

APDC Legislative Report
Prepared April 16, 2019

General Issues:

- Today is the 92nd legislative day. Article 2, Section 8 of the constitution provides that the legislature can run 120-days which would be May 15th. The constitution also allows for the legislature to extend ‘once’ for an additional 10-consecutive days which would bring us to May 25th. At that point, the regular session must end and any further action would have to be conducted in a special session. Special sessions can be called by the governor *or* by a 2/3 vote of the legislature. A special session called by the governor would be limited to the subjects designated in the proclamation, to subjects presented by him and the reconsideration of bills vetoed by him after adjournment of the last regular session. A special session called by a vote of the legislature would allow the legislature to list the subjects available for consideration during the special session as well as reconsideration of any bills vetoed by the governor after adjournment of the last session. A special session is limited to 30-days. The state fiscal year begins July 1st. Final action on the budget, including veto override votes (*if any*), would have to be completed prior to that date to avoid a government shutdown on July 1.
- The legislature will meet in Joint Session April 17 beginning at 1:00p to consider confirmation of the governor’s cabinet appointments and the multitude of board seats that require confirmation. Phillip Schneider has been confirmed for the public seat on the AELS Board.
- At this point in the session, the House has passed the FY2020 operating budget (HB39) over to the Senate for their consideration, recommendations and final action. Once the Senate takes action, the budget would reflect differences between House and Senate. In order to ‘send *a* bill’ to the governor, all differences between the versions would need to be reconciled. A conference committee (3-members FIN House, 3-members FIN Senate) would be duly appointed and the bill (HB39) would be referred to the conference committee to complete this action. Once the conference committee reports the bill back to the respective bodies, a vote is taken which would complete the legislative action and the bill would be transmitted to the governor for his action. The constitution provides the governor 15-days (except Sundays) if the legislature is in session and 20-days (except Sundays) if the legislature is not in session.

Budget Issues:

- As Alaska enters its 60th year of statehood, the issue of financing state government and development of the state is squarely in the center of the table here in Juneau and across the state for that matter. Oil volumes have flattened out at 500,000 barrels/day, the price of oil is trending between \$60 and \$70/barrel, oil tax revenues are flat and far less than in recent years and the state is marginally recovering from a 39-month recession. Despite these challenges, the state is fortunate to have the Alaska Permanent Fund; \$64 billion estimated balance as of March 1, 2019, to consider in resolving long term budget issues. Last session the Alaska legislature passed and

the governor signed into law SB26 which establishes that the Permanent Fund will be managed as an endowment from which an annual withdrawal (5.25% for –years and then a reduced rate of 5.00% from thereafter). This is referred to as a Percent of Market Value (POMV) approach to fiscal planning. In FY2019, the POMV withdrawal is approximately \$2.9 billion. These funds would flow into the state general fund and can be used for dividends and general government. The split between the two competing demands is the subject of much discussion this session. Prompting much of the budget consternation this year is attributable to the governor’s campaign promise of a full statutory dividend which results in less funds available for general government, hence the sudden emergence of the \$1.6 billion ‘fiscal crisis’ reference.

- In order to accomplish the promise of larger dividends, the governor’s February 13th budget proposal recommended dramatic spending reductions, hundreds of millions of dollars in claw-backs from municipalities, fund transfers, elimination of the Power Cost Equalization (PCE) Endowment Fund and elimination of fund sharing (school debt reimbursement, community assistance and fisheries taxes). Implementing many of these proposals would necessitate statutory changes which then required the introduction and passage of numerous bills. The legislature’s first visible reaction was the organization of the House majority whose make-up displayed a bipartisan leadership and membership, essentially heralding a ‘braking action’ to the governor’s dramatic proposals. The Senate had previously organized, generally along party lines but in early presentations, Senator President Giessel telegraphed that her caucus was not formed along rigid lines suggesting they would not simply ‘agree’ to all of the governor’s proposals. Coupled together, the Senate and newly formed House began to settle in and address the budget, both agreeing to begin consideration from the FY2019 adjusted, *not* the governor’s proposal. The House generally moves first on the operating budget and throughout the subcommittee process offered each governor amendment an up or down vote. If the amendment failed to pass, the FY2019 adjusted value was advanced. The Senate will start with the House budget and adjust accordingly.
- While not endorsing the dramatic reductions as proposed by the governor, the House did make reductions estimated at approximately \$200 million in general fund spending. It is expected that the Senate will recommend additional reductions. The House budget does not recommend an amount for the 2019 dividend but the Co-Chair of HFIN estimated that there are funds available that would equate to a dividend of approximately \$1,284. There is no agreement on this number at this time.
- Specifically addressing the APDC priority for the Building Plan review office within the Department of Public Safety, the House budget recommends an additional \$90,000 to the Plan Review office to address the plan review backlog. While this is less than the December 15 budget recommended increment of \$231,500, it is a \$90,000 increment over the February 13 governor’s budget request. The Senate has not acted but I would expect they would support the House action. Should the Senate accept the House action on this issue, it is my understanding that the increment would be built into the base budget which is favorable for next year budget action. Whether this is a sufficient amount of funding for the office is unclear at this time so it is

important for APDC and AGC to monitor the issue and report periodically on the development of plan processing backlog during the 2019 building season.

- SB19 is the capital budget vehicle and has yet to be taken up for amendment in the SFIN Committee. Typically action on the capital budget begins in earnest after the operating budget has advanced through the committee process. The governor has proposed a modest capital budget, similar to recent years, wherein state general funds are used sparingly to match federal highway, federal aviation and receipt of other funds that require state match. Deferred maintenance projects are included but practically speaking, only modestly given the state financial constraints.
- Link to HB39: <http://www.legis.state.ak.us/PDF/31/Bills/HB0039D.PDF>
- Link to SB19: <http://www.legis.state.ak.us/PDF/31/Bills/SB0019B.PDF>
- With respect to the matter of the Permanent Fund dividend, the conversation within the legislature becomes somewhat scattered and the final resolution of a dividend amount is likely to be one of the last issues resolved prior to adjournment. The statutory calculation of a dividend would suggest a 2019 dividend of slightly over \$2,900. The current statute computes the dividend amount by establishing the average statutory net income of previous five most recent fiscal years, multiplying by .5 and dividing by the number of eligible dividend recipients. Governor Walker reduced the dividend amount in 2016 through use of the veto, the legislature chose not to attempt to override his veto action. The 2017 and 2018 dividend was set through appropriation (without reference to the statutory method) by the legislature without objection by the governor. Candidate Dunleavy challenged the action by the Walker Administration and the legislature in the 2018 election, promising voters a return to the traditional approach in calculating and paying dividends. At this point, it's premature to predict the final outcome but both the public and members of the legislature have indicated that they favor more stable state budgeting over higher dividends at the expense of general government.
- In addition to the dividend issue, the governor has also called for constitutional amendments that would establish a spending limit; require a vote of the people on implementation of any new taxes and including the dividend payout within the constitution. The legislature has been reluctant to address the governor's proposals signaling unwillingness to lock these concepts into the constitution which many feel would '*tie their hands*' in future years, contrary to the original design of the constitution. Acknowledging the governor's desire to establish some budget controls, legislative leadership has offered similar concepts using a statutory approach rather than constitutional amendment approach. Evidently, according to some, the governor has not fully dismissed their efforts. Again, this discussion will continue through the remainder of the session, perhaps including one *or two* special sessions.

- Finally, while there is no specific reference to earthquake funding in the proposed operating budget, the legislative did pass and the governor did sign supplemental funding in response to the November 30 earthquake. This provides emergency funds and match to receive federal earthquake relief funding which would be immediately available in FY2019.
- Link to SB38: <http://www.legis.state.ak.us/PDF/31/Bills/SB0038Z.PDF>