

MINUTES
SENATE FINANCE COMMITTEE
February 08, 2001
9:02 AM

TAPES

SFC-01 # 12, SIDE A

CALL TO ORDER

Co-Chair Dave Donley convened the meeting at approximately 9:02 AM.

PRESENT

Senator Dave Donley, Co-Chair
Senator Pete Kelly, Co-Chair
Senator Jerry Ward, Vice Chair
Senator Gary Wilken
Senator Alan Austerman
Senator Donald Olson
Senator Loren Leman
Senator Lyman Hoffman

Also Attending: ANNALEE MCCONNELL, Director, Office of Management and Budget, Office of the Governor; JAMES KOHN, Director, Division of Alaska Longevity Programs, Department of Administration; SHARON BARTON, Director, Division of Personnel, Department of Administration; CHRIS CHRISTENSEN, Staff Counsel, Office of the Administrative Director, Alaska Court System; KELLY HEPLER, Director, Division of Sport Fish, Department of Fish and Game; JANET KOWALSKI, Director, Division of Elections, Office of the Lieutenant Governor; PATRICK GALVIN, Director, Division of Governmental Coordination, Office of the Governor; BARBARA RITCHIE, Deputy Attorney General, Civil Division, Office of the Attorney General, Department of Law

Attending via Teleconference: From Anchorage: DAN DICKINSON, Director, Tax Division, Department of Revenue; BEN STEVENS.

SUMMARY INFORMATION

SB 73-SUPPLEMENTAL APPROPRIATIONS/AMEND APPROP.
SB 74-FAST TRACK SUPPLEMENTAL APPROPRIATIONS

The Committee heard testimony from the Office of Management and

Budget, the Department of Revenue, the Department of Administration, the Alaska Court System, the Department of Fish and Game, the Office of the Governor and the Department of Law. The bill was held in Committee.

#SB73

#SB74

SENATE BILL NO. 73

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

SENATE BILL NO. 74

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

ANNALEE MCCONNELL, Director, Office of Management and Budget, Office of the Governor acknowledged the shortened time for the presentation. She said the requested items would be addressed in the same order they appear in SB 74, with the exception of Section 9.

Section 9 (a)

Department of Revenue

Tax Division budget review unit (BRU)

Expert analysis for a major North Slope oil and gas property tax assessment challenge.

\$1,276,000 general funds

DAN DICKINSON, Director, Tax Division, Department of Revenue, testified via teleconference from Anchorage that the division hoped that these funds would not be needed for this matter. However, he noted that if there were a challenge to the oil and gas property tax assessment of the Prudoe Bay production facility, it would be necessary to hire an expert to analyze the assessment. He noted that the state imposes a 20-mill tax on oil and gas property and that this facility is the largest in the state. He shared the previous year's collection on this property as \$5.6 million. He put that into perspective as more than any other city in the state generates. He detailed the process whereby the assessment is determined each year.

Senator Leman understood the request, but noted that the stated purpose was to address "the challenge in the fiscal years ending in 2001 and 2002." He wanted to know how much of the money is for the upcoming fiscal year and if that portion could be included in the

FY 02 budget as opposed to including this item in the fast track supplemental.

Mr. Dickinson replied that the value needed to be assessed as of June 30, 2001. He added the department hoped to do much of the work during that time period, hoping the ultimate assessment would be in place in time for the 2002 negotiations.

Section 1

Department of Administration

Pioneer Homes BRU

Nurses' salaries increased through statewide reclassifications to address critical staff shortages by bringing compensation more in line with other employers.

\$195,000 general funds

JAMES KOHN, Director, Division of Alaska Longevity Programs, Department of Administration, spoke of the difficulty in recruiting and retaining qualified nursing staff due to the lower pay the department offers. He stated that there are currently 15 vacancies in the statewide Pioneer Home system. He stressed that immediate action was necessary. He told of existing personnel working very long hours to compensate for the shortfall.

SHARON BARTON, Director, Division of Personnel, Department of Administration, reiterated the nursing shortage situation and detailed the union negotiations and the increasing demands for higher compensation. She stated that other employers are offering greater compensation packages to attract trained nurses. As a reaction to this, she noted the department has instituted a two-step salary increase that will begin March 1, 2001. She explained that this is a result of negotiated contract agreements that include a 10.7 percent increase, with 5.7 percent paid at the signing of the contract, another 2.5 percent to be paid in May 2001 and the final 2.5 percent paid the following May.

Ms. Barton stressed that accreditation of the Pioneer Homes are at risk because of the lack of ability to recruit and retain nurses. She added that the exiting Pioneer Home staff is working double shifts and that many employees are "reaching their limit." This, she said, is because of the shortage of on-call nursing staff to provide relief. She noted that this situation is present at the Alaska Psychiatric Institute as well.

Co-Chair Donley clarified that the department implemented this pay increase before having a funding source. He understood that the department is faced with challenges, but questioned why the contract was signed before there was legislative review.

Ms. Barton responded that not only the Department of Administration is affected by this dilemma, but the Department of Health and Social Services and the Department of Corrections also. She asserted that if the legislature failed to fund this item, the department would take other drastic actions in order to meet the funding requirement, but warned that the consequences would be unfavorable. She emphasized the need for health care in these 24-hour institutions.

Senator Austerman asked if there are other salary increases contained in this supplemental appropriation request. If so, he wanted to know the total cost.

Ms. McConnell replied that the other affected departments were able to shift funding internally, but that the Pioneers Homes do not have that flexibility. She advised that all of the affected departments would be submitting budget amendments for FY 02 to fund the pay increases.

Senator Austerman requested information listing the total number of state employees who are registered nurses, and are receiving the salary increases.

Ms. McConnell stated that information would be provided along with an overview of the number of currently vacant positions in all the departments.

Senator Austerman asked if the two-percent salary increase has helped reduce the vacancies.

Ms. Barton responded that because the increase does not go into effect until March 1, 2001, it is too soon to see any benefits. She noted that this would make the state more competitive in the marketplace.

Ms. McConnell referred to the backup documentation supporting the request that gives comparable compensation packages of other employers.

Senator Hoffman referenced this documentation, which shows a comparison of the salaries of nurses with a career working for the state versus those working in the private sector. He wondered how, even with the increase, the state could begin to compete.

Ms. Barton admitted it would be difficult. She suggested that the department hoped to attract nurses more recently certified and with less experience and thus more leverage for higher compensation

packages.

Senator Hoffman stressed that these employees are providing a key service to Alaska and that they would be lost to other employers if they were not competitively compensated.

Senator Ward asked the cost differential between nurses employed by the Department of Corrections and those the department hired on a contractual basis.

Ms. Barton was unfamiliar with the Department of Corrections situation but was able to predict that if the Department of Health and Social Services was forced to use contracted nurses, the total cost would be a minimum of 25 percent higher than the current cost.

Senator Ward suggested the Department of Administration and the Department of Health and Social Services consider following the Department of Corrections' practices in utilizing contracted nursing services.

Senator Olson asked how many total nurses are employed at the Pioneer Homes and also inquired about the next accreditation review.

Ms. Barton was unsure when the next accreditation cycle would occur. She noted that the vacancy rate for these positions changes daily and that the most recent figure she had was 37 vacancies. She qualified that this amount only reflects permanent, part-time and full-time positions and does not include the difficulties involved with keeping substitute on-call positions filled. She stated that the Pioneer Homes have approximately 72 positions with approximately 15 of those vacant.

Ms. Barton added that the Department of Health and Social Services holds approximately 249 positions with 20 vacant, and the Department of Corrections has 68 positions with 12 vacancies. She noted again that these positions are permanent positions.

Ms. McConnell qualified that these figures account for facilities across the state, and that certain locations may experience greater difficulties than others.

Co-Chair Donley requested the average vacancy rate for the last few years.

Section 2
Alaska Court System
Trial Courts BRU

Federal granted award for implementation of the Anchorage Drug Court pilot program.
\$150,000 federal funds

CHRIS CHRISTENSEN, Staff Counsel, Office of the Administrative Director, Alaska Court System, told of the two-year federal grant. He noted that this request is for authorization from the legislature to allow the expenditure of the funds during the current fiscal year.

Co-Chair Donley asked if any additional state money would be required to garner the federal funds.

Mr. Christensen answered there would not and shared that it is the court system's policy to operate pilot projects using federal funds, requesting state funds only after the projects have proven successful.

Section 3
Department of Fish and Game
Sport Fish BRU
Increase of federal authority for stock assessment and fisheries management projects to provide baseline data and help mitigate risks to sport fish opportunities resulting from the federal management process.
\$898,700 federal funds

KELLY HEPLER, Director, Division of Sport Fish, Department of Fish and Game, spoke to the request for receipt authority, assuring that no general funds were requested. He noted this program has broad public support and that is the reason the request is being made. He spoke to the importance of retaining a department presence in the federally run subsistence office.

Co-Chair Donley asked if this would impact the Dingle-Johnson or the Pittman-Robinson federal funding programs for sport fishing and sport hunting activities.

Mr. Hepler stated it would not.

Section 4 (a)
Office of the Governor
Elections BRU
Costs incurred to comply with the Republican Party's request for the closed statewide primary election held in August 2000.
\$252,000

JANET KOWALSKI, Director, Division of Elections, Office of the

Lieutenant Governor, shared the Supreme Court ruling that governs primary elections was handed down after the previous legislature had adjourned. She stated that Lieutenant Governor, Fran Ulmer and herself had met with members of that legislature and representatives of the state's political parties and that a concusses was reached in the form of emergency regulations.

Ms. Kowalski warned that the funds requested were already expended using operating budget funds and that if this request was not granted, the division would be forced to close.

Senator Leman asked if there was a less expensive way that the changes could have been implemented.

Ms. Kowalski agreed that with more time, the cost could have been lower. She detailed the expenditures involving computer reprogramming, printing additional ballots, voter notification and retraining workers.

Senator Leman asked if the division was integrating what was learned in the event this situation occurred again.

Ms. Kowalski responded that there are currently no regulations governing primary elections except those, which were adopted the previous summer. She stated that without legislative intervention, these regulations would dictate future procedures in the next primary election.

Senator Hoffman asked if other states hold closed primary elections and if those states charge the political party for the subsequent costs.

Ms. Kowalski replied that other states had been surveyed and only South Carolina charges the political parties for the cost of closed primary elections. She noted that California, Washington and Alaska were the only states affected by the Supreme Court ruling and each was considering the best way to address the matter.

Senator Hoffman suggested that charging the political party holding the closed primary was one way to recoup the cost to the state.

Senator Ward asked that if the primary election system were to change from the previous election, whether additional costs would be incurred.

Ms. Kowalski affirmed.

Section 4 (b)

Office of the Governor
Governmental Coordination BRU
Reduce backlog due to large increase in oil and gas permit
coordination workload compared to last year.
\$14,300 general funds

PATRICK GALVIN, Director, Division of Governmental Coordination, Office of the Governor, told the Committee that the division implements the Alaska Coastal Management Program. He explained the requested funds would be used to hire an additional Project Review Coordinator to review oil and gas projects. He spoke of the increased number of oil and gas projects subject to consistency review in the last four months. As a result, he stated, the division has been faced with either falling behind in those project reviews, which could potentially jeopardize the development, or shifting other staff away from different projects, thus delaying those projects. He shared that representatives of the oil and gas industry have indicated that the current level of applications would remain the same or increase.

Co-Chair Donley asked how many employees are in the division.

Mr. Galvin answered there are 27 employees, of which ten are project review coordinators.

Co-Chair Donley thought it unusual to have that size of office and to request an additional position just for the four months remaining in the fiscal year.

Mr. Galvin responded that the intent is to add the position permanently and that a request to do so is included in the governor's FY 02 proposed budget. He emphasized the need to fund the position soon because the division is "facing an immediate crunch." He noted that while the division has been able to absorb the workload during the last four months, other projects have fallen behind.

Ms. McConnell noted that typically this type of request would be made during the regular budget period but because the backlog is so significant, this supplemental request was submitted. She added that the intent is to avoid causing problems to the private sector because of the delays.

Senator Ward asked what other duties the division was falling behind in as a result of shifting personnel to the oil and gas projects.

Mr. Galvin explained that the division performs a consistency

review for any project that requires either state permits from more than one state agency or a federal permit. This, he stated includes timber sales, dredging projects, etc.

Senator Ward asked if there is any way to measure the additional costs to the state as a result of the increased amount of oil and gas projects.

Mr. Galvin offered to provide a breakdown of the time involved to do a project review.

Senator Ward wanted this information to also include time that was not spent on other projects because of the staff redirection.

Senator Austerman asked if a fee is charged for these consistency reviews.

Mr. Galvin replied there is none.

Senator Leman wanted to know how the division expected to hire a competent person in this position, while only offering the salary of a Range 18A. He questioned the hiring of an entry-level person to perform complicated consistency reviews. He relayed the complaints of other agencies and their difficulties in competing with private industry.

Mr. Galvin responded that this is the standard pay range of all the project review coordinators. He hoped that an existing employee would apply for this position, thus bringing their experience to the job and in turn, broadening their knowledge and exposure to the oil and gas process.

Senator Austerman asked if, similar to the pay raise action taken by Pioneer Homes, if the position has already been filled.

Mr. Galvin assured that no one has been hired and that the budget request was calculated based on a hire date of May 1, 2001.

Section 6

Department of Law

Government Affairs BRU

Continuing costs for prosecution of claims against Bank of America and other affiliated banks, and for litigation related to the allocation of public safety resources

\$240,000 general funds

BARBARA RITCHIE, Deputy Attorney General, Civil Division, Office of the Attorney General, Department of Law, explained this item is to

cover costs in two different cases. The first, she stated is the "Bank of America" case and detailed the anticipated litigation based on the State of California's finding that this bank, along with affiliates, failed to return or default to the state, unclaimed property that would have been passed along to bondholders. As a result, she said the department decided to look into the matter in Alaska and determined the same was happening in this state. She told of the action taken, including a three-day mediation hearing, which did not result in a settlement of the claim. She explained that the statute of limitation on this matter expires in March 2001 and that the department plans to file suit against the bank before that deadline.

Ms. Ritchie emphasized the amount at stake equals tens of millions of dollars and that municipalities are also participating in the case and would help cover some of the legal costs. She explained some of the expenditures include legal expertise involved in the California dispute. She noted that \$100,000 of the \$240,000 requested would be applied to this case and would help cover filing costs of the suit, making the required disclosures and for other costs related to the incitation of the litigation. She stressed that this case is complex and that some of the analysis dates back several years.

Ms. Ritchie then addressed the remaining \$140,000, would be used to cover costs in a separate suit brought against the state by the Alaska Intertribal Council challenging the issue of equity of public safety funding throughout the state. She shared that while a request for a preliminary injunction was denied, the release was the state's expenditure of \$8 million in federal funds. She said the case is in the discovery phase and that the trial is set to begin in October 2001, with motions for summary judgments due August 1. She noted that attorneys were already disposing experts and that rebuttal dispositions would follow. She stated the funding request is for expert costs associated with the department's analysis, a historical review of public safety funding in Alaska and to also cover the costs of reassigned staff that are not currently paid with general funds, but instead with designated interagency receipts.

Ms. Ritchie responded to a query by Senator Hoffman stressing that with litigation it is difficult to predict when costs will be incurred. She elaborated that sometimes, additional experts are required or another round of dispositions are necessary. This she explained was the reason the department requested that any unused funds not lapse at the end of the fiscal year, and instead be available during the legislative interim.

Senator Olson asked about the possibility that the litigation would end with summary judgment and the expenses therefore not incurred.

Ms. Ritchie answered that it was difficult for her to predict, although it is the department's goal to identify the specific issues that are amenable to resolution short of trial. She qualified that this would probably not be all of the aspects of the case, noting the necessity to establish that there are no material facts in dispute and that the matter is won based upon law. She stressed that this is a high standard and that preparation for every case should proceed as if it would go to trial.

Senator Lemman requested further detail of the mediation session with the Bank of America.

Ms. Ritchie stated that many parties were involved. She stated that after three days, an agreement was not reached, but that there was clarified focus on the specific areas of dispute. She added that the mediator is a retired judge who had also presided over mediations in the California case and is continuing his assessment of the proceedings. Ms. Ritchie did not anticipate that this case would settle before trial.

Section 7

Department of Military and Veterans Affairs

Office of the Commissioner BRU

Grant to Special Olympics to help cover lodging and other costs of the World Games being held in Anchorage in March.

\$500,000

BEN STEVENS, representing the Special Olympics World Games, testified via testified via teleconference from Anchorage in favor of the request, which would be used for food and housing of the athletes. He noted other support given to the event by the federal government, the military and other parties.

Senator Lemman asked how much the state had already contributed to the games.

Mr. Stevens replied that none were supplied to date, but noted a \$4 million guarantee Alaska Industrial Development and Export Authority (AIDEA) was passed in 1998 to be granted if necessary.

Senator Lemman asked if any in-kind service has been provided by the state.

Mr. Stevens replied that the state troopers have volunteered their own time as well as members of the Alaska National Guard.

Senator Leman asked for accounting of the costs of those in-kind services.

Mr. Stevens spoke to the total amount of cash needed for the games calculated at costing \$9 per day per athlete, with approximately 2,950 participants.

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ADJOURNMENT

Co-Chair Donley adjourned the meeting at 9:49 AM.