

March 2014 Legislative Session Report:

by Wendy Chamberlain

With two thirds of the legislative session already completed the pace is picking up in Juneau. The Legislature is making considerable progress on a number of key issues:

Operating Budget: The House passed the operating budget on Friday, March 14th and sent the bill to the Senate for consideration. The Senate released their draft-operating budget late today adding back in some of the funding cuts made by the House while reducing other areas. The bill will now go to a six member House and Senate Conference Committee to iron out the differences.

The House Finance version of the operating budget is \$5.070 billion of general funds, nearly \$43 million below the Governor's recommended budget for fiscal year 2015 and \$38 million below the current year's operating budget. Nearly every department took a reduction with the largest cut given to the Department of Health and Social Services—\$8 million.

The Senate Finance Committee anticipates closing out their version of the operating budget the last week of March and passing it out of the Senate later that week. Once the operating budget is assigned to conference committee to work out the differences between the two versions, it's a solid signal that the end of session is in sight.

Capital Budget: To date it does not appear an agreement has been reach on capital budget spending. The Governor proposed a \$2.06 billion capital budget, utilizing \$576 million of general funds—nearly \$500 million less general funds than the previous year. While the Governor stated he “left room” for the legislature to add funding for their district capital priorities, many legislators are concerned about dipping further into the state's savings accounts. This is the second consecutive year of large deficit spending by the State (projected at over \$1 billion this year) and legislators are reluctant to draw too deeply into their budget reserves. Senate Finance leaders have said they want to have a draft capital budget to their committee by the end of the March.

Deficit Spending/Reserves: For the current year of FY14, the State is projected to overspend their revenues by nearly \$1.5 billion. Projected deficit spending for next year, FY15—even with budget reductions—is nearly \$1 billion. Given the amount of projected oil production for FY15, the price of oil would need to average \$117 a barrel to achieve a balanced budget.

Recent reports indicate that the Permanent Fund topped \$50 billion this month. The State also has a myriad of other savings accounts, including the Constitutional Budget Reserve, which can be used to help balance budget shortfalls. Currently those reserves equal over \$16 billion, but if the Governor's proposed deposit of \$3 billion against our unfunded pension liability passes along with the \$1 billion deficit spend, those reserves would be reduced to around \$12 billion.

Alaska's Gas pipeline

After months of hearings and testimony from experts, the Governor's Gas pipeline bill passed the Senate last week on a vote of 15 yeas and 5 nays. The most significant change made by the Senate was increasing the state's ownership share from 22 percent to the full 25 percent. The bill will allow Alaska Gas Line Development Authority to advance a large diameter natural gas pipeline project by carrying the state's equity in the project's infrastructure, including treatment and liquefaction facilities. The House will hold hearings on SB 138 over the next few weeks.

PERS/TRS

The PERS/TRS unfunded liability of \$12 billion has legislators scrambling for a possible solution. Three options are being considered; only one of these (The Governor's plan) will have a positive impact on local governments and school districts. Here are the options:

1. Increase local government entities contribution rate from 22% to 24 %. This proposal will have a significant impact on local communities throughout Alaska.
2. Establish a "pay as you go" – No annual support payments. This option results in extended amortization and increased financial burden on local taxpayers.
3. Transfer \$3 billion from the Constitutional Budget Reserve to the Pension Fund Account to pay down the liability (Governor's plan). Many legislators have expressed opposition to the Governor's pay down plan. Taking away \$3 billion that may be needed to balance the state budget over the next few years has legislators concerned.

Revenue Sharing

The House budget reduced community revenue sharing by \$10 million. House Finance Chair Alan Austerman does not believe the state can continue to fund revenue sharing at the current level. He has suggested reducing the annual revenue sharing appropriation \$10 million a year over the next 5 years. The impact to municipalities, cities, and organized and unorganized communities will be significant. The Senate has not released their budget document, we hope to see their numbers next week.

Knik Arm Crossing

Gov. Sean Parnell's proposed Knik Arm Crossing plan appears to be gaining support in the Senate. The nearly billion-dollar bridge project is being developed by the independent Knik Arm Bridge and Toll Authority.

The new plan takes a three-pronged approach to financing the project. Federal TIFIA bonds, paid back by tolls, would pay for one-third of the bridge. Another third would come from bonds issued by and paid off by the state, and the final third would come from the federal highway funds.

A key part of financing the project, which KABATA estimates at \$894 million, is a federal Transportation Infrastructure Finance and Innovation Act loan of \$341 million, which would cost \$450 million to pay off over 20 or more years.

House bill 77 – The Water Rights bill

In the final hours of last session HB 77 – The Governor's water rights and land permitting bill was removed from the Senate floor (not the required number of votes to pass the bill) The Governor's team worked during the interim to try and address several major concerns:

- Who can apply for water rights in streams
- Who has standing to file appeals on DNR permits

The new version of the bill allows government entities, non-government entities, tribes, environmental groups and individuals to apply. **HOWEVER**, the permit appeals process requires demonstration of **“significant and irreparable harm”** from a permit action for a person to have standing to appeal. The Alaska Miners Association and the RDC support the new version, but fisheries and tribal groups and individuals remain strongly opposed to the legislation.

The Senate could vote on this bill by the end of March. It will be a close vote but the capital “rumor mill” says the Governor has 11 votes for passage.