

ALASKA STATE LEGISLATURE
JOINT COMMITTEE
LEGISLATIVE BUDGET AND AUDIT
July 17, 2001
5:15 P.M.

MEMBERS PRESENT

Senator Gene Therriault, Chair
Senator Lyman Hoffman
Senator Randy Phillips
Senator Jerry Ward

Representative Hugh Fate, Vice Chair
Representative Reggie Joule (teleconferenced)
Representative Ken Lancaster
Representative Eldon Mulder
Representative Bill Williams, (alternate)(teleconferenced)

MEMBERS ABSENT

Senator Dave Donley
Senator Wilken (alternate)

Representative John Harris
Representative John Davies (alternate)

COMMITTEE CALENDAR

APPROVAL OF PREVIOUS MINUTES

May 7, 2001

June 7, 2001

EXECUTIVE SESSION

Preliminary Audit Reports

AUDIT REPORTS

Release of Preliminary Audits to Agencies

DNR/OMB/VARIOUS AGENCIES-PRESENTATION OF PROPOSED CONTRACTS

With the LBA Committee - Natural Gas Pipeline Projects

OTHER COMMITTEE BUSINESS

WITNESS REGISTER

HEATHER BRAKES, Legislative Assistant to
Senator Gene Therriault
Alaska State Legislature
Capitol Building, Room 121
Juneau, Alaska 99801
Telephone: (907) 465-6590

DAVID TEAL, Director
Legislative Finance Division
Alaska State Legislature
P.O. Box 113200
Juneau, Alaska 99811

Telephone: (907) 465-3795
POSITION STATEMENT: Spoke on behalf of the Legislative
Finance Division

PAT DAVIDSON, Director
Legislative Audit Division
Alaska State Legislature
P.O. Box 113300
Juneau, Alaska 99811-3300
Telephone: (907) 465-3830
POSITION STATEMENT: Introduced the audit reports

PAT POURCHOT, Commissioner
Department of Natural Resources
State of Alaska
400 Willoughby Avenue-5th Floor
Juneau, AK 99801-1724
Telephone: (907) 465-2400
POSITION STATEMENT: Natural Gas Pipeline Project

BILL BRITT, Coordinator of the Gas Pipeline
Department of Natural Resources
State of Alaska
411 West 4th
Anchorage, AK 99501
Telephone: (907) 271-4304
POSITION STATEMENT: Natural Gas Pipeline Project

SENATOR JOHN TORGERSON
35477 Kenai Spur Hwy, 101A
Soldotna, AK 99669
Telephone: (907) 260-3041
POSITION STATEMENT: Natural Gas Pipeline Project

ANNALEE MCCONNELL, Director
(Testified via Teleconference)
Office of Management and Budget
Office of the Governor
P.O. Box 110020
Juneau, AK 99811-0020
Telephone: (907) 465-4660
POSITION STATEMENT: Natural Gas Pipeline Project

LARRY PERSILY, Deputy Commissioner
Department of Revenue
State of Alaska
P.O. Box 110405
Juneau, AK 99811-0405
Telephone: (907) 465-5469
POSITION STATEMENT: Natural Gas Pipeline Project

KRAG JOHNSEN,
Denali Commission
510 L Street #410

Anchorage, AK 99501
Telephone: (907) 271-1413
POSITION STATEMENT: Denali Commission Report

ACTION NARRATIVE

TAPE LBA 01-7, SIDE A

CHAIR GENE THERRIAULT called the Joint Committee on Legislative Budget and Audit meeting to order at 5:15 P.M. on July 17, 2001. Members present at the call to order were Senators Therriault, Hoffman, Phillips, Ward and with Representatives Fate, Joule, Lancaster and Williams.

APPROVAL OF THE MINUTES

CHAIR THERRIAULT announced that the first order of business would be approval of the minutes from the May 7th, 2001 and June 7th, 2001, Legislative Budget and Audit Committee meetings.

REPRESENTATIVE FATE MOVED approval of the minutes and asked for unanimous consent. There being NO OBJECTION, the minutes were approved and adopted.

EXECUTIVE SESSION

REPRESENTATIVE FATE made a motion, in accordance with Title 24 and 44, to MOVE into Executive Session for the purpose of discussing audit reports, which are held confidential by law. There being NO OBJECTION, the Committee went into Executive Session at 5:20 P.M.

CHAIR THERRIAULT requested that Pat Davidson (Legislative Auditor), David Teal (Director of Legislative Finance), Amanda Ryder (Legislative Finance Staff) and Committee Staff Heather Brakes attend the Executive Session.

The Committee resumed Open Session at 5:35 P.M.

AUDIT REPORTS

REPRESENTATIVE FATE MOVED to release the preliminary audits to the agencies.

- AIDEA - Rural Energy Program
- State of Alaska Single Audit FY00

There being NO OBJECTION, the preliminary audits were released for agency response.

DEPARTMENT OF NATURAL RESOURCES/VARIOUS AGENCIES
PRESENTATION OF PROPOSED CONTRACT WITH LEGISLATIVE BUDGET &
AUDIT COMMITTEE
NATURAL GAS PIPELINE PROJECTS

CHAIR THERRIAULT noted that during the Legislative Session, there had been a request to the Legislature for authorized funding for the Office of Management & Budget (OMB) and the Department of Natural Resources (DNR) to undertake necessary work in order to move forward with the natural gas pipeline permit to prepare the State to evaluate permits and applications. He stated that an agreement had not been reached during the Legislative Session, however, in the last appropriation bill, \$1.5 million dollars was given to the Legislative Budget & Audit Committee for the purpose of contracting with State agencies for the necessary efforts.

Chair Therriault acknowledged that it was unusual to be contracting with State agencies to have work done rather than contracting with independent businesses. He added that there were members of the Committee that were skeptical with some parts of the plan. He asked the Committee to consider providing the authorization to release money for work to be undertaken by DNR and OMB in order that they would not have to keep coming back to LBA in order to receive the required funding.

REPRESENTATIVE FATE MOVED to approve authorization for the Legislative Budget & Audit Chairman to sign the RSA for the Department of Natural Resources. That amount would not exceed \$923,800 dollars.

CHAIR THERRIAULT advised that there were representatives from the departments to testify on the issues. He referenced the spreadsheet, which accompanied the handouts in member's packets. [Copy on File]. The spreadsheet indicates a detailed timeframe and funding source. It is broken down by agency and by general fund and statutory designated program receipts (SDPR). During the period of July 1st - December 31st, 2001, there is an estimated total cost of \$923.8 thousand general fund dollars. That amount proposes to match a "possible" \$2,573.0 million statutory designated program receipts expected to be received from the producers. That would amount to a total of approximately \$3.5 million dollars.

Chair Therriault indicated that it has been difficult to determine the exact level of required expenditure. He pointed out that there would be seventy-six positions created through the funding. He referenced the motion made by Representative Fate. He suggested that in addition to the items listed on the spreadsheet, other expenses would be primarily personnel and equipment costs. New personnel will

be processing the requests and permits. He noted the Non-AO 187 activities for which the funding would provide.

Chair Therriault mentioned that there had been questions regarding the timeliness of some of the requests. There has been an alternative method worked out for the Alaska Oil and Gas Conservation Commission's (AOGCC) work so that they can move forward under the statutory designated program receipt section.

PAT POURCHOT, Commissioner, Department of Natural Resources, asked if more information was needed on the Administrative Order #187 (AO) spreadsheet. He commented that the work indicates "most likely an over statement" of what would need to be done in the first six months. He interjected that the numbers were based on whole quarter estimates. The timing was such that not a full quarters work would be done. He informed members that representatives from all affected agencies were present to testify.

REPRESENTATIVE MULDER asked what had changed from the initial request.

COMMISSIONER POURCHOT replied that the initial request in January 2001 did not include a clear understanding of what would be received from reimbursements by the applicants. That information is currently available through the pre-application work, which has been turned in and amounts to approximately \$3 million dollars. The memorandum of understanding (MOU) outlines the costs for equipment, travel, commodities and recruitment not directly related for permitting and which the State would be liable for.

REPRESENTATIVE MULDER pointed out that in January, there had not been a lot of support for the proposal. He asked what functions had changed since January.

COMMISSIONER POURCHOT clarified that the Administration had refined the information during the process since the initial proposal in January. He added that the project was less expansive than originally anticipated. Initially, the project would have been started much earlier. He added that the studies component has been more refined.

REPRESENTATIVE MULDER pointed out that the same number of positions had been requested in the January proposal. He reiterated that there had been little support in the House for the proposal during the Legislative Session. He stated that he was currently reluctant to support the motion.

CHAIR THERRIAULT noted that the producers and Foothills Pipe Lines Alaska have agreed to "step-in" and add personnel. He commented that he had less of a concern than voiced by Representative Mulder. The largest part of the general fund

expenditure would be equipping and setting up the office. Because some of the producers will be providing funding dollars, they will be exerting some control. The motion would provide authorization to work with the Administration, thus providing some control by the Committee. Most often, the LBA Committee only makes appropriations, however, through this motion, the LBA Committee would be entering into a contract through the Committee Chair.

Chair Therriault noted the bottom portion of the spreadsheet, which indicates items the motion would not cover.

COMMISSIONER POURCHOT advised that there would be a total of seventy-six positions, which would not relate to the other general fund component. The Administration is making the assumption that there would be an active application in the second half of the fiscal year.

CHAIR THERRIAULT asked if the State Fire Marshal report would be proposed in the first six months.

BILL BRITT, Department of Natural Resources, commented that if the Fire Marshal were doing work that is reimbursable for reapplication, it would be in the State's best interest to have it funded as represented in the spreadsheet.

CHAIR THERRIAULT observed that the amount freed up by that would be small. He noted that he intended to track that amount. He stated it was his intent that the Committee should be cautious with the amount of money expended. When the full Legislature is back in session, then the Finance Committees could take control of the responsibility.

REPRESENTATIVE FATE restated the MOTION before the Committee. The motion would approve the authorization for the Chairman of the LBA Committee to sign the RSA with the Department of Natural Resources and that it would not exceed \$923.8 thousand dollars.

REPRESENTATIVE FATE and SENATOR PHILLIPS noted a conflict of interest in voting on the matter.

REPRESENTATIVE JOULE commented that Senator Torgerson was frustrated with the lack of available information. He asked if Senator Torgerson would be comfortable enough to help move the other contracts forward.

CHAIR THERRIAULT indicated that Senator Torgerson was more concerned with the second portion of the Department of Natural Resources proposal.

SENATOR JOHN TORGERSON stated that the producers have "come to the table" and have requested that some studies be done.

He agreed that the Committee should authorize the studies. He acknowledged that the producers would be paying for that. He pointed out that there was no provision for the Administration to deal with or share knowledge with the Legislature. The studies are a point of concern, as that information might not be available and that the Administration might not share those findings with the Legislature.

CHAIR THERRIAULT replied that was a different concern than the motion currently before the Committee.

There being NO OBJECTION to the original motion, it was approved.

CHAIR THERRIAULT invited Commissioner Pourchot to address the study portion of the spreadsheet.

COMMISSIONER POURCHOT explained that the Administration intended to work cooperatively with the Legislature in developing the specifics of how the preapproval process would work. He hoped that the hiring process would work quickly.

CHAIR THERRIAULT expected that the process could be worked out by the end of the week. It was his intent to require periodic reports, distributed to Committee members. He recognized that the Committee was already a couple weeks behind the projected timeline as submitted by the Administration. He noted that the Administration would need to justify the next level of staffing to the Chair.

COMMISSIONER POURCHOT addressed the studies. The Administration is proposing to utilize the fast track money for these studies. In response to Senator Torgerson's concern, the studies will be made available to the Legislature. He noted that there are a few items that have not received funding. AOGCC study is very important to help determine the extraction of the oil. He added that the Department of Natural Resources would have an economic component on that study. The Administration would like to be reimbursed for the study. The language did not specifically cover that concern. He stated that the Administration would provide a report on that issue in November 2001. The labor study is more complicated. Commissioner Pourchot recognized that there is a difference of agreement with the timeliness and the subject matter of that report. He stated for the record that work is valuable and that it is important to do it before the construction phase.

Commissioner Pourchot noted an additional component in the amount of \$180 thousand dollars which would continue the contracts with the Cambridge Energy Research Associates.

That contract has been used to provide expert advise on gas and related issues. He noted that the Administration would like to keep that contract for another six months or so. He did not know another alternative.

SENATOR WARD requested further information on the Department of Law line.

COMMISSIONER POURCHOT responded that the Department of Law was on the list, however, it is anticipated that the additional funding would not be needed until January 2002, which would correspond to the increased work effort with the incoming applications. It was listed on the sheet so that the entire year's appropriation needs would be clear.

CHAIR THERRIAULT referenced the memo from Legislative Finance Division regarding the different sources of funding. [Copy on File]. He indicated that there was a difference in opinion on how that language should be interpreted between the Legislature and the Administration.

COMMISSIONER POURCHOT suggested the Office of Management and Budget (OMB) would make that determination. He noted that there could be policy considerations with such a decision and not only legal implications.

ANNALEE MCCONNELL, Director, Office of Management and Budget, (Testified via Teleconference), stated that OMB would not normally allow a department to undertake a study such as proposed, but rather, they would attempt to write a work project or report. The Administration does not believe that they should expand outside the interpretation, which they subject their own agencies to.

CHAIR THERRIAULT indicated that there is some disagreement with the amount of flexibility available on that portion of the money. He noted that there would be further discussions regarding that concern.

Chair Therriault stated that the Administration is moving forward with the producers and Foothill regarding the AOGCC studies. He asked if that could be worked out so that the project could start.

COMMISSIONER POURCHOT replied that he hoped so.

ANNALEE MCCONNELL interjected that if the Administration needs to come back to the LBA Committee, they will.

TAPE CHANGE, LBA 01-7, SIDE 2

CHAIR THERRIAULT pointed out that there has been discussion regarding how the project will affect the State of Alaska. There have been recommendations of getting a report from the Department of Labor indicating how the project would affect communities and employment in those areas from the northern route versus the highway route. There is support for a different kind of study and it could provide information that the Legislature would want to have access to for the beginning of the next legislative session.

ANNALEE MCCONNELL stated that there are certain activities that relate to the permitting process, which will require assistance from the Department of Law. In addition to that, there are issues that the State has relating to its own responsibility and fiscal matters. She stated that there are activities that fall outside of what would be appropriate for the producers to pay for in the reimbursement agreement.

CHAIR THERRIAULT responded that during the time of LBA control, it is important to provide more specifics regarding such items.

COMMISSIONER POURCHOT referenced the Department of Revenue's request in the amount of \$180 thousand dollars for the consultant contract with Cambridge Energy Research Associates. The Department was previously under contract and was provided with a monthly retainer to provide that advice. The hope is that retainer could be continued for the next six months during the application period.

SENATOR TORGERSON pointed out that the request had previously been funded out of the Governor's Office. He asked why it had been "dumped" on the Department of Revenue. He voiced his frustration in working with the Administration while determining the appropriate course regarding the request.

CHAIR THERRIAULT consulted David Teal if that should be a point in question.

DAVID TEAL, Director, Division of Legislative Finance, responded that the retainer on that item would amount to about \$21 thousand dollars per month. Legislative Finance Division pays several thousand dollars per year for email type retainers and studies. The Legislative Finance Division does not pay a monthly retainer for additional questions. He understood that is what the monthly cost would be to the Department of Revenue.

CHAIR THERRIAULT asked where the additional costs resulted from.

COMMISSIONER POURCHOT explained that amount included travel money for the Department of Revenue outside of the contract and for consulting amounts.

LARRY PERSILY, Department of Revenue, advised that the retainer amount was \$20,833 thousand dollars per month plus their expenses. The \$30 thousand dollars for the Commissioner's Office is for travel and expenses that office would incur for the project.

CHAIR THERRIault questioned if those costs had not been anticipated in the regular budget.

LARRY PERSILY responded that the Commissioner's travel budget was quite small. Generally, the Commissioner does not travel much outside of the State. The \$30 thousand dollars would be used for the entire year. It is not a six-month request. He added that Cambridge was under contract until June 30th, 2002. He pointed out that the Administration is only requesting funds for six months.

CHAIR THERRIault asked the will of the Committee.

VICE-CHAIR FATE MOVED to adopt the request of \$180 thousand dollars to be RSA'd to Department of Revenue to cover the expenses as discussed. He asked if that was an adequate amount or just enough to "get the job done".

LARRY PERSILY believed that the Department would spend more than \$30 thousand dollars on travel, conference fees and purchasing reports in FY02 on the gas line.

ANNALEE MCCONNELL recommended adding the amount to the existing RSA's for simplification.

VICE CHAIR FATE MOVED to AMEND the original motion to include the remarks made by Ms. McConnell. The motion would include the \$180 thousand dollars plus the \$923.8 thousand dollars.

There being NO OBJECTION, the motion was adopted.

OTHER COMMITTEE BUSINESS

THE DENALI COMMISSION

KRAG JOHNSEN, Denali Commission, referenced the memorandum in member's packets, which provides an update on the activities of the Denali Commission. [Copy on File]. He listed the primary funding areas for the Denali Commission FY01 appropriations.

- Health Clinic

Mr. Johnsen pointed out that dollars were committed to both large and small clinic projects throughout the State through a fast track RFP process developed by the Committee in March.

- Energy

Mr. Johnsen commented that energy continues to be the primary goal of the Commission and that they are focusing on the bulk fuel upgrades, the rural power systems upgrades and the energy cost reduction RFP's.

CHAIR THERRIAULT asked if Representative Lancaster was involved with the energy portion of the Commission.

REPRESENTATIVE LANCASTER responded that he had co-sponsored a bill to establish an energy plan task force.

KRAG JOHNSEN continued.

- Economic Development

He noted that the Denali Commission has committed to a mini-grant program, community priorities program, Alaska growth capital, 1st Alaskans Foundation and the community toolbox program.

Mr. Johnsen noted that the Senate is looking at a \$40 million dollar budget next year. The regional funding summits have been a three-way effort between USDA-Rural Development, the State of Alaska Department of Community & Economic Development and the Denali Commission.

VICE CHAIR FATE asked if there was a dollar amount available, which had been distributed to the 1st Alaskan Foundation. He pointed out that group was well endowed. He asked why they were using Denali Commission money.

KRAG JOHNSEN replied that they have their own money. The Denali Commission has given them money to be used directly for rural communities to address the development of local decision-making, management and governance skills necessary to plan and implement sustainable community development efforts.

VICE CHAIR FATE reiterated that group was well endowed. He suspected that they owned between \$26-\$28 million dollars. He asked how much was being given to that group and why the proceeds of their income was not being used.

KRAG JOHNSEN clarified that originally, the amount allocated to that group was \$1 million dollars. That money went to a number of community development causes.

SCHOOL COST STUDY

CHAIR THERRIAULT pointed out the school cost study request package.

VICE CHAIR FATE commented that the issue had been discussed at their last meeting, however, action had not been taken on that request.

CHAIR THERRIAULT advised that the RPF had been developed and that it had been submitted to Legal Services for review. The Committee is currently ready to release for proposals. When those proposals are returned, an evaluation committee will be formed. Senator Therriault requested that the Committee consider providing authorization to evaluate the proposals in order to get the contracts started.

VICE CHAIR FATE MOVED that the Committee authorize Chair Therriault to enter into a contract for a school operating cost study in an amount not to exceed \$350 thousand dollars.

SENATOR HOFFMAN requested copies of the proposals be made available to Committee members. He noted the importance of the issue.

CHAIR THERRIAULT stated he would make that information available. He added that the evaluation team would consist of the following members:

- Chair Therriault
- Pat Davidson, Legislative Auditor
- David Teal, Director, Legislative Finance
- Eddy Jeans, Department of Education & Early Development

There being NO OBJECTION, the motion was adopted.

FOSTER CARE AUDIT REQUEST

VICE CHAIR FATE asked if Commissioner Karen Perdue, Department of Health and Social Services, had made a request for an item of discussion.

PAT DAVIDSON, Legislative Auditor, stated that the Committee approved an audit request generated from Representative Fate to look at the foster care system in the State of Alaska. That request had a number of components which included looking at attracting/retaining foster parents and checking to see how the Division of Family and Youth Services was

doing in addressing contact with those children in foster care.

Ms. Davidson noted that there has been discussion with the Commissioner, which indicated that the Federal Health and Human Services would be starting a review process for their child protection, foster care and adoption service monies. They provided three manuals on how the review would take place. There was a request by the Department that the State audit not be done at the same time as the Department is gearing up for the federal review.

Ms. Davidson added that her office has had staff go through the manuals to determine if the audit would be sufficient in scope to address the requests and the time frame for issuing the report. She added that she wanted to see the report in order to determine whether the quality was there to report back to the Legislature.

Ms. Davidson reported that the review does seem to be sufficient in scope and that it will address the items of concern. She added that the idea of a joint audit was attractive. At this time, there have been between eight to twelve states that have had the federal audit performed. There are only three reports that are currently available. She surmised that if the Audit Division began an audit at this time, the results would be available sometime late February or March 2002. The federal report should be available sometime in July 2002.

VICE CHAIR FATE asked if the time line was critical.

PAT DAVIDSON replied that the previous experience of the Division of Family and Youth Service (DFYS) audits are that the services are "long-term" in nature. The problems will take a while to become resolved. Part of the federal review would be a self-assessment. As soon as the self-assessment discovers trouble areas, the Department will start to write corrective action plans.

REPRESENTATIVE LANCASTER asked what prompted the federal audit and if infractions were to be discovered, would State funding be jeopardized.

PAT DAVIDSON replied that DFYS does receive Title E-4 money, which is federal money. The federal review is in year-two of a four-year process. She understood that a review is done every four years by the federal government because they are concerned about how the federal money is being spent. If there were any violations, the federal government would request a corrective action plan.

SENATOR HOFFMAN inquired if it would have any interaction with the Indian Child Welfare Act.

PAT DAVIDSON understood that would be covered, however, she did not know to what extent.

CHAIR THERRIAULT summarized the work done to date by the Legislative Audit Division. He asked what the next step should be.

VICE CHAIR FATE interjected that it is critical to look into the health of the children going into the program and the medical care available to them. He pointed out that there have been some deaths.

PAT DAVIDSON commented that she was satisfied with the current situation and that she wanted to have some of her staff contact the federal review group in order that questions can be answered and concerns covered.

VICE CHAIR FATE was comfortable with the comments made by Ms. Davidson.

CHAIR THERRIAULT asked if the task previously approved by the Committee should be changed.

PAT DAVIDSON recommended that at the next Committee meeting, Legislative Audit Division would possibly provide a formal motion for the Committee to suspend or withdraw the audit request.

REPRESENTATIVE LANCASTER inquired if the federal and/or State audit would include the counseling services for representing the children.

PAT DAVIDSON stated that an audit would determine if children are receiving the services that are in their plan.

REPRESENTATIVE MULDER suggested that Representative Fate be added to the Committee evaluation team.

CHAIR THERRIAULT noted that he intended to have Representative Fate as a member of that team.

CHAIR THERRIAULT concluded that the next Legislative Budget and Audit meeting would be scheduled sometime in September 2001.

ADJOURNMENT

CHAIR THERRIAULT adjourned the Legislative Budget and Audit Committee at 6:55 P.M.