

SENATE FINANCE COMMITTEE

April 26, 2023

1:31 p.m.

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CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 1:31 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

MEMBERS ABSENT

Senator David Wilson

ALSO PRESENT

Pete Ecklund, Staff, Senator Bert Stedman; Alexei Painter, Director, Legislative Finance Division.

SUMMARY

CSHB 39(FIN) am(brf sup maj fld)(efd fld)
 APPROP: OPERATING BUDGET/LOANS/FUND; SUPP

CSHB 39(FIN) was HEARD and HELD in committee for further consideration.

CSHB 41(FIN) am
 APPROP: MENTAL HEALTH BUDGET

CSHB 41(FIN) was HEARD and HELD in committee for further consideration.

#hb39

#hb41

CS FOR HOUSE BILL NO. 39(FIN) am(brf sup maj fld)(efd fld)

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; repealing appropriations; amending appropriations; making reappropriations; and making supplemental appropriations."

CS FOR HOUSE BILL NO. 41(FIN) am

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

1:32:09 PM

Co-Chair Stedman relayed that the committee would adopt a Committee Substitute (CS) for the operating budget, and would consider a technical amendment. The committee would also adopt a CS for the mental health budget. He relayed that after considering the legislation, the director of the Legislative Finance Division would give a fiscal update.

Senator Kiehl MOVED to ADOPT proposed committee substitute for CSHB 41(FIN), Work Draft 33-GH1347\D (Marx, 4/25/23).

Co-Chair Stedman OBJECTED for discussion.

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PETE ECKLUND, STAFF, SENATOR BERT STEDMAN, discussed Document A (copy on file) which was a spreadsheet listing the changes incorporated into the CS. He explained that Item 1 was a supplemental item of \$9 million of fund capitalization for the Clean Air Protection Fund. Item 2 was also a supplemental item for an elections redistricting lapse extension requested by the governor's office. He cited that there was a total supplemental change was \$1.98 million in Unrestricted General Funds (UGF).

Mr. Ecklund shared that Item 3 added intent language for labor relations to return the job classification salary alignment to the 60th percentile from the current 50th percentile. Item 4 added the Public Safety Employee Association's (PSEA) salary adjustments and also the salary commission adjustments for commissioners and the governor. He added that rural trooper housing was part of the PSEA

agreement, and there was also a team adjustment for a total of \$6.4 million UGF.

Mr. Ecklund shared that he would give a brief description of Item 5, Item 6, and Item 7, after which Senator Kiehl would speak on the items in more detail. The Senate Finance Subcommittee on the Department of Administration (DOA) had done a lot of work on the items. Item 5 returned the IT Helpdesk to the various departments. Item 6 related to human resources (HR) support, and Item 7 denied a procurement position adjustment between various departments and DOA.

Co-Chair Stedman asked Senator Kiehl to address the items and give a high-level overview of what was worked on during the subcommittee process. He wanted Senator Kiehl to inform on the working relationship the legislature had with the department and how it was decided to move forward with identified challenges.

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Senator Kiehl relayed that the DOA budget subcommittee had looked seriously at some of the consolidations that had taken place in DOA over the recent years. Many of the consolidations were working well and were saving the state money, while the committee found that a few of the consolidations needed revisiting. The subcommittee worked with the department and subsequently with the Office of Management and Budget (OMB) and the Office of the Governor to come up with the recommendations reflected in the CS. He noted that the CS did not contain all of the subcommittee's recommendations.

Senator Kiehl explained that Item 5 through Item 7 were small adjustments to help the executive branch do the best work with what it had consolidated and make a few adjustments. He addressed Item 5, which had to do with IT helpdesk support, and was a net zero item that reallocated helpdesk portions of the budget back to each department. He highlighted that the item did not have to do with the lift to the cloud, but rather the call center for software and other concerns.

Senator Kiehl continued that Item 6 had to do with HR and the governor's budget moving more HR technicians back to departments to help with recruiting. The item would make a

few additional position moves for departments with larger work forces. The item added an additional HR technician to the state's largest departments: the Department of Transportation and Public Facilities (DOT), the Department of Health, and the Department of Family and Community Services. He discussed Item 7 and noted that the administration had beta-tested toward consolidating procurement and had started with two departments.

Senator Kiehl continued that after significant consideration, the department and OMB and the subcommittee agreed that the change was not ready to move forward. The item would wind back the position moves and procurement positions would remain in respective departments. He expanded that DOA would work on standardizing policies and procedure to make procurement more efficient. Procurement would remain in each department to maximize responsiveness to each department's mission. He thanked Co-Chair Stedman for allowing him to elaborate on some of the fine tuning of the state's consolidations.

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Mr. Ecklund addressed Item 8, which was a \$1 million increase to rural public radio. Item 9 would make a \$2 million addition to the Alaska Travel Industry Association (ATIA) for tourism marketing. In addition to the current \$3 million appropriation, there would be a total of \$5 million to ATIA. He continued that Item 10 was an additional \$2 million to the Alaska Seafood Marketing Institute (ASMI), which would also total \$5 million with the current \$3 million appropriation.

Mr. Ecklund continued that Item 11 was \$1 million for recidivism reduction grants to the Department of Corrections. Item 12 was a \$4 increase to the Alaska Native Science and Engineering Program (ANSEP) and would bring the total increase in the bill to \$10 million. Item 12a was an item at the request of the governor, which included intent language asking that school districts report on fund balances in the fall and spring of each year.

Co-Chair Stedman relayed that the committee had been working on the budget for the previous two months and had paid particular attention to education funding. He relayed that there was some trouble with current account balances in school districts and timely numerics to contemplate a

change to the Base Student Allocation (BSA). Item 12a requested school districts to report account balances in October, which would help the administration with its December 15 budget submission. The balances would be updated in January or February and would better position the department to have a discussion with the legislature about the current funding status of school districts.

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Mr. Ecklund addressed Item 13, which was removal of the 404 assumption program in the Department of Environmental Conservation (DEC). Item 14 was a onetime item of \$15 million for childcare grants. The intent was to provide increased wages to childcare workers. Item 15 was \$15 million in UGF and \$15 million in federal Medicaid Services grant to home and community-based services and personal care attendants program. He noted that reimbursement rates had not been re-based since 2011. The funding was in anticipation of the rebasing that would occur in May.

Mr. Ecklund discussed Item 16 which pertained to abortion restriction language and included a decrement of \$117.8 thousand. Item 17 was mechanical inspection in the amount of \$22,5000. The item corrected a job title from a subcommittee transaction so the plumbing inspector could conduct inspections in smaller communities.

Mr. Ecklund addressed Item 18 was a \$209,000 deletion of an Attorney V position for a parental-rights-in-education advocate. A second Item 18 in the Office of the Commissioner reversed the fund source associated with the Alaska State Defense Force for \$40,700 and was more of a technical change. Item 19 related to the Department of Natural Resources fire suppression. The department had communicated intent language about potential supplemental items from fire suppression activities. He addressed Item 20 for the Department of Revenue/Alaska Permanent Fund Corporation (APFC), which involved \$863,000 of Permanent Fund gross receipts to help with salaries, benefits, and merit increases for APFC employees.

Mr. Ecklund addressed Item 21, within DOT Highways and Aviation, which involved one-time funding for central maintenance station's start-up costs. Item 22 was \$1,080,000 of UGF for ongoing operations at central maintenance station. Item 23 related to the University and

was \$1.275 million UGF for Developing Alaska's Workforce funding for various programs. Item 24 was \$3.357 million increase for the legislature after the Legislative Council had recently adopted a policy for the legislature to go to a 40-hour workweek. He noted that Supervisory Union (SU) had been on a 40-hour workweek since 2019, and the legislature historically followed SU contracts. He added that there was a total of \$49.38 million of UGF for agency operations.

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Mr. Ecklund addressed Item 25, which proposed a one-time increase outside the BSA of just under \$175 million, which was equivalent to a \$680 increase to the BSA. Item 26 added PSEA bargaining unit language to the salary and benefits section for its new contract. Item 27 was a fund capitalization for Alaska Gasline Development Corporation (AGDC) of \$2.9 million UGF and \$4 million federal funds. The funds were earmarked by United States Senator Lisa Murkowski, and the item would approve the earmark acceptance and the matching funds. Item 28 was a fund capitalization for the Capital Income Fund. He noted that the Capital Income Fund had a negative balance and was short \$18.3 million. The item was for \$18.3 million and would bring the fund balance back to zero before adding any new spending or yearly revenue.

Mr. Ecklund addressed Item 29, which was a Permanent Fund Dividend of \$881,522 and equal to a 75/25 percent of market value (POMV) split. He discussed Item 30 and noted that there was a fuel branch appropriation in the prior CS. The committee had worked with OMB and the Legislative Finance Division (LFD) to update the "fuel trigger" including the numbers and split of funds that would go to different departments if oil prices were higher than \$73/bbl.

Mr. Ecklund relayed that Item 31 was a Public Education Fund transfer. He noted that Item 31 and Item 32 were related. He shared that the capital and operating budget were balanced within the spring revenue forecast and savings. If oil revenues came in higher than the spring forecast, the first \$1 billion surplus would be appropriated to the Constitutional Budget Reserve (CBR) and would bring the balance near to \$3.5 billion. Further, if oil prices were even higher than \$1 billion over the spring

forecast, the next \$1.1 billion would go to the Public Education Fund to forward-fund K-12 education.

Mr. Ecklund shared that Item 33 was related to revenue and the Alaska Industrial Development and Export Authority (AIDEA) dividend. The CS proposed to appropriate \$11 million cash and would also accept \$7 million in value for a road as payment for the AIDEA dividend. He cited that the General Fund total for the PFD, K-12 education spending outside the formula, and fund capitalization was \$1.77 billion, bringing the FY 24 amendment total of UGF to \$1,126,588,000.

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Co-Chair Hoffman asked about Item 25, the increase to the BSA of \$680, which would bring the BSA up to upwards of \$2,600 per student. He asked how large of an increase was proposed and if it was more than 25 percent.

Co-Chair Stedman cited that the previous year the legislature had added \$57.8 million. The proposed CS would add \$174 million, which was equivalent to \$680 per student. The previous year's increase was about 5 percent, with a 14.7 percent increase over two years. The number was higher than what was discussed at the previous days press release, which had been a \$500 increase per student or 10 percent. He thought the amount showed substantial support in the Senate and the amount had been increased.

Co-Chair Stedman noted that the other body had not included an increase in its final budget.

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Co-Chair Hoffman spoke to Item 12, which related to ANSEP. He thought all committee members had been visited by someone from the program that had provided statistics demonstrating the success of the program. He cited that the success rate in graduating students was one of the highest for the University system. He spoke highly of the program.

Co-Chair Stedman WITHDREW his objection. There being NO further OBJECTION, it was so ordered. The CS for CSHB 41(FIN) was ADOPTED.

Co-Chair Stedman relayed that he would be offering a technical amendment.

Senator Bishop MOVED to ADOPT Amendment 1.

Co-Chair Stedman OBJECTED for discussion.

Mr. Ecklund spoke to Amendment 1, which was a technical amendment. He explained that there had been an error in communications between OMB's budget system and LFD's budget system, and the amendment would correct the error.

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

Co-Chair Stedman thanked the members and staff for the many hours spent working on the budget. He noted that it had been very difficult to hold the budget within the forecasted revenue.

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Senator Merrick MOVED to ADOPT proposed committee substitute for CSHB 41(FIN), Work Draft 33-GH1349\U (Marx, 4/25/23).

Co-Chair Stedman OBJECTED for discussion.

Mr. Ecklund looked at page 2 of Attachment A, and explained that there was only one proposed change to the mental health budget bill in the language section. The change proposed to adopt the PSEA new contract language into the bill.

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

CSSB 41(FIN) was HEARD and HELD in committee for further consideration.

Co-Chair Stedman invited the Legislative Finance Division Director to discuss the proposed budgets and address state finances including forecast revenue streams and how much cushion was left.

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ALEXEI PAINTER, DIRECTOR, LEGISLATIVE FINANCE DIVISION, referenced Document B entitled "Fiscal Picture with Second Senate Committee Substitutes for Operating and Capital Budgets" (copy on file), which showed an updated fiscal picture when the previous CS was adopted the previous week. He corrected some verbal calculations he had done at a previous meeting.

Mr. Painter noted that the top half of the document was the same as the previous week when it was presented. Line 1 through Line 3 showed the spring revenue forecast with the AIDEA dividend taken out, as it was not part of the CS. Line 4 showed agency operations in the first CS of the operating budget, and Line 5 showed the statewide items in the same bill. Line 6 showed the first version of the capital budget that was released two weeks previously. The earlier budgets had left about \$1.4 billion in surplus remaining before considering the PFD, K-12 funding outside the formula, and other items.

Mr. Painter explained that the remaining items on the sheet were items that were incorporated into the new CS for the operating budget and the capital budget CS that was adopted the previous day. Item 9 reflected the PFD at \$881 million, which was 25 percent of the POMV draw and equated to a PFD of \$1,300 per person. Item 10 showed the K-12 education funding outside the formula that Mr. Ecklund had discussed earlier, in the amount of approximately \$175 million or \$680 BSA-equivalent funding based on the projected student count. He summarized that the other operating items in the CS added up to \$51.9 million of UGF, covered in Line 11.

Mr. Painter continued that Line 12 showed the capital budget increase that was in the CS. The second CS had added an additional \$166.1 of UGF above the previous version, which brought the Senate's total capital budget in the CS plus the mental health capital budget to \$356.9 million UGF. The amount was about \$53 million higher than the governor's proposal of about \$303.6 million. The \$166 million reflected the difference between the first and second versions of the capital budget. Line 13 showed the Capital Income Fund fix of \$18.3 million as explained by Mr. Ecklund. Line 14 showed as negative because it reflected decreased revenue. Compared to the previous version that had no AIDEA dividend, the current version of the operating budget had an \$11 million AIDEA dividend,

which showed as a \$11 million increase to the budget surplus.

Mr. Painter noted that Line 15 and Line 16 were approximations intended to be placeholders. He explained that Line 15 had a \$6.9 million placeholder for fiscal notes, which was an estimate based on bills that were in both finance committees. The amount did not include the BSA bill, which was covered through the outside-the-formula funding, which was contingent upon the failure of the bill to change the BSA. If the bill passed changing the BSA, the outside-the-formula funding would not go out. He cited that another fiscal note that had been pulled out was a \$20 million fiscal note by the governor to create a sustainable energy fund, and the bill was recently introduced and had not had a hearing yet. He thought the \$6.9 million on Line 15 was a high estimate.

Mr. Painter explained that Line 16 was the high case for any Conference Committee additions. He considered that often the budget seen in Conference Committee was higher than both the House and Senate versions. He pointed out that the \$21.7 million shown on Line 16 was the highest case scenario, if the higher version was taken for each item under consideration in Conference Committee. The items in the budget plus the two placeholders added up to just over \$1.31 billion. He identified a surplus on Line 18 of \$93.4 million. He suggested that the surplus could go to an increased capital budget in the House, supplemental items the following session, remain as a cushion in the case of lower-than-expected oil price, or a combination of the three.

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Co-Chair Stedman asked Mr. Painter to give a rough estimate of a swing in oil prices that could absorb the surplus.

Mr. Painter thought the amount would constitute less than a \$2/bbl swing in oil price. He thought that DNR's estimate indicated that every additional \$1 of oil price above the spring forecast equated to about \$70 million, and every dollar below the amount equated closer to \$50 million.

Co-Chair Stedman reiterated his comment on the tightness of the budget.

Senator Merrick asked Mr. Painter to explain how or why the Capital Income Fund was at a negative balance.

Mr. Painter explained that the Capital Income Fund's source of revenue was the Amerada Hess deposit within the Permanent Fund, which was restricted from the POMV draw. Instead, the statutory net income from the deposit went into the Capital Income Fund. He referenced a presentation from the APFC in recent weeks that had indicated that realized income had been lower in 2023 than projected for the Permanent Fund, which resulted in less funding going into the Capital Income Fund. There was a relatively small shortfall in FY 22 because of the underperformance of statutory net income in FY 22, but with the performance in FY 23 the amount was substantially below the forecast. The \$18.3 million shown on Line 13 was an estimate based on realized income for the rest of the year. He noted that the capital budget had a reappropriation into the fund that somewhat reduced the amount needed by about \$600,000.

Co-Chair Olson considered the surplus of \$93.4 million and asked what the chances were that the funds would go to the CBR.

Mr. Painter explained that the amount would lapse to the CBR if the funds were not spent in the budget or in supplementals. He noted that the proposed budget directed any money above the \$73/bbl forecast into the CBR, and any additional surplus went to the CBR unless directed elsewhere due to the sweep.

Co-Chair Olson asked about the time frame of the fund transfer.

Mr. Painter cited that the timeframe would be at the end of FY 24, which would be June 30, 2024. If the money was unspent and revenue met projections, the funds would go to the CBR.

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Co-Chair Hoffman referenced line 16, which showed \$21.7 million for Conference Committee add-ons. He thought the total did not include the higher PFD amount that was proposed in the other body as a 50/50 POMV split. He estimated that if the House's number was in play, it would require an additional \$881 million. He did not see how the

funds could be under consideration given the tight budget restraints mentioned by Co-Chair Stedman.

Co-Chair Stedman thought Co-Chair Hoffman had brought up a good point, and that if the PFD was a 50/50 split of the POMV, the amount on line 9 would double. He thought the scenario would produce a substantially deficit budget, which the legislature was constitutionally prohibited from delivering to the governor's desk. He thought Co-Chair Hoffman had brought up a good point. He noted that the House did not have any additional funding for education in its budget. He noted that there had been \$174.9 million in the budget from the House, but it had not been funded.

Co-Chair Hoffman pointed out that the proposed budget did not contemplate using any funds from the CBR, as the reserve's balance was lower than the \$3.5 billion that had been targeted by the committee. He was glad the committee has developed a budget that did not require use of the CBR.

Co-Chair Stedman suggested that Mr. Painter include a footnote on the summary sheet that recognized the PFD portion proposed by the House in order to recognize the fiscal impact.

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

ADJOURNMENT
2:11:53 PM

The meeting was adjourned at 2:11 p.m.