



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Office of the Governor

OFFICE OF MANAGEMENT AND BUDGET
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The Honorable Steve Thompson
Co-Chair, House Finance Committee
Alaska State Legislature
State Capitol, Room 515
Juneau, AK 99801-1182

The Honorable Mark Neuman
Co-Chair, House Finance Committee
Alaska State Legislature
State Capitol, Room 513
Juneau, AK 99801-1182

Dear Co-Chair and Co-Chair,

Thank you for the opportunity to present highlights of the Governor's February 17th Budget Amendments Including FY2015 Supplemental, Capital, and Operating and Other appropriations before the House Finance committee on February 23. The following is in response to questions posed by the committee during the overview for distribution to the members.

Representative Saddler: Where on the Glenn Highway are the ruts to be repaired and are they to be completed with federal funds?

This section of the Glenn Highway is the highest volume traveled route in the State and is the main commuter corridor between Anchorage and the Matanuska-Susitna Valley. These areas are the southbound lanes between North and South Birchwood, all lanes between Hiland Road and Artillery Drive, and all lanes between Peters Creek and Eklutna. The department has two projects associated with this funding. One project is in the process of being closed and the other is an active construction project. The project we are in the process of closing will need no additional funding. The active state funded project to repair sections of the Glenn Highway is scheduled to continue into the summer of 2015 and cost approximately \$2.3M.

Representative Gattis: How did the Kalsin Bay Maintenance Station fire happen? Why are we replacing Kalsin Bay Maintenance station at a higher cost than risk management is paying – what is the thought process of building what we would like as opposed to what we would need in tough budgetary times.

The Kalsin Bay Maintenance Station was destroyed by a fire that began in a truck parked nearby on August 30, 2014. The original Kalsin Bay Station, constructed in 1972, had three equipment bays with an office and bathroom, with a footprint of 2,400 square feet (40ftX60ft). The replacement building is three equipment bays with an office and bathroom with a larger footprint of 4,100 SF (50X82). The replacement building was designed to accommodate increasingly larger modern highway maintenance equipment, resulting in a larger overall footprint.

Concerning the cost difference: The difference in the cost between the insured amount and the estimated replacement cost has several compounding factors:

- 1) The replacement building would store the same number of equipment that the original structure was designed for over 40 years ago. Equipment sizes are larger now than in 1972 and continue to increase.
- 2) The building codes have changed significantly since 1972, requiring site changes for waste water and sanitation facilities.
- 3) The soils on the Kalsin Bay lot are anticipated to be contaminated due to prior use as well as the fire itself.
- 4) Inflation of construction cost estimate.

The cost of the cleanup after the fire was not anticipated and not included in the estimated replacement value.

Representative Saddler: What was the most recent activity of the Juneau Access and Knik Arm Crossing Project analysis?

Juneau Access is progressing to a Record of Decision (ROD). The project currently has funds programmed to cover the estimated \$800,000 in expenditures required to complete the public comment process, revise and finalize the Supplemental Environmental Impact Statement to include changes based on public comment and request a Record of Decision be issued by the Federal Highway Administration. Commissioner Luiken reported this to Governor Walker and Chief of Staff Whittaker earlier this month with the explanation that only by going forward to the completion of the ROD can the state most likely avoid an expensive repayment of federal funds.

Knik Arm Crossing staff has stopped work on acquiring ROW and are continuing work on completing the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan application and pursuing the final environmental permits necessary for construction activities. A decision to proceed with the TIFIA application is pending a review of how the permits for Beluga whale might impact other state priorities in Cook Inlet such as Alaska LNG. This review was asked for by Governor Walker. The Beluga analysis is in progress.

Representative Muñoz: Can projects on the national highway system be allocated to non-national highway system monies?

Federal transportation funds can be used on both national highways system and non-national highway system projects. The current transportation authorization bill, Moving Ahead for Progress in the 21st Century Act (MAP-21), directs the majority (Approximately 57%) of federal aid funding towards national highway system roads; however, there is funding available for non-national highway system and rural projects as well. Although the legislature appropriates federal funds as a single fund source, from the Federal Department of Transportation's perspective, there are many categories of federal funds that are outlined in the Department of Transportation & Public Facilities Statewide Transportation Improvement Program (STIP).

Representative Guttenberg: Do the sideboards or requirements change or shift when the fund source is changed from international airport bonds versus international airport revenue fund.

There are various restrictions on funding use related to both IARF (International Airports Revenue Fund) and revenue bond (long-term debt) funded capital projects. Bond funding has additional requirements compared to IARF funds as bond funded capital projects also entail debt covenant requirements (i.e. financial ratio maintenance) and usually IRC (Internal Revenue Code – i.e. tax) limitations with respect to the governmental or qualified private activity nature of the projects. Specific bond offerings will state the proposed use of the funds. If bond documentation states that the funds will be used for terminal improvements, then the department cannot repave a runway with these funds. In other words, as long as projects are funded with the correct type of bonds based on the type of project then there are no issues. The IARF fund must be used on International Airport Operations and Capital expenditures on airport property and often are subject to the approval of those airlines that operate there. Otherwise, there are few restrictions on the uses of this fund.

The AIAS (Alaska International Airport System) Controller has reviewed the plan of which projects point to specific bonds with Department of Revenue and are in agreement on the use of the bond funds on the requested capital budget amendment projects.

Representative Neuman: Since Alaska is a net positive state do we really get 12 or 13 to 1 match on highway projects?

Although it is true that Alaskan citizens and businesses pay less in federal fuel taxes than the state receives in federal transportation funds, this does not change the federal match requirements. Federal allotments and match requirements are calculated, by statute, based on various factors including population, federally owned lands, road miles, poverty levels and other quantitative measures. The match remains approximately 9% state match but may vary slightly depending on the type of project (for example, some safety projects are 100% federally funded).

Representative Neuman: Is the native arts project part of the Silver Hand program?

Silver Hand is similar to the Made in Alaska program, in that it certifies authentic Alaska Native handicrafts. The Silver Hand program is administered by the Alaska State Council on the Arts within the Department of Education and Early Development. It is not related to the Alaska Native Arts Foundation grant.

Representative Guttenberg: How much student loan money and interest makes up administration for Alaska Postsecondary Education/ Program Administration and Operations and Alaska Student Loan Corporation/Loan Servicing.

Program administration (primarily loan servicing) paid from student loan principal and interest receipts is \$13,802.0. There is some small income from other non-loan investments but those are purposefully low since tax exempt bonds to fund student loans and the Internal Revenue Service (IRS) rules limit the yield ASLC may earn on those investments to no more than the rate paid on related bonds. Additionally, the loans themselves are yield

restricted to earn no more than 2% above the rate paid on the bonds. Any extra earnings must be rebated to the IRS.

Representative Muñoz: What is the state portion of the Tourism and Alaska Seafood Marketing Programs (ASMI)?

The Tourism program FY2016 Governor's Amended budget is \$17,638.0 with \$14,938.0 in general funds and \$2,700.0 in statutory designated program receipts (SDPR). The SDPR is from advertising and other services sold on behalf of the state by the Alaska Travel Industry Association.

The FY2016 Governor's Amended budget for ASMI totals \$24,145.2. There is \$4,500.0 in general fund match for \$4,500.0 in federal receipt authorization, \$1,820.6 general funds, and \$13,324.6 in SDPR from industry contributions.

Representative Gara: Do we lose federal match as we remove general funds on the tourism marketing program?

There are no federal funds associated with or leveraged by general funds in the Tourism Marketing program. However, reductions in general funds could potentially reduce the statutory designated program receipts paid to the division by the Alaska Travel Industry Association (ATIA) for non-state advertising related to contracted ad placement. For example, the state sells booth space in the Alaska booth at travel shows in the U.S. and overseas. As participation in travel shows is reduced, the amount of revenue collected from booth sales will decline as well.

Representative Muñoz: Have you looked at shore side efficiencies on the Alaska Marine Highway System?

Yes, the Alaska Marine Highway System (AMHS) has looked at shore side staffing in light of the recent budget cut proposals. AMHS shore side staffing has grown in the past 10 years from 86 to 116 full time positions. The workload associated with running the AMHS fleet has continued to grow as well with additional regulations for security and environmental issues. AMHS operates 17 terminals with staff to handle ticketing, check-in, security, and line handling. This staff has grown due to increased security requirements in the post 9/11 world with 22 of the new AMHS shore side positions being added at the terminals in order to perform the necessary security screens prior to passengers boarding the ships. AMHS Ketchikan central office has increased by four positions with the addition of a Business Development Manager, Security Officer, Environmental Officer, and a Planner. In the move to Ketchikan from Juneau, AMHS brought five positions from the Department of Transportation & Public Facilities Administrative Services component including a Publications Specialist and four IT positions. AMHS operates in a more complex world in terms of increasing vessel regulatory compliance, older ships requiring more maintenance management, security, environmental issues, business practices and accounting, making these added positions essential to AMHS operations. Looking ahead into FY 2016, AMHS is reducing eight positions in IT as those positions will now be Statewide IT positions. AMHS has also identified 5 more central office shore side positions to be cut as part of the next round of budget cuts that the department was tasked to develop. AMHS is continuing to look at additional efficiencies and expect that the new reservations system will enable some

more staff reductions. It is not online yet, so it is premature to reduce any staff based on that.

Representative Saddler: Are there penalties for not honoring AMHS Reservations.

AMHS does not impose any cancellation penalties if AMHS causes/initiates the cancellation. AMHS would obviously attempt to rebook everyone on other sailings (which is not as easy as an airline cancellation due to less frequent ship sailings on which to rebook people and the complexities of matching car deck space, cabin space and passenger space on a different ship (i.e. the LeConte would be the main alternate for the Malaspina in Lynn Canal, the Matanuska the alternate for the Taku in Prince Rupert, and the Aurora the alternate for the Chenega in Prince William Sound.)

Representative Saddler: How many of these itineraries are Alaskan Residents?

Based on updated 2/24/2015 data, there are now 1,666 itineraries for these three vessels during the time period in question (Jul-Sep). This consists of 437 Alaskan's itineraries, the rest visitors (26% Alaskans, 74% visitors). These itineraries contain 6,545 total passengers, 767 cabins, 1,660 vehicles and 139 cargo vans (containers). Total revenue generated by these itineraries is \$749.9 K. Please note that the total expected revenue generated by these three ships for the three summer months is \$4.4M, it is just that only \$749.9K of that has been sold so far. AMHS has not stopped taking reservations on these sailings yet due to budget uncertainties. AMHS has not published the revised alternative sailing schedule, nor rebooked anyone yet.

Representative Neuman: Does the Alaska railroad pay lease fees for the depot at Ted Stevens International Airport just like everyone else?

Ted Stevens International Airport has a 55 year lease with the railroad for the underlying land. The lease also grants the railroad certain easements for the rail-line and access areas. The railroad pays \$2,220.00 annually for the land rent with the contract providing for rent adjustments to fair market value after 24 years. The lease was signed in 2000 – so adjustments to fair market value could not happen before 2024. The airport does not incur any costs such as maintenance or utilities for the railroad depot

Wilson: Lawsuits that are listed, what is being put in place so we don't get sued again. What changes have we made so that lawsuits don't happen again and do we have anymore out there on those specific issues?

The Department of Law's internal questionnaire form is required for every judgment or settlement and includes the question, "What, if any, preventative action has been taken by the involved agency to prevent or reduce the potential for such liability in the future?" This form is completed by the department attorney, approved by the Deputy Attorney General and included in the backup sent to the legislature requesting the supplemental appropriation. Attached is one of the questionnaires included in the backup as an example. For further questions regarding specific cases, please contact the Deputy Attorney General.

Representative Saddler: Medicaid costs initiatives- how did you arrive at the figure of one million dollars in durable medical equipment? What is the total about spent in DME in Medicaid? What is the timeline of implementation? How quick can they put these costs measures in place?

The one million dollars projected savings is from a combination of cost containment efforts within Direct Medical Equipment (DME), Hearing, and Vision services. These are all optional service categories. Nationally, DME is a problematic and fraudulent area of Medicaid. The department believes it can compromise with providers and provide more comparable supplies to other states (lotions, wipes, etc); the vision contract with Rochester Optical can be re-solicited for reduction in total cost of frames; and implement audiology fee schedule adjustments to see reductions in equipment costs (hearings aides at billed charges to be reduced to national average).

DME Services expenditures in FY2014 totaled \$3,884.6.

Hearing Services expenditures in FY2014 totaled \$1,510.3.

Vision Services expenditures in FY2014 totaled \$5,809.1.

Expenditures among these three service types in FY2014 totaled \$11,204.0.

These initiatives will require new regulations and fee schedules along with holding public hearings and consultation with tribes. The Department will need the cooperation of the Department of Law and the Lieutenant Governor's office to meet tight deadlines in order to realize savings in FY2016.

Representative Neuman: Can you provide clarification on 90% forward funding. \$126 million in savings still needs to be paid next year.

Typically an appropriation to the public education fund is made each year based on the expected need for the following year. The cash for the future year appropriation is transferred from the general fund and held in the Public Education Fund in advance of the next year's expenditures. The Governor's amended budget forward funding appropriation is 10% less than the FY2017 current estimated expenditures. This is not a funding recommendation but the amount endorsed for forward funding to be held in the Public Education Fund. Legislative studies completed during the summer of 2015 will inform discussion for FY2017 education funding level.

Please let me know if you have additional questions.

Sincerely,



Pat Pitney
Director

Enclosures

1. Example of a Judgments/Claims/Settlements for Payment form

cc: David Teal, Director, Legislative Finance