

*Bradners'*  
**Alaska Legislative Digest**  
**- Commentary on Alaska issues and policy**

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## **Our finances may not be all that bad**

State finances may be in better shape than many realize although there are challenges. This was a key message the state's debt manager, Deven Mitchell, conveyed to the Senate Finance Committee Friday, Jan. 24. Based on projected revenues Alaska has \$2.8 billion in debt capacity over the next 10 years, an important metric of financial health. If about \$1 billion of this is assumed to pay oil exploration tax credits due (litigation is still pending on a bond sale) and \$110 million in new debt is issued for authorized, but unsold, general obligation bonds, the net capacity for new debt drops to \$1.7 billion, Mitchell said. The state may not want to rush out and borrow but the numbers indicate sound financials. Think of it like available credit on a charge card.

Let's not rush out to spend, however. "I would recommend people focus on a structured plan for the future before we start borrowing," Mitchell told us in an e-mail. "Borrowing could be part of the deal, but until we know what revenue is actually available for state operating costs the debt capacity is less real," he said. If the plan to pay the past oil tax credits with debt fails in court the fallback is to pay over time with state general funds. It is also uncertain when, or even if, \$110 million in unissued general obligation bonds from a \$453 million transportation bond issue approved will be sold. These bonds are tied to state transportation and community projects like ports that have not proceeded for one reason or another. If projects are stalled there are complications in switching the money to other projects. Municipal projects cannot be switched because voters in 2012 approved money for specific projects. State transportation projects can be switched but to other projects on the list approved in 2012 by voters. *(See more on page 8)*

### **Exciting week in the state Senate!**

#### **Also, veto overrides fail (no surprise)**

Three conservative Republican senators were sent to the woodshed in a sudden committee shuffle Jan. 21. Also, an attempt to restore the governor's cuts to the ferry system and school debt reimbursement failed on Jan. 24. This was expected. *(See more on page 6)*

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## . . . Business/Health Care . . .

### **Tourism groups: Visitor marketing money should match vehicle rental tax receipts**

Tourism groups say they hope friendly legislators will add to the \$5 million Gov. Mike Dunleavy has proposed for visitor marketing in his FY 2021 budget. Last year the visitor industry persuaded legislators and the governor to appropriate money collected from the state car rental tax, which is paid mostly by summer tourists. That amounted to \$7.4 million for current FY 2020. Using the same approach, \$7.3 million would be available for FY 2021 (car rental tax collections dropped a bit). Dunleavy opted for a flat \$5 million. The vehicle rental tax was enacted years ago with the intent of using the money for marketing but, as often happens, it soon was siphoned off into the state General Fund. Still, the groups are thankful for what they can get. A couple of years ago only \$1.5 million was made available for visitor marketing.

Meanwhile, a proposal made two years ago by visitor groups for an industry-funded “Tourism Improvement Districts,” which did not advance, is likely to reemerge, we hear. Impetus for the idea was to find a workable way for tour operators to self-fund regional generic marketing. It fell apart when different players in the visitor industry couldn’t agree on an equitable way to share costs. Alyeska Resort, the ski operation near Anchorage, was particularly aggressive in lobbying against the idea. Given the internal problems the industry fell back on the time-honored, simpler approach of asking the state to pay.

### **Contrary to storyline, Medicaid state spending has dropped since FY 2014**

According to the popular storyline, that the state’s Medicaid spending has exploded and could break the state financially, a look at the data indicates otherwise. A presentation to the House Finance Committee by the Office of Management and Budget on Friday, Jan. 24, shows that the state general fund spending for Medicaid is much lower than 2015 and slightly lower than 2014, or essentially flat. Comparing FY 2015 to FY 2019, state Medicaid outlays dropped from \$724.8 million to \$677.1 million. The general fund spending per enrollee dropped, too. The FY 2019 per-enrollee spending was 38 percent down from 2013, according to analysis by the Alaska State Hospital and Nursing Home Association. One of the reasons for the per-enrollee decline is that Medicaid expansion added 98,832 Alaskans to the rolls during this period and the bulk of those were paid for by the federal government. That spread the state’s outlay across more people. The federal portion of Medicaid spending has indeed increased because the expansion was mostly paid with federal funds. Federal Medicaid spending increased from \$966.26 million in FY 2015 to \$1.66 billion in FY 2019. There were 250,629 Alaskans covered by Medicaid in FY 2019, or 35 percent of the state’s population. About 105,000 of them children under 18 years of age.

### **People:**

- Former state OMB Director Pat Pitney has been named to head the Legislative Finance Division. Pitney was budget director for former Gov. Bill Walker.
- Neil Steininger, a veteran agency fiscal analyst, was named to be new director of the Office of Management and Budget. Steininger said he would not be taking hard-line policies like his predecessor, Donna Arduin, and would stick with analysis.

## **. . . Health Care . . .**

### **\$120 million Medicaid supplemental request due Feb. 13**

Lowering costs and improving effectiveness of the state's big Medicaid program will take longer, and be much more complex, than thought last year when Gov. Mike Dunleavy came into office with hopes of making big cuts. However, there is progress made on two fronts: One is a big savings in "tribal compacting," or maximizing tribal health consortium's abilities to use Medicaid, which results in savings to the state. Second is progress made in "coordinated care," where staff of the Department of Health and Social Services, or DH&SS, work with Medicaid patients to ensure they get proper primary care, which will reduce costly hospital Emergency Room use. This is just getting ramped up, DH&SS officials told a House Finance subcommittee last Tuesday, Jan. 21. Medicaid is a state-federal health care program for low and moderate income Alaskans, and with an annual cost of about \$650 million in state Undesignated General Funds it is one of the top cost-drivers in the budget. Last year the department set out to achieve the governor's goals but success has been spotty, DH&SS Commissioner Adam Crum told legislators.

The Legislature and administration (through the governor's vetoes), did make Medicaid funding cuts last year but most services couldn't be curtailed without federal permission, which was not obtained. Therefore, a \$120 million supplemental appropriation request is headed to the Legislature Feb. 13 to deal with the underfunding. Authorization to receive an additional \$143 million in federal Medicaid funds will be included. The governor's FY 2021 budget appropriates the full funding.

### **Administration backs off from cuts in payments to some Medicaid providers**

Long-term savings could eventually appear but changing Medicaid has turned out to be more complicated. For example, the state had to back off on cutting adult dental services, even though it is an "optional" Medicaid service. Payments were stopped in September but reinstated at the end of December. The department says it will pay invoices for services provided between September and January but dental providers will have to rebill these, the Commissioner said. Also, the reduction for long-term care providers like nursing homes was reduced to 3 percent because of the financial fragility of many of these providers. The governor personally intervened, Crum said, to exempt home-care provider services, who provide care to the elderly living at home. The savings from reduced payments to providers was originally estimated at \$21 million. Instead it will be closer to \$7 million.

### **Tribal compacting is big winner in lowering costs: \$104 million per year savings to state**

Tribal compacting is the big winner so far in dollars, estimated at \$104 million a year. It was an outcome of Senate 74, the Medicaid reform bill passed by the Legislature a few years ago, as well as the expansion of Medicaid in Alaska under the federal Affordable Care Act. The financial benefits of coordinated care, the other DH&SS accomplishment, will be long-term through patients' improved health with more effective care. About 320 Medicaid recipients, mostly high users of emergency rooms, are now being helped through coordinated care. This will expand soon to 700 to 1,000, the Commissioner told the finance subcommittee.

# ... Status of Bills ...

## Introduced in the House

- HJR 22: Amend state Constitution to repeal the repayment requirement of budget reserve fund (by Kreiss-Tomkins) .....to SA, JUD, FIN
- HJR 23: Cannabis-related businesses' access to financial services (by Rasmussen) .....to C&RA
- HB 180: Re: UA Board of Regents (by Wool) .....to EDU, FIN
- HB 181: Mental health education (by Claman) .....to EDU, FIN
- HB 182: Sexual assault examination kits (by Tarr)... .....to SA, FIN
- HB 183: Staffing and wage standard for Ak. Psychiatric Institute (by Fields).....to H&SS, L&C
- HB 184: Veterinarians exempt controlled substance prescription database (by Wilson) .....to H&SS, FIN
- HB 185: Registration of commercial vehicles (by Stutes) .....to FISH
- HB 186: Name Irene Webber Bridge (by Stutes) .....to TRANS
- HB 187: Correctional facilities to which prisoner is committed (by Fields) .....to SA, FIN
- HB 188: Education tax credits , child care and child care facilities (by Fields) .....to EDU, FIN
- HB 189: Notification of family member of a child in state custody (by Talerico) .....to H&SS, JUD
- HB 190: Allowable absences for PFD (by Talerico) .....to SA, FIN
- HB 191: Church attendance of child in state custody (by Wilson)..... to H&SS, JUD
- HB 192: Limitations on campaign contributions by nonresidents (by Claman) .....to SA, JUD
- HB 193: Second verse to official state song (by Story) .....to C&RA, SA
- HB 194: Consolidation of school districts (by Vance) .....to C&RA, EDU, FIN
- HB 195: Board of Regents of UA (by Josephson) .....to EDUC, FIN
- HB 196: Maximum annual award for Alaska performance scholarships (by Fields) .....to EDU, FIN
- HB 197: Extend Alaska Seismic Hazards Safety Comm. (by Tuck) .....to RES, FIN

## Introduced in the House (Cont.)

- HB 198: Aggravating factors considered at sentencing (by Josephson) .....to SA, JUD
- HB 199: Fisheries rehabilitation permit (by Talerico)..... to FISH, RES
- HB 200: Disclosure of employee compensation (by Tarr) .....to SA, L&C
- HB 201: Legal representation of public officers in ethics complaints (by LeDoux) .....to JUD, FIN
- HB 202: Marriage, adoption, divorce, definition "spouse," (by Josephson) .....to JUD, L&C
- HB 203: Transportation of live crab (by Knopp) .....to FISH, RES
- HB 204: Funding for early education programs (by Gov) .....to EDU, C&RA, FIN
- HB 205: State's operating and loan program expenses (by Gov) .....to FIN
- HB 206: State's mental health program operating/capital expenses (by Gov) .....to FIN
- HB 207: Capital, supplemental appropriations, reappropriations (by Gov) .....to FIN
- HB 208: Rename College Road in Soldotna as Alan Boraas Road (by Knopp)..... to TRANS
- HB 209: Creating Dept. of Management and Budget (by Thompson) .....to FIN
- HB 210: Speedy trial limits (by Jackson) .....to JUD, FIN
- HB 211: Motor vehicle tinting (by Rauscher).....to M&VA, SA
- HB 212: Importation of bees and bee equipment (by Rauscher)..... to SA, RES
- HB 213: Use of official "Made in Alaska" emblem (by Rauscher) .....to C&RA, SA
- HB 214: Giant cabbage as official state vegetable (by Johnson) .....to C&RA

*Bill status current through Jan. 24, 2020*

### Coming this week:

- *State of State by Gov. Dunleavy; 7 p.m.*
- *Pioneer Home rates: Senate H&SS, Monday 1:30*
- *Village public safety: House Public Safety sub-comm., Tuesday 9 a.m.*

# . . . Status of Bills . . .

## Introduced in the Senate

- SB 6: Funding and development of early education program (by Begich) .....to EDU, FIN
- SB 121: Alaska Native organizations' family assistance programs (by Kiehl) .....to C&RA
- SB 128: State charges, rentals, and fees related to aviation (By Costello) .....to TRANS, FIN
- SB 129: Oil and gas production tax (by Wielechowski) .....to RES, FIN
- SB 130: Seafood product development tax credit (by Stevens) .....to RES, FIN
- SB 131: Special registration plates for vehicles owned by a person with a disability (by Gray-Jackson) ....  
.....to SA, FIN
- SB 132: Limit pay of certain state officers and employees in the executive branch (by Begich) ..to SA, FIN
- SB 133: Testing of sexual assault examination kits (by Gray-Jackson) .....to SA, FIN
- SB 134: Medical assistance reimbursement for professional counselors (by Wilson)..... to H&SS, FIN
- SB 135: Health care insurers relating to an incentive program (by Hughes).....to L&C, FIN
- SB 136: Establishment of public schools through state-tribal compacts (by Stevens) .....to EDU, JUD
- SB 137: Extending the termination date of Board of Parole (by Micciche) .....to SA, FIN
- SB 138: Commissioner of corrections authority to designate the correctional facility (by Gray-Jackson)..... to SA, JUD
- SB 139: Establish March as History Month (by Gray-Jackson)..... to SA
- SB 140: Establish September as Hispanic Heritage Month (by Gray-Jackson)..... to SA
- SB 141: Establish October as Filipino American History Month (by Gray-Jackson) .....to SA
- SB 142: Radiofrequency radiation exposure in schools (by Begich )..... to EDU, H&SS
- SB 143: Smart meters for natural gas or electric utility service (by Begich)..... to L&C, FIN
- SB 144: Establish June 7 as Walter Harper Day (by Bishop) .....to SA
- SB 145: Registration of commercial fishing vessels (by Micciche) .....to RES, FIN

## Introduced in the Senate (Cont.)

- SB 146: Prohibiting the sale of cigarettes & cigarette taxation (by Begich) ..... to L&C, FIN
- SB 147: Establish June as LGBTQ Pride Month (by Gray-Jackson) .....to SA
- SB 148: Establish May as Asian American and Pacific Islander Heritage Month (by Gray-Jackson).. to SA
- SB 149: Start time during session for public high schools (by Costello) .....to EDU, FIN
- SB 150: Termination, intensive management hunting license surcharge (by Revak) .....to RES, FIN
- SB 151: Funding and development of early education program (by Gov) .....to EDU, FIN
- SB 156: Unemployment insurance contribution rates (by Gov) .....to L&C, FIN
- SB 157: Act relating to professional licensing (by Gov)..... to L&C, H&SS, RES, FIN
- SB 158: Fees levied by resource agencies for designated regulatory services (by Gov) .....to RES, FIN
- SB 159: Salt water sport fishing operators & fishing guides (by Gov) .....to RES, FIN
- SB 160: Forest land plans (by Gov) ....to RES, FIN
- SB 161: Geothermal (by Gov) .....to RES, FIN
- SJR 14: Amendment to the Constitution relating to actions upon veto (by JUD) .....to SA, JUD, FIN
- SB 162: Names on state-issued identification (by Costello)..... to SA
- SB 163: Authority of the Department of Administration to transmit registration information to the Selective Service System (by Revak) to SA

### Committee key:

Finance	FIN
Judiciary	JUD
Resources	RES
Labor and Commerce	L&C
State Affairs	SA
Health and Social Services	H&SS
Education	EDU
Energy	ENERGY
Fisheries	Fish

## **. . . Resources . . .**

### **Hilcorp Energy shows its stuff, boosting production at NorthStar, Milne Point fields**

DNR said North Slope production is now declining again after two years of small increases in 2014 and 2015, but the decline is small at 2 percent yearly vs. rates of 4 percent to 5 percent earlier. While there will be new oil from projects now in development, the department's analysts said maintaining the "base" production from large fields like Prudhoe Bay and the Kuparuk River field is crucial.

While most of the slope's older fields are in decline Hilcorp Energy has hustled and boosted production substantially at the Northstar and Milne Point, two smaller fields near the large Prudhoe Bay, DNR commercial analyst Pascal Umekwe told Senate Finance. Milne Point output is up 14 percent from last year due to Moose Pad, a new project in the field. Northstar, an offshore field six miles off the coast has seen annual 9 percent production increases over the last two years, Umekwe told the committee. Rejuvenating aging fields is what Hilcorp specializes in. DNR officials hope the company will do the same for the large, 43-year-old Prudhoe field when Hilcorp takes over as operator later this year. Hilcorp's entry into Cook Inlet in 2012 brought about a similar renaissance in production from very mature Inlet fields.

### **Veto-override fails; Mat-Su loses clout in Senate**

The House and Senate, meeting in joint session last Friday, failed to override the governor's 2019 veto of \$5 million in funds for the ferry system. Also rejected were funds to fully support the state's 50 percent share of school bond debt. The governor cut state support by half which violates the state's moral pledge in place since 1970. The failed overrides further demonstrate that Alaska has a serious problem in regard to separation of powers as well as checks and balances between the branches. The governor has used the veto power to undermine long established programs, in effect legislating by veto. This is not an issue confined to Gov. Mike Dunleavy, but also to future governors. Ironically, last week's failure to override likely bolsters the effort to recall the governor, now in its second signature-gathering stage.

#### **Mat-Su loses a lot of its clout**

The shakeup in the Senate replaced three conservative senators as committee chairs and represents a huge loss of clout for the Mat-Su delegation. Sen. Shelly Hughes, R-Mat-Su, lost her position as chair of the Judiciary Committee. She was replaced as chair of Judiciary by Sen. John Coghill, R-Fairbanks. Sen. Mike Shower, Mat-Su, lost his seat on the Finance committee and his chairmanship of the Senate State Affairs Committee. Sen. Josh Revak, R-Anch., brand new to the Senate, now leads the committee. Sen. Lora Reinbold, R-Eagle River, who usually votes with Mat-Su Republicans, lost her position as chair of the Senate Labor and Commerce Committee and was replaced by Sen. Click Bishop, R-Fairbanks. In another move, Sen. Peter Micciche, R-Kenai, moved off the Finance Committee but was given the chair of the Resources Committee. The move by the Senate's leadership, dominated by moderate Republicans, follows the conservatives' votes on budget issues in the 2019 session.

## ... Tax/Business ...

### **Senate Finance may dig into tax status of limited liability corporations**

The Senate Finance Committee will be taking a look at the tax implications of Hilcorp's purchase of BP's Alaska properties and this may morph into a wider inquiry into the exemption of limited liability companies from state corporate income tax liability. Sen. Lyman Hoffman, D-Bethel, said he is concerned that Hilcorp's status as an LLC, and therefore exempt from corporate tax, could tempt future, or even present, oil producers to structure themselves legally to reduce their tax. The ramifications of any change to LLCs could be far-reaching since many other Alaska businesses are organized this way.

### **Governor would lower employers' unemployment insurance tax rates**

Gov. Mike Dunleavy introduced SB 156 in the Senate Feb. 22 that would lower employers' mandatory tax contribution to the state unemployment insurance compensation, or UIC fund from the current fixed rate of 1 percent. "Alaska is the only state that currently has a fixed minimum tax rate contribution. The change would benefit more than 6,000 employers, including many small businesses, who are paying a disproportionately high tax based on the low turnover of their employee base," the governor said. The UIC fund is strong and the change will not affect its long-term sustainability, he said. The legislation would lower the tax to a rate corresponding to an employer's workforce turnover experience rate, which would correspond to a UIC tax rate of 0.4 percent to 0.9 percent. The bill would not affect employees' 0.5 percent contribution to UIC.

### **SB 158: Indirect costs of regulatory actions could become part of permit fees**

This bill deals with an old, complicated problem. Fees for natural resource and environmental regulatory services would rise under bills introduced by the governor last Wednesday, Jan. 22. Regulatory agencies have been having trouble covering costs when issuing permits, which means the state General Fund subsidizes many permits. SB 158 would allow agencies to charge for indirect costs of processing permit applications and issuing the authorizations. Currently only "direct" cost recovery is allowed, which does not include overhead such as accounting, procurement, information technology and centralized services, or the full cost of personal services such as benefits. The fees would cover control of solid waste, disposal of water, certification of federal Clean Water Act permits, appropriations of state waters, emission control for air quality programs and regulation of registered pesticides.

This is an issue we've seen before. Years ago resource industries were having problems with agencies loading all kinds of costs into permit fees and companies felt they were the ones paying subsidies. Legislation was passed to put sideboards in place, the result being the current limit to direct costs, which are defined. That worked as long as the state had ample revenues to cover indirect expenses, but that's no longer the case. Now the pendulum could again swing again.

### **Coming this week:**

- State of the University: House and Senate Education, Wednesday 8:30 a.m.
- Division of Agriculture: Briefing, House Resources Wednesday noon

# . . . Business . . .

## Professional licensing would be streamlined under SB 157

The governor introduced SB 157 in the Senate to streamline professional licensing requirements particularly in rules for temporary licenses. The proposal would also eliminate outdated requirements and align state and federal rules. An example of a change is moving oversight of dental radiological equipment from the Department of Commerce and Economic Development to the state health and social services department, which is better equipped to handle the task. The bill would help military spouses who move to Alaska on rotations and who are licensed to provide professional services in other states.

## Alaska is gradually paying down its debt (Cont.)

– Continued from bottom, page 1

Generally, Alaska is steadily paying down its debt. There is about \$670 million in outstanding general obligation debt and this is \$54 million down from last year, state debt manager Deven Mitchell told the Senate Finance Committee. Other points cited: While there is uncertainty over how much the state will be able to help municipalities with school debt, total school bond debt now totals \$704.8 million, down \$65 million from last year. Much of this will be paid for by municipalities but the state will pay a portion. The University of Alaska is carrying \$287 million in revenue bonds, down \$13.5 million from last year. These are underwritten by an implied state moral obligation to pay these. The state's unfunded pension liability remains the top concern for financial rating agencies, Mitchell said. Repayment of this has been pushed out to 2038 after the reduction in the pension funds' earnings assumption by the ARM board from 8 percent to 7.38 percent, and rating agencies aren't happy about this. "It's a big burden in relation to the size of our population and our economy," which is still narrowly based on oil.

The Permanent Fund and the new Percent-of-Market-Value annual payment from Fund earnings to support the budget aren't well understood by financial analysts. For example the fact that the Fund is earning \$1.3 billion this year in excess of the \$3 billion POMV this year, and could be a budget backstop if needed, is not well understood. Alaska doesn't stack up well on the raters' scorecards because no other state has a Permanent Fund the size of Alaska's.

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