



## City of Homer

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# Memorandum Agenda Changes/Supplemental Packet

TO: MAYOR ZAK AND HOMER CITY COUNCIL  
FROM: RENEE KRAUSE, CMC, DEPUTY CITY CLERK  
DATE: MARCH 20, 2018  
SUBJECT: AGENDA CHANGES AND SUPPLEMENTAL PACKET

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### ISSUES BEFORE THE ALASKA LEGISLATURE INCLUDING:

- Revenue Sharing
- PERS/TRS and the Unfunded Liability **page 1**
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Memorandum from Representative Seaton's Office as backup



**Homer City Council  
Legislative Working Group  
March 20, 2018**

This information below is based on the State Operating and Mental Health Budgets – HB 286/HB 286 as passed from the House Finance Committee on March 16<sup>th</sup>, and the FY18 Supplemental Budget (Fast Track) – HB 321, which passed the House and the Senate and is now awaiting to be transmitted to the Governor. The information below does not include any funding that comes through the State Capital Budget – SB 142, as this bill has not yet been heard by the House. The Operating Budget will most likely be amended to some degree on the House floor, and again in the Senate. The difference between the House and Senate versions of the bill will be worked out in Conference Committee.

**Community Assistance (Previously known as Community Revenue Sharing)**

In the Governor’s budget, he included an FY18 supplemental of \$30 million from the Power Cost Equalization fund which will allow for an FY19 Community Assistance payout of \$30 million to communities. However, there was nothing in the FY19 budget to assure an FY20 payout to communities.

To assure a community assistance payout to communities in both FY19 and FY20, the House moved the Gov’s \$30 million appropriation into the HB 321 (FY18 Supplemental Budget) and included an additional \$30 million appropriation in HB 286 (Operating Budget).

**PERS/TRS Unfunded Liability**

The House included \$135.2 million for the Public Employees’ Retirement System and \$128.2 million for the Teachers’ Retirement System as additional state contributions to keep the retirement systems funded. These are the same amounts as proposed by the Governor.

**Fiscal Policy**

According to the updated revenue projections produced by the State Department of Revenue, the estimated amount of unrestricted revenue for FY19 is \$2.34 billion. The state’s Unrestricted General Fund (UGF) budget for Agency Operations and Statewide Obligations is \$4.5 billion, leaving a budget gap of \$2.5 billion. This budget is nearly \$1 billion less than it was in FY15. There may be additional cuts, but we cannot close a \$2.5 billion with cuts alone, and we cannot count on the price and production of oil alone to fill the gap.

HB 286 (Operating Budget) currently includes a 4.75% (\$2.46 billion) POMV draw from the Earnings Reserve Account (ERA) with 33% (\$813 million) directed to the PFD Fund for PFD payment to Alaskans, and 67% (\$1.65 billion) for deposit into the General Fund for essential public services. The 4.75% is well below the projected growth of the fund of 6.5% and would provide an estimated PFD of \$1,258 for qualified Alaskans. The 4.75% draw has passed the AK Permanent Fund Corp's stress tests and is more sustainable for the ERA.

Spring Revenue Forecast:	\$2.34 billion UGF
House 67% of POMV draw ERA:	\$1.65 billion UGF
<b>Estimated Revenue FY19:</b>	<b>\$3.99 billion UGF</b>

State Agency Operations & Obligations:	\$4.5 billion UGF
Capital Budget estimate:	\$0.16 billion UGF
Oil and Gas Tax Credits:	\$0.05 billion UGF
Unanticipated expenses:	\$0.1 billion UGF
<b>Estimated FY19 budget:</b>	<b>\$4.81 billion UGF</b>

**Estimated Deficit FY19: \$800 million UGF**

The Constitutional Budget Reserve Fund has a balance of \$2.5 billion and could be used to fill the gap to reach a fully funded budget. However, using the CBR will not be an option in future years.

Note that the current version of the operating budget includes flat funding for many programs including education. For many school districts, flat funding will result in more teacher layoffs this coming year.

### **Revenue Measures**

The House proposed a progressive income tax last session that would have accomplished two things:

- 1) Raised an estimated \$687 million in new revenue to fill the gap
- 2) Tied new revenue to the economy. As population and economy grows, so does the revenue needed to reinvest back into our state.

An income tax is not the only option available to solve the fiscal gap. A state sales tax is another option, along with a motor fuels tax, or restructuring the oil and gas production tax to bring our state share back up to the level it used to be.

The Governor introduced [HB 282](#) - *Capital Budget Contingent on Employment Tax*. The \$280 million in projected tax revenue would fund mainly deferred maintenance and infrastructure. House Finance is scheduled to hear this bill this Friday. It has not yet been heard in Senate finance.

The bottom line is that we cannot rely on oil alone to fill the gap. Oil revenue will always be a part of the state budget, but it can no longer be the only part. We cannot grow the economy if we do not have a consistent form of revenue, as we used to have in Alaska with an income/education tax, that connects Alaskans to the services provided. This includes everything from new schools, teachers, University, public safety, pioneer homes, and major deferred maintenance, renovation, and new construction projects.

### **Overall State Operating Budget**

The budget passed the House Finance Committee last Friday and includes the following funding.

	UGF Only	ALL GF	All Funds
15 Management Plan	\$5.46 billion	\$6.16 billion	\$12.58 billion
19 Governor's Budget	\$4.46 billion	\$5.26 billion	\$9.37 billion
House Finance Budget	\$4.50 billion	\$5.35 billion	\$10.45 billion

The budget increased for several reasons.

- 1) Community Assistance - \$30 million: The Governor only included funding for FY18 Community Assistance, and nothing for FY19. Without a \$30 million appropriation in FY19, the payout for community assistance would have been reduced to \$20 million.
- 2) University - \$19 million: This brings the University funding closer to the amount requested by the Board of Regents. The regents requested \$341.6 million and the Governor included \$316 million. The addition by the H-FIN brings their total funding up to \$335 million.
- 3) Public School Trust Fund - \$18 million: This needed to be added to the bill in case the Public School Trust Fund Bill (HB 213) does not pass. If the bill passes, then this amount will come out of the operating budget and the money would come through a fiscal note associated with the bill.
- 4) Public Defender- \$1 million: Needed for additional public defenders in Bethel, Ketchikan, Fairbanks, and Anchorage to deal with growing number of cases.
- 5) Capitalize the Oil and Gas Tax Credit fund - \$49 million. Governor has a bill for financing oil and gas tax credits with a bond issuance. If the bill passes, then the \$49 million will need to be removed from the budget.

### **SB 321 – Fast Track Supplemental**

This bill was passed by the House and the Senate and is awaiting the Governor's signature. The bill funds projects that were short funded in FY 18 and need additional authorization. Projects include:

- 1) Department of Correction - \$18.3 million: Population management due to increase in number of incarcerations and increase cost for health care.
- 2) Alaska Permanent Fund Corporation - \$5 million: External Management Fees increased as a result of strong market returns. These fees are based on the value of the fund.
- 3) Community Assistance - \$30 million: Allows for a \$30 million payout to communities in FY19.
- 4) Alaska Marine Highway System - \$24 million: The AMHS was short funded and these funds will allow sailings through the end of the fiscal year.
- 5) Medicaid Reimbursement - \$45 million: To pay providers for the services provided for Medicaid recipients.

Additional supplemental items will be added to the capital budget that were not included here and that were not considered a high enough emergency to include in the fast track supplemental budget.

### **Transportation**

No significant changes in operations. The House included the same level of funding for transportation as proposed by the Governor. The Governor proposed \$100.0 reduction for overtime pay related to snow and ice control in the Central Region. The House did not restore this funding. The Alaska Marine Highway System (AMHS) is funded at last year's level.

The Capital Budget (SB 142) will included transportation related capital projects. See below.

### **Public Safety**

The Governor included \$34 million for public safety. This includes  
Substance Abuse Treatment Centers - \$18 million  
Enhanced Trooper and Prosecutor Presence - \$2.9 million  
Correction Center Operations - \$10.4 million  
Statewide Drug Prosecutor - \$200,000  
Public Defender Support - \$500,000  
Anchorage Prosecutor - \$1 million

Also added to the budget:

Public Defender Agency – \$1 million: Needed for additional public defenders in Bethel, Ketchikan, Fairbanks, and Anchorage to deal with growing number of cases.

Office of Public Advocacy – \$465,000: Improve services provided to abused and neglected children by adding 4 Guardian ad Litems (GAL) to OPA. Guardian ad Litems are individual appointed by the court to represent the best interests of the ward or respondent in court proceedings. A GAL is appointed if the court decides that the respondent cannot determine his own interests because of impaired ability.

Also, the Alaska Wing Civil Air Patrol had approx.. \$150,000 cut from last year. They will have \$302,300 for FY19 only (as a “one time increment”) with intent language that they actively search to secure other funding for operations (such as federal).

### **Capital Budget**

The Capital budget is scheduled to be heard in H-FIN on March 23. This budget bill is typically the last budget that is passed. This is because if there were any other pieces of other budget bills that were missed and need to pass, they can be included in the capital budget. This can include Salary schedules due to recent negotiations, supplemental items, ratifications, or other technical fixes.

The Governor’s Capital Budget includes the following projects:

- Snowmobile Trail Development projects: \$250,000 DGF
- State Park Public Use Cabins: \$300,000 DGF
- AK Marine Hwy System -Vessel Overhaul & Facility projects: \$13.5 million UGF
- Public & Community Transportation state match: \$1 million UGF
- Village Safe Water & Wastewater projects: \$12 million UGF; \$52.5 million Federal match; \$500,000 Other funds
- Cook Inlet Pipeline Infrastructure Assessment: \$200,000 DGF Oil/Hazard fund

The capital budget includes \$160 million UGF plus an additional \$280 million that is contingent on the passage of SB 140/HB 282 - Wage Tax. If passed, the wage tax would pay for such things as:

- Major Maintenance Grant funds: \$70 million;
- UA Deferred Maintenance: \$70 million;
- Statewide Deferred Maintenance, Renovation and Repair: \$50 million;
- Port of Anchorage: \$40 million;
- Highway Match to Maximize Available Federal Funds: \$7 million;
- Municipal Harbor Facility Grant Fund Projects: \$10 million;

- Alaska Energy Authority – Bulk Fuel Upgrades: \$5 million;
- Weatherization Program - \$15 million;
- Senior Citizens Housing Development Program - \$2 million;
- Emergency Medical Services – Match for Code Blue - \$1 million

Along with several other projects.

If the bill does not pass, then either these projects will not be funded or will need to be included in the regular capital budget, and would increase the amount of funding needed through the capital budget.

The public is encouraged to submit public testimony on HB 282 to:  
[housefinance@akle.gov](mailto:housefinance@akle.gov)



