

JOINT HOUSE AND SENATE FINANCE COMMITTEE
January 25, 2002
1:43 PM

TAPE HFC 02 - 15, Side A
TAPE HFC 02 - 15, Side B

CALL TO ORDER

Representative Con Bunde, Vice-Chair called the House Finance Committee meeting to order at 1:43 PM.

HOUSE MEMBERS PRESENT

Representative Con Bunde, Vice-Chair
Representative Eric Croft
Representative John Davies
Representative Bill Hudson
Representative Ken Lancaster
Representative Carl Moses

HOUSE MEMBERS ABSENT

Representative Eldon Mulder, Co-Chair
Representative Bill Williams, Co-Chair
Representative Richard Foster
Representative John Harris
Representative Jim Whitaker

SENATE MEMBERS PRESENT

Senator Kelly, Co-Chair
Senator Austerman
Senator Olsen
Senator Wilkens

SENATE MEMBERS ABSENT

Senator Dave Donley, Co-Chair
Senator Jerry Ward, Vice Chair
Senator Green
Senator Lyman Hoffman
Senator Loren Leman

ALSO PRESENT

Representative Mary Kaspner; Jeff Staser, Federal Co-Chair, Denali Commission; Krag Johnsen, Staff Designee to the Denali Commission, Legislative Budget and Audit Committee

PRESENT VIA TELECONFERENCE

There were no teleconference participants.

SUMMARY

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DENALI COMMISSION

JEFF STASER, FEDERAL CO-CHAIR, DENALI COMMISSION provided information on the Commission, which is a federal/state partnership. The Commission was created in 1999 as a result of legislation drafted by Senator Stevens in 1998. The law provided for five statewide organizations to participate as voting members along with two co-chairs: one state and one federal. He observed that the members of the Commissioner are Co-chairs Jeff Staser (federal) and Fran Ulmer (state), Julie Kitka (AFN), Mano Frey (AFL/CIO), Dick Cattanach (AGC), Kevin Ritchie (AML) and Mark Hamilton (UAF). The purpose of the Act is to reduce the cost of living throughout Alaska, especially in rural areas and to raise the standard of living. There is a 5 percent cap on overhead. The Commission has been performing at a 2.5 percent overhead level.

KRAG JOHNSEN, STAFF DESIGNEE TO THE DENALI COMMISSION, LEGISLATIVE BUDGET AND AUDIT COMMITTEE provided members with a Denali Commission update for January 2002, an annual report for FY01 and an executive summary of a Ditman poll (copies on file).

Mr. Johnsen reviewed appropriations and expenditures for FY01. He noted that the Commission had approximately \$65 million dollars in various funding sources in FY01. The Commission received:

\$30 million in general appropriations
\$10 million from TAPL interest (bulk fuel)
\$10 million from health clinic construction
\$15 million from rural utility service - energy project upgrades

Mr. Johnsen reviewed the expenditures made by the Commission. He noted that \$20.7 million dollars went to the Alaska Village Electric Cooperative to deliver energy projects. The Commission supported health care and primary care facilities. He explained that 10 percent of their base budget goes to and training and operations.

Mr. Johnsen reviewed their FY02 appropriations. They received approximately \$101 million dollars in new funding. The Commission expended \$50 million dollars for energy projects along with [\$28.35 million dollars in] funding for health clinics. There is a new focus, dictated through federal appropriation law, for a consolidated community facility or washeteria. There is also \$8 million dollars for other infrastructure projects outside of health care or energy.

Mr. Johnsen observed that energy projects account for 60 percent of their expenditures. The majority of funding has been directed toward bulk fuels. He noted that there are 169 communities in need of bulk fuel facilities. Fifteen projects have been constructed toward meeting this need. The goal is to increase planning and construction of future projects. Thirty-nine other energy projects have begun construction. [Four have been completed].

Mr. Johnsen clarified that health clinic construction is a new area of focus. There are a number in progress. There are separate processes for small and large clinics.

Mr. Johnsen reviewed employment on Denali Commission projects. He stated that the local hire rate for rural residents is 60 percent. They track every wage on every project with the intent to bring more funding to rural residents. He noted that there are projects throughout the state of Alaska. The greatest need is in western Alaska. The Denali Commission only trains in construction, operation and maintenance fields.

Mr. Staser recounted meetings with Secretary of Health and Human Services, Tommy Thompson. He observed that the Commission received \$10 million federal dollars, which was matched with \$10 million dollars from the Commission for [health care clinics] grants. Thirty-three projects were proposed. He noted that Secretary Thompson observed, while reviewing the proposals, that there is no transportation west of Anchorage. The Secretary subsequently doubled the Commission's budget. He emphasized the need for teamwork. Communities must be involved and a strong business plan must be in place. Sustainability is a major value.

Representative Lancaster commended the work and effort of the Commission. Mr. Staser noted that a memorandum of agreement is in place with the USDA Rural Development.

Representative John Davies observed that there has been approximately a 50 percent match and asked what constitutes a matching fund. Mr. Staser noted that \$100 million dollars were leveraged. The power program does not have the same cost/share arrangement. He noted that the state of Alaska has to show why problems are not being addressed [on the state level]. The state's lack of income tax and sales tax has been noted on the federal level. The Commission is a federal agency; therefore they cannot use other federal funds for certain programs as their match. The 50/50 cost share is on the aggregate of all items. The state's contribution to bulk fuels is counted as part of its match. Every piece of the pie is critical. The Commission works with HUD and USDA where possible to be counted as a cost/share match.

Senator Austerman complimented the work and method of sustainability of the Commission. He asked for more information regarding local hiring practices.

Mr. Johnsen noted that every employee on every project is counted. Less than one percent of the employees are from out of state. There is a distinction between rural and urban workers.

Mr. Staser added that the intent was to only train where jobs exist. Training is not for training's sake. Alaskans make the decisions. He observed that there was a 70 percent local hire rate in the first year, but only 35 percent of the salaries stayed in the local community. The local hire rate is currently 70 percent with 50 percent of the salaries staying in the local communities. There is only 36 months of experience. The Commission is trying to be flexible and responsive to changes. There have been 9 state/partner funding forums, which brought agencies to regional hubs with villages attending. Eighty percent of the villages' top two priorities made progress and 40 percent of them were fully funded through other agencies. The Commission continues to act as a coordinator between other agencies, both state and federal. He suggested that priorities should be set and not changed according to who has money.

Representative Hudson also commended the work of the Commission and asked if the state has to provide a general fund match. Mr. Staser explained that the local match is defined as anything that is non-federal. He emphasized that jealousy occurs between other states and noted that the Commission would be damaged if the state backed out funds from programs because of Commission support. He emphasized that the federal government and other states are examining the Commission. He pointed out that the Commission would have to go through a reauthorization hearing.

Representative Hudson suggested that state entities could benefit from use of the system that has contributed to the success of the Commission.

Representative Lancaster asked if training was done on site. Mr. Staser explained that training is done on site when possible through their partners. On site training is preferred. Mr. Johnsen added that the Denali Training Fund with the Department of Labor and Workforce Development provides training for bulk fuel operations at Alaska Vocational Technical Center (AVTEC). Heavy construction equipment training is done locally where possible or at the Wasilla at the operator's facility.

In response to a question by Vice-Chair Bunde, Mr. Johnsen explained that people are put through training programs at existing centers such as AVTEC.

Vice-Chair Bunde stressed the need for sustainability. Mr. Staser explained the concept of a backup operator. The presumption is made that the community has or can achieve the skill set. If tanks are not being maintained then the backup operator is called. He explained that the Yukon Barge Company delivers fuel to the bulk fuel tanks. They have formed a partnership to form a limited liability corporation to be the backup operators for communities along the river system. He noted that they have a vested interest in the quality of the storage facility. He observed that the EPA could hold the corporation accountable for problems. Backup operators are not expected to take over ownership of the asset. He noted that one of the first completed projects had an alarm go off during the middle of the night. The local maintenance operator didn't know what to do so he cut the power off to the horn and went back to sleep because there was no one to call. He noted training programs provide someone to call such as a master electrician or plumber. Regional facilities with backup responsibilities can be called. Members would call their cooperative with problems. Isolated communities must identify who would be called before funds are made available.

Vice-Chair Bunde expressed concern that Ditman polls would not be a true test. Mr. Staser noted that the questions were directed to the people at large.

Vice-Chair Bunde observed that at some time the stream of money would be depleted. He cautioned that Alaska could suffer from a lack of federal funding in the future. Mr. Staser acknowledged that the state must look at long-term solutions. After the Environmental Protection Agency (EPA) set standards for leaking fuel tanks the Coast Guard threatened 90 communities with cutting off fuel supplies. He emphasized that there would be a sunset. He stressed that a business plan and backup operators would be left behind. The intent is not to leave a legacy of projects that must be replaced. He acknowledged that a subsidy is implied and emphasized that there is an issue of sustainability versus affordability.

Vice-Chair Bunde stated that memories are short when it comes to subsidies.

Vice-Chair Bunde asked if drug testing is required for training programs. Mr. Staser noted that they work within the programs requirements. He stressed that communities must be alerted of future projects in order to have an opportunity to clean up. Mr. Johnsen noted that there was a 98 percent success rate [completion of the program] in training during the first year. Training statistics are provided through the Department of Labor and Workforce Development.

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Senator Wilkens referred to a pilot sewer and water project in three interior villages near Fairbanks.

Mr. Staser reviewed the project. He noted that the concern was to get local communities to participate under a higher level of accountability. Data is not yet available on the success of the project. There have been several requests for proposals. They received more applications than they could fund. Six were selected for investment. He observed that the Regulatory Commission of Alaska's (RCA) mission is to protect ratepayers. The Commission does not make decisions on policy but they only offer advice.

Senator Olsen questioned if there is a plan to create a maintenance fund for the projects. Mr. Staser responded that there is no plan to continue through an endowment fund. The intent is to create [sustainable] infrastructure and then withdraw. He observed that Alaska was not part of several large federal projects, which took place in other states and indicated that it is time for Alaska to catch up. He reiterated that the Commission does not set policy.

Senator Olsen cautioned that they could create a dinosaur that cannot be maintained by the rural communities. Mr. Staser acknowledged the concern and emphasized that they have learned their lesson from others. He noted that plans must exist to continue the project and plan for maintenance. Bulk fuel programs have encouraged communities to work together so that they can afford to pay for maintenance. They are concerned with these issues. They coordinate with all entities and are open to suggestions.

Vice-Chair Bunde concluded that the intent is not to replace federal subsidies with state or local subsidizes. He suggested that the state match and the Denali funding be considered in regards to the question of whether the state is funding rural Alaska on an equitable level.

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ADJOURNMENT

The meeting was adjourned at 2:42 PM