



J and H is pleased to present an update on the beginning of the Alaska State Legislature's Thirtieth Legislative Session.

Up This Week:

Wednesday, January 18, 2017: Overview FY 18 Operating Budget by Pat Pitney, Director, Office of Management and Budget, at 9 am in Senate Finance

Wednesday, January 18, 2017: Fall 2016 Revenue Forecast, Randy Hoffbeck, Dept. of Revenue Commissioner and Dan Stickel, Chief Economist, at 1:30 p.m. in House Finance

Wednesday, January 18, 2017: Governor's State of the State at 7 p.m.

Thursday, January 19, 2017: Fall 2016 Revenue Forecast, Randy Hoffbeck, Dept. of Revenue Commissioner and Dan Stickel, Chief Economist, at 9 am in Senate Finance

Friday, January 20th, 2017: Overview FY 18 Operating Budget by David Teal, Director, Legislative Finance Division, at 9 a.m. in Senate Finance

Friday, January 20th, 2017: Overview FY 18 Operating Budget by David Teal, Director, Legislative Finance Division AND Overview FY 18 Operating Budget by Pat Pitney, Director, Office of Management and Budget, at 1:30 a.m. in House Finance

PREFILED BILLS OVERVIEW:

The House pre-filed 47 bills and the Senate pre-filed 19 bills. Below are quick summaries of some of the bills that may be of interest to your organization.

SB 1 and HB 21-PFD: Appropriates \$666.4 million from the Permanent Fund to pay out the portion of the dividend that was vetoed by Governor Walker.

SB 2 and HB 22-PFD: Authorizes payment of \$666.4 million as a supplemental dividend to each qualified Alaskan.

SB 3-Ferries: Exempts ferry construction from the state's percent for art program and provides ferries with an alternative method to meet sewage discharge standards.

SB 5-Campaigns: Legislators can't set up personal political action committees or PAC's.

SB 6-Hemp: Industrial hemp is not a controlled substance.

SB 7-Museums: Creates a museum renovation and construction grant program but doesn't fund it.

SB 8-Tribal: Authorizes Pick. Click. Give. to give money to tribal governments.

SB 10-Medicaid: Medicaid will pay for home care and the Dept. of Health and Social Services will allow adult foster care homes for up to three disabled adults.

SB 12-School Tax: Creates a limited tax the proceeds of which may be used for educational facilities, maintenance, and the construction fund under AS 37.05.560. The tax is graduated and pegged to income starting at \$50 a year for an income of \$20,000 or less and capping out at \$500 a year for an income of \$500,000 or more. This is one we will probably want to watch.

SB 13-PerDiem: Legislators can't collect per diem after 91st day (session is 90 days) if an operating budget hasn't been passed.

SB 15-E-Cigs: Prohibits possession of e-cigarettes and other tobacco products by those under 19.

SB 17-Exchange Program: Establishes an exchange program between the University of Alaska and the University of Hawaii, the Ted Stevens-Daniel K. Inouye Exchange Program for political science majors.

SB 18-Boroughs: Limits the powers of third-class boroughs.

SB 19/HB 43-Medical: Allows doctors and pharmaceutical companies to make and prescribe experimental drugs or treatments for terminally ill patients by providing them with immunity.

SJR 1-PFD: Proposed Constitutional Amendment that would protect the account that pays the PFD.

HB 1- Elections: Allows Alaskans to register to vote on Election Day.

HB 2-Vets: Allows employers to give veterans hiring preference.

HB 3-Natl. Guard: Employer must allow National Guard member time off to serve even if they are a member in another state.

HB 5-Line of Duty: When a firefighter or police officer is killed in the line of duty, the spouse and children will still be able to receive health insurance.

HB 7-Selfie: Allows a ballot selfie.

HB 8-Protective Order: Law enforcement must enforce a protective order issued out of state as long as it appears authentic.

HB 10-OCS: OCS must consider whether removal of a child from their home is likely to result in serious emotional or physical damage.

HB 11-Retirement: Allows public employees/teachers to take early retirement for up to 3 years through 2020.

HB 12-OCS: OCS can only take custody of a child with a court order unless there is an emergency.

HB 13-Registry: Alaska will not participate in any federal effort to register people based on race or religion.

HB 15-Statutes: Replaces the terms “husband” and “wife” in state statutes.

HB 16-Police: Police must be trained to recognize and work with people with disabilities.

HB 24-Drugs: A designer drug called U-47700 is added to the schedule of illegal drugs.

HB 25-Insurance: Health insurance must cover birth control.

HB 26-Employment: Employers must provide breaks for nursing mothers.

HB 28-Cosmetics: Cosmetics must list ingredients on packaging.

HB 29-Fish: Can't sale genetically modified fish in Alaska.

HB 30-Employment: Employers must provide paid sick leave.

HB 31-Rape kits: Alaska police must list how many untested rape kits there are and the Department of Public Safety must provide an accounting of the rape kits.

HB 32-Food: Label genetically engineered food.

HB 34-Alcohol: Increases distance between churches and schools and stores that sale alcohol to 500 feet but allows exemption for established businesses.

HB 35-Public Safety: Creates a fund for public safety that would be used to help pay for the services if the state cuts municipal revenue sharing.

HB 38- Benefits: Increases amount paid by an employer to a permanently disabled employee. If the employee dies without any family, employer must still pay a death benefit.

HB 44-Conflicts: A legislator can't vote on a matter if the legislator or immediate family member has a conflict. If this passes a rules change will also be required.

HB 45-Wages: Increases the minimum wage to \$15 starting Jan. 1, 2018.

HB 46- Procurement: Requires state, municipalities, and school districts to purchase Alaska products, if they are not 15 percent more expensive than products produced outside Alaska.

HB 47-Retirement Contributions: Communities that have lost at least 25 percent of their population (between 2000 to 2010) and who have fallen behind on their required retirement contributions pay a smaller interest penalty.

HJR 1-Marriage: Proposes a constitutional amendment that defines marriage as between a man and a woman.

HJR 2-Budget: Proposes a constitutional amendment that sets a \$4 billion dollar yearly spending limit on the state's operating expenses, adjusted yearly for inflation and population.

HJR 3-Session: Proposes a constitutional amendment setting the legislative session at 90 days.

BUDGET OVERVIEW:

Operating Budget:

The operating budget totals \$10.4 billion but much of the revenues are federal funds. The proposed budget includes \$4.3 billion in unrestricted general funds (UGF) and roughly \$1.7 billion in designated general funds (DGF), both of which the legislature controls (see line 33 of the Governor's fiscal summary). Money raised through taxes and fees is projected to increase by \$177.4 million. The proposed budget includes \$123 million cut in spending by state agencies (see line 9 of the Governor's fiscal summary). However, the cuts are offset by higher payments on state debt, oil and gas tax credits, and capital projects, leaving the total budget reduction at \$28 million. Additionally, there is a projected \$30 million in savings from Medicaid and criminal justice reform bills passed last year. Whether those savings actually happen remains to be seen.

Very few state departments were spared cuts but both the Department of Education and the University of Alaska received no cuts in the Governor's proposed budget. Education actually gets a small increase of 0.2% from FY 2017 (See Condensed Budget Comparisons All Funds). In FY 17, the total education budget was \$1,620,559.1 and in FY 18 the total proposed budget is \$1,621,976.2 (see Summary Department Comparisons). From FY 17 to FY 18 there is a loss of 15 positions. The Base Student Allocation remains unchanged at approx. \$40.7 million. However, enrollment and funding source changes result in a \$6 million increase to UGF. Pre-kindergarten grants are funded at \$2 million again this year and Early Learning Coordination at approx. \$8.5 million. Mt Edgecumbe is funded at \$11 million and Alaska Performance Scholarships at \$11.75 million. The Kivalina School is not funded in

either the operating or the capital budget. The University of Alaska is at level funding from the current year.

Budget Saving Measures:

- Eliminates another 795 jobs
- Mandatory 2 days furlough for all state employees plus increases in health care premiums
- Pay freezes for all nonunion employees
- Juneau Access Project is dead money to be spent in Southeast
- Governor cut his own pay by 1/3
- \$3 million in savings by closing the Nome and Ketchikan juvenile justice centers
- \$300,000 in savings by reducing staff at state parks
- Reduction in ferry services

Permanent Fund:

The budget, in large part, depends on the passage of the Permanent Fund Protection Act (PFPA). The PFPA uses a percent of the Permanent Fund earnings reserve for state spending. In 2018, the PFPA makes up about \$2.5 billion in revenue and leaves a \$1,000 dividend. The Governor is stating that the 2018 deficit is roughly \$890 million but without the passage of the PFPA it is about \$3 billion. In other words the budget is very dependent on the passage of the PFPA.

Also oil and tax credits are paid only at the statutory minimum of \$74 million leaving an obligation of \$900 million.

New Revenue Sources:

Proposes an increase in the motor fuel tax:

- Tax would increase from 8 to 16 cents in 2017 and then to 24 cents in 2018.
- The tax projected to bring in \$40 million the first year and \$80 million in 2018.
- Money used for highway maintenance, harbors, and other transportation needs.

The Governor and the administration hope to work with the legislature on additional tax revenue measures.

Conclusions and Thoughts:

The budget is very dependent on the passage of the PFPA and if that fails to pass the proposed budget is left with a gaping \$3 billion dollar deficit. This is a cause for concern. In the press, some members of the legislature felt that Governor Walker had failed to cut the operating budget enough so look for more cuts in the months ahead. In fact, the Senate Majority is proposing cutting an additional \$750 million over three years. Senator Dunlevy has recently proposed an additional \$1.1 billion in cuts spread over 4 years, which would cover about 40 percent of the state's \$2.65 billion dollar annual deficit. Under Senator Dunlevy's proposal, the rest of the deficit would be covered by a portion of Alaska's Permanent Fund investment earnings. Neither plan details where the cuts would be made. As the session progresses, J and H will keep you updated as the budget changes.