

HOUSE FINANCE COMMITTEE
SECOND SPECIAL SESSION
May 27, 2015
10:01 a.m.

[NOTE: Meeting took place in Anchorage, Alaska at the
Legislative Information Office]

10:01:59 AM

CALL TO ORDER

Co-Chair Neuman called the House Finance Committee meeting
to order at 10:01 a.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair
Representative Steve Thompson, Co-Chair
Representative Dan Saddler, Vice-Chair
Representative Bryce Edgmon
Representative Les Gara
Representative Lynn Gattis
Representative David Guttenberg
Representative Scott Kawasaki
Representative Cathy Munoz
Representative Lance Pruitt
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Pete Ecklund, Staff, Representative Mark Neuman; David
Teal, Director, Legislative Finance Division; Pat Pitney,
Director, Office of Management and Budget, Office of the
Governor.

SUMMARY

HB 2001 APPROP: OPERATING BUDGET/LOANS/FUNDS

CSHB 2001(FIN) was REPORTED out of committee with
a "do pass" recommendation.

#hb2001

HOUSE BILL NO. 2001

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

10:02:08 AM

Co-Chair Neuman acknowledged Representative Lora Rienbold's presence in the audience.

Co-Chair Thompson MOVED to ADOPT the proposed committee substitute for HB 2001, Work Draft 29-LS0960\P (Wallace, 5/26/15). There being NO OBJECTION, it was so ordered.

Co-Chair Neuman noted that it had been a long process leading up to the current point. He detailed items that had been addressed including education and state employees' contracts (union and non-union). He noted that the changes included other items that were vetoed from HB 72 by Governor Bill Walker. He read from a summary of changes (copy on file):

1. The K-12 foundation formula is funded at the statutory BSA (Base Student Allocation) of \$5,880.
2. All bargaining agreements are accepted and are fully funded (contingent on the Governor's veto of HB 176, which removes COLAs for non-covered employees). (\$17.9 million UGF)
3. COLA increases for non-covered employees are fully funded (contingent on the Governor's veto of HB 176, which provides COLAs for non-covered employees). (\$11.8 million UGF)
4. There is an (executive) branch-wide unallocated reduction of \$29.8 million (with no sideboards).

Co-Chair Neuman noted that the BSA funding reflected what had passed in HB 278 the prior session. He added that the

administration would be asked to spread the unallocated reduction of \$29.8 million across departments. He asked staff to address changes in the committee substitute.

10:06:41 AM

AT EASE

10:06:58 AM

RECONVENED

PETE ECKLUND, STAFF, REPRESENTATIVE MARK NEUMAN, relayed that the previous draft of the bill, when combined with the portions of HB 72 [operating budget] that had not been vetoed by Governor Walker, would bring the bill back to the conference committee version of the operating budget passed by the legislature. He read from the summary of changes:

If a supermajority (30 votes in the House, 15 votes in the Senate) access to the Constitutional Budget Reserve Fund (CBRF) is obtained:

1. The K-12 foundation formula is funded at the statutory BSA (Base Student Allocation) of \$5,880. (\$16.5 million UGF more than the CC HB 72)-Sec 9, Page 63; total K-12 foundation formula and pupil transportation funding = \$1.247 billion

2. All bargaining agreements are accepted and are fully funded (contingent on the Governor's veto of HB 176, which removes COLAs for non-covered employees). (\$17.9 million UGF)-Sec 11, Page 64 approval language, Sec 4-6, pages 29-62 funding; \$35.367 all funds

Mr. Ecklund detailed that in order for bargaining units for state employees to receive the COLA a three-quarter vote was required. Additionally, for non-covered employees to receive the COLA, the governor would need to veto HB 176. The intent of the bill was to either approve COLAs for both union and non-union or to not approve the COLAs for either. He continued to read from the summary of changes:

3. COLA increases for non-covered employees are fully funded (contingent on the Governor's veto of HB 176, which provides COLAs for non-covered employees). (\$11.8 million UGF)-Sec 4-6, pages 29-62 is the funding, \$21 million all funds; Sec 18 (b), page 67 is contingency language

4. There is an (executive) branch-wide unallocated reduction of \$29.8 million (with no sideboards). (-\$29.8 million)-page 25, line 25

[10:10:45 AM](#)

Mr. Ecklund continued to address the summary of changes:

If a supermajority (30 votes in the House, 15 votes in the Senate) access to the Constitutional Budget Reserve Fund (CBRF) is not obtained:

1. The K-12 foundation formula remains prorated at 98.6 percent.
2. All bargaining agreements are rejected and COLA increases are not funded.
3. COLA increases for non-covered employees are not funded and will not be paid unless HB 176 is vetoed.
4. There is an (executive) branch-wide unallocated reduction of \$29.8 million (with no sideboards). (-\$29.8 million)

Co-Chair Neuman asked Mr. Teal to add any comments.

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, commented on a technicality on point 2 related to COLA and non-covered employees. He clarified that HB 176 removed the pay raises for non-covered employees.

Co-Chair Neuman agreed. He remarked that the majority felt that if union employees were covered that non-covered employees should receive the increase as well. He clarified that it did not mean there had not been a conversation with the administration about future contracts and increases. He stated that under the current fiscal circumstances it was difficult to provide pay increases, but contracts had already been determined. He added that the issue had been part of the negotiation process on reaching a budget and avoiding a stop in state government.

[10:13:38 AM](#)

Representative Gara felt leveraged by the budget. He remarked that if the Minority gave its vote one thing would

happen, but if it did not give its vote something else would happen. He asked for verification that if the Majority accessed the CBR without the Democrats' vote, the education funding would not be provided; however, if the Majority accessed the CBR with the Democrats' vote, \$16 million of the \$48 million in cuts would be added back.

Co-Chair Neuman stated that the Representative Gara's scenario was hypothetical and did not do what the bill proposed.

Representative Gara stated that the way the draft was written if the Majority went into the CBR without the Minority vote, \$16 million would not be restored to the education budget. He asked for verification that the \$16 million would only be restored if the Majority accessed the CBR with the Minority's vote.

Mr. Ecklund replied in the negative. He stated that HB 2001 had nothing to do with the earnings reserve vote. He clarified that if the three-quarter vote to access the CBR was obtained, the K-12 formula would be \$5,880. He reiterated that the bill did not include language related to the earnings reserve account.

Representative Gara discussed that the \$32 million in grant funding promised in HB 278 (the previous session) had been deleted. He surmised that the only thing that the bill offered to return was the additional \$16 million cut made in the conference committee report [on HB 72].

Mr. Ecklund replied in the affirmative. He elaborated that the bill would return to the statutory BSA of \$5,880, which represented a \$16.5 million addition to the conference committee budget; the bill was silent on the other one-time item the governor had proposed to delete.

[10:15:59 AM](#)

Co-Chair Neuman reminded committee members that the one-time funding outside of the funding formula had not been accepted in Governor Walker's budget.

Representative Gara communicated that he was allowed to disagree with the Majority and the governor. He believed the funding increment [from HB 278] should be honored. He could not ignore that another bill sitting before him [HB

2002; not introduced] that would enable the Majority to access the CBR without the Minority vote if it used the Alaska Permanent Fund. He believed that if the situation were to take place, the current bill would mean the Majority would not provide the education funding.

Co-Chair Neuman countered that HB 2002 was a separate bill that did not use the Permanent Fund. He stated that HB 2002 included a provision that looked at transferring money from the earnings fund reserve to the corpus of the Permanent Fund. He clarified that currently the committee was addressing HB 2001.

Representative Gara stated that he would focus on HB 2001. He spoke to the labor contract portion of the bill. He remarked that the bill would grant the 2.5 percent salary increase for state employees, but did not provide the funding. He observed that the bill asked the administration to cut \$30 million from the budget in order to find the funding for the salary increases. He stated that so far \$92 million had been cut from the Department of Health and Social Services budget, \$30 million had been cut from the University of Alaska, \$10 million from the Alaska Marine Highway System (AMSH), and almost all funding for Pre-K had been eliminated. He wondered where the administration was going to find an additional \$30 million to cut. He believed that departments would be faced with laying off employees if the additional cuts could not be located.

Mr. Ecklund stated that there had been discussions with the administration about the potential cuts. The administration had provided multiple scenarios where potential cuts could be made. He deferred the question to the administration.

Representative Gara believed the \$30 million unallocated cut, which may result in laying off employees, was a terrible deal. He opined that the legislature should fund the wage increases if it added the 2.5 percent increases in the bill.

Co-Chair Neuman stated that the bill would fund 2.2 percent increases for union employees and also funded COLAs for non-union employees.

[10:19:24 AM](#)

Representative Gara asserted that the funding was contingent on a \$30 million [unallocated] cut, which would mean cutting employees throughout the state.

Mr. Ecklund clarified that Sections 4 through 6 of the bill (pages 29 through 62) specifically funded the COLA increases if the three-quarter vote was obtained and if HB 176 was vetoed. He added that there was an unallocated reduction that was not dollar-for-dollar and was not tied directly to the funding of the contracts.

Vice-Chair Saddler observed that any budget was a compromise. He acknowledged that there were unlimited needs and desires of state government. He remarked that the state was in the unfortunate situation where it could not fund everything. He believed there had to be reductions somewhere.

Representative Munoz provided a brief history of the education funding component for the public's information. She relayed that the budget received from the governor had deleted one-time funding from the prior year. She elaborated that the House had approved BSA funding of approximately \$47 million, which the Senate later deleted. The legislature was now in a process of building support from legislators; the bill represented a compromise between the parties involved. She believed restoring \$47 million to the BSA was a very positive point in the process. She hoped to gain the Minority's support to move forward.

Representative Guttenberg stated that usually a compromise meant sitting down with the other party. From the Minority's perspective that had not occurred. He facetiously wondered if the budget should include funds to fix all of the deficiencies in the Anchorage LIO such as the microphones. He liked the building, but believed there were many things remaining to be completed. He believed any compromise on the budget had been one-sided.

Co-Chair Neuman believed there had been multiple conversations between the House Minority Leader and the Speaker of the House on the issues. He stated that the bill recognized the public's desire for funding of education and state employee increases. He thought it was inappropriate to say there had been no discussions.

Representative Gattis stated that there were two sides of the conversation. Her challenge had been agreeing to put money back into a budget and signaling that state employees would receive pay raises. From her perspective the bill did not represent her ideal budget, but it did represent a compromise.

[10:23:52 AM](#)

Representative Gara asked where state paid oil tax credits were located in the bill. He asked if the figure was still \$700 million. Mr. Ecklund replied in the affirmative and relayed that the credits were included in the fund transfers section of the bill.

Co-Chair Neuman referred to page 63, Section 8. Mr. Ecklund added that it was page 63, Section 8(b).

Representative Gara asked if committee members were aware that the \$700 million payment to oil companies in tax credits was \$609 million above the statutorily required amount. He explained that the statute set a cap in years of low oil production revenue.

Mr. Ecklund replied that the \$700 million had come from the Office of Management and Budget (OMB) and the executive branch as what was needed.

Vice-Chair Saddler noted that the tax credits helped keep oil flowing, which went to funding the state. He stated that in addition to production taxes, the industry paid royalties of 12 to 16 percent, property taxes on the pipeline and production facilities, and corporate income taxes.

Co-Chair Neuman added that he did not intend to go into a discussion about how to adjust separate pieces of legislation.

Representative Guttenberg stated that the oil tax credits had been discussed at length in the Minority caucus. He had proposed an amendment in the House Finance Committee and on the House floor to reduce the tax credits from \$700 million to \$500 million. He stated that if the amendment had passed the oil companies would receive the \$200 million the following fiscal year (beginning on July 1, 2015). He stated that the amendment would not eliminate the need or

dispute that many of the credits were worthwhile. He detailed that the statutory formula for the current year was approximately \$91 million; anything over the amount was discretionary and was subject to appropriation. He emphasized that the amendment would not remove the obligation of the state to pay the credits. He reasoned that there were many contracts and programs on the table that the state should honor. He believed the relevant question was whether the state could afford to pay an open-ended appropriation that could go significantly higher than \$700 million. He detailed that the state would be obligated to pay above the \$700 million. For example, the state would be obligated to pay if the industry came in with an additional \$300 million. He opined that the topic was an appropriate conversation to have given the state's deficit.

[10:30:06 AM](#)

Representative Guttenberg continued to explain that he was interested in having a conversation about rolling a portion of the payment forward to the next fiscal year. He stressed that he was not proposing to not pay the amount owed.

Co-Chair Neuman was not prepared to bring in an analysis by oil economists. He stated that the bill would accept the \$700 million proposed in the governor's budget.

Representative Gattis stated that rolling bills over to the coming fiscal year would not change the amount owed by the state. She believed the consequences should be faced head on. She reasoned that the budgetary situation would continue to get tougher. She opined that the legislature needed to pay the state's bills and move forward.

[10:31:34 AM](#)

Co-Chair Neuman relayed that an offer had been suggested to try to resolve the current stalemate on the budget. He asked the administration to address the proposed \$29 million [unallocated] reduction.

PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, relayed that the concept of the unallocated reduction was proposed out of a desire to honor the legal contracts for union state employees. She elaborated that the legislature's proposal to not honor the legal contracts was not acceptable to the governor. The

administration believed that not honoring the contracts opened the door to the possibility that other state contracts may not be honored. She stated that the unallocated reduction would translate to [the loss of] people to some degree. The administration and its departments would have to determine how to deal with an additional \$30 million reduction on top of the \$389 million operating reduction. She relayed that the cut was going to be difficult. The administration hoped to locate the savings in inefficiencies, but increased efficiencies meant fewer employees. She suggested the possibility of finding savings in procurement. She asked the committee to understand that the proposed unallocated reduction would be on top of several other unallocated reductions imposed in the budget. She reiterated that the cut was better than not honoring legal contracts.

Representative Wilson asked why the administration believed it was acceptable to cut the one-time funding for education, but unacceptable to not fund employee contracts. She stated that educators reasoned that the one-time funds had been promised. Ms. Pitney replied that it came down to a legal contract.

Representative Wilson wanted to understand the difference between a legal contract and a statute passed by the legislature for one-time funding. She believed the argument could go in either direction.

Representative Gara stated he had heard the argument that the legislature had to fund something because the governor had proposed it. He asked if the governor proposed not funding the union contracts. Ms. Pitney replied that the governor's budget proposed fully funding the union contracts.

Representative Gara asked for verification that the governor's budget did not propose locating \$30 million in additional cuts on top of the \$389 million cuts in the budget. Ms. Pitney agreed that the governor's budget did not propose the \$30 million in additional cuts. She elaborated that the administration was not pleased with the proposal, but the concept had been presented as a way to move the process forward.

Representative Gara asked if it was the governor's proposal to honor the union contracts, honor the statute that

provided for wage increases (1.5 percent for the past two years and 2.5 percent for the coming fiscal year), and to not jeopardize jobs with an additional \$30 million cut.

Ms. Pitney replied that it was in the governor's interest to honor the contracts.

Co-Chair Neuman did not appreciate that Representative Gara put words in other people's mouths. He did not like comments that the legislature had to do things because the governor proposed them. He stated that the legislature could chose to accept, reject, or amend the governor's proposal.

[10:37:10 AM](#)

Representative Gara agreed, but he had heard other comments [from committee members] that the legislature had to do things because the governor proposed them. He asked whether the additional \$29.8 million in statewide reductions would mean employee layoffs.

Ms. Pitney answered that the state budget was 50 percent personnel related. She communicated that it was very likely that the cut would impose additional employee layoffs, in the range of 200 or more (on top of the anticipated 500 plus position losses).

Representative Gara hoped the committee would consider not adding to the stress of state employees by imposing additional likely layoffs. He supported funding the contracts without the additional cut.

Co-Chair Neuman asked if the dramatic reductions to the current budget had resulted from the drop in the price of oil that reduced state revenue. Ms. Pitney responded that the price of oil did require action. The governor had submitted a budget that reduced state spending at the agency level by nearly 6 percent. The approach would create prudent reductions and maintain services. She expounded that the cuts proposed in the CS were substantially higher and would damage some services. The administration would do the best it could to provide as many services as possible. She relayed that the governor had proposed somewhat less reductions and the administration believed the cuts had gone too deep.

Co-Chair Neuman relayed that the legislature had followed a very public process. He believed the budget before the committee represented the feelings of many legislators. He did not believe there was a single legislator who believed the current proposal was perfect. He remarked that committee members all had varying opinions about where the budget needed to go, but it was part of the public process.

[10:41:20 AM](#)

Vice-Chair Saddler appreciated that OMB had worked with the legislature to locate reductions, albeit the proposal did not reflect the governor's promise of 15 percent reductions. He observed that neither the governor nor the legislature wanted to be in the current fiscal situation. He asked what percentage of the general fund budget an unallocated reduction of \$29 million represented. He wondered how challenging it would be for the administration to locate the cuts in a \$5 billion budget.

Ms. Pitney replied that it would be very challenging because the amount could not be spread across the \$5 billion budget. She stated that the budget would accept pay increases for the legislature, courts, and other, on the back of the executive branch. She explained that the cut would be spread across a much smaller number of agencies.

Co-Chair Neuman clarified that the bill did not add increases for legislators.

Vice-Chair Saddler recalled that Ms. Pitney had told him the governor's top priority was education and that there should be other reductions in other parts of state government in order to provide the funding. He wondered if the current bill accomplished the goal.

Ms. Pitney replied that the draft brought education funding to the governor's proposed level.

Representative Gattis asked about the current statewide employee vacancy factor. Ms. Pitney replied that it usually ranged between 4 and 6 percent depending on the agency.

Representative Gattis questioned whether Ms. Pitney had said that 500 or 300 employees would have to be laid off. She was trying to determine where the attrition was and what the numbers were. She chaired the Department of

Administration (DOA) finance subcommittee and had been told by the department that it was looking at efficiencies. She was impressed by the commissioner [Sheldon Fisher] and she believed he could help find the efficiencies. She did not believe locating the efficiencies would be as tough as many people thought. She could see the commissioner looking at contracts, leases, and other items. She was comfortable that the agencies would locate the savings.

[10:44:44 AM](#)

Co-Chair Neuman noted that Commissioner Sheldon Fisher had worked with the House Finance Committee to locate further reductions in the DOA budget and to determine reductions that could be made over time.

Ms. Pitney commented that the administration was working hard to find efficiencies and savings. She elaborated that efficiencies in business resulted in fewer employees. She restated her earlier testimony that the administration expected 500 position losses and at least 200 actual layoffs. She detailed that the difference between the two figures represented taking advantage of retirements and attritions. She added that the administration would do the best it could to take advantage of retirements and attritions. However, she reiterated that business efficiencies would result in fewer employees. She informed the committee that the administration was working to increase efficiencies; it was currently working on 13 initiatives. The administration knew that it was not the last year of reductions. She acknowledged that business needed to be conducted differently; however, "getting there tomorrow is very difficult." The goal was to make the changes without major disruptions to important services.

Representative Gara asked whether the administration believed that future labor contracts would be much more modest if the budget honored the [union contract] agreements and did not add the additional \$30 million in cuts.

Ms. Pitney replied in the affirmative. Another reason the administration wanted to honor the contracts was to preserve its ability to negotiate in good faith. She communicated that the administration expected upcoming contract negotiations, which represented more than half of the state's employees, to be very modest. She added that

the state needed to maintain competitiveness in order to attract good employees.

Representative Gara asked for verification that the state would run out of savings in approximately three years (under the CS or the governor's budget) if oil prices remained at the current level.

Ms. Pitney agreed. She elaborated that expenditures incurred by either budget would mean the state would run out of money within approximately three years; the state may have funds to operate for 7 to 10 more days under one budget versus the other. She estimated that reserves could potentially run out between November 10, 2017 and December 1, 2017. She relayed that the administration intended to bring the public into the conversation starting in June. The goal was to have an open and public dialogue on the state's finances, how the money was spent, opportunities for savings, and how to pay for services knowing that it was not possible to cut to the price of oil.

[10:50:00 AM](#)

Representative Gara stated that according to the Department of Revenue that there was a statutory cap on state paid oil tax credits. He explained that the statute aimed at protecting the state's fiscal health in years of low oil revenue. He asked for Ms. Pitney's analysis of the statutory cap.

Ms. Pitney answered that the statute provided the Oil Tax Credit Fund should be funded at 10 percent of the expected production tax, which was estimated at roughly \$91 million for FY 16. She elaborated that the legislature had the ability to fund the oil tax at whatever level it chose; however, the oil tax credits were owed whether or not the funding was provided. She explained that every tax credit that a company was eligible for would be paid by the state, but the timing could be determined. She stressed that honoring the contracts was an important principle. Funding included in the budget was based on a tradition of the anticipated amount of tax credits that would be submitted (\$700 million); the figure could end up anywhere from \$90 million to \$700 million. Regardless of the amount funded in FY 16, all tax credits eligible in FY 16 would be paid.

Representative Gara provided a scenario where credits would be limited to \$500 million for two years in order to allow the state to get its fiscal house in order (credits were paid to companies on a first come, first serve basis). He stated that \$500 million may last for the first nine months of a fiscal year. He asked for verification that under the scenario companies who had not been paid would have to wait another three months to the beginning of the following fiscal year in order to receive payment.

Ms. Pitney answered in the affirmative.

[10:53:07 AM](#)

Co-Chair Neuman added that the state would still owe the debt. He equated the scenario to paying a credit card bill with the credit card. He emphasized that the debt would still have to be paid.

Representative Munoz agreed with the administration that the state needed to honor its contracts. She appreciated that the administration was working with the legislature to achieve the goal. She referred to Ms. Pitney's testimony that approximately 50 percent of the cost of government was not employee related. She wondered if OMB had analyzed potential savings related to lease costs and commodities in the FY 16 budget.

Ms. Pitney answered that a process had been set in place; there had been a cross-departmental meeting and every department was working on savings. She detailed that the state spent \$50 million on contracts and services; a 1 percent savings would be \$500,000. She relayed that [a cut of] \$30 million was a big number. Maybe certain contract pieces could account for \$10 million, while the remainder would come from personnel savings. She elaborated that much of the money spent by the state was direct grants; for instance \$700 million went directly to oil companies for tax credits. She noted that a tremendous amount of funding from the Department of Health and Social Services (DHSS) were grants to nonprofit providers including shelters; the areas could not be used to make up the savings. She explained that because there were areas savings could not be achieved, it limited the locations the savings could be applied. The administration was actively looking at how to address the decreases with the understanding that locating savings the following year would be harder.

Co-Chair Neuman agreed that locating savings would be more difficult the following year.

Co-Chair Thompson addressed oil tax credits. He surmised that if the state deferred \$200 million to the next year, the funds would be spent on something else in the current year. He believed the state would then owe \$400 million after the two-year period. He was not comfortable with the idea.

[10:57:37 AM](#)

Representative Guttenberg asked whether the oil industry was aware of the maximum amount the state was statutorily required to pay. Ms. Pitney believed companies were aware of the requirement, but it had not been addressed.

Representative Guttenberg referred to the budget for the following year and discussions on programs that saved the state money. He specifically referenced actions the state could take to prevent the need for new prisons by implementing programs and minimizing jail time. He noted that other programs had been proven to be cost-effective and to minimize costs to the state. He wondered if the administration had a strategy to study programs that could bring savings to the state. He wondered if, in the following year, the administration would have savings estimates on programs in the human services field, K-12, or senior services.

Ms. Pitney responded that there were several things in progress. She pointed to the Results First on recidivism reduction. She agreed that prisons were a huge, fixed cost to the state; a cost that would continue to grow unless changes were made to the criminal justice system. Additionally, the administration had proposed Medicaid expansion, which would bring savings to other programs. She noted that the proposal had been rejected [by the legislature], which was disappointing. She detailed that expansion could save \$4 million on healthcare in the state's correctional system alone. She added that it would have provided the ability to reduce recidivism because former inmates would have access to healthcare. She summarized that the administration was addressing ways to bring cost savings to the state on a daily basis.

11:00:46 AM

Vice-Chair Saddler was uncomfortable with hearing about hypothetical situations. He believed an amendment should be in front of the committee if it was going to have a debate on tax credits.

Co-Chair Neuman wanted to allow members to voice their thoughts on the budget. He believed the process was fair.

Representative Gara relayed his intention to offer an amendment on the tax credits. He responded to an earlier question by Co-Chair Thompson related to the proposal to save \$200 million in credits during the current fiscal year. He stressed that there was no proposal to spend the \$200 million if it was reduced from the tax credit expenditures in the current fiscal year. He addressed the fiscal crisis facing the state; under any version of any budget the state would be out of savings in three years. He explained that the Minority proposed that when there was a fiscal crisis money should be saved to get the fiscal house in order. With that in mind, he proposed limiting oil tax credits to something like \$500 million for a couple of years. He explained that under the scenario oil companies would have to wait two to three months for their payment in the first year, and potentially four or five months in the second year. He stressed that the burden was not as large as the one facing kids, seniors, and other. He encouraged members to approach the issue in a nonpartisan way.

Co-Chair Neuman relayed that the committee would recess to the call of the chair until 12:30 p.m. He asked members to have amendments to his office by 12:00 p.m.

11:04:27 AM

RECESSED

2:24:02 PM

RECONVENED

Co-Chair Neuman noted that the committee would begin hearing amendments; beginning with Amendments 10 and 11.

Representative Guttenberg MOVED to ADOPT Amendment 10 (copy on file):

DOR Oil and Gas Tax Credit -200,000.0 UGF 1004

OFFERED IN: The House Finance Committee
TO: HB 2001
OFFERED BY: Reps. Guttenberg, Gara, Kawasaki
DEPARTMENT: Revenue
APPROPRIATION: Language Section
ALLOCATION: Fund Capitalization

ADD: \$500,000.0 UGF 1004
Add text: "not to exceed \$500,000,000"

DELETE: \$700,000.0 UGF 1004
Delete text: "estimated to be \$700,000,000"

POSITIONS: 0

EXPLANATION: Amend language HB 2001, page 63, lines 9-14 as follows:

(b) If the balance of the oil and gas tax credit fund (AS 43.55.028) is insufficient to purchase transfer tax credit certificates issued under AS 43.55.023 and production tax credit certificates issued under AS 43.55.025 that are presented for purchase, the amount by which the tax credit certificates presented for purchase exceeds the balance of the fund, not to exceed \$500,000,000 [estimated to be \$700,000,000] is appropriated from the general fund to the oil and gas tax credit fund (AS 43.55.028).

Co-Chair Neuman OBJECTED.

Representative Guttenberg explained that the amendment related to oil and gas tax credits. He detailed that the explanation included in the amendment reflected HB 2001 language, but replaced "estimated to be \$700,000,000" with "not to exceed \$500,000,000." He noted that backup documents to the amendment (copy on file) showed that in the past the legislature had passed legislation that sought to limit the amount of tax credits in a given year when oil prices were low. He pointed to page 3 of the backup that showed the figure for the current year was estimated to be \$91 million. He addressed that the proposed budget would pay \$700 million, which was significantly over what was statutorily required. He did not have a problem paying the credits because the state was obligated to pay them, but the credits were subject to appropriation. He reasoned that

if a credit card had a zero interest rate, it was not necessary to pay it off immediately. The industry understood that the credits were in statute and subject to appropriation; however, the state was in a fiscal crunch. He discussed that members of the Majority had communicated that everything was on the table including education, seniors, kids, and other. He was not suggesting to not pay the credits and to use the money somewhere else. He elaborated that under the amendment the amount owed would be rolled forward until the fiscal situation improved. He noted that it was only a matter of months that the state would hold onto the funds. He believed rolling the credits forward one year was prudent financially. He believed the oil industry had to be aware that something like what was proposed in the amendment was coming down the road. He believed that the burden needed to be spread around. He reiterated that the state would pay the \$200 million in the future. He emphasized that statutorily the state was only required to pay \$91 million. He opined that it was important to show the people of Alaska that the legislature was willing to put everything on the table.

Co-Chair Thompson was opposed to the amendment. He detailed that most of the tax credits went to small producers who were making things happen and were coming close to putting more oil and gas into the system. He elaborated that the companies depended on the money to provide the work they were doing. He reasoned that without the money the producers would be unable to invest more and to continue with exploration and production. He emphasized that small companies such as Repsol, Armstrong, and Cook Inlet Petroleum depended on the cash flow. He explained that some of the companies had to sell their credits to a company making a profit. For example, one company may sell a \$100 certificate to another company for \$85 to \$90 for use against their tax liability. He stated that the delay would cause the amount a producer could sell the credit for to decline significantly.

[2:31:40 PM](#)

Representative Gara spoke in favor of the amendment. He discussed that the legislators had all been searching for a way to come out of the building with a budget everyone could agree on. He believed legislators should keep searching. He asked the administration if there was anything the legislature had missed in dealing with the

budget. He expounded that the administration had pointed out the tax credits. He discussed that the law had a cap on oil tax credits; recognizing that there were years the state could afford to pay large amount and years that it could not. He pointed to the backup from the Department of Revenue (DOR) showing that the cap in the current year was \$91 million. He did not believe there was another area in the budget where the legislature was funding \$600 million more than what it had to. The amendment proposed saving \$200 million in the current fiscal year. He surmised that it may be necessary to do the same thing the following year until the state had its fiscal house in order. He detailed that the credits were paid on a first application basis. He elaborated that \$500 million would last through nine or ten months of the coming fiscal year; any company that did not get paid within that time period would be paid at the beginning of the next fiscal year. He did not believe the burden for oil companies was large. He remarked that others (seniors and other) were carrying cuts that were too heavy to handle. He did not believe asking a small or large oil company to wait a couple of months for a payment was unreasonable.

Representative Gara discussed that the amendment would help to create some breathing room in the budget. He remarked that Democrats were not asking for anything that equaled a \$200 million cut. He believed the amendment would enable the legislature to add some smaller items back into the budget and would allow it to pass a budget without touching the Permanent Fund earnings. The purpose of the amendment was to try to find a way to bridge the gap between the two caucuses and to acknowledge that the state did not have the money. He did not believe it was prudent to pay \$600 million more than the statute specified. He reiterated that companies would only have to wait two to six months for their payments. He stated that under any circumstances, if the state had no fiscal plan by the third year, the state would be in a world of hurt. Additionally, oil tax credits would be much lower three years from the present day. He remarked that the state would be able to afford the payments in three years. He added that the state had better be able to afford the funds if it was going to have an economy. He reiterated the purpose of the amendment.

[2:37:27 PM](#)

Representative Munoz understood that the credits were attributed to Cook Inlet and Prudhoe Bay and that education tax credits were also included. She stated that the Alaska's Clear and Equitable Share (ACES) credits attributed to the former tax regime were under an accelerated one-year payoff in order to pay off the older obligations. She wondered if a company could use tax credits as a corporate income tax deduction even if it could not access the credit due to insufficient state funds. She reasoned that under the circumstance the state would pay the credit, whether it was direct or an exemption on a company's corporate income tax.

Co-Chair Neuman explained that the proposal had originally been transmitted to the legislature by the administration. He detailed that the proposal had been related to small producer credits. He believed many of the tax credits were sold by smaller companies to larger companies that did pay corporate state taxes (the three larger oil companies). He elaborated that the cashed in certificates were submitted to DOR for payment.

Representative Munoz asked for verification that many of the credits were directed at companies without a tax liability.

Representative Gara replied that all of the credits under discussion had no deductibility.

Representative Edgmon thought the credits were levied against the production tax. Representative Gara replied that the credits under discussion were only state purchasable credits; the ones that companies did not receive a profit to deduct from.

Representative Edgmon referred Representative Munoz's comment on the inclusion of education tax credits. He believed the education tax credits were applicable to the corporate income tax. He asked for clarification.

Co-Chair Neuman asked Ms. Pitney to explain the specific tax credits that the administration had originally proposed for payment.

[2:41:11 PM](#)

Ms. Pitney explained that there were two types of tax credits. One credit showed up as expenditure or payout to a company that had no production tax liability. There were also tax credits for companies that had a production tax liability; the credit offset the amount of revenue received by the state. The credits under discussion were for situations when credits exceeded the amount of tax revenue on production that a company paid. She elaborated that there was actually a check out the door versus an offset to the amount of revenue paid by a company.

Co-Chair Neuman surmised that it was money owed by the state to people who turned in their [credit] certificates. Ms. Pitney agreed.

Representative Edgmon asked for verification that the credits under discussion did not involve corporate income tax. Ms. Pitney replied that the credits were separate from corporate income tax. She explained that there were separate taxes including corporate, production, and royalty taxes.

Representative Edgmon referred to testimony applying education tax credits to the credits under discussion, which did not comport with his understanding of the way the credits worked. Ms. Pitney addressed the education tax credit and explained that if a company made a donation to an eligible institution it would reduce the company's tax liability. Some companies had a production tax credit, but if they paid production taxes it showed up as a reduction to those taxes (which was more similar to the education tax credit process).

[2:43:37 PM](#)

Representative Guttenberg noted that the amendment changed language in addition to changing the number. The bill read that the tax credit certificates were "estimated to be \$700,000,000." He pointed to page 3 of the backup materials that showed credits had exceeded the estimate by \$270 million [in FY 11], had been below the estimate for two years [FY 12 and FY 13], and had exceeded the estimate again by \$193 million and \$175 million [in FY 14 and FY 15 respectively]. He stressed that the legislation's existing language represented an open-ended check. He reasoned that the amount could end up being between \$800 million and \$1 billion. The amendment would cap the amount at \$500

million. He asked Ms. Pitney if his assessment was accurate.

Ms. Pitney replied in the affirmative.

Representative Kawasaki asked what had transpired in years where estimates were larger than the actuals. He wondered what happened to the cash in those years. Ms. Pitney replied that she believed the items had been funded by supplemental appropriations later in the year.

Representative Kawasaki clarified that he was interested in the years where the credit estimate was higher than the actual amount spent. He noted that there had been cash remaining on the table in some years. Ms. Pitney replied that in the past the statutory language had read "estimated to be" as well. She explained that in years when claims exceeded the estimate a supplemental amount was added to cover the full amount.

Representative Gara he wondered if the administration could live with action taken by the amendment if it passed. Ms. Pitney replied that the administration would respect the legislature's decision.

Representative Munoz asked about a timeframe for the credit eligibility process that would be due in FY 16. She wondered if the applications came at the beginning of the year or if there was an ongoing estimate available for the fiscal year. Ms. Pitney replied there was currently at least \$400 million to be paid on July 1, 2015.

Representative Kawasaki supported the amendment. He recalled that when he had become a legislator there had been no refundable tax credits. There had been a handful of credits for the North Slope under the prior qualified capital expenditure and zero for Cook Inlet. There had been many policy changes and the state was currently spending \$625 million in FY 15 and \$700 million in FY 16 (for Cook Inlet and North Slope). He recognized the regions were valuable for oil production; however, \$700 million in the budget's growth was due to oil and gas tax credits. He reasoned that there had not been an increase in production. Additionally, there had been job losses on the North Slope over the past year. He stated that it was hard to justify cutting the school district budgets without making a reduction to tax credits. According to DOR, with the

inclusion of credits used against tax liability, the increase in statewide production tax credits would increase from just under \$1 billion from the prior year to \$1.8 billion in a few years. He did not believe the state could afford the costs in a fiscally prudent time.

[2:49:33 PM](#)

Co-Chair Neuman MAINTAINED his OBJECTION. He stated that the credits were due by the state. He detailed that many of recipients were small companies who used the liquid capital to reinvest in the state. He remarked that people had been losing jobs in Prudhoe Bay due to the low price of oil; it had significantly impacted the state and the amount of oil flowing in the pipeline.

A roll call vote was taken on the motion.

IN FAVOR: Guttenberg, Kawasaki, Munoz, Edgmon, Gara
OPPOSED: Pruitt, Saddler, Wilson, Gattis, Thompson, Neuman

The MOTION to ADOPT Amendment 10 FAILED (5/6).

[2:51:08 PM](#)

Co-Chair Neuman recognized the presence of Representatives Kurt Olson, Neil Foster, Gabrielle LeDoux, Bob Herron, Andy Josephson, and Louise Stutes.

Representative Gara MOVED to ADOPT Amendment 11 (copy on file):

DOR Oil and Gas Tax Credit; DEED K-12 Aid to School Districts: -167,756.3 UGF 1004

OFFERED IN: The House Finance Committee
TO: HB 2001
OFFERED BY: Reps. Guttenberg, Gara, Kawasaki
DEPARTMENT: Revenue

APPROPRIATION: Language Section
ALLOCATION: Fund Capitalization

ADD: \$500,000.0 UGF 1004
Add text: "not to exceed \$500,000,000"

DELETE: \$700,000.0 UGF 1004

Delete text: "estimated to be \$700,000,000"

POSITIONS: 0

EXPLANATION: Amend language HB 2001, page 63, lines 9-14 as follows:

(b) If the balance of the oil and gas tax credit fund (AS 43.55.028) is insufficient to purchase transfer tax credit certificates issued under AS 43.55.023 and production tax credit certificates issued under AS 43.55.025 that are presented for purchase, the amount by which the tax credit certificates presented for purchase exceeds the balance of the fund, not to exceed \$500,000,000 [estimated to be \$700,000,000] is appropriated from the general fund to the oil and gas tax credit fund (AS 43.55.028).

DEPARTMENT: Education and Early Development
APPROPRIATION: K-12 Aid to School Districts
ALLOCATION: Additional Foundation Funding

ADD: \$32,243.7 UGF (1004)

ADD: Language: "Sec 42(b) of SB 26 (2015) is repealed."

EXPLANATION: This section of the amendment restores the one-time funding from HB278, passed in 2014, that the schools were counting on when they made their budgets.

Co-Chair Neuman OBJECTED.

Representative Gara explained that the amendment would fund \$32 million that had been promised the previous session in HB 278. He detailed that a portion of the \$200 million savings that would come from Amendment 10 (savings in oil and gas tax credits) would go towards the \$32 million. The amendment presumed that \$16 million that had been cut from the conference committee version of the budget would be reinstated; conceptually the amendment would be \$48 million if the \$16 million was not restored. He elaborated that HB 278 included annual grant funding that was reduced by \$10 million to \$11 million each year; additionally, the BSA increased annually by \$12 million. He explained that years two and three were essentially flat-funded. The bill had designated \$32 million in grant funding in year two, which

was \$11 million less than grant funding the previous year. There had been a \$50 BSA increase to account for the \$11 million reduction, which was \$1 million more than the reduction in the grant increase. He communicated the concern that flat funding in years two and three would cause schools to fall behind inflation, which could result in layoffs, curriculum cuts, or other. He pointed to school district budget shortfalls in Mat-Su, Juneau, and other locations. He stated that the removal of \$32 million meant schools would receive \$31 million less than they received the previous year, which would mean schools would fall significantly behind inflation. He remarked that at the current price of oil the state would run out of savings in three years' time under either budget. He believed the state should give children the chance at academic opportunity they deserved. He stressed that the increment would not be an increase from the prior year. He did not believe the state could keep cutting public education without harming the schools. He credited the finance co-chairs with locating hundreds of millions of dollars in cuts in the overall budget. He emphasized that leaving schools flat funded was a modest proposal. He believed the proposal represented a pretty meager compromise. He opined that it was odd to give oil companies more money than statutorily required (\$600 million more) and to give public schools less money than they were statutorily required (\$32 million less).

[2:57:55 PM](#)

Co-Chair Thompson spoke in opposition to the amendment. He stated that the amendment would short-fund tax credits to small producers who were doing work to provide the state revenue, which meant the companies would not have funds to reinvest. He asserted that the amendment would spend part of the money to fund schools, but the state would still owe the \$200 million the following year. He disputed that education had been flat funded. He referred to statistics from 2004 to 2014 indicating that education funding had increased by 75 percent, whereas inflation had increased 36 percent. He relayed that his children had and were attending public school; he wanted them to have the best education possible. He discussed that the budget did include money for the BSA, which would total \$47.5 million. He believed the budget was fiscally responsible.

Representative Gattis addressed that she had helped carry HB 278 the previous session. She had supporting funding outside of the BSA because the state could afford it at the time. She stressed that the loss of 60 percent in oil revenues meant the state was in fiscal circumstances than the previous year. She agreed with the governor's removal of the \$32 million from his proposed budget. She opposed the amendment.

Representative Kawasaki spoke in support of the amendment. He understood that the state was in a deficit. He stated "that it's not that we don't have the money, it's that we have the wrong priorities." The amendment addressed that the oil and gas tax credit fund was funded at 100 percent, while the school districts were treated differently. He discussed that his school district recognized that the year would be challenging. He relayed that his district budgeted for multiple years; it had only accepted federal American Recovery and Reinvestment Act (ARRA) funding that it could use in a prudent manner. He furthered that the district had made 11 cuts in 2010, 5 cuts in 2011, 14 cuts in 2012, 25 cuts in 2013, 65 cuts in 2014, and was set to cut over 100 staff and teachers in the current year. He believed custodial staff had been cut completely in some of the district schools. He stated that the amendment was a modest effort to reprioritize things he and his colleagues believed in.

[3:03:11 PM](#)

Representative Guttenberg relayed that in response to the recent budget, the Fairbanks North Star Borough Assembly had increased the mill rate increase in the borough (the increase was approximately \$100 per \$100,000). He pointed out that there were and would be more consequences for the legislature's actions statewide.

Representative Gara clarified that oil companies would be able to reinvest; they would just have to wait two or three months for the payment. He addressed that between 2004 and 2010 there had been annual BSA increases, but education had been flat funded in the past four years, which had been a struggle for schools. He agreed that there had been substantial funding, but much of it had gone towards the large pension debt and school debt reimbursement. He relayed that classroom funding was starting to lag behind inflation almost on an annual basis.

Representative Edgmon observed that the issue was difficult. He explained why he could not support the amendment. First, the committee had voted against a prior amendment that pertained to part of the current amendment. He communicated his desire to learn more about the oil and gas tax credit issue; however, he believed the committee had spoken on the issue. He relayed that he would like to see all of the funding possible for education; he represented a rural district where public education was paramount. He highlighted that the current bill increased BSA funding to \$47.5 million. He reasoned that compromise was in the eye of the beholder; he believed the current bill represented a compromise.

[3:08:44 PM](#)

Co-Chair Neuman MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Kawasaki, Gara, Guttenberg

OPPOSED: Munoz, Pruitt, Saddler, Wilson, Edgmon, Gattis, Neuman, Thompson

The MOTION to ADOPT Amendment 11 FAILED (3/8).

[3:09:41 PM](#)

Co-Chair Thompson MOVED to ADOPT Amendment 1 (copy on file):

OFFERED IN THE HOUSE BY REPRESENTATIVE NEUMAN
TO: CSHB 2001(FIN), Draft Version "P"

Page 63, following line 28:

Insert a new bill section to read:

"* Sec. 10. PUBLIC EDUCATION FUND. (a) If, and only if, the appropriation made in sec. 13(b) of this Act fails to pass upon an affirmative vote of three-fourths of the members of each house of the Twenty-Ninth Alaska State Legislature in the Second Special Session,

(1) the sum of \$157,000,000 is appropriated from the in-state natural gas pipeline fund (AS 31.25.100) to the public education fund (AS 14.17.300);

(2) the amount necessary, after the appropriations made in (1) of this subsection and in sec. 31, ch. 23, SLA 2015, when added to the balance of the public education fund (AS 14.17.300) on June 30, 2015, to fund the total amount for the fiscal year ending June 30, 2016, of state aid calculated under the public school funding formula under AS 14.17.410(b), multiplied by 0.9859, estimated to be \$950,555,700, is appropriated from the general fund to the public education fund (AS 14.17.300).

(b) If the amount of the appropriation made in (a)(1) of this section is less than \$157,000,000, the appropriation made in (a)(2) of this section shall be reduced on a dollar-for-dollar basis, equal to the amount of the reduction in (a)(1) of this section."

Renumber the following bill sections accordingly.

Page 66, line 5:
Delete "sec. 12(a)"
Insert "sec. 13(a)"

Page 66, line II:
Delete "sees. 8 - 10"
Insert "sees. 8 - 11"

Page 66, line 13:
Delete "Sections 26(d), 26(e), and 28"
Insert "Section 28"

Page 66, line 15:
Delete "Sections 33 and 36"
Insert "Sections 26(d), 26(e), 33, and 36"

Page 66, line 21:
Delete "sec. 12(a)"
Insert "sec. 13(a)"

Page 66, line 23:
Delete "sec. 13"
Insert "sec. 14"

Page 66, line 24:
Delete "sec. 13"
Insert "sec. 14"

Page 66, line 25:
Delete "secs. 12(a) and (b)"
Insert "secs. 13(a) and (b)"

Page 66, line 27:
Delete "secs. 12(a) and 15"
Insert "secs. 13(a) and 16"

Page 66, line 28:
Delete "secs. 12(a) and 15"
Insert "secs. 13(a) and 16"

Page 66, line 29:
Delete "sec. 16" in both places
Insert "sec. 17" in both places

Page 67, line 1:
Delete "sec. 13"
Insert "sec. 14"

Page 67, line 2:
Delete "sec. 12(a)"
Insert "sec. 13(a)"

Page 67, line 5:
Delete "11"
Insert "12"

Page 67, line 7:
Delete "11, and 15"
Insert "12, and 16"

Page 67, line 8:
Delete "sec. 12(b)"
Insert "sec. 13(b)"

Page 67, following line 10:
Insert a new subsection to read:

"(d) The appropriations made in sec. 10 of this Act are contingent on the failure of the appropriation made in sec. 13(b) of this Act to pass upon an affirmative vote of three-fourths of the members of each house of the Twenty-Ninth Alaska State Legislature in the Second Special Session."

Page 67, line 11:

Delete "Sections 12(a), 13, 17, and 18(a)"
Insert "Sections 13(a), 14, 18, and 19(a)"

Page 67, line 12:
Delete "Sections 15 and 16"
Insert "Sections 16 and 17"

Page 67, line 13:
Delete "secs. 19 and 20"
Insert "secs. 20 and 21"

Co-Chair Neuman OBJECTED for discussion.

Mr. Ecklund noted that the bill had been drafted with many moving parts. Currently the bill reflected that if a three-quarter vote was obtained, K-12 foundation formula would be funded at \$5,880 (the statutory BSA adopted the prior year under HB 278); however, if a three-quarter vote was not obtained, the only funding left for education would be what was enacted in HB 72 (roughly 28 percent of education funding). Under Amendment 1, if the three-quarter vote was obtained, education would be funded at \$5,880; however, if the vote was not obtained, education would be funded at the conference committee level (a proration of 98.59 percent). The remainder of the amendment included conforming and technical components.

Co-Chair Neuman noted that the amendment would fix a technical error to ensure that funding was up to the correct level.

Representative Gattis asked what the 98.5 percent figure equaled. Mr. Ecklund replied with 100 percent of the BSA at \$5,880 the foundation program and pupil transportation would equal \$1.247 billion; whereas, the proration would be \$16.5 million less.

Representative Guttenberg pointed to line 6 of the amendment that would appropriate \$157 million from the in-state natural gas pipeline fund to the public education fund. He wondered if the amendment would drain the in-state natural gas pipeline fund. Mr. Ecklund replied that the \$157 million appropriation would not empty the fund.

Mr. Teal noted that \$38 million would remain.

Mr. Ecklund elaborated that roughly \$38 million would remain (after appropriations for FY 16) for the Alaska Gasline Development Corporation (AGDC) and the Department of Natural Resources.

Representative Guttenberg asked how the amendment would impact proceeding on the in-state natural gas pipeline project. He wondered how much the reduction would hinder the project.

Co-Chair Neuman replied that he had learned from discussions with AGDC that the \$157 million was available to be used towards funding for the budget. In an effort to reduce funds appropriated from the General Fund, the money would be used to assist with funding the total budget.

[3:15:09 PM](#)

Representative Guttenberg was trying to understand how the withdrawal of the funds would impact the gasline project. Mr. Ecklund answered that funding needed for the current gasline plan would be funded in the FY 16 budget. A withdrawal of \$157 million from the gas pipeline fund would leave about \$28 million that could be used by AGDC for some purpose; if the agency needed additional funds it would have to make the request to the legislature.

Co-Chair Neuman recognized Representative Paul Seaton's presence in the audience.

Representative Gara referred to page 1, line 6 of the amendment. He stated that the Public Education Fund had previously contained over \$1.2 billion to forward fund the BSA; however, the funds had been drained earlier in the year under a different section of the bill. He did not believe a \$157 million deposit into the fund would make the BSA whole (the fund could only be prorated to fund the BSA).

Mr. Teal replied that the Public Education Fund had been reduced by HB 72; the reduction should leave approximately \$123 million in the fund at the end of FY 15. He explained that the \$123 million plus the \$157 million (appropriated by the amendment) plus \$950 million (or the amount required to prorate to 98.59 percent), would fund education at 98.6 percent and leave the fund with a zero balance.

Representative Gara asked for verification that all three amounts were for FY 16. Mr. Teal replied in the affirmative.

Co-Chair Neuman WITHDREW his OBJECTION.

Representative Guttenberg OBJECTED.

A roll call vote was taken on the motion.

IN FAVOR: Munoz, Pruitt, Saddler, Wilson, Edgmon, Gattis, Thompson, Neuman

OPPOSED: Gara, Guttenberg, Kawasaki

The MOTION to ADOPT Amendment 1 PASSED (8/3). There being NO further OBJECTION, it was so ordered.

[3:19:32 PM](#)

Representative Gara MOVED to ADOPT Amendment 2 (copy on file):

OFFERED IN: The House Finance Committee

TO: HB 2001

OFFERED BY: Representatives Gara, Guttenberg, Kawasaki

DELETE: \$4,200.0 UGF (1004)

ADD: \$556.3 UGF (1004) (recurring)

\$3,400 UGF (1004) (one-time build-out)

TOTAL: -\$240.0 UGF (1004) (this year)

-\$3,640.0 UGF (1004) (future years)

EXPLANATION: The current rent on the Anchorage LIO is \$4.2 million per year. The Atwood building is capable of hosting the LIO at a fraction of this cost. For a one-time moving cost of \$3.4 million, the annual rent on the LIO could be reduced by roughly 87 percent.

Co-Chair Neuman OBJECTED.

Representative Gara explained that the legislature had received an offer to move to the Atwood Building in Anchorage, which had a much lower rent than its current location [Anchorage Legislative Information Office Building (LIO)]. He detailed that the lease in LIO building was

subject to legislative appropriation. He believed the legislature should save the money and move to the Atwood Building; the rent would be roughly \$550,000 annually, whereas rent for the LIO was roughly \$4.2 million. He believed there were legislators on both sides of the aisle who believed the LIO [renovation] had not been the best investment for the state. The amendment included an estimated one-time moving cost of roughly \$3.4 million. The move would save approximately \$240,000 in the first year and \$3.6 million each year thereafter. He hoped the committee would consider the cost savings.

Co-Chair Neuman stated that Legislative Council had looked at the issue fairly extensively. He remarked that there were currently several law suits. He understood that Legislative Council had considered the idea, but the lease for the LIO had been extended for the current year due to law suits and other unknowns.

Representative Kawasaki spoke in support of the amendment. He stated that after renovations the LIO building lease had increased from \$700,000 to \$4.2 million. He believed it was problematic to hear talk that the state could not afford things, while simultaneously the legislature was renting the most expensive and lavish office building in downtown Anchorage. He spoke to the building's lack of parking for the public. He stated that the amendment would give direction to Legislative Council to transition the legislature to the Atwood Building. He relayed that the amendment was not confining, but offered the option if the legislature so chose. He reasoned that it seemed unjustifiable to remain in the LIO when the price tag on the Atwood Building could not be beat. He did not believe the building was worth seven times the cost of another building.

Co-Chair Neuman asked members to keep personal comments to themselves.

Representative Guttenberg supported the amendment. He relayed that the amendment would provide a clear economic savings. He believed the committee should communicate the importance of the issue to Legislative Council.

[3:25:50 PM](#)

A roll call vote was taken on the motion to adopt Amendment 2.

IN FAVOR: Gara, Guttenberg, Kawasaki, Munoz
OPPOSED: Pruitt, Saddler, Wilson, Edgmon, Gattis, Neuman, Thompson

The MOTION to ADOPT Amendment 2 FAILED (4/7).

[3:26:50 PM](#)

Representative Kawasaki MOVED to ADOPT Amendment 3 (copy on file):

OFFERED IN: Finance Committee
TO: HB 2001
OFFERED BY: Representatives Kawasaki, Guttenberg and Gara

DEPARTMENT: Health and Social Services
APPROPRIATION: Public Assistance
ALLOCATION: Senior Benefits Payment Program

ADD: \$5,091.6 UGF (1004)

EXPLANATION: The budget currently cuts benefits to seniors earning as little as \$11,040 per year. The Senior Benefits Payment Program provides vital supplemental funding to low-income seniors that allow them to stay in their homes, and afford medicine and basic life necessities. The current budget cuts Senior Benefit payments by 20 percent to seniors making between \$11,040 and \$25,760 per year.

Co-Chair Neuman OBJECTED.

Representative Kawasaki explained that Amendment 3 would restore a cut by the governor to the Senior Benefits Payment Program. He spoke to growth in the senior population. Currently the budget cut benefits to eligible individuals making less than \$11,000 per year. He detailed that recipients generally were living at home. He furthered that recipients helped build the state and deserved respect. He noted that in the past he had supported restoring the Senior Longevity Program, which had provided benefit payments of \$125 to \$250 per month based on a person's individual income. He had heard members of the

committee say that there were individuals who were probably taking advantage of the system. He severely doubted that was the case. He relayed that people in his Fairbanks district were eating Saltine crackers and were volunteering in the community in their old age. He believed the legislature needed to respect the senior benefits payment as was implemented two years earlier. He reiterated that the state's senior population was growing; benefits would be smaller due to the larger recipient pool. He did not believe a cut to the program made sense when other items had been added to the budget.

Vice-Chair Saddler opposed the amendment. He stated that the governor proposed to reduce the item by 20 percent to include two of three benefit levels. He elaborated that seniors earning 75 percent of the federal poverty level were protected from cuts and would still receive \$250 per month. He explained that individuals who earned 75 to 100 percent of the federal poverty level had received a 20 percent cut; they would receive \$100 per month instead of \$125. Others would receive \$140 instead of \$175. He believed the current budget showed compassion and reflected the reality of the state's reduced income. He added that the program was income-based as opposed to asset-based. He reasoned that seniors utilizing the program could have homes, stock investment portfolios, and savings that were not factored into an individual's eligibility. He believed cost containment was a good idea in light of the increasing senior population. He opined that the reduction was responsible.

Representative Gara supported the amendment. He had never heard of a senior who had cheated to get into the program. The amendment aimed to protect people who were 25 percent below the poverty level. He relayed that the budget currently cut benefits to seniors making \$11,040 per year. He stressed that the budget cut benefits to a population with increasing needs for healthcare. He expounded that the individuals often could not afford medicine, could only buy limited groceries, and had difficulty affording clothing and rent. He stated that a nursing home cost somewhere around \$30,000 per year; the individuals under discussion could not afford the cost. He had a difficult time cutting the budget on the backs of seniors. He remarked that the Longevity Bonus Program had already been eliminated in the past; the Senior Benefits Payment Program had been implemented as a replacement. He believed it was possible

to make smart cuts, but did not believe the senior benefit program should be one of them. He reasoned that the reduction was a significant burden for someone making 25 percent less than poverty level.

[3:34:44 PM](#)

Co-Chair Neuman noted that there had been many very difficult cuts to make. He spoke to the need to maintain essential services such as corrections, safety, and other. He stated that the bottom line was that the price of oil had fallen dramatically. He MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Guttenberg, Kawasaki, Gara, Munoz, Gara
OPPOSED: Gattis, Pruitt, Saddler, Wilson, Edgmon, Neuman, Thompson

The MOTION to ADOPT Amendment 3 FAILED (4/7).

[3:36:33 PM](#)

Representative Gara MOVED to ADOPT Amendment 4 (copy on file):

OFFERED IN: The House Finance Committee
TO: HB 2001
OFFERED BY: Representatives Gara, Guttenberg, Kawasaki
DEPARTMENT: Education and Early Development
APPROPRIATION: Teaching and Learning Support
ALLOCATION: Early Learning Coordination

ADD: \$750.0 UGF (1004)

EXPLANATION: Parents as Teachers was passed as a bill by the Legislature because it is the most cost-effective way to provide Pre-K to young children, and is proven to save states money by graduating more students, reducing social service and criminal costs, and increasing a student's future earning potential and educational attainment.

DEPARTMENT: Education and Early Development
APPROPRIATION: Teaching and Learning Support
ALLOCATION: Pre-Kindergarten Grants

ADD: \$2,000.0 UGF (1004)

EXPLANATION: Retains FY 15 Pre-K Grants funding level. Alaska is one of the few states without a statewide Pre-K. In 2007 the state started a pilot \$2 million Pre-K program, intending to reach more children as its success was proven. That has occurred.

Co-Chair Neuman OBJECTED for discussion.

Representative Kawasaki discussed that the amendment had been offered in the past. He spoke to the success of early education; children who receive a high-quality early education system graduated in higher numbers (44 percent higher), had reduced teen pregnancy rates (50 percent lower), were less likely to serve jail time, and were 33 percent less likely to commit a violent crime. He relayed that a pilot Pre-K program had been introduced a few years earlier, which made Alaska the 42nd state to implement a Pre-K pilot program. He communicated that the program had been successful, especially for children living in rural areas. He spoke to increased performance outcomes; 18 percent moved from the bottom two quartiles to the top two. He felt that with the budget issue expansion of the program was unlikely, but he believed the mission of early education should be continued. Secondly, the amendment restored funding for the Parents as Teachers program. He relayed that the program was one of the highlights under the former Governor Sarah Palin's administration. He communicated that Missouri had pioneered the program in 1981 with the goal of getting parents more involved in children's lives.

[3:39:29 PM](#)

Representative Gattis spoke in opposition to the amendment. She remarked that the amendments had been offered previously in the House Finance Committee and on the House floor. She relayed that the programs were included in the finance subcommittee she chaired (Department of Education and Early Development). She stated that during a time of cuts it was necessary to look at extra programs. She believed the Parents as Teachers program was positive, but that the state could not afford it. The subcommittee had determined whether programs were constitutionally mandated. She stated that the Pre-K programs were pilot programs. She disputed the fact that data showing the program's success

was available. She added that the federally mandated Head Start program was still in place. She remarked that there were many great programs, but the state did not have the money.

Co-Chair Neuman MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Guttenberg, Kawasaki

OPPOSED: Saddler, Wilson, Edgmon, Gattis, Munoz, Thompson, Neuman

Representative Pruitt was absent from the vote.

The MOTION to ADOPT Amendment 4 FAILED (3/7).

[3:42:38 PM](#)

Representative Gara MOVED to ADOPT Amendment 5:

OFFERED IN: The House Finance Committee

TO: HB 2001

OFFERED BY: Representatives Gara, Guttenberg, Kawasaki

DEPARTMENT: Health and Social Services

APPROPRIATION: Office of Children's Services

ALLOCATION: Front Line Social Workers

ADD: \$2,726.7 UGF (1004); \$681.7 Fed (1002)

POSITIONS: ADD: 23 PFT positions

EXPLANATION: The Office of Children's Services was able to discover a source of previously unused Federal TANF funds for Child Advocacy Centers. The Office suggested using the freed-up GF money to address the crisis-level short staffing in front line caseworkers, for no net state budget increase. The Office of Children's Services suffers from a severe shortage of Front Line Caseworkers, and ILP staff who help youth succeed as adults with job training and education. The caseload in Anchorage and the Matsu is 70 percent higher than the national standard. A caseworker was recently assigned 79 foster youth in 45 different rural Alaskan villages. The director of Children's Services has testified that under the current level of funding, "children will, in fact, die." Adding these positions will get us part of the way to the

recommendations in the 2012 study that recommended 45 new positions at OCS. Since that 2012 study, we have seen an increase of 600 foster youth, meaning that our front line social workers are now even further behind. The additional federal receipt authority is due to a 20% federal match on the \$2,726.7 devoted to front line social workers.

DEPARTMENT: Health and Social Services
APPROPRIATION: Office of Children's Services
ALLOCATION: Family Preservation

ADD: \$211.3 UGF (1004)

EXPLANATION: This adds \$211.3 GF to Employment Training Vouchers. The funds are going to assist youth aging out of foster care in attending job training programs, continued education and postsecondary education, so that they can successfully transition into being independent adults who do not need to rely on expensive state services.

Co-Chair Neuman OBJECTED.

Representative Gara explained that Amendment 5 was cost neutral to the previous year. The amendment would use \$2.9 million of General Fund money that had been freed up in the Department of Health and Social Services (DHSS). He detailed that the department had qualified for previously unused federal Temporary Assistance for Needy Families (TANF) funds for child advocacy centers. The centers provided help to children who were victims of sexual abuse. He relayed that DHSS had brought the savings to his attention. He believed the funds offered the one chance at no additional cost from the prior year to make substantial progress towards protecting children without families or who were victims of sexual abuse. He shared that a study had been published in 2012; at the time there had been 780 foster youth. The study had determined the state was roughly 45 to 50 staff short to do the work needed to get children into permanent loving homes, and to conduct investigations to see if a child was in an abusive or dangerous situation. He relayed that since the time of the study the problem had only worsened; 10 support staff had been added the previous year, but the number of foster youth had increased to 2,500.

Representative Gara highlighted that a caseworker in Fairbanks had 30 cases; the recommended national standard was 12 families. He explained that the main goal in the foster care system was to reunite a child with their family if appropriate or into a permanent home. However, due to such large caseloads, social workers were not able to work through cases to find children permanent families. He stressed that subsequently, children who were already damaged from being separated from their family were further damaged every time they were moved to another unfamiliar home. He emphasized that many of the children lived in as many as 20 different homes, which was no way to raise a child. He asked members to consider whether they would want their own child to live in 10 or 20 homes. He stated that "...these are our children. We are the legal guardians of children once we take them out of their homes. When we take them out of their homes, it's our job to make sure they earn the chance at a fair shake in life to succeed."

Representative Gara stressed that Amendment 5 offered the one chance at no additional General Fund cost over the prior year to make a good inroads towards fixing a system that was badly understaffed. He pointed out that the head of the Office of Children's Services (OCS) had recently received a national award in recognition for her work. He discussed that the office had been 50 staff short, but with the rise in foster youth, the number was higher. He detailed that when caseloads were high, social workers were unable to make their visits once every 30 days, detect signs of abuse or neglect, and get children into permanent homes. The national standard to get a child into a permanent home was 12 to 24 months; however, many children in Alaska spent 5 to 15 years in the foster care system. He emphasized that the length of time was almost inhumane. He believed the amendment would make significant progress towards making 2,500 lives better. The amendment had a high impact with no additional cost over the previous year. He pointed to recent testimony from the OCS director that under current staffing levels the worst outcome was that kids would die due to unmet needs and the state's inability to reach them quickly enough. He relayed that the children suffered from very high Adverse Childhood Experiences scores, which worsened every time they were moved into another home. He added that mental illness worsened with every move as well. He reasoned that children may lose their lives later on if depression rose to a level they could not handle. He knew a child in the system who had

been suicidal; with the department's assistance the child had received the needed help. The money to hire 80 social workers was not available; additionally, the department would be unable to absorb the number in one year. The amendment would allow for the hire of 28 social workers. He spoke to the high social worker burnout rate caused by high caseloads. He remarked that it was not possible to make a baseball team better if it only had 5 or 6 players; currently OCS had no one in the "outfield." He wondered how the agency could win a game under the circumstances. The amendment would help foster youth succeed and would reduce the 40 percent homelessness rate (the figure included 20 percent who "couch surf"). He noted that the federal definition of homelessness no longer included couch surfing. Additionally, 27 percent of the youths ended up in jail costing the state money. He added that if children were placed in permanent homes the state would not have to pay the \$30 daily fee to a foster family (\$12,000 per year). The current lack in staff was costing the state money and doing damage to children. He stressed that the amendment would save money by providing better outcomes for the youths; youths would go to jail in lower numbers, graduate high school in higher numbers, and other. He did not know how a price tag could be put on the consequences of not being able to detect child abuse.

[3:52:38 PM](#)

Representative Gara continued discussing the amendment. He underscored that the amendment would make a difference in children's lives. He stressed that it would protect children who do not have a chance in the world. He communicated that he would not have brought the amendment forward if the department had not come to him with \$2.9 million in freed up general funds (the figure was \$2.7 million with \$681,000 in federal matching money). The amendment would also designate \$211,000 to Employment Training Vouchers, which would allow OCS to assist youths aging out of the foster care system (aged 16 to 23) in attending job training programs, continued education, and other. The foster youth number had increased, which had increased the need for the employment training vouchers.

Representative Munoz wondered if the federal money had already been freed up and applied to advocacy centers.

Representative Gara replied that the federal government had agreed to let DHSS use the money for child advocacy centers, which was currently underway.

Co-Chair Neuman stated that the TANF money received by OCS was for child advocacy centers. The agency had received one-time bonus funds. He believed it was interesting that the director of OCS had not approached him with the information. He stated that child advocacy centers would still need funding, but instead the department had decided to move the funds over to OCS. He did not know why. He how using one-time funds for OCS was the right solution. He stated that in the future the department should go to the chair if it wanted to move freed up funds around. He stated that the situation resulted in his effort to look for funding for the advocacy centers.

Representative Munoz remarked that when the committee had looked at the DHSS budget she recalled there had been approximately 65 vacant frontline service positions due to difficulty in recruitment and retention.

Representative Gara replied that the vacancy number was down to 15; however, there would continue to be unfilled positions as long as high caseloads caused worker burnout. He relayed that the TANF funds came in on an annual basis.

Representative Wilson was opposed to the amendment. She was concerned the OCS director had testified that children would die without the funds. She remarked that the department had not subsequently been able to provide any information to support the statement. She discussed that DHSS did rate incoming calls with the most serious calls taking first priority. She found it surprising that the division had reduced its vacancies from 60 to 15 in a few weeks' time. She remarked on the state's process related to foster youths; many children were sent out of state and did not go to in-state relatives. She was concerned by the issue. She stated that money did not solve everything. She opined that the system contained numerous problems the state needed to face. She believed the state was taking kids it should not. She elaborated that every parent was not perfect. She continued that if the state was more supportive of parents and keeping children at home there would be fewer in the foster care system. Additionally, she believed the state needed to treat foster parents better. She stressed that it was not only about the money. She

remarked "we all care about kids, but we want them to stay with the parents first." She reasoned that the state needed to do better with parents as well. She reiterated her concern about the department's statement without any backup data.

[4:01:17 PM](#)

Co-Chair Thompson spoke to the \$2.9 million in TANF funds that would enable DHSS to hire 23 additional positions, which was only about 50 percent of the number needed. He referred to a similar amendment Representative Gara had offered during the normal budget process. He communicated that he had later agreed with Representative Gara that the funds would be well spent on increasing the number of positions. He had committed to work hard to try to fund the positions. He had worked with the Senate, which had put the positions back into the budget; however, the funding had been removed during the conference committee process. He did not want to see funds added to the budget, but he had committed to Representative Gara that he would work on the issue. He communicated that he would vote in support of the amendment.

Vice-Chair Saddler remarked that the amendment had been offered multiple times in the past. He addressed the \$2.9 million in TANF funds and stated that through the committee and House floor process the legislature had decided that any savings should be banked. He reasoned that the funds may not represent an increase from the prior year, but it was real money in the time of a deficit. He elaborated that the state spent nearly \$53 million on OCS frontline social workers, which represented a significant investment going towards strengthening families and preventing the mistreatment of children. He shared that the budget had included \$250,000 for three additional frontline social workers given the state's limited financial resources. He questioned whether there would be enough people to fill the numerous positions if the amendment passed. He believed that the department's ability to locate almost \$3 million in savings after the budget subcommittee process was an indicator that there may be more savings in departments that the legislature did not know about; it gave him hope that unallocated reductions would be backfilled. He addressed the statement that some kids may die without the additional funding. He asserted that people may die if other areas were not funded such as the Alaska State

Troopers, road maintenance, suicide prevention, correctional officers, and behavioral health services and drug treatment. He did not take the issue lightly and remarked that to imply that opposition to the amendment represented support of a child dying was a terrible thing. He shared that he had lost one of his own children. He concluded that no matter what was spent, it was not possible to keep everybody safe.

[4:05:18 PM](#)

Co-Chair Neuman MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Edgmon, Gara, Guttenberg, Kawasaki, Munoz, Thompson

OPPOSED: Wilson, Gattis, Pruitt, Saddler, Neuman

The MOTION to ADOPT Amendment 5 PASSED (6/5). There being NO further OBJECTION, it was so ordered. [Note: action on the amendment was rescinded later in the meeting and a subsequent vote to adopt the amendment failed. See 6:45 p.m. for detail.]

[4:06:17 PM](#)

AT EASE

[4:14:08 PM](#)

RECONVENED

Representative Guttenberg MOVED to ADOPT Amendment 6 (copy on file):

OFFERED IN: The House Finance Committee

TO: HB 2001

OFFERED BY: Representatives Kawasaki, Guttenberg and Gara

DEPARTMENT: University of Alaska

APPROPRIATION: University of Alaska

ALLOCATION: Various

ADD: \$7,000.0 UGF (1004)

EXPLANATION:

The current budget proposal includes roughly \$30 million in cuts already. We need a University that can

train a vibrant workforce, diversify the economy, and give people opportunity.

Co-Chair Neuman OBJECTED.

Representative Guttenberg explained the amendment that sought to restore \$7 million to the University of Alaska budget. He detailed that the budget was allocated to the university system by its Board of Regents. He relayed that the university had termed the total cuts as devastating [the current budget included roughly \$30 million in cuts to the university]. He remarked that it would be the engineers, architects, biologists, and other who would contribute to maintaining the university's vibrant community. He stressed that the amendment would enable the university to move forward and remain functional.

Representative Kawasaki supported the amendment, which represented a compromise. He relayed that according to the University of Alaska the amount reflected roughly 100 direct jobs within the university system (300 indirect jobs). He addressed the cost and relayed that the university was more than a training school; it provided a full education, vocational technology training, career advancement, and was a higher education institution. He stated that the university was world renowned for its academics. He elaborated that the National Science Foundation looked particularly to the University of Alaska Fairbanks (UAF) for research on the Arctic. He believed that at a time when research in the Arctic was at an all-time high the state needed an institution that was able to advance the issues. He reiterated that the amendment offered a compromise to add back a small portion of the budget. He stated that it was written into the state constitution that the legislature should fund the university. He noted that the university had made compromises within its own budget process including increased tuition rates, book rates, and housing costs. He remarked that the increases had impacted the number of students who could attend. He believed further cuts would be bad for the university as a whole.

[4:19:17 PM](#)

Representative Wilson spoke against the amendment. She shared that she had chaired the university budget subcommittee. She detailed that the university had over 400

buildings to maintain. She agreed that it was in the constitution, but the constitution did not specify that the legislature had to fund over \$300 million. She relayed that the university brought in over \$900 million in revenue. She was disappointed to learn that education accounted for the smallest portion of the university's costs. She stressed that over 50 university employees earned more than the governor; she believed the number was high. She noted that the university had three systems, which she believed was unnecessary based on Alaska's population. She believed the university brought students through the door but did not bring them out the other side. She believed if more students graduated the university would recoup some of the funds. She remarked that the university had spent \$9.1 million on a locker room. She contested that the university should have the ability to locate \$7 million in savings if it could spent \$9.1 million on a locker room. She believed the university was great, but that it needed to learn to fly on its own. She spoke to slimming down costs and utilizing resources such as internet learning. She supported working with the university to keep more kids in school. She added that the state also funded scholarships for students.

[4:21:34 PM](#)

Co-Chair Neuman MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Guttenberg, Kawasaki

OPPOSED: Edgmon, Gattis, Munoz, Pruitt, Saddler, Wilson, Neuman, Thompson

The MOTION FAILED (3/8).

Co-Chair Neuman acknowledged Representative Jim Colver in the room.

[4:22:36 PM](#)

Representative Gara MOVED to ADOPT Amendment 7 (copy on file):

OFFERED IN: The House Finance Committee

TO: HB 2001

OFFERED BY: Representatives Gara, Guttenberg, Kawasaki

Insert a new section to read:

"(c) \$6 million of the unexpended and unobligated balances, estimated to be a total of \$6,681,700, of the appropriations made in sec. 4, ch. 16 SLA 2013, page 105, lines 20-24, and sec. 4, ch. 18, SLA 2014, page 87, lines 10-11, and without elimination of any department positions, lapses to the general fund on June 30, 2015."

EXPLANATION: This causes the available general fund balance appropriated to Susitna-Watana Hydroelectric projects to lapse into the general fund. The Susitna Dam would serve the same customers as the two gasline projects being considered by the State at this time, and all three projects will bring excess power to the railbelt. This amendment withdraws the remaining unobligated funds with appropriated to the Susitna Dam in a time of budget shortfalls. This lapse does not affect any positions at DCCED.

Co-Chair Neuman OBJECTED.

Representative Gara explained that the amendment would put \$6 million of a \$6.6 million increment appropriated to the Susitna-Watana Hydroelectric project back into the general fund. He relayed that the amendment would not result in any cuts to Alaska Energy Authority (AEA) staff managing the project. He did not believe the state would have the money for the project any time soon; the state's priority was the gasline and to determine how to get low and stable cost power to Alaskans. He believed there was no reason to pay for two projects that would serve the same people. He believed it was a smart savings.

Representative Pruitt spoke against the amendment. He stated that the project was a pay now or pay later scenario. He reasoned that if it had been completed when the project had been initially discussed in the 1980s Fairbanks would not have needed additional help in the current year. He did not think it made sense to pull the money away because he anticipated that the state would be looking at the project again in the future. He stated that much money had been invested in the project over time and every time the state pulled back it ended up increasing the cost. He noted that the project was progressing towards the permitting phase.

Representative Kawasaki supported the amendment. He stated that according to AEA's response to Administrative Order 271 that would stop work, it would still require an additional \$102 million in an integrative licensing process to get to the point of obtaining a project permit. He believed the project may be a good idea if the legislature could locate \$102 million immediately. He had supported the project, but in the budget deficit situation, it was difficult to say that the state could justify spending even \$6 million more (essentially the same cost as the senior benefits program). He reasoned that the project would cost approximately \$5 billion to \$6 billion to construct. He believed the project was too large. He equated the situation to a legislator planning their 14 bedroom mansion even though it was not affordable. He believed it was prudent to pull the money back before spending another \$102 million to reach the permitting process.

[4:27:00 PM](#)

Vice-Chair Saddler opposed the amendment. He received his electricity from a hydroelectric dam at Eklutna Lake and natural gas from Cook Inlet through Enstar. He believed that in Alaska it could make sense to have a multitude of energy sources. He advised areas that relied on a single energy source (e.g. Fairbanks' reliance on fuel oil) to keep the idea in mind. He noted that the new UAF power plant had located \$260 million to produce energy.

Co-Chair Neuman MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Guttenberg, Kawasaki

OPPOSED: Gattis, Munoz, Pruitt, Saddler, Wilson, Edgmon, Thompson, Neuman

The MOTION FAILED (3/8).

[4:28:24 PM](#)

Representative Gara MOVED to ADOPT Amendment 8 (copy on file):

OFFERED IN: The House Finance Committee
TO: HB 2001

OFFERED BY: Representatives Gara, Guttenberg, Kawasaki
DEPARTMENT: Unallocated

ADD: \$29,800.0 UGF (1004)

LANGUAGE: Delete Page 25, lines 24-25

EXPLANATION: This amendment removes the unallocated statewide cut that will result in the loss of jobs and important state services.

Co-Chair Neuman OBJECTED.

Representative Gara explained that the amendment would remove the \$29.8 million unallocated cut to state agencies proposed in the committee substitute. He agreed with honoring the state's agreements to state employee wage contracts, but he did not agree that it should be done with the condition of a \$29.8 million unallocated cut (in addition to the \$389 million budget cuts). He pointed out that the administration had not identified where the cuts would come from. He stated that the cut would result in the loss of jobs and important state services. He remarked that the current budget would already result in the loss of over 500 jobs. He reasoned that it would cost \$15 million to \$17 million to honor the wage agreements. He agreed with honoring the commitments and believed that future wage contracts would be much more conservative. He stressed that the unallocated cut would create significant uncertainty. He believed it would be like giving a partial pink slip to all state employees because no one knew which jobs would disappear. He did not believe the cut was necessary. He would gladly accept savings resulting from cheaper office space.

Co-Chair Neuman understood that the \$30 million would have to be absorbed by the departments. He also understood that the following year would be much more difficult. He remarked that it would be harder to look at the DHSS and DEED budgets. He underscored that the state was still at a \$3.1 billion deficit. He pointed out that budget costs added up. He spoke to the difficult decision he had made related to cuts to items like OCS, Pre-K, the university, and other. He noted that the decisions had not been easy for anyone. He knew the cut was something that had to be done. He stressed that the legislature could not continue to dip into funds that were much needed across the state

for items like troopers and other. He MAINTAINED his OBJECTION.

[4:34:49 PM](#)

Representative Guttenberg spoke in support of the amendment. He opposed the unallocated nature of the cut. He elaborated that it was the responsibility of the legislature to target and understand which programs it cut. He emphasized that the cuts could go anywhere to any program. He stressed that the cut was not the only unallocated cut the legislature had given the administration. He would prefer to know and argue about what exactly the legislature was doing and where money was being taken from (e.g. from oil and gas permitting, the marine highway, the university, or other). His primary objection was that unallocated cuts abdicated the legislature's direct responsibility.

Co-Chair Neuman acknowledged that there were huge reductions in the budget. The unallocated cut reflected an effort to give the administration some room to absorb the cuts.

Representative Kawasaki spoke in support of the amendment. He pointed out that the budget item issue was one that was supported by the House. He cited earlier testimony from OMB that an additional \$30 million added to the existing \$300 million cut would include layoffs and a decrease in services. Additionally, OMB had testified that it did not know how the cuts would be handled.

[4:38:04 PM](#)

A roll call vote was taken on the motion.

IN FAVOR: Guttenberg, Kawasaki, Gara

OPPOSED: Gattis, Munoz, Pruitt, Saddler, Wilson, Edgmon, Neuman, Thompson

The MOTION to ADOPT Amendment 8 FAILED (3/8).

[4:39:05 PM](#)

Representative Gara MOVED to ADOPT Amendment 9 (copy on file):

OFFERED IN: The House Finance Committee
TO: HB 2001
OFFERED BY: Representatives Kawasaki, Guttenberg and
Gara
DEPARTMENT: Transportation and Public Facilities
APPROPRIATION: Marine Highway System
ALLOCATION: Various

ADD: \$5,000.0 UGF (1004)

EXPLANATION: Under the existing budget, communities this winter may be reduced to bi-monthly service. There will be limited vessels available due to lay-ups, which means that if vessels go in for unexpected repairs, there could be severe service interruptions. Two trips to the Aleutian chain to transport gear and supplies for fisheries in the spring could be lost. A slower step-down will allow the Marine Highway System to better-analyze possible commercial and passenger fare increases.

Co-Chair Neuman OBJECTED.

Representative Gara explained the amendment that would partially reinstate funds to the Alaska Marine Highway System (AMHS). He remarked that Governor Walker planned to comb through the AMHS budget to locate where gradual cuts could be made. He believed cuts were too deep in the current budget. He detailed that under the existing budget some communities may be reduced from monthly down to bi-monthly service during the winter months. He elaborated that some service could be canceled if vessels had to go in for unexpected repairs. Additionally, trips to the Aleutian chain may be lost in the beginning of fishing season. He expressed concern that the cuts could negatively impact business such as crab and other fisheries in the Aleutians. He supported a slower step-down of funds that would allow the administration to analyze whether fare increases may help. The administration had expressed concern that another fare increase may reduce ridership. He indicated that a more gradual decent in funding was preferred. He understood the need to gain control of the budget, but the amendment would still result in a cut to AMHS.

[4:41:27 PM](#)

Co-Chair Thompson spoke in opposition to the amendment. He indicated he was the chairman of the Department of Transportation and Public Facilities (DOT) budget. He discussed that much work had gone into determining how to reduce state spending. He reported that ridership and passenger vehicles only brought in about 30 percent of the cost of running the system. He detailed that the subcommittee had looked at everything within the department, including funds for state highways, airports, and the ferry system. He elaborated that the subcommittee had tried to come up with funding from the fuel trigger to offset some of the reductions. He had communicated to DOT that it would have to work hard with the subcommittee over the summer to figure out how to streamline and change how the ferry system operated. He stressed that with the state's \$3.2 billion deficit it could not afford the current system. He stressed that the state was in desperate times and it had to come up with ways to keep costs down.

Representative Munoz supported the amendment. She relayed that she had recently met with the head of the ferry system and had learned that Taku sailings would be drastically cut back beginning on July 1, 2015. She had been under the impression that summer sailings would not be impacted by the budget; however, that was not the case. She communicated that the decrease impacted Southeast Alaska's communities. She detailed that Angoon, Tenekee, Pelican, Hoonah, and Gustavus all relied on ferry service.

Representative Guttenberg noted that there were no ferries to Fox or Ester, but he reasoned that communities in other areas relied on ferries for economic needs. He stressed that Alaska had more coastline than the entire the U.S. He discussed the importance of the delivery of goods to communities on the ferry system. Additionally, schools relied on the ferry for transportation of sports teams. He emphasized that commerce relied on the schedule that had been set for the current year. He stated that the loss of \$5 million would hurt business and the economy significantly. He believed the AMHS should have the ability to live up to its contract for the year. He remarked that the schedule for the following year would need to be significantly curtailed. He opined that the state was obligated to live up to the schedule for the current year for businesses, communities, residents, and tourists.

[4:47:36 PM](#)

Co-Chair Neuman added that there had been excess fuel trigger funds leftover in the current year. He explained that fuel costs had decreased due to the drop in oil price, which had resulted in excess fuel trigger funds. He had worked with DOA and OMB to put the extra funds back into the ferry system. He relayed that DOT had testified that \$7 million was needed due to prior obligations; the fuel trigger funds had provided \$5.5 million and an additional \$2.3 million in undesignated general funds had been added. He noted that the funds had exceeded the \$7 million figure. Additionally, money from the head tax collected in port communities had been utilized. He had recently spoken with the DOT commissioner, who had communicated that they could work with the current budget. He remarked that there had been a delay in the ferry system because one of the Southeast ferries was receiving standard repair in Ketchikan. He had asked the DOT commissioner if routes would be impacted and if the system could get by. He reported that the commissioner had told him he thought the ferry system would get by.

Representative Munoz clarified that a delayed rehabilitation schedule for one of the smaller vessels was causing the ferry to be laid up for another month, but that was not the Taku she had referred to earlier. She elaborated that the Taku was scheduled to sail north from Bellingham, WA, but the service would be drastically cut as of July 1.

[4:51:49 PM](#)

Co-Chair Neuman MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Guttenberg, Kawasaki, Munoz, Gara, Edgmon
OPPOSED: Pruitt, Saddler, Wilson, Gattis, Thompson, Neuman

The MOTION FAILED (5/6).

[4:52:56 PM](#)

Representative Kawasaki MOVED to ADOPT Amendment 12 (copy on file):

OFFERED IN: Finance Committee

TO: HB2001

OFFERED BY: Representatives Kawasaki, Guttenberg and Gara

DEPARTMENT: Health and Social Services/Unallocated

APPROPRIATION: Unallocated

ADD: \$2,000.0 UGF (1004), contingent

DELETE: \$2,000.0 UGF (1004)

EXPLANATION: The administration should seek to identify up to \$2 million in cuts across departments. This will give the administration more flexibility to make cuts in other departments, should the administration decide that they will be less harmful than unallocated cuts to HSS. The administration is still free to place the unallocated cut entirely on HSS, so this is a revenue-neutral amendment that only adds flexibility.

Co-Chair Neuman OBJECTED.

Representative Gara stated that Amendment 12 was a no-cost amendment. He planned to withdraw the amendment if there was not support. He discussed that there had been deep unallocated cuts to DHSS. He explained that the department had a choice of five or six areas it could apply the cuts to; he believed the amount was roughly \$5 million to \$6 million (identified divisions included the Office of Children's Services, the Division of Behavioral Health Services, and other). He noted that the legislature had been unable to identify where the department should cut and had asked the department to make the cuts. He remarked that all divisions within behavioral health helped people who were down on their luck, chances in life, or health. The department had communicated that the cuts made to the specific division were too deep for it to absorb without harm. He detailed that the amendment specified that the administration should seek to identify up to \$2 million in cuts across departments. The administration would still be free to place the unallocated cut entirely on DHSS. He elaborated that the amendment would give the administration more flexibility to make cuts in other departments, should the administration decide that they should be less harmful than unallocated cuts to DHSS.

Co-Chair Neuman was confused by the amendment. He stated that the unallocated reductions were \$29.8 million that the administration could chose to make them anywhere. He stated that there was no direction specifying that any specific amount had to go to a particular department. He wondered if the amendment pertained to a \$2 million cut in addition to the \$29.8 million. He believed the amendment was duplicative because departments could already spread cuts how they chose. He noted that Representative Guttenberg had brought up that maybe departments should not be able to do so. He remarked that the goal had been to allow some discretion to departments to deal with some large cuts.

Representative Gara MOVED a conceptual amendment that would allow the administration to elect to take \$2 million of the unallocated cuts to DHSS anywhere in the executive branch. He explained that the figure was not an additional cut; it pertained to \$2 million of an existing unallocated cut to DHSS. The amendment would give the administration the flexibility to elect to apply the cut outside of the department.

Co-Chair Neuman asked if the amount was \$2.9 the department had been given back.

Representative Gara answered in the negative. He explained that the amendment was cost-neutral. He detailed that for \$2 million of the unallocated cuts applied to DHSS, the administration would have the power to decide where in the executive branch to apply the cut.

[4:58:55 PM](#)

Co-Chair Neuman countered that the cuts were not mandated to come from DHSS.

Representative Gara stated that the amendment was not related to the \$30 million in unallocated cuts discussed earlier in the meeting. He explained that there were roughly \$5 million to \$6 million in unallocated cuts to DHSS in the budget before the committee. He stressed that the department had communicated it was unable to absorb the cuts without harming people. The amendment would enable the administration to allocate \$2 million of the cuts to another department. The purpose of the amendment was to enable the administration to apply the cuts in the least harmful place.

Co-Chair Neuman MAINTAINED his OBJECTION.

Vice-Chair Saddler thought the amendment was contrary to Amendment 8 that had been put forward by the same sponsors. He remarked that Amendment 8 stated that unallocated cuts resulted in lost jobs and reduced state services. He asked for clarity.

Representative Guttenberg answered that the Amendment 12 specified that cuts could be taken from someplace else.

Representative Gara clarified that he did not like unallocated cuts and that the amendment did not propose to add that any unallocated cuts. The amendment's goal would enable the administration to decrease unallocated cuts to DHSS and to apply them wherever it chose.

Co-Chair Neuman MAINTAINED his OBJECTION.

Representative Gara WITHDREW Amendment 12.

[5:02:05 PM](#)

Representative Gara MOVED to ADOPT Amendment 13 (copy on file):

OFFERED IN: The House Finance Committee

TO: HB 2001

OFFERED BY: Representatives Gara, Guttenberg, Kawasaki

DEPARTMENT: Health and Social Services, Corrections

APPROPRIATION: Various

DEPARTMENT: Corrections

APPROPRIATION: Health and Rehabilitation Services

ALLOCATION: Physical Health Care

DELETE: \$4,108.2 Gen Fund (1004)

EXPLANATION: This portion of the amendment reinstates the budget savings of \$4,108.2 UGF that will no longer be required to be spent if the Governor's proposal to expand Medicaid is reinstated in the Operating Budget.

DEPARTMENT: Health and Social Services

APPROPRIATION: Behavioral Health
ALLOCATION: Behavioral Health Treatment and Recovery Grants

DELETE: \$1,558.7 GF/MH (1037)

EXPLANATION: This portion of the amendment reinstates the budget savings of \$1,558.7 UGF that will no longer be required to be spent if the Governor's proposal to expand Medicaid is reinstated in the Operating Budget.

DEPARTMENT: Health and Social Services
APPROPRIATION: Health Care Services
ALLOCATION: Catastrophic and Chronic Illness Assistance

DELETE: \$1,000.0 Gen Fund (1004)

EXPLANATION: This portion of the amendment reinstates the budget savings of \$1,000.0 UGF that will no longer be required to be spent if the Governor's proposal to expand Medicaid is reinstated in the Operating Budget.

DEPARTMENT: Health and Social Services
APPROPRIATION: Health Care Services
ALLOCATION: Medical Assistance Administration

ADD: \$410.0 (\$205.0 Fed [1002], \$205.0 MHTAAR [1092])

POSITIONS: ADD: 3 PFT positions

EXPLANATION: This portion of the amendment allows the state to accept Federal and Mental Health Trust funds for three positions associated with Medicaid expansion.

DEPARTMENT: Health and Social Services
APPROPRIATION: Public Assistance
ALLOCATION: Public Assistance Field Services

ADD: \$2,777.3 (\$1,385.6 Fed [1002], \$1,385.7 MHTAAR [1092])

POSITIONS: ADD: 23 PFT positions

EXPLANATION: This amendment allows the state to accept Federal and Mental Health Trust funds for 23 positions associated with the expansion of Medicaid.

DEPARTMENT: Health and Social Services

APPROPRIATION: Departmental Support Services

ALLOCATION: Commissioner's Office

ADD: \$0.0

POSITIONS: Establish a project manager to manage Medicaid expansion team.

EXPLANATION: This amendment adds a temporary position to manage the Medicaid expansion team- not money or PFTs.

DEPARTMENT: Health and Social Services

APPROPRIATION: Medicaid Services

ALLOCATION: Behavioral Health Medicaid Services

ADD: \$4,799.5 Fed (1002)

EXPLANATION: This portion of the amendment allows the department to accept \$4,799.5 in Federal funds that will benefit Behavioral Health.

DEPARTMENT: Health and Social Services

APPROPRIATION: Medicaid Services

ALLOCATION: Adult Preventative Dental Medicaid Services

ADD: \$5,381.2 Fed (1002)

EXPLANATION: This portion of the amendment allows the department to accept \$5,381.2 in Federal funds that will benefit Adult Preventative Dental services.

DEPARTMENT: Health and Social Services

APPROPRIATION: Medicaid Services

ALLOCATION: Senior and Disabilities Medicaid Services

ADD: \$2,908.8 Fed (1 002)

EXPLANATION: This portion of the amendment allows the department to accept \$2,908.8 in Federal funds that will benefit Senior and Disability Medicaid services.

DEPARTMENT: Health and Social Services
APPROPRIATION: Medicaid Services
ALLOCATION: Health Care Medicaid Services

ADD: \$132,348.9 Fed (1002)

EXPLANATION: This portion of the amendment allows the department to accept \$132,348.9 in Federal funds that will provide the opportunity for healthcare to the over 40,000 individuals without it in Alaska, create 4,000 jobs, and inject money into the state's economy.

DEPARTMENT: Health and Social Services
APPROPRIATION: Medicaid Services
ALLOCATION: Health Care Medicaid Services

DELETE WORDAGE: No money appropriated in this appropriation may be expended for services to persons who are eligible pursuant to 42 United States Code section 1396a(a)(10)A)(i)(VIII) and whose household modified adjusted gross income is less than or equal to one hundred thirty-three percent of the federal poverty guidelines.

EXPLANATION: This portion of the amendment deletes wordage that prohibits the expenditure of Medicaid funding on the expansion population.

Co-Chair Neuman OBJECTED.

Representative Gara explained that the amendment would enable the state to accept Medicaid expansion from the federal government. He highlighted that expansion would provide roughly \$6.6 million in state savings; savings were reflected in the amendment. The amendment specified areas the federal funds would cover costs the state was currently paying. He discussed that it would cover single individuals without children (who did not currently qualify for Medicaid) for a certain amount of services at the Department of Corrections and the DHSS Division of Behavioral Health. Additionally, the amendment included federal receipt authority for various areas of up to \$145 million. He noted that the amendment would take advantage of one of the last years of 100 percent federal reimbursement.

Co-Chair Thompson spoke in opposition to the amendment. He stated that there had been many meetings on Medicaid

expansion and had the committee had heard much testimony. He noted that the committee had read significant testimony from Margaret Brodie's [Director, Division of Health Care Services, Department of Health and Social Services] testimony to the courts regarding the state's lawsuit against Xerox. He addressed that when existing Medicaid recipients had been loaded into the state's system, the system had crashed. He elaborated that consequently the state had paid out \$165 million to providers in state funds because it could not get the funds billed to the federal government. He continued that Ms. Brodie had recently testified that the state had collected back \$70 million of the total funds; she did not know if the state would ever be able to collect the balance. He stated that Medicaid expansion would add up to 40,000 new recipients. He noted that 70,000 new medical codes would be loaded into the system in the coming fall. He emphasized that the state did not know if the system could handle the influx of information. He added that the system could not handle the information in the past. He stressed that if it crashed the system again it would cost the state \$200 million in advance payments to providers, with no reassurance that it would recoup the funds.

Co-Chair Thompson had heard from doctors in his community who were having a real problem receiving payment in a timely manner. He recognized that the administration had caught up with the large providers and hospitals and was doing a good job in that area; however, it had not caught up with small providers. He shared that it had taken five months for a doctor in his community to receive an \$8,000 payment, which had subsequently been retracted for investigation. Due to the problems, the state was in the process of doing a Request for Proposal (RFP) to collect data and unbiased opinions on Medicaid expansion. He stated that Arkansas had recently unfunded Medicaid expansion and Rhode Island had voted against it. He communicated his desire to understand why. He believed steps were being taken that could really hurt Alaska. He relayed that the administration had also submitted an RFP that would provide direction on how to implement Medicaid expansion. He stressed that the information would not be available until 2016. He wanted to ensure the state approached the issue correctly. He was concerned that the state could be bankrupted. He wanted people to be insured and wanted to take care of Alaskans, but he wanted to take care of Alaska at the same time.

5:08:10 PM

Representative Guttenberg testified in favor of the amendment. He addressed a Margaret Brodie affidavit that had provided a historical view on the Xerox situation. He did not know how the system compared with other states, but he did not imagine it was as good. He remarked that the cost of engaging Xerox had been expensive, but he acknowledged that the state's system had been very old. He discussed that the committee had been informed that all billings within the first month were better than 90 percent, after a three-month period billings reached 100 percent. He stressed that the information represented a significant improvement from his experience two years earlier. He stressed that Medicaid expansion was not a process that could be stopped to make changes; people were going to the doctor, kids got sick, bones broke, and other. He reasoned that it was an ongoing process and that it was about people's lives. Expansion would bring a cost savings to the state. He pointed out that costs had been about \$190 million in the past two years. He stressed that if the state waited another year the state would have missed out on \$360 million in federal funds. He noted that most of the funds would trade federal dollars for state general fund dollars. He continued that expansion would provide healthcare to the people who were the most expensive to treat. He underscored that private, community owned, and nonprofit hospitals had all come before the committee in support of expansion, which was advantageous to them. He underscored that expansion provided an economic opportunity for the state to decrease costs and provide healthcare for Alaskans. He believed the state needed to transition from an expensive process to a system that created efficiencies.

Representative Kawasaki spoke in support of the amendment. He stated that in the last legislative cycle there had been some iteration of a bill dealing with Medicaid expansion or reform almost 30 times. He stated that as a matter of policy the House Health and Social Services Committee had passed a bill that was similar to the amendment. He asserted that the savings were clear; the state would see savings of up to \$330 million over a six-year period. He noted the savings estimate was conservative. He relayed that up to 30 other states had accepted Medicaid reform and expansion. The Pew Charitable Trust that had reviewed states that had accepted expansion and had determined there

had been savings in each circumstance. He stated that the current discussion was not about policy, but about money. He stated it was clear that there would be savings from Medicaid expansion, which would have an impact of \$40 million in general fund savings over six years. He stressed that over the past three months there had been huge results in the improvement of the Medicaid Management Information System (MMIS). He contended that the results exceeded anything done on the issue by the past administration. He served on the board of a small clinic that would benefit from Medicaid expansion and relayed that payments had not been made clearly several years earlier. He remarked that currently payments were basically seamless. He believed it showed what the current administration had done to prove that Medicaid expansion and reform could work.

[5:15:21 PM](#)

Vice-Chair Saddler spoke in opposition to the amendment. He stated that Medicaid expansion had been included as an item in the appropriations bill and the legislature had requested that the governor submit separate legislation on the topic. He elaborated that the governor had submitted a bill, but it had not passed. He noted that the issue had been addressed again during special session. He stated that Medicaid currently provided healthcare services for 150,000 Alaskans including people with disabilities, pregnant women, and other; the program cost approximately \$1.6 billion per year. He emphasized that the current governor and DHSS commissioner acknowledged that the system was broken (the prior administration also called the system broken). He stressed that the committee had asked questions of the administration during multiple hearings on Medicaid. He stated that the answers had raised additional questions for him. He detailed that there were problems with the Enterprise system, which was far less accurate than the prior system. He had spoken to physicians in his district who were still owed \$1 million over a year after providing service. He spoke to problems with reconciling and correcting past billing statements. He stated that because Alaska had a higher Medicaid reimbursement rate than Medicare, people covered under expansion would receive care ahead of seniors and veterans. He pointed to the risk that expanded enrollment would exceed projections. He remarked that many states that had accepted expansion had seen the numbers vastly outnumber the original projections. He believed the state needed to be concerned about an open-

ended commitment to providing 10 percent more going forward. He commented that the administration had recognized the need to find solutions based on the experiences of other states in order to craft the best system for Medicaid in Alaska. He noted the RFP and project would take one year. Additionally, the legislature had put out an RFP seeking expertise through the Legislative Budget and Audit Committee. He believed that accepting Medicaid expansion before receiving the information would be subjecting the state to a "ready, fire, aim" philosophy. He believed it was prudent to wait.

[5:18:09 PM](#)

Co-Chair Neuman MAINTAINED his OBJECTION. He discussed that over 21,000 Alaskans would fall into a "donut hole." He elaborated that due to federal regulations many people who were self-employed or had no insurance were required to buy into the federal premium. He believed there was currently a federal lawsuit in Texas related to the issue. He remarked that other states had applied for some funds to try to fix an existing problem. He furthered that the 21,000 Alaskans would lose the assistance they received on premiums from the federal government. For example, if a person's costs were \$800 per month, they would lose their credits of up to \$500 per month. He believed many Alaskans would be hit hard and would find themselves in a predicament where they had to pay a penalty because they did not sign up on the federal insurance premium. He commented that the issue was one of many that continued to confuse people. He thought there were numerous people who were unsure where and how the state would move forward.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Guttenberg, Kawasaki

OPPOSED: Munoz, Pruitt, Saddler, Wilson, Edgmon, Gattis, Thompson, Neuman

The MOTION FAILED (3/8).

[5:21:47 PM](#)

AT EASE

[6:35:33 PM](#)

RECONVENED

Vice-Chair Saddler MOVED that the committee RESCIND its previous action of adopting Amendment 5.

Representative Gara OBJECTED. He requested an "at ease."

Co-Chair Neuman asked Representative Gara to speak to his objection. He reconsidered and asked for a vote on the motion.

A roll call vote was taken on the motion.

IN FAVOR: Pruitt, Saddler, Wilson, Edgmon, Gattis, Munoz, Neuman

OPPOSED: Gara, Kawasaki, Thompson

Representative Guttenberg was absent from the vote.

The MOTION PASSED (7/3). There being NO further OBJECTION, the adoption of Amendment 5 was RESCINDED.

Representative Gara asked for an "at ease."

[6:38:26 PM](#)

AT EASE

[6:40:31 PM](#)

RECONVENED

Co-Chair Neuman gave Representative Gara the option to re-offer Amendment 5.

Representative Gara was uncertain why he would reoffer the amendment. He was curious about what had happened in the time since the amendment had passed. He observed that an hour had gone by and votes had changed. He wondered why votes had changed.

Co-Chair Neuman asked if Representative Gara wanted to re-offer the amendment.

Representative Gara MOVED to ADOPT Amendment 5.

Co-Chair Neuman OBJECTED.

Representative Gara spoke to the amendment. He addressed several points made by other committee members earlier in

the meeting. He relayed that the \$2.9 million in federal TANF funding for child advocacy centers was recurring.

Co-Chair Neuman asked for verification that the funding was for child advocacy centers.

Representative Gara replied in the affirmative. He continued that the \$2.9 million had freed up funding, which the amendment would transfer to OCS in an effort to fix the foster care system. He stated that in the original vote the committee had made real progress towards fixing the system and giving foster children a fair chance in life. He stressed that at no additional cost from the previous year, the amendment would improve lives, increase success for foster youth, increase the number of youth in permanent and loving homes, and would increase the state's ability to detect child abuse and remove children from abusive homes. He hoped the committee could pass the amendment again.

Co-Chair Neuman understood that child advocacy centers were in the budget, but he believed the \$2.9 million was bonus funding. He MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Guttenberg, Kawasaki, Thompson
OPPOSED: Saddler, Wilson, Edgmon, Gattis, Munoz, Pruitt, Neuman

The MOTION to ADOPT Amendment 5 FAILED (4/7).

[6:44:48 PM](#)

Co-Chair Neuman asked for any final comments from the committee on the bill.

Representative Gara was "pissed off" at the change of events that took place in the past hour. He stood by his words. He thought a little progress had been made on the budget; however, he surmised that he would not learn what had happened in the past hour that took away the progress. He stressed that he was not personally hurt by the change, but it did hurt the 2,500 children who had been positively impacted by the amendment. He stated that none of the children were in his family, but they were children that all members should care about. He underscored that the change did not represent a shot at him.

Co-Chair Neuman did not believe anyone was taking a shot at Representative Gara.

Representative Gara disagreed.

Vice-Chair Saddler remarked that it was against Mason's Rules to disparage the motives of another legislator.

Representative Gara disputed the comment and replied that he had not mentioned any specific members. He believed the House Majority had the votes to do whatever it wanted. He stated that he could not stop the Majority if it wanted to move the bill forward with the anticipation that it would drain the Permanent Fund earnings reserve. He contested that the Majority could tell him to vote for a budget (that he believed was worse than the one voted on during regular session), but he would not agree. He stressed that the Majority could put conditional language in a bill specifying that the Minority had to do something, or a compromise could be worked out. He underscored that the budget before the committee did not work for him. He elaborated that the budget cut \$48 million in education funds that were promised the prior year. He remarked that there was an offer to cut only \$32 million of the funds from the prior year. He observed that it was the same budget item that had been on the House floor, but a bit worse. He furthered that when the committee had voted on the original bill it done what it normally did and had approved valid wage agreements. He discussed that the current bill would only approve wage agreements on the condition that the state layoff more people by way of \$30 million in additional budget cuts. He emphasized that the administration had testified that the cuts would result in layoffs and cause damage to services. He could not vote for that scenario. He felt that the budget was worse in some ways than the budget addressed by the legislature during the regular session. He had elected to take on the foster care issue a number of years earlier because he thought it would have bipartisan support. He wondered how people could not want to improve a system for child victims of sexual abuse who through no fault of their own did not live in loving homes. He believed there had been bipartisan support on the topic earlier in the meeting, but it did not exist any longer. He remarked that the discussion had been held outside of committee and he was not privy to it. He stated there were a multitude of people in the hallways claiming

they could work out a budget deal in an hour's time; however, it was not happening in the committee. He hoped that the legislators who wanted to work together would work on a budget that worked for everyone; a budget that involved compromise.

6:51:17 PM

Representative Gara relayed that he could not vote for a bill that was worse to him than the original operating budget. He thought the current bill was worse for education and wage agreements. He believed in continuing to talk and work together, but the current budget would not have his support.

Representative Kawasaki stated that the current budget had been seen for the first time at 9:30 a.m. that morning. He had been told it reflected a compromise; however, he reasoned that a compromise was settling two differences to end an argument or dispute. He thought the legislature should be compromising on the budget; however, he believed the budget was largely worse than the budget passed by the committee in March. He disputed that the budget represented a compromise. He did not support the bill.

Representative Guttenberg did not consider the current committee process a negotiation. He stated that nothing had changed, the legislature had spent one month to get to the current point and nothing had moved an inch. He asserted that the legislature was not one iota closer to moving forward. He stated that actions spoke louder than words. He was amazed throughout the process because no movement had been made. He underscored that the people's time and money had been wasted. He did not know what the expectation was about how the legislature would move forward, but he observed that the committee clearly was not moving forward.

Co-Chair Thompson MOVED to REPORT CSHB 2001(FIN) out of committee with individual recommendations. There being NO OBJECTION, it was so ordered.

CSHB 2001(FIN) was REPORTED out of committee with a "do pass" recommendation.

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ADJOURNMENT

6:56:01 PM

The meeting was adjourned at 6:56 p.m.