 -Increases state share \$34m for Q3 and Q4 FY24
- Allows for eligibility redetermination

Senator Kiehl noted that public assistance was not looking to hire any eligibility workers. He asked how much the state would give back in penalties for missing the federal deadlines for processing.

Mr. Steininger agreed to provide that information.

Senator Wilson felt that there would be a supplemental request for the penalty after auditing. He wondered whether the administration was not prepared to lose that funding.

Mr. Steininger remarked that the deadlines had been extended multiple times over the time period.

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Senator Wilson wondered whether eliminating the redetermination process would result in cost savings.

Mr. Steininger replied that there was current work on the best way to make that estimation.

Co-Chair Stedman stated that the issue would be addressed in the subcommittee process.

Mr. Steininger looked at slide 9, "FY2024 Agency Operating UGF." He stated that the slide showed the relative size of the state agencies.

Co-Chair Stedman wondered whether the PFD distribution was a general fund expenditure.

Mr. Steininger replied that it was a general fund expenditure, but was not an agency expenditure.

Co-Chair Stedman queried the appropriation number if the PFD was on the graph.

Mr. Steininger replied that it would be approximately \$2.4 billion.

Co-Chair Stedman requested that the Legislative Finance Division (LFD) include the PFD appropriation in order to see the scale of the full budget proposal.

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Mr. Steininger pointed to slide 10, "FY24 Budget High Points":

- UGF Operating down almost 4 percent since FY19
- Full Statutory PFD
- Estimated \$3,860 per person
- K-12 Education
 - Fully funded to the \$5,960 base student allocation
 - Net UGF reduction of \$1.7m
- SLA 2022 HB114 -Reads Act year two funding \$6.4m
- Municipal and School Bond Debt/REAA fully funded
- PCE and Scholarships Fully Funded

Co-Chair Stedman felt that the issue of community assistance needed to be sorted, however they were making progress.

Co-Chair Hoffman thanked the administration for municipal and school bond debt funding of the Regional Educational Attendance Area (REAA).

Mr. Steininger addressed slide 11, "FY24 Budget High Points":

- \$5m for rural public professional housing
- \$5m to DCCED to market Alaska
- Oil and Gas Tax Credits to be fully paid off -\$42.7m
 - Retires about \$300m in debt
- WWAMI -\$2m capital investment and funding for 10 additional slots for medical students
- Alaska Marine Highway System fully funded
- Federal funding still uncertain
- \$4m for new cabins and park sanitation
- \$56.2m (\$31.3m UGF) Net salary adjustments

Senator Bishop hoped that there could be some alliance with the administration to ensure that there were also nurses working with the doctors.

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Senator Wilson requested a summary of the cost savings related to previous legislation, SB 55.

Mr. Steininger agreed to provide that information.

Co-Chair Stedman remarked on the current steel and issue related to the ferry system.

Mr. Steininger discussed slide 12, "FY24 Budget High Points":

- Statehood Defense Investments
 - \$10m in funding for litigation, expert witnesses, and outside counsel
 - \$1.3m in additional funding for DFG wildlife research
 - \$1.5m in air quality monitoring for DEC
- \$9.5m to address Congenital Syphilis and Tuberculosis and provide health coverage to post-partum mothers
- Food Security Investments
 - \$4.6m to DFG and DNR for fisheries and livestock
 - \$3m investment in power infrastructure for the Delta farm region and co-op
 - \$3m for produce processing at Point Mackenzie

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Co-Chair Olson queried the summary of some of the litigation.

Mr. Steininger agreed to provide that information.

Co-Chair Stedman felt that the department of law should present to the committee regarding the litigation.

Senator Kiehl wondered whether there was a plan to get past the history of correctional industries with no maintenance and eventually degradation when the legislature potentially fails to appropriate funds. He wondered whether there was a plan to avoid the degradation of facilities.

Mr. Steininger replied that he would discuss general deferred maintenance at a future meeting. He stated that there were efforts with DOC to make sure that there was better maintenance of their facilities.

Senator Kiehl requested a discussion of possible carry-forward language in the future.

Mr. Steininger highlighted slide 13, "FY24 Budget High Points":

- Public Safety Investments
- Fully fund filled trooper positions
- 30 new support positions
 - Allow the troopers to focus on public safety work
- \$1.2m in assorted capital investment
 - Criminal justice IT systems
 - Trooper posts and training academy maintenance and upgrades
 - Forensic equipment refresh
 - Vessel and vehicle replacements
- \$2.5m investment in the Alaska State Defense Force
- \$10m investment in University drone program
- \$2m for the Business Enterprise Program

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Co-Chair Hoffman stressed that the first line of defense for people in rural Alaska were the Village Public Safety Officers (VPSOs). He wondered how the budget would affect the VPSO program.

Mr. Steininger replied that the in prior budgets the number of VPSOs was expanded, and one of the focuses of the current commissioner of DPS was to provide a more focus on the VPSO program to ensure its continued success.

Mr. Steininger addressed slide 14, "10 Year Outlook - UGF":

With targeted new revenue 10-year outlook:

- Maintains a healthy CBR balance
- Provides a full statutory dividend
- Provides for conservative growth in service levels

Without targeted new revenue 10-year outlook:

- Eliminates reserves by FY2027
- Jeopardizes the PFD
- Requires significant reduction in public services

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Co-Chair Stedman stressed that without new revenue there was not enough cash to go to the end of the term without using the Permanent Fund. He noted that the projection was linear, however the price of oil was not linear. He assumed that the Revenue Source Book long-term projection price was used in determining the forecast. He remarked that without new revenue, and understanding the volatility of oil prices, the state would be broke after five years. He understood that targets were necessary, and was encouraged by the acknowledgement that the current situation was not appropriate for the state's fiscal health.

Co-Chair Hoffman noted the ten-year projection showed \$9 billion projected for collection. He looked at line 4, which was the capital budget merely matching federal programs. He felt that the scenario would result in the capital structure of the state crumbling. He did not believe that the Alaskan people wanted the infrastructure to fail.

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Senator Merrick expressed concern about the significant potential supplemental budget, as well as the significant draw from the CBR.

Co-Chair Stedman discussed the agenda for the following day.

SB 40 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

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The meeting was adjourned at 2:27 p.m.