

HOUSE FINANCE COMMITTEE
March 01, 2002
1:33 P.M.

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CALL TO ORDER

Co-Chair Mulder called the House Finance Committee meeting to order at 1:33 P.M.

MEMBERS PRESENT

Representative Eldon Mulder, Co-Chair
Representative Bill Williams, Co-Chair
Representative Con Bunde, Vice-Chair
Representative Eric Croft
Representative John Davies
Representative Richard Foster
Representative John Harris
Representative Bill Hudson
Representative Ken Lancaster
Representative Carl Moses

MEMBERS ABSENT

Representative Jim Whitaker

ALSO PRESENT

Annalee McConnell, Director, Office of Management and Budget, Office of the Governor; Gail Fenumiai, Election Program Specialist, Division of Elections, Office of the Lieutenant Governor; Janet Clarke, Director, Division of Administrative Services, Department of Health and Social Services; Nico Bus, Administrative Services Manager, Division of Support Services, Department of Natural Resources; Nancy Slagle, Director, Division of Administrative Services, Department of Transportation and Public Facilities; Captain George Capacci, General Manager, Alaska Marine Highway System, Department of Transportation and Public Facilities; Frank Richards, Statewide Maintenance, Department of Transportation and Public Facilities; Dwayne Peeples, Director, Administrative Services, Department of Corrections; Joan Brown, Analyst, Office of Management and Budget, Office of the Governor; Tom Lawson, Director, Division of Administrative Services, Department of Community & Economic Development; Robert Labbe, Director, Division of Medical Assistance, Department of Health and Social Services.

PRESENT VIA TELECONFERENCE

Jim Boutchart, Division of Emergency Services; Pat Pitney
University of Alaska.

SUMMARY

HB 414 An Act making supplemental and other appropriations; amending appropriations; and providing for an effective date.

HB 414 was HEARD and HELD in Committee for further consideration.

HB 415 An Act making supplemental and other appropriations; amending appropriations; making appropriations to capitalize funds; and providing for an effective date.

HB 415 was HEARD and HELD in Committee for further consideration.

#HB414

#HB415

HOUSE BILL NO. 414

An Act making supplemental and other appropriations; amending appropriations; and providing for an effective date.

HOUSE BILL NO. 415

An Act making supplemental and other appropriations; amending appropriations; making appropriations to capitalize funds; and providing for an effective date.

ANNALEE MCCONNELL, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET (OMB), OFFICE OF THE GOVERNOR, summarized the supplemental requests. She noted that eight years ago supplemental requests were in the neighborhood of \$90 million dollars, partly because the budgeting process did not acknowledge the full cost of operations. Ms. McConnell stated that the Administration submitted a supplemental request because the version after May was not reflective of the actual situation. Ms. McConnell discussed placeholders [for the Supplemental Requests], which amounted to \$20 million dollars after reforms. This was later moved to \$16 million dollars, and after May was reduced to \$12 million dollars by the Legislature. HB 414 & HB 415 total \$38.7 million dollars, which is over the placeholder, some of which are a result of budget cuts. Ms. McConnell mentioned concerns with federal funding because the schedule was delayed. There are critical areas pending that could potentially affect the supplemental.

Ms. McConnell added that when breaking the supplemental into fast track and the regular process OMB paid most attention to the items that are most urgent.

OFFICE OF THE GOVERNOR

Section 8

Elections component request for \$25 thousand dollars from the general fund to cover costs for printing and mailing a Primary Election Voter Education Guide in time to explain the new law (shifted from FY03 budget which will be amended).

GAIL FENUMIAI, ELECTION PROGRAM SPECIALIST, DIVISION OF ELECTIONS, OFFICE OF THE LEIUTENANT GOVERNOR, stated that the Division of Elections requested supplemental funding in the amount of \$25 thousand dollars to pay for the cost of printing a voter guide. The guide would be used to inform voters of the changes in the primary election system as a result of passage of HB 183. Ms. Fenumiai added that the funding request would be offset by the Governor's amended FY03 budget with a reduction of \$25 thousand dollars to the on-election year funding request. (section 8)

ALASKA COURT SYSTEM

Section 1

Judicial Conduct component request of \$6.8 thousand dollars appropriated from the general fund to be used for legal fees in excess of the FY01 supplemental budget.

Co-Chair Mulder noted that there was a letter from the Alaska Court System in the member's files.

DEPARTMENT OF HEALTH AND SOCIAL SERVICES

Section 4(a)

Medicaid Services Component - Projected to run out April 16. Request for \$4.57 million dollars appropriated from the general fund for FY01 bills paid in FY02; request for \$1.8 million dollars also from the general fund, requested to cover under-funding last year below low case scenario; \$6.34 million dollars requested from general fund is for caseload at mid-case range and cost increases, particularly for seniors and disabled. Total request of \$12,712.5 dollars in general fund appropriations. \$106,618.0 is requested from

federal funds. \$23,903.3 designated from Statutory Program Receipts; Total Medicaid Services request \$143,233.8 million dollars.

JANET CLARKE, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, noted that the total request from the supplemental budget for the Medicaid program was \$143 million dollars. She observed that this was the largest budget item request in the program's history. She anticipated that \$106.6 million dollars in federal funds, \$23.9 million from statutory designated program receipts, and \$12.7 million dollars of general funds.

Ms. Clarke referenced the handout, and discussed the rising cost of health care in Alaska from 1995-2000. She stated that the consumer price index (CPI) in Anchorage grew by about 9 percent, while health care costs rose 27 percent. The average cost of health care in Alaska is anywhere from 25-45 percent above average costs for the rest of the country.

Ms. Clarke added that the current authorization for Medicaid is \$561 million dollars for FY02, and that the program spent \$583 million dollars in FY01. She noted that the program was aware that they were \$22 million dollars short of spending authorization coming into the new year. She stated that the program pushed about a week's worth of spending from FY01 into FY02, totaling about \$13 million dollars. She observed that the program kept on track with their supplemental last year until May and June when their bills increased considerably.

In response to a question from Co-Chair Mulder, Ms. Clarke explained that providers were pushing bills through faster because they knew that there was a possibility the Medicaid Program could run out of money. She advised that pharmacy costs had an over 30 percent increase in FY02.

BOB LABBE, DIRECTOR, DIVISION OF MEDICAL ASSISTANCE, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, interjected that this was related to a slow down in services after Christmas. More claims show up in the spring and summer months because people are sicker in the winter, and there is a lag in billing. The grant programs, community based care programs, and mental health programs, which are sensitive to the cash flow issues, are part of the problem. They are attempting to get everything through the system in case the program runs out of money. He reiterated that there has historically been a spike in that quarter.

Representative Davies referenced the spreadsheet. He inferred that the Medicaid budget had been funded at the low case scenario last year. In addition, the budget was funded below the low case scenario for a portion of the year. In

order to be more realistic the budget should be adjusted from the low case to the mid case scenario to finish out the year.

Ms. Clarke explained that the Governor used the low case scenario [in his FY02 request for Medicaid funding]. The Legislature cut the Medicaid budget below the case scenario. Medicaid costs have "leaped over" the mid case scenario and are currently in the high case scenario. She referenced a letter sent to the Committee in April that tried to identify what a mid case scenario would look like, but the request before the legislature is now at the high case scenario.

Representative Davies summarized that [Medicaid costs] are now higher than the mid case scenario.

Ms. Clarke explained that the description in the spreadsheet describes the general fund portion of the request. The \$23.9 million dollar statutory designated program receipts (SDPR) from the Fair Share program are also being used as a match for the Medicaid program, which moves it into the high case scenario.

Representative Davies understood that all estimates have a margin for error. He observed that the department chose the low case scenario and the legislature agreed. He asked how a \$143 million dollar funding level would compare to the high case estimate.

Ms. Clarke replied that a high case scenario had not been attempted. It was her opinion that the \$143 million dollars in additional spending authority would have come out of the high case scenario. She observed that pharmaceuticals were 30 percent higher in the first six months of FY02 than they were in FY01.

Representative Davies attempted again to determine, if the budget had been funded at the mid case scenario, how much more would have been placed into it?

Ms. Clarke replied that the mid case would have needed another \$8 to \$9 million general fund dollars.

Representative Davies asked how much more was used from other funds. He pointed out that designated receipts were about twice the general funds, and federal funds were about five times the program receipts. He questioned if the ratios would be similar to that.

Ms. Clarke was not sure.

Representative Davies requested that information.

Co-Chair Mulder observed that the Governor had requested the low case scenario funding.

Representative Harris pointed out that the House Finance Committee had fully funded the Medicaid Program.

Representative Croft contended that the Legislature did not estimate as it should. Medicaid needs to be fully addressed in order to prevent the concern in the future.

Representative Harris advised that there were two options, either put more money into it on a local level to match the federal funding or reduce the Medicaid options.

Representative Croft and Representative Davies disagreed with that comment.

Ms. Clarke pointed out that there was a 7 percent increase in cost services. She observed that the elderly and disabled were the highest cost services. Overall there has been an 18 percent increase in Medicaid costs this year. Pharmaceutical and home and community based waiver care costs are 30 to 40 percent higher.

Vice-Chair Bunde noted that there have been projections from the Department of Labor estimating a huge growth in the population over 65 years old, and a large decrease in the population age 30 to 50. He asked if the Department had experienced the increase.

Mr. Labbe replied that there has been a continuous increase in the senior citizen population on the Medicaid program. The elderly population using Medicaid have not adjusted at the same rate as other groups. The retirees are retiring with more income and are not eligible to access these programs at that rate. They are more likely to access the benefits later in life when they enter nursing care. Mr. Labbe said he would have expected to see more, but the growth in the Medicaid elderly program is actually lower than the overall population growth of that segment of the population.

Co-Chair Mulder observed that the huge federal amounts from the statutory designated project receipts related to the last cycle of the Pro Share Program.

Ms. Clarke agreed and stated that in the FY02 budget, they can continue the Pro Share Program. This year, along with the Pro Share Program, a similar program started called Fair Care, which uses the same mechanism as the Tribal Hospital. Six months funding was included for that program in the supplemental request. Otherwise, the impact on the general fund and fiscal gap would have been greater. She added that they had done their best to limit the general fund access.

Mr. Labbe spoke to the progress made by the Fair Share program in Washington DC. There have been informal discussions with the federal government on a state plan amendment. Mr. Labbe said he anticipates formal questions on the amendment. He thought that it would be in June before it is known whether or not it is approved. He noted that according to the attorneys he had spoken to, the program was legal under the regulations, but they were not sure what action would be taken. Mr. Labbe did not foresee the issuance of payment in anticipation of the approval.

Representative Hudson acknowledged the difficulty in dealing with this budget. He asked the number of Alaskans that require Medicaid assistance.

Mr. Labbe replied that the division serves approximately 118,000 Alaskans per year, with an average of 80,000 per month.

In response to a question asked by Representative Hudson, Mr. Labbe explained that each state has some latitude in establishing eligibility levels. There are certain groups that are required to be covered. There is a federal Supplemental Security Income (SSI) program, which makes a person eligible for Medicaid. If a person moves to a different state that has a Medicaid program in effect, the state would have to cover them. Each state has different policies, but they are required to follow national guidelines.

Representative Hudson asked how the Alaska standards stack up against Washington State.

Mr. Labbe replied that Alaska is at 200 percent of the poverty level. Alaska is with a group of states at that level. He thought that Washington was at 250 percent. He claimed that the federal poverty level varied throughout the country. Adult public assistance has one of the highest income standards because Alaska has a higher supplement than most states, due to the high cost of living in Alaska. Some states provide a medical needy program, allowing people to buy into the Medicaid program. Alaska does not provide that. He concluded that each state varies in its structure.

Co-Chair Mulder asked about the co-pay arrangement.

Mr. Labbe replied the federal government does not allow co-payment for services for children or pregnant women. Currently, there is discussion regarding that concern. He addressed the Denali Kid Care program.

Representative Croft noted that he was stunned that 20 percent of Alaskans are income eligible for Medicaid.

Co-Chair Mulder commented that the Native Health Services (NHS) addresses a certain amount of that population. He agreed that it was a stunning percentage and asked if it was indicative of other states.

Mr. Labbe replied that it was representational of the other states. He mentioned the unduplicated annual number, and added that a large percentage of eligible recipients are children.

Co-Chair Williams asked if Alaska Native Services or Medicaid paid first.

Mr. Labbe replied that the State is the primary payer for the Indian Health Service. To the extent that they access the Indian Health Service and Tribal Health System, the State receives federal reimbursement. Much of the enrollment is driven by collection of third party revenue in response to under-funding. Only 60 percent of the health need is being met in the State. It is different in Alaska because Alaska has a larger Native population than a smaller state does, with the exception of South Dakota and New Mexico. Most states do not have Alaska natives equaling 38 percent of Medicaid recipients.

Representative Davies pointed out that around 25 percent of Alaskan kids live in families below the poverty level, and around 40 percent of the population has no health care at all.

Co-Chair Mulder asked how much of last years appropriation was spent on non federally matched programs and services.

Ms. Clarke replied that most match federal services. She mentioned that the State was forced to pay for abortion services through the Supreme Court.

Co-Chair Mulder asked if it was through the Supreme Court or the Superior Court.

Ms. Clarke said it was the Supreme Court.

Co-Chair Mulder said he thought the case was still before the Superior Court.

Ms. Clarke said that the Superior Court had ruled in July 2001.

Co-Chair Mulder mentioned some services in the Hold Harmless Program that were not federally matched.

Ms. Clarke discussed the Permanent Fund Dividend Hold Harmless Program and Longevity Bonus Hold Harmless Program.

Mr. Labbe thought there were maybe 15 individuals that should not be included in the program possibly because of coding problems in the system. He thought that essentially it is matched except for a very small piece.

Section 4(b)

\$2,529.6 million dollars requested to fund Subsidized Adoptions & Guardianship formula program caseload growth.

Ms. Clarke noted that last year \$2.3 million dollars was requested for the program. Legislative funding was reduced. There was a \$1.8 million dollars under-funding going into FY02. Ms. Clark said that request was based on a 14 percent growth in the Subsidized Adoption Program and that the actual growth was 18 percent. She explained that the program subsidizes special needs adoptions. Although the request was above projections, growth in the program was good news, because it helps children find permanent homes instead of remaining in foster care programs. She noted that this item had been reduced in the FY02 budget.

Co-Chair Mulder asked whether the children would still be able to be transferred for adoption without the special services if the appropriation was not made.

Ms. Clarke explained that this type of adoption is a special situation and that there is a contract signed each year. It is less expensive than foster care.

Co-Chair Mulder asked what the average subsidy was.

Ms. Clarke said it averages \$22.70 per day, and that a special needs child receives an augmented rate of \$48.89 per day.

Co-Chair Mulder noted that total would be \$8,000 per year.

Ms. Clarke added that it continued until the child is 18 years old.

Representative Harris pointed out that these are some of the hardest cases to place and have been on the wait list for a number of years.

Ms. Clarke reiterated that these are some of the most difficult children to place and some have been in foster care for a number of years. In response to a question from Representative Harris, Ms. Clarke advised that these were special needs children that might not otherwise be adopted.

Representative Harris referenced the Balloon project.

Ms. Clarke stated that the Balloon project has helped move 1,200 children out of the foster program in the last three years.

Representative Harris asked what funding the request would do to the wait list.

Ms. Clarke clarified that the funding in the supplemental covers existing cases that have come into the subsidy program. At the close of FY01, 1500 children per month were receiving the subsidy. At the end of FY03, it may be 1800 children per month.

In response to a question from Representative Lancaster, Ms. Clarke noted it did not include emergency foster care.

Discussion followed between Co-Chair Mulder and Ms. Clarke on the average augmented rate for a special needs child subsidy. Co-Chair Mulder pointed out that money was not being saved by moving a child out of foster care into the Subsidized Adoption Program because the per-day rate was the same in both programs unless it was for a special needs child. Ms. Clarke maintained that most of the children in the Subsidized Adoption Program were special needs children.

Representative Croft discussed with Ms. Clarke the yearly average cost for a child in the program. Representative Croft noted that these are the most difficult children and they would not be adopted without state assistance. They could either sit in the foster care system or with a state subsidy enter a home. He suggested that it would be cheaper than foster care.

Ms. Clarke pointed out that foster care is approximately twice the amount of the subsidy for special needs children.

Representative Croft questioned the impact to the families if the state did not fund the \$2.5 million dollars in subsidized costs. Ms. Clarke stated that they had received legal advice that action could lead to a breach of contract.

In response to a question by Representative Croft, Ms. Clarke noted that children return to foster care due to disruptions. She anticipated that there would be more disruptions, as the families could not afford to retain care without the subsidy.

Co-Chair Mulder questioned if families were asked to take less. He understood that these are all high needs children. Co-Chair Mulder requested that Representative Harris research the matter.

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Co-Chair Mulder questioned if there had been a foster care reduction. Ms. Clarke noted that the slow track supplemental shows an offset to the reduction in the special needs foster care area. They continued to look at projections.

Co-Chair Mulder stated that he did not see a decrease in the slow track supplemental for foster care.

Ms. Clarke indicated that despite a \$600 thousand dollar deficit, they only asked for \$300 thousand dollars.

Representative Hudson asked about the federal funding.

Ms. Clarke explained that the federal funds were retained. Some of the state funds are needed to match the federal appropriation in order to receive the Title 4E Program. She explained that they receive 50 percent of the funds for the population that is eligible.

UNIVERSITY OF ALASKA

Section 11(a)

Request for \$800 thousand dollars from University Receipts for System wide Small Planning, Design and Construction. Funding authority needed in excess of the FY02 small project non-general fund receipt authority for Lena Point fisheries and ocean sciences facility for simultaneous excavation with the National Oceanic and Atmospheric Association [NOAA] to prevent disruption and damage to the facility at a later date.

PAT PITNEY, UNIVERSITY OF ALASKA, TSETIFIED VIA TELECONFERENCE. She presented the request for authorization for University receipt expenditure for Lena Point, and a change in scope request on capitol appropriation from FY02. She stated that the University needs to commit to the National Oceanic and Atmospheric Association [NOAA] for the infrastructure.

In response to a question from Co-Chair Mulder, Ms. Pintey stated that the University receipts were coming from bond proceeds, to be paid by natural resources funds.

Representative Davies noted that Senator Stevens has been involved in the project's funding.

Ms. Pitney acknowledged that there had been a federal agreement, and that there was expectation of state funding for the project as well. The Lena Point facility had been on the University's Capitol Budget request for 5 years.

Section 11(b)

Scope Change for Sec 3, Ch 61, SLA 2001 to include UAA Heating, Ventilation, and Air Conditioning Piping Replacement Phases 1-4

Representative Lancaster questioned inconsistencies in the bill regarding pool replacement and HVAC piping that did not appear on the short form. Ms. Pitney explained that in FY02 the scope increased to include high priority maintenance, and that extended to the pool replacement. Pipe failures in the summer required emergency maintenance. Some projects had to be delayed because of that. Ms. Pitney emphasized that a piece of the supplemental provided the clarification to expand funding to cover the pipe failure.

Co-Chair Mulder noted that the University had contacted him when the failure occurred and that he thought that the item was appropriate.

MILITARY AND VETERANS AFFAIRS

Section 6 - Disaster Planning & Control

Request for \$100 thousand dollars from the general fund to maintain 24-hour State Emergency Coordination Center [SECC], the agency that coordinates all federal, state and local jurisdictional responses associated with any disaster or event.

NICO BUS, ADMINISTRATIVE SERVICES MANAGER, DIVISION OF SUPPORT SERVICES, DEPARTMENT OF NATURAL RESOURCES, spoke in support of the request. He noted that another \$174 thousand dollars was found within the department. Mr. Bus explained that in order to keep the center running, they utilize two 12.5-hour shifts, seven days a week. There are other unanticipated costs. The request would allow funding through the end of the year and serves the purpose for which it was intended.

Co-Chair Mulder expressed concerns that the department knew the appropriation level but did not manage within that level.

Mr. Bus noted that cutbacks were made to avoid using general funding, however the center was still about \$100 thousand dollars short.

In response to a comment by Representative Lancaster, Mr. Bus explained the redirection of existing general fund authority. He stated that they were no longer performing a number of functions to accommodate the cutbacks.

Representative Davies asked which of the functions they diverted or stopped.

JIM BOUTCHART, PROGRAM MANAGER, DIVISION OF EMERGENCY SERVICES, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS, TESTIFIED VIA TELECONFERENCE, listed cost reductions.

In response to a statement made by Representative Davies, Mr. Bus explained that the Division thought their request was going to be around \$300 thousand dollars. There were unanticipated costs. Mr. Bus reiterated that \$174 thousand dollars were diverted from within the division.

Co-Chair Mulder questioned if the employees were unionized. Mr. Bus noted that they were working 7.5-hour days and that they now work 12.5-hour shifts. He stated that they now work a 42-hour a week shift and that they are working seven days a week, year round.

DEPARTMENT OF NATURAL RESOURCES

Section 7

Scope change for SLA97, CH50, Sec 15(k), P9, L13 from prepare and administer the Kalgin Island II, Caribou Hills, S. Ninilchik-Dome View, South Ninilchik Block timber sales in Kenai Peninsula to Kenai Peninsula to reduce risks from wildfire.

Mr. Bus explained that the request was for reappropriation for timber sales from four specific sites. Two were underway when the market fell. He noted that they still need small salvage timber in that area and he asked that the money be used for smaller sales around the urban area to reduce fire hazards and to offer salvaged timber. The request is to redirect existing funds.

Representative Lancaster asked whether the Department was working in conjuncture with the Borough. Mr. Bus affirmed.

Representative Hudson asked if there were logging operations in that area. Mr. Bus observed that the spruce beetle is making the market unproductive.

Section 6

Disaster Planning & Control

Representative Davies questioned the need for a 24-hour facility.

Mr. Bus stressed the importance of that function taking into consideration homeland security issues.

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

Section 5

\$2,876.9 million dollars requested for Marine Highway Stabilization Fund FY02. Deficit due to Columbia fire and fuel cost increases. If not funded, Spring/Summer service would need to be drastically cut, reducing revenues during highest revenue season. Ships would be put into lay-up status for extended periods.

NANCY SLAGLE, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, testified in support of the request. She noted that the request is based on the impact of the loss of revenues that the Marine Highway has had related to the fire on the Columbia and delays in refurbishment. The Columbia was off line for approximately 13 months. The projections of revenues did not take this into account. The department had been optimistic in their budget request. There was a \$3.5 million dollars loss, some of which was offset through reductions in fuel costs.

CAPTAIN GEORGE CAPACCI, GENERAL MANAGER, ALASKA MARINE HIGHWAY SYSTEM, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, spoke to the actions taken by the department to offset the loss of revenues from the Columbia. He noted that there were a number of measures to reduce costs: unfilled vacancies, downgraded positions, travel reductions, docking fees which are being negotiated, coordinated ship yard costs, reorganization to reduce overtime, schedule printing savings, renegotiated contracts for services and supplies, and introduced a seasonal tariff increase.

Co-Chair Mulder asked how much the itinerary charge would generate.

Captain Capacci noted that rider-ship had increased. Other ships were laid up during the winter to save operating costs. He mentioned revenue losses due to cutbacks in service and the addition of a cost of living increase from the tariff in October. He discussed some unusual ship lay-ups to save operational costs.

Co-Chair Mulder questioned if union contracts allowed a stoppage of payment during lay-up.

Captain Capacci observed that in FY02 the employees took vacation time that amounted to \$10 million dollars.

Co-Chair Mulder observed that this was one-eighth of their budget.

Captain Capacci emphasized the need to keep a well-trained employee base.

Vice-Chair Bunde suggested that labor should be renegotiated.

Captain Capacci acknowledged his remarks regarding labor costs and noted that several contracts are being negotiated with intent to reduce costs. He stated that he was in close contact with the Union and that the Union understood the situation.

Co-Chair Williams stressed that if employees were treated with respect and paid what they were worth, there would not be a need for union contracts. He emphasized the importance of the system.

Representative Hudson pointed out that the Ferry Stabilization Fund was created to appropriate \$40 million dollars allowing it to grow, and be used only for unusual circumstances. He pointed out that the fund has been depleted from lack of legislative appropriation.

Co-Chair Williams understood that ferry employees received vacation time in lieu of pay increases.

Ms. Slagle acknowledged that non-monetary incentives are part of the negotiation process.

Section 10(a)(1)

\$127.8 thousand dollars requested from the general fund for Chandalar (James Dalton Hwy) Maintenance Station Replacement. Temporary rental and other costs of vacating the maintenance station due to imminent structural failure.

Section 10(a)(2)

\$21.9 thousand dollars requested from the general fund for East Fork (Parks Hwy- S of Cantwell) Maintenance Station Replacement. Temporary rental and other costs of vacating the maintenance station due to imminent structural failure.

Section 10(a)(3)

\$45.5 thousand dollars requested from the general fund for Willow (Parks Hwy) Maintenance Station Replacement. Temporary rental and other costs of vacating the maintenance station due to imminent structural failure.

Section 10(a)(4)

\$72 thousand dollars requested from the general fund for Nome Maintenance Station Imminent Structural Failure. Temporary rental and other costs of vacating the maintenance station to due imminent failure.

Section 10(b)

Chandalar Maintenance Station Replacement Design Costs (SDPR from NTSC - see line 6) \$456.8 thousand dollars from Statutory Designated Program Receipts.

Ms. Slagle reviewed the project requests. She advised that there were failures at the Chandalar facility. She noted that several facilities are not structurally sound to withstand the elements and three facilities had been shut down. Actions have been taken to take care of the employees and equipment associated with those facilities.

FRANK RICHARDS, STATEWIDE MAINTENANCE ENGINEER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, explained that temporary arrangements are being made until permanent replacements can be found. He detailed the new locations and implications for the temporary storage and operation of the maintenance stations.

Ms. Slagle added that they are in the process of finding alternative space in Nome. The request would help with the costs in dealing with the alternative locations. The timing is such that the design needs to occur promptly to take advantage of the short construction season.

Representative Foster stated that several of the structures had collapsed. He pointed out that the one in Nome had been built in 1943. He thought that the state had gotten its money's worth out of that one.

Ms. Slagle provided members with a packet, which provided information and photographs for each of the facilities (Copy on File).

Representative Davies emphasized that the request is the result of the State of Alaska's deferred maintenance problems. He stressed the safety issues involved.

Representative Croft revisited consideration of the Marine Highway vacation pay issue. He pointed out that vacation time occurs regardless of when it is taken.

Co-Chair Williams agreed that vacation time could be misleading.

Section 10(c)

Title change from West Douglas Highway Extension to Gastineau Channel Second Crossing to match federal project name change

Ms. Slagle noted that the request is an extension of the West Douglas Highway. She asked for the title to be changed in state statute so that the City and Borough could go forth with the project.

Representative Hudson affirmed the importance of the title change, and pointed out that this project was of utmost importance to the City and Borough of Juneau.

DEPARTMENT OF CORRECTIONS

Section 3

Palmer Correctional Facility request for \$172.2 thousand dollars appropriated from Statutory Designated Program Receipts for a new well including pump and well house as primary water well has failed and is nonrepairable. Statutory Designated Program Receipts (SDPR) are from interest earnings of Northern Tobacco Securitization Corporation (NTSC).

DWAYNE PEEPLES, DIRECTOR, ADMINISTRATIVE SERVICES, DEPARTMENT OF CORRECTIONS, provided information on the department's request. There was a catastrophic failure of the main well of the Palmer facility. He stated that the emergency measures that were taken were inadequate.

JOAN BROWN, ANALYST, OFFICE OF MANAGEMENT AND BUDGET (OMB), OFFICE OF THE GOVERNOR, explained that the statutory designated program receipts would be received from tobacco securitization and could only be used for debt service on those bonds or for capitol projects.

Representative Hudson stated he was unaware that the state was using the Tobacco Securitization funds for Capitol Projects.

Ms. Brown explained that \$2.8 million dollars in earnings were previously unanticipated and that OMB was informed by the Alaska Housing Finance Corporation (AHFC) that the earnings could only be used for debt retirement or Capitol Projects.

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

Section 2(a)

Idaho National Engineering and Environmental Laboratory Grant Contract for Alaska Business Research. Funds in

the amount of \$20 thousand dollars are available March 1, 2002.

TOM LAWSON, DIRECTOR, ADMINISTRATIVE SERVICES, DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT, explained that the request was for the Alaska Science and Technology Foundation. He noted that the Foundation had received a contract with the Idaho National Engineering and Environmental Laboratory. He stated that the contract would provide business opportunities for the state. Mr. Lawson added that the project was expected to start in March.

Section 2(b)

International Trade and Business Endowment, which would replace unrealized FY02 Investment Earnings. Fund Source Change in the amount of \$230.4 thousand general fund dollars.

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Mr. Lawson explained that this was a funding source change for the International Trade and Market. He noted that as a result of the market downturn the funding shortfall was over \$200 thousand dollars. He stated that the division would have problems with scheduled missions, trade shows and possible layoffs if the funding was not appropriated.

Representative Davies asked how large the endowment was.

Mr. Lawson replied that it has a principal of \$4,950 million dollars and is invested by the permanent fund and treated as a subset of the Alaska Science and Technology Foundation endowment. After some discussion with Representative Davies, Mr. Lawson pointed out that the net earnings reserve were counted separate from the principal, which is where the problem rests.

Representative Davies explained that there were a number of these kinds of funds that should be treated as endowments for that reason.

Representative Hudson asked what the typical had earnings had been.

Mr. Lawson replied that in the better years the endowment had earned about \$500 thousand dollars per year. The Rainy Day account was penalized by the unrealized losses.

Representative Hudson inquired what would happen if the funds were not appropriated.

Mr. Lawson stated that the division would need to look at lay-offs and shutting down programs for the rest of the year.

Section 9(a)

Technical correction to add the inadvertently omitted FY02 appropriation from the Power Cost Equalization Endowment fund to the Power Cost Equalization [PCE] and Rural Electrification Fund.

Section 9(b)

Fully fund the statutory formula in the PCE statute in the amount of 1,100 million general fund dollars. Cost increase is due to higher fuel costs.

Section 9(c)

Fully fund the PCE statute in the amount of 1,100 thousand dollars. Increase due to higher fuel costs. 1

Section 9(d)(1)

Delete sufficient authorization from FY02 to pay FY01 late bills.

Section 9(d)(2)

Add authorization to pay PCE Program FY 01 late bills.

Mr. Lawson reviewed sections 9(a)- 9(d)(2)

Mr. Lawson noted section 9(a) was an oversight in the FY02 budget. On February 1st of each year, the revenue department is to provide an estimate on 7 percent of the value of the Power Cost Equalization (PCE) endowment to be appropriated into the PCE fund. That item was overlooked. The Department requests that \$7.062 million dollars to be appropriated from the PCE Endowment into the PCE Fund.

Mr. Lawson spoke to section 9(d). Due to the increase of fuel oil [costs] in FY01, the department ran short of money for the PCE program. He stated that the request was for \$56 thousand dollars to be reappropriated to cover the costs of unpaid FY01 grant obligations.

Mr. Lawson explained items 9(b) & (c). Because of the high cost of fuel, the PCE program had to be prorated at 92 percent. It has been prorated for the past seven months. In February, it was rationed down to 80 percent. Section 9(b) would put \$1.1 million dollars into the general fund and then appropriate it to the Department to fully fund the PCE program.

Co-Chair Mulder noted that the program was funded at \$15.7 million dollars last year. He commented that fully funding is in the "eye of the beholder."

Vice-Chair Bunde observed that fuel costs are always a problem for the program. Fuel costs in urban Alaska had declined in the past several months. He asked if fuel costs could stabilize in the next fiscal year.

Mr. Lawson replied that there was a handout with the spreadsheet that estimates the total cost for FY03 to be \$18.453 million dollars. The costs are not just due to higher fuel costs but also to inflation and growth in the area. In response to a question from Vice-Chair Bunde, Mr. Lawson estimated a growth assessment at about 4 percent.

Representative Davies acknowledged the question of fully funding. He asked about increased utilization.

Ms. McConnell noted that the PCE statute provides a formula and directs the appropriation to be prorated if there is insufficient funding. The issue of full funding has been tied into the original endowment plan. When the Endowment was put together, what was required to fully fund that statute was \$15.7 million dollars, the projection in FY00. The increase in fuel prices happened subsequent to the plan being put together. The amount was outside the expectations of that program area.

Ms. McConnell referred to the difference in fuel prices in rural Alaska. Fuel deliveries are made in late summer, and that means if the price of fuel is still high in August, the rural areas do not receive the benefit of the change in market price that urban areas do. Power Cost Equalization costs today are based on summer fuel costs. She added that rural utilization is significantly below what it is in urban areas.

Representative Lancaster suggested that this relates to the Rail Belt Energy Fund, which stated the Bush would receive 15.7 percent even when the endowment was established. He claimed that the state is not doing their job by not telling the oil companies what they are to pay for oil. At this time the companies tell the state what they will pay.

Co-Chair Mulder agreed and credited Mr. Poe.

HB 414 and HB 415 were HELD in Committee for future consideration.

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ADJOURNMENT

The meeting was adjourned at 3:29 P.M.