

MINUTES
JOINT HOUSE AND SENATE FINANCE COMMITTEE
February 14, 2002
9:32 AM

TAPES

SFC-02 # 9, Side A
SFC 02 # 9, Side B
SFC 02 # 10, Side A

CALL TO ORDER

Co-Chair Dave Donley convened the meeting at approximately 9:32 AM.

PRESENT

Senator Dave Donley, Co-Chair
Senator Lyda Green
Senator Gary Wilken
Co-Chair Pete Kelly
Senator Alan Austerman
Senator Donny Olson

Also Attending: ANNALEE MCCONNELL, Director, Office of Management and Budget, Office of the Governor; TOM LAWSON, Director, Division of Administrative Services, Department of Community and Economic Development; DWAYNE PEEPLES, Director, Division of Administrative Services, Department of Corrections; JANET CLARKE, Director, Division of Administrative Services, Department of Health and Social Services; BOB LABBE, Director, Division of Medical Assistance, Department of Health and Social Services; KURT PARKAN, Deputy Commissioner, Department of Transportation and Public Facilities; CAPTAIN GEORGE CAPACCI, General Manager, Marine Highway System, Department of Transportation and Public Facilities; FRANK RICHARDS, State Maintenance Engineer, Division of Statewide Maintenance, Department of Transportation and Public Facilities; ROBERT POE, Executive Director, Alaska Industrial Development & Export Authority and Alaska Energy Authority, Department of Community and Economic Development; SARA FISHER-GOAD, Financial Analyst, Alaska Industrial Development & Export Authority (AIDEA) and Alaska Energy Authority (AEA), Department of Community and Economic Development; NICO BUS, Administrative Services Manager, Division of Support Services, Department of Natural Resources; GAIL FENUMIAI, Election Program Specialist, Division of Elections, Office of the Lieutenant Governor; WENDY REDMAN, Vice President for University Relations, University of Alaska

Attending via Teleconference: From Anchorage: MARLA GREENSTEIN, Executive Director, Alaska Commission on Judicial Conduct, Alaska Court System; From Fairbanks: PAT PITNEY, Director of Budget Development and Institutional Planning, University of Alaska

SUMMARY INFORMATION

SB 291-SUPPLEMENTAL APPROPRIATIONS: FAST TRACK
SB 292-SUPPLEMENTAL APPROPRIATIONS

The Committees heard testimony from the Court System, Department of Community and Economic Development, Department of Corrections, Department of Health and Social Services, Department of Transportation and Public Facilities, Department of Military and Veterans Affairs, Department of Natural Resources, Governors Office, and the University of Alaska. The bills were held in Committee.

#SB291
#SB292

SENATE BILL NO. 291

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

SENATE BILL NO. 292

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

This was the first hearing for these bills in the Senate and House Finance Committees.

ANNALEE MCCONNELL, Director, Office of Management and Budget, Office of the Governor, conveyed to the Committee there have been tremendous improvements in the past several years in the budgeting process. She noted the departments have worked well together on getting more realistic numbers in the main budget and that supplementals have been more limited to changes caused by unforeseen circumstances. She noted the FY 01 supplement request was \$40 million. She stated the FY 02 request is in the same range as the FY 01 supplemental request.

Ms. McConnell specified that some requests in this Fast Track Supplemental are the result of timeframes, and others are the result of insufficient funds to meet statutory obligations "based on best current projections." She stated the child adoption program is one that has exceeded projections and has had a "dramatic increases in numbers." She stated this is good news as more children have been placed in permanent homes, and also saves the state "the expense of paying foster care for children who are in state custody."

Ms. McConnell stressed the numbers presented are the most accurate projections available given the first six months of this fiscal year. She gave as examples: general relief is "on target" with last May's projections, public assistance is higher than projected, and other areas are lower. She explained that when a budget is prepared in May for the fiscal year that starts in July, it represents the best estimates the departments can make for the statutory obligations.

Ms McConnell continued that a few funding sources identified to reduce the FY 02 general fund requests, did not "pan out" as had been hoped. She stated the University of Alaska Science & Technology Foundation interest earnings were below projections because of changes in the stock market condition as are the level of funds available for international business endowment. She continued that Department of Fish and Game funding has been affected by the downturn in the fisheries industry.

Ms. McConnell stated updates on fires and disasters would be provided as time progresses, however, expenses incurred by fires to date are \$7.2 million dollars. She informed that the costs incurred by fire activity "will rise up until and after" the legislature adjourns and on into the summer season. She noted these costs would have to be presented as "a ratification rather than a supplemental."

Ms. McConnell relayed that fuel costs have increased to approximately "\$2.1 million throughout the various agencies," in spite of the fact that "fuel prices have come down from where they were". She reminded that the FY 01 and FY 02 fuel budgets were set at the FY 2000 level with the extra expenses being paid on a "supplemental basis." She continued that the FY 03 budget would be submitted at a higher level, "as fuel prices are not coming down as we had hoped."

Ms. McConnell said the state has been fortunate in having some "one-time money available to use to offset some of the capital expenditures." She cited the unanticipated interest earnings from the tobacco bond would help replace other funding that did not

materialize. She referenced the memorandum in the back-up material that she had received from Deven Mitchell of the Department of Revenue, dated February 11, 2002, which states these earnings are limited "to be used for paying down debt service on these very same bonds or for capital projects."

Ms. McConnell requested the Committee act on both SB 291 and SB 292 as early as possible to allow the departments to address "fee-timing problems." She continued that the Fast Track supplemental requests require action before the final days of the session.

Court System

SB 291
Section 1
Court System
Judicial Conduct
Legal fees in excess of FY 2001 supplemental.
Actual amount is \$6,829.77
\$6,800 general funds

MARLA GREENSTEIN, Executive Director, Alaska Commission on Judicial Conduct, Alaska Court System, testified via teleconference from Anchorage and noted that the Alaska Commission of Judicial Conduct is technically a separate entity from the Alaska Court System but is presented as part of the Court System's budget. She stated this request would have "a very large impact on this small entity." She noted this request is "directly due to underestimation in last year's supplemental request for the cost of proceedings that were pending before the United States Supreme Court on a formal matter against a judge." She stated this represents the balance of the cost for that proceeding.

Department of Community and Economic Development

SB 291
Section 2 (a)
Department of Community and Economic Development
Alaska Science & Technology Foundation
Idaho National Engineering and Environmental Laboratory Grant
Contract for Alaska Business Research. Funds are available
March 1, 2002.
\$25,000 Statutory Designated Program Receipts

TOM LAWSON, Director, Division of Administrative Services, Department of Community and Economic Development stated this request seeks funds to enter into a contract to implement applied business research and other various efforts in environmental

energy, transportation, and other areas. He stated the contract would begin March first and will conclude in the fall.

SB 291

Section 2 (b)

Department of Community and Economic Development

International Trade & Business Development

International Trade & Business Endowment - replace unrealized
FY 02 Investment Earnings - Fund Source Change

\$230,400 general funds

(\$230,400) International Trade and Development Fund Earnings
Reserve

Mr. Lawson stated this is a funding source change from International Trade and Development Fund Earnings Reserve to the general fund. He continued that as part of the FY 02 operating budget, the Division of International Trade and Market Development received \$496,400 in earnings reserve from the International Trade and Business endowment. He stated this was an authorization to draw that money from the endowment. He explained that the FY 01 year-end endowment audit reflected \$697,000 in the total earnings reserve; however only \$266,000 was earned in FY 01. He said that because of losses incurred in the first half of FY 02, the total earnings reserve has now "dwindled to approximately \$270,000 as reported in the December statement." He stated that in order to maximize the earnings, no funds have been drawn from the endowment this year as has been normal practice; as a result, the International Trade and Market Development Division is facing a shortfall of over \$200,000 which is approximately 10 percent of its budget. He stressed this shortfall "will seriously hamper already scheduled trade missions and shows and will result in layoffs as well." He requested, "this anticipated shortfall be fixed with the general fund funding exchange."

Senator Austerman asked for information on the endowment.

Mr. Lawson responded the \$4,950,000 endowment was set up by the legislature in approximately 1996.

Senator Austerman inquired as to the current fund balance.

Mr. Lawson replied there is approximately \$5,222,000 in the endowment after unrealized losses are accounted for.

Senator Austerman clarified the request for \$230,000 general funds.

Mr. Lawson concurred.

Department of Corrections

SB 291

Section 3

Department of Corrections

Palmer Correctional Center

New well including pump and wellhouse as primary water well has failed and is nonrepairable. Statutory designated program receipts (SDPR) are from interest earnings of Northern Tobacco Securitization Corporation (NTSC)

\$172,200 Statutory Designated Program Receipts

DWAYNE PEEPLES, Director, Division of Administrative Services, Department of Corrections, explained this request would fund replacement of the Palmer Water Well as it has completely failed. He stated a temporary solution uses an "irrigation well with a plastic pipe running across the surface;" however, the entire well must be replaced.

Co-Chair Donley characterized this request as a definite fast-track supplemental item, and suggested general funds dollars might be more appropriate than Statutory Designated Program Receipts.

Department of Health and Social Services

SB 291

Section 4(a)

Department of Health and Social Services

Medicaid Services

Medicaid Services - Projected to run out April 16. \$4.57 million general funds is for FY 2001 bills paid in FY 2002; \$1.8 million general funds is from underfunding last year below low case scenario; \$6.34 million general funds is for caseload at mid-case range and cost increases, particularly for seniors and disabled.

\$143,233,800

\$ 12,712,500 general funds

\$106,618,000 federal funds

\$ 23,903,300 Statutory Designated Program Receipts

JANET CLARKE, Director, Division of Administrative Services, Department of Health and Social Services, informed the Committee this request for costs incurred by the Medicaid program is the "largest supplemental request" the Department has ever proposed. She detailed the rising cost of health care in the nation and in Alaska. She explained that while the Anchorage urban Consumer Price Index (CPI) has risen 8.9 percent over the past several years, medical costs have increased 27.4 percent. She informed the

Committee that actual Medicaid expenditures in FY 01 were \$583 million and the FY 02 Medicaid budget is \$561,6 million, leaving the Department starting out the year with \$22 million less than what was spent in FY 01. She commented that actual cost projections for the Medicaid program in FY 02 are approximately 18 percent above FY 01 costs; primarily due to increasing costs for the elderly, disabled individuals and pharmaceutical costs. She noted that Medicaid expenses and projections are detailed in the backup material. She continued the Department projects an increase of over 5,000 individuals on Medicaid in FY 02 from FY 01.

Ms Clarke stated the backup information also includes a six-month FY 02 comparison to the equivalent six months in FY 01 sorted into categories. She informed the costs could have been higher had not the Department sought refinancing opportunities which increase the amount of federal funding while limiting the amount of state general fund dollars through a matching program.

Co-Chair Donley voiced appreciation to the Department for the "hard work" they have demonstrated in trying to keep expenses down. He continued that the Department "has to deal with a maze of federal and state laws which were designed when the state had a lot more money available than it currently does." He commented the state has not "re-vamped" its statutes, and the Departments efforts are appreciated.

Senator Olson, noting the \$6.3 million supplemental request for seniors and disabled, inquired if there has not been an increase caused by the younger population.

Ms. Clarke responded there have been increases in children's needs; however "the real cost drivers" are senior citizens and the disabled.

Senator Olson asked the reason for this.

BOB LABBE, Director, Division of Medical Assistance, Department of Health and Social Services, stated the senior population is the primary user of the Medicaid program for long-term care services, and there has been "a significant increase in the use of home and community based care." He continued the senior population is the primary user of prescription drugs, and furthermore, most seniors have Medicare coverage, which does not cover prescription drugs and usually doesn't cover long care term services, but does provide short nursing home coverage He stated the disability population has similar issues with the exception that only about half of the persons who are disabled have Medicare coverage, so the state also has the primary payment responsibility for physician and hospital

care as well. He specified these two groups are five to six times more expensive on a monthly basis than coverage for a child; therefore the cost to the state for children is significantly lower.

Senator Olson agreed the costs incurred by seniors would explain the expense.

Ms. Clarke added the Department had a sizable supplemental request in FY 01, "however in May and June the costs shot up" significantly above what had been projected. She stated this resulted in \$4.6 million of the FY 02 appropriation of \$12.7 million general funds being used to cover FY 01 expenses.

Senator Austerman stated Medicaid costs are driven by population and stressed the need for the state to entertain a long-range population projection. He asked if the Department of Health and Social Services has worked with the Department of Labor and Workforce Development to conduct long-range population projections for the state.

Ms. Clarke responded that the Department of Health and Social Services provided a five-year population projection the Senate Health Education and Social Services subcommittee in November 2001. She continued it "would be good" to work with Department of Labor and Workforce Development and provide additional information to the Senate Finance Committee.

Mr. Labbe noted the Department of Health and Social Services has undertaken on a special forecasting project to review demographics, insurance costs, and other costs. He stated the Department is also waiting for the final results of a Department of Labor and Workforce Development survey on recent insurance statistics. He pointed out that a variety of information is important to assist the Department's budgeting forecasts. He reported that the senior population on the whole is growing faster than the senior population on the Medicaid program since Medicaid coverage for seniors is limited to certain income and asset levels. He stated the Department anticipates that "down the road" some of the seniors, who do not currently qualify for the program, may qualify as they start to need long-term care services. He continued that the seniors who need long term care are typically 85 and older, and Alaska has the fastest growing 85 and older population group in the nation.

Co-Chair Kelly stated would like to know the characteristics of the people in the Medicaid program, and asked Ms. Clarke if the Department of Health and Social Services has demographic breakouts

on its recipients. He continued that the numbers keep increasing, and he would like to know, in addition to the senior population numbers, what other population groups are driving the growth. He continued that the Department is doing a good job of managing the program; however the state should seek to identify the problem and devise a cure. He stated that if some of the people are in the program because they made "bad choices," the state should discuss what could be done about those choices and how those choices are going to be "rewarded with dollars."

Ms. Clarke stated the Department has a lot of information about this program and has demographic groups broken out. She exampled there is information on the disabled, elderly, adults and children as well as age breakouts and other information. She stated the Department would supply this information to the Committee.

Co-Chair Kelly asked if the Department could provide a breakout on single parents as a result of divorce or other circumstances.

Mr. Labbe replied this level of demographics information is "probably not available" through the Medicaid program records; however the Public Assistance System records may provide some marital status data. He continued that certain personal information, such as whether a patient smokes, would not be available from the current program applications; however, some of this information is "out there."

Mr. Labbe noted that some information could be garnered regarding medical conditions by reviewing Medicaid patients' medical records. He stated the tobacco lawsuit provides models for estimating emphysema deaths and other smoking related conditions, and specified that the election district report could provide further information on where children and seniors are. He summarized personal information is hard to obtain.

Co-Chair Kelly stated the information currently provided by the Department of Health and Social Services does not indicate the data source, "it is just more information that helps you manage the problem." He continued that public policy is hard to make when based on "anecdotal evidence."

Co-Chair Kelly stated his wife works in a pediatric clinic that serves many patients between the ages of sixteen and twenty-four, who are on Medicaid, have kids, and have never been married. He opined, "they need to stop that or this number is never going to shrink." He stated, yes the seniors are going to age and drive some of those costs, but "we keep spitting into that population this group of young people who should be healthy and productive and yet

they are not." He requested the Department of Health and Social Services to research this information.

Ms. Clarke replied the Department would "do its best" to get the requested information by pursuing the information from other sources such as the Division of Vital Statistics.

Senator Olson stated the program costs are driven by the older population; not by the younger people.

Ms. Clarke confirmed Senator Olson's remark; however, she stated the numbers of people the Department has classified as the adult group, is rising because of the number of pregnant women included in that group. She stated that the number of adults participating in the Temporary Assistance for Needy Families (TANF) Program have been decreasing as have the welfare rolls.

Co-Chair Kelly acknowledged the "expedient growth" in the aging population, but reiterated the need for further information on the "population at large" involved in the Medicaid program.

Senator Austerman opined this is a valuable discussion and stated the question is how to remedy this problem in the long term. He continued this question extends further than the Department of Health and Social Services. He voiced that perhaps the Senate Finance Committee needs to "drive the discussion" in order to obtain information on "younger working people," the elderly and other demographic groups to develop a "long term concept." He opined this effort would help resolve the need to address the funding of supplemental requests each year.

Senator Olson mentioned that his office had received a report about "the dramatic increase" in the number of expenditures relating to the Medicaid program "that was somewhere in the neighborhood of 490 percent." He asked Ms. McConnell if that report had been in error.

Ms. Clarke responded that the Division of Legislative Finance has acknowledged there was an error in that data, and that a correction letter had been provided to all members of the Legislature.

Ms. Clarke stated the Medicaid program has grown 190 percent over that time period in total funds, with general funds growing 38 percent. She noted this is an average of less than five percent growth a year since 1995.

Senator Green asked what percentage was used in figuring the federal match amount in this request.

Ms. Clarke replied the match reflected in this request is based on a 59.8 percent match, however the match rate for Medicaid has been reduced to 57 percent. She informed that proposed federal legislation in the Economic Stimulus packet in the United States Congress might increase the match rate to approximately 60 percent. She stated the Department is following this legislation closely.

Mr. Labbe informed the Committee the federal legislation did not pass the United States Senate, and is currently being debated in the United States House of Representatives. He continued that another bill is being proposed because many states are experiencing budget problems and are "looking for some federal relief on the matching rate." He reported the Department of Health and Social Services "has worked on a proposal to keep the state of Alaska's matching rate from dropping," and there is another proposal on the national level for a \$5 million stimulus package that has wide bipartisan support.

Senator Green asked the amount of the general fund request if the federal match was factored at 57 percent.

Ms. Clarke responded the general fund request would increase by \$9 million.

Senator Green stated there is a five percent chance of Congress passing a match assistance change; therefore it would be "more realistic" for this general fund request to be \$21 million instead of \$12 million.

Senator Green asked if this request includes any Pro-Share or Fair-Share programs.

Ms. Clarke responded that "the bulk of the Pro-Share program" would be used in FY 02 and that FY 03 "will really take a hit."

Senator Green asked about the future of the Fair Share program and whether it might impact this request.

Mr. Labbe responded this request is "considerably lower" because of the "anticipated Fair Share" arrangement. He expressed the Fair Share portion is likely to be approved at the federal level; therefore, the Department included those funds in this request. He mentioned that Fair-Share funds are also factored into the FY 03 budget.

Senator Green asked if the Department assumes the Fair-Share and Pro-Share funds would continue and; therefore, incorporates them into the following year's budget. She warned, if they are

incorporated into the budget, the state may "set ourselves up in the wrong direction," for the state would have to fulfill the commitment with general funds if those funds were not forthcoming.

Mr. Labbe stated the Department determines projections of total expenditures based in terms of general funds, and they strive to maximize federal funding sources. He stated the Department has not increased its general fund requests based on available federal funding as the Department understands that if the federal funds do not materialize, then "we have a bigger hole" to fill. He continued the federal government makes special arrangements with every state and this particular program "is so Alaska specific," it is not anticipated to be of concern. He cited, for instance, that Alaska being the only state that operates tribal hospitals under the Pro-Share arrangement.

Senator Green cautioned that "the assumption is that general fund money would have to fill the gap" if federal Pro Share and/or Fair Share funds are not available.

Co-Chair Donley asked if program receipts could fund this request.

Ms. Clarke responded if this request were not funded by general funds, the state would not have the required state match for the Medicaid program, and therefore would not earn the federal dollars. She stated this would result in the Department having to terminate the Medicaid program when the "authority to spend was stopped."

Co-Chair Donley asked if this request could be funded at a lower level.

Ms. Clarke responded the Department anticipates that the program would run out of money by April fifteenth.

Co-Chair Donley asked if current law allows the Department to reduce or pro-rate payments to extend the original appropriation to the end of the fiscal year.

Ms. Clarke responded this is not an option as the Medicaid program "is a highly regulated program," and regulations would have to be changed. She detailed the length of time it takes for that process to occur.

Co-Chair Donley asked if the Department of Health and Social Services "would support the flexibility" to reduce payments if there was a shortage of funds, rather than halting payments.

Ms. Clarke responded that statute determines the level of payments to hospitals, nursing homes, and physicians.

Co-Chair Donley asked if the Department management would support these types of statutory changes.

Mr. Labbe pointed out that in addition to state statutes, there are also federal restrictions. He furthered that the law allows for changes in services, population and reimbursement policies, but any direct changes due to funding reductions would be challenged in federal court.

Co-Chair Donley voiced that Alaska as well as other states are experiencing demand for increased Medicaid funding, and asserted this issue could be addressed at the federal level. He challenged the Department to "think outside the box...to address what the law could be and what the legislature could do on the state level." He also challenged the Department to ask Alaska's congressional delegation for assistance at the federal level to give the Department flexibility.

Mr. Labbe expressed the willingness to discuss options in approaching this, and asked for direction from the legislature.

Co-Chair Donley suggested the Department request flexibility in the event of a shortfall in funding. He continued that the legislature "could still entertain" a supplemental request; however, the option to stretch payments out over the remainder of the fiscal year "would be good" if funding is short.

Co-Chair Kelly asked the Department what potential violations might have resulted from prior proposed legislation regarding the pro-rata program.

Ms. Clarke responded analysis indicates prior proposed changes would have had no impact on the Medicaid program.

Mr. Labbe concurred, and stated the proposed pro-rata legislation would have affected programs such as adult public assistance, payments to individuals, and the longevity bonus.

Co-Chair Kelly asked if other proposed legislation would have impacted the Medicaid program.

Ms. Clarke did not recall any specifics.

Co-Chair Kelly asked the Department to provide a copy of any analysis that has been conducted which would identify what federal laws would be violated if the state implements a pro rata change.

Ms. Clarke responded the Department would supply the analysis.

Co-Chair Donley commented that the prior year, in looking for a long-term solution to the Medicaid funding situation, the Committee sponsored a \$200,000 appropriation for a study on the impact of the Permanent Fund Dividend (PFD) program on the volume of people in the welfare program. He said the governor vetoed that legislation and stated that information "was already available." Co-Chair Donley asked the Department what the impacts of the PFD program are on the welfare system.

Ms. Clarke responded she did not have that information.

Co-Chair Kelly stated that "the governor's veto was over the objection" of the Permanent Fund staff who were interested in that information.

Co-Chair Donley reiterated that the Committee had tried to begin the long-term planning process as Senator Austerman had suggested; however, the governor's veto "stopped that effort." Co-Chair Donley stated he has requested a copy of the information from the governor's office.

SB 291
Section 4(b)
Department of Health and Social Services
Subsidized Adoptions & Guardianships
Formula program caseload growth
\$2,529,600 general funds

Ms Clarke informed this request is a result of this program experiencing 18 percent growth instead of the projected 14 percent. She stated this growth is good news for the program as it indicates, "more children are getting into permanent homes."

Ms. Clarke stated the Department's request for this program in the FY 02 budget was not fully funded, and this, combined with the growth in the program, has contributed to the budgetary problem. She informed that, at the close of FY 01, there were approximately 1,500 special-needs children per month in the program and this number is expected to grow to 1,800 by the end of FY 02. She stressed "this program has had considerable support from the legislature over the years," and commented that the Department of

Health and Social Services "believes this it is a program that needs to grow." She continued that this program has helped the Department reduce the expenditures of the foster care program, and there "was not an increment for the foster care program" in FY 02 and that "the base rate has been reduced as well." She stated these programs are interlinked, and this Subsidized Adoptions & Guardianships program is a program the Department "would call a success."

Marine Highway System

SB 291

Section 5

Department of Transportation and Public Facilities

Marine Highway Stabilization Fund

Marine Highway Stabilization Fund FY 02 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.

\$2,876,900 general funds

KURT PARKAN, Deputy Commissioner, Department of Transportation and Public Facilities, distributed a graph [copy on file] to the Committee that depicts the expenses of the Marine Highway System (MHS), and projected the MHS would run out of money in May 2002. He stated the most significant contributing factor was the F/V Columbia's fire in early June 2000. He informed that the F/V Columbia was out of service from June 2000 through the latter part of July 2001, although the Department had anticipated it would be back in service in May of 2001.

Mr. Parkan reiterated that the F/V Columbia was out of service for a portion of FY 00, all of FY 01, and a portion of FY 02. He stated that July is typically the biggest revenue-generating month for the MHS, and this ship is the biggest revenue-generating vessel.

Mr. Parkan informed the Committee that the Department did not expend some FY 02 budgeted allocations in marketing and administration because they anticipated having a deficit. He stated expenses were further mitigated by lower fuel costs.

Co-Chair Donley asked how much money is currently in the Marine Highway fund.

Mr. Parkan estimated \$6 million.

Co-Chair Donley asked what would happen if the \$6 million is used

to cover some of the costs in this request.

Mr. Parkan replied the \$6 million is what the Department would use to "get us through May" and then it "will be gone."

Co-Chair Donley asked what expenses were related directly to the F/V Columbia fire.

Mr. Parkan responded that not all costs reflected in the request are the result of the fire onboard the F/V Columbia. He stated the Department had over-projected revenue for both FY 01 and FY 02, and that the Department had anticipated having the F/V Columbia in service in FY 02. He continued that a rebound in activity did not occur, as anticipated.

Co-Chair Donley voiced that the state "heavily subsidizes the Marine Highway System because it doesn't generate enough money on its own to be able to pay for its operation." He continued that since "the revenue generated does not pay for the operation in the first place, shouldn't the expenses have actually gone down" since there were lower operational costs.

Mr. Parkan responded that Co-Chair Donley "was correct to a certain extent." He noted that the chart in the back-up material reflects some savings of expenditures in FY 01 and FY 02. He stressed that the Columbia only operates in the summertime, and the savings from vessel lay-ups "are already built" into the budget. He stated the overall operational savings helped offset the reduction in revenues, and when the F/V Columbia went off line, the F/V Malaspina was used as her replacement.

Senator Olson stated that if the \$6 million in the MHS's account will run out in June, that means it takes \$2 million a month to run the MHS. He asked if this is the norm.

Mr. Parkan said yes, this is what it costs to operate the MHS. He continued that "different things," like the F/V Columbia fire and the Canadian ferry blockage a few years ago, are anticipated and are factored into the budget.

Senator Olson asked how the operating expenses would change when the fast ferries come on line.

Mr. Parkan replied that overall costs would decrease because labor costs would be lower. He elaborated that one crew instead of two would work on the fast ferries because they operate "essentially as day-boats." He commented that fuel costs would increase but the "savings in labor will be greater."

Senator Austerman asked if there was any "ridership" loss when the F/V Columbia was out of service. He also asked if insurance covered loss of revenue as well as the costs of repairs to the F/V Columbia.

Mr. Parkan responded the F/V Malaspina has the same passenger capacity as the F/V Columbia; however it cannot accommodate the same amount of vehicles. He stated that insurance did not cover operating expenses.

Senator Austerman stated that since the F/V Columbia was in lay-up status there would not have been any operating expenses. He asked about the insurance coverage regarding loss of revenue.

Mr. Parkan replied that there was no insurance coverage on loss of revenue.

Senator Austerman clarified that insurance did cover the cost of repairs.

CAPTAIN GEORGE CAPACCI, General Manager, Marine Highway System, Department of Transportation and Public Facilities, stated the Federal Highway Administration covered the costs of the F/V Columbia's repairs. He commented that the switchboard repairs cost \$1.5 million, and that "the actual larger portion of the shipyard expense was the rehabilitation of the staterooms which was a \$9 million project." He stated the Federal Highways Administration paid these costs as well.

Captain Capacci reaffirmed that insurance did not cover lost revenue. He continued that even though the F/V Columbia was in lay-up status for a year, there were crew costs and lay-up costs incurred in the amount of approximately \$1.8 million.

Senator Austerman asked for clarification that the MHS does not have insurance for fire damage.

Captain Capacci stated that through risk management "there is insurance for those types of repairs and damages that are incidental" to the system. He clarified; however, in this case, the Federal Highway Administration covered the costs.

Mr. Parkan clarified that Marine Highway funds were not used to cover repairs on the vessel.

SB 291
Section 10(a)(1)

Department of Transportation and Public Facilities
Northern Region Highways & Aviation
Chandalar (James Dalton Highway) Maintenance Station
Replacement - Temporary rental and other costs of vacating the
maintenance station due to imminent structural failure.
\$127,800 general funds

SB 291
Section 10(a)(2)
Department of Transportation and Public Facilities
Central Region Highways & Aviation
East Fork (Parks Highway - South of Cantwell) Maintenance
Station Replacement Temporary rental and other costs of
vacating the maintenance station due to imminent structure
failure.
\$21,900 general funds

SB 291
Section 10(a)(3)
Department of Transportation and Public Facilities
Central Region Highways & Aviation
Willow (Parks Highway) Maintenance Station Replacement -
Temporary rental and other costs of vacating the maintenance
station due to imminent structural failure.
\$45,500 general funds

SB 291
Section 10(a)(4)
Department of Transportation and Public Facilities
Northern Region Highways & Aviation
Nome Maintenance Station imminent Structural Failure -
Temporary rental and other costs of vacating the maintenance
station due to imminent failure.
\$72,000 general funds

SB 291
Section 10(b)
Department of Transportation and Public Facilities
Northern Region CIP
Chandalar Maintenance Station Replacement Design Costs (SDPR
from NTSC-see line 6)
\$456,800 Statutory Designated Program Receipts

Mr. Parkan stated these expenses are related to maintenance stations that have been closed due to facility concerns. He exemplified that roofs have collapsed at various locations, and the Department has closed some high-risk facilities to assess the repair needs. He informed that the assessment report indicates that

several facilities are at risk of failure; therefore the Department vacated those facilities. He stated this request includes rent in other facilities until the state facilities are repaired, and he explained what some of the temporary facilities consist of. He informed the Committee that some design costs for facility repairs are included in this request; however, construction requests are included in other legislation.

Co-Chair Donley inquired what the funding source is for subsection 10 (b).

Mr. Parkan stated the funding was Statutory Designated Program Receipts from the Tobacco Settlement Bond extra earnings.

Co-Chair Donley clarified these are actually general funds.

Senator Austerman asked when the Chandalar Maintenance Station was vacated.

Mr. Parkan stated it was vacated in June 2001.

Senator Austerman asked if this request is for a full year of operation and rental costs.

FRANK RICHARDS, State Maintenance Engineer, Division of Statewide Maintenance, Department of Transportation and Public Facilities, stated the request for \$127,000 covers the purchase of a double-wall tent. He stated that the available shop space did not have adequate ventilation so the tent was needed in order to perform tasks such as welding.

Senator Olson asked why the tent was so expensive.

Mr. Richards stated the tent was a 72 feet by 120 feet Alaska Coverall building. He continued that additional costs were incurred by ground preparation, erecting the tent, and moving into the facility.

Senator Olson requested further information from the Department on what caused the deterioration of the building in Chandalar.

Department of Community and Economic Development

ROBERT POE, Executive Director, Alaska Industrial Development & Export Authority (AIDEA) and Alaska Energy Authority (AEA), Department of Community and Economic Development, addressed the Committee. He stated there are four requests in SB 291 regarding Power Cost Equalization (PCE).

SB 291
Section 9 (a)
Department of Community and Economic Development
Power Cost Equalization & Rural Electrification Fund
Technical correction to add the inadvertently omitted FY 02
appropriation from the Power Cost Equalization Endowment fund
to the Power Cost Equalization and Rural Electrification Fund
\$7,062,200 PCE EF

Mr. Poe said this section addresses a technical issue. He referred to the spreadsheet in the backup material that outlines how the PCE endowment system is set up. He informed that \$15.7 million was appropriated in the FY 02 budget for PCE; however, since FY 02 was the first year "the PCE endowment fund was brought into play," the appropriation language that would have moved the \$15.7 million from the PCE endowment to the PCE fund, did not happen. He stated this request is to correct that oversight.

Mr. Poe stated if this does not happen, the funds to pay PCE would not be available. He stated that 1999 legislation allowed PCE to prorate payments; consequently, payments have been at 80 percent.

SB 291
Section 9(b)
Department of Community and Economic Development
Power Cost Equalization & Rural Electrification Fund
Fully fund the statutory formula in the PCE statute. Cost
increase is due to higher fuel costs.
\$1,100,000 general funds

SB 291
Section 9(c)
Department of Community and Economic Development
Power Cost Equalization
Fully fund Power Cost Equalization (PCE) statute. Increase due
to higher fuel costs.
\$1,100,000 PCE

Mr. Poe stated these requests would increase PCE payments for FY 02 to 100 percent for March through June, instead of the current pro-rated 80 percent.

Section 9(d)(1)
Department of Community and Economic Development
Power Cost Equalization
Delete sufficient authorization from FY 02 to pay FY 01 late
bills

[\$56,800] PCE

Section 9(d)(2)

Department of Community and Economic Development

Power Cost Equalization

Add authorization to pay power cost equalization program FY 01
late bills

\$56,800 PCE

Mr. Poe stated these requests are related to a \$56,800 PCE "problem" that occurred in FY 01. He stated the PCE program is a cost-driven system, "that is costs are incurred and the PCE program has to reimburse them." He stated that on occasion, "bills come in fairly late, although funds are encumbered in anticipation" of what those bills might be. He continued that when FY 01 was closed out, the PCE program "was \$56,800 short," and this request requests authorization to pay these FY 01 expenses out of FY 02 funds. He noted this request is based at the 80 percent payment factor. He stated that if Section 9(d)(1) and Section 9(d)(2) were passed, it would allow payment for the outstanding debt.

Senator Austerman asked if the general fund appropriation in Section 9(b) is based upon 100 percent payments instead of 80 percent.

Mr. Poe responded yes, and clarified the request is only for 100 percent payments from March to June.

Senator Austerman asked Mr. Poe for further explanation on Section 9 (c).

Mr. Poe stated Section 9(c) is actually an appropriation of the endowment funds to the PCE of the general funds as explained in Section 9 (b). He continued that Section 9 (c) is the actual appropriation for March through June payments.

SARA FISHER-GOAD, Financial Analyst, Alaska Industrial Development & Export Authority (AIDEA) and Alaska Energy Authority (AEA), Department of Community and Economic Development, explained, "Section 9 (b) is actually the capitalization directed to the PCE fund. It does not go through the endowment fund." She continued that "9(c) is the authorization to expend that money" for FY 02.

Senator Austerman asked for clarification that Section 9 (b) and 9(C) involve the same money.

Ms. Goad concurred.

Senator Wilken stated in FY 00, the Committee put forth effort on the PCE program "to try to get it to be self-sustaining". He noted that one of the funding sources in FY 00 was the National Petroleum Reserve - Alaska (NPRA). He asked if the PCE program managers have requested "some NPRA money to help make up the shortfall."

Mr. Poe replied the managers have not, and "there is only a small amount of money available" currently from NPR-A.

Mr. Lawson explained that in the year 2000, there were significant funds available in the NPRA program due to reserve sales, and that the PCE program received approximately \$9 million from an NPRA appropriation. He continued there was no NPRA money appropriated in FY 01. He stated there is \$1.7 million in total grant money available from NPRA in FY-02, and he expected this would be the amount annually available for grants.

Senator Wilken asked if the PCE program has submitted a request for a portion of the \$1.7 million in grant funds available from NPRA for FY 03.

Mr. Poe replied that the PCE program has not put in a request for this grant money.

Senator Wilken stated that "if we don't ask, we don't get," and as a result of the FY 00 proceedings, it was understood that the PCE program would have access to available NPRA funds. He suggested the managers of the PCE program pursue this funding source.

Mr. Lawson stated the statute relating to NPRA grants specifies "it is the intent of the legislature to fund grants that show impact from the oil and gas development." He continued "if there is any money left over at the end of the year, 25 percent of the balance goes into the permanent fund," 25 percent goes into an educational trust, "and the remainder can go into the PCE fund." He stated, "this formula is set up in statute."

Senator Wilken suggested the Committee look at PCE projects to determine if any are impacted by oil development, as those projects would qualify to request NPRA grant funds.

Senator Austerman supported Senator Wilken's comments.

Co-Chair Donley stated that in FY 00, "the understanding in this Committee and on the floor of the Senate," was "that if NPRA money did not materialize, there was no on-going obligation" for the legislature "to fund to any specific money level without the NPRA money being an element in that funding."

Mr. Poe stressed that the efforts of the legislature to develop funding mechanisms for the PCE program have been successful with the establishment of such things as the endowment. He cited other recent funding sources such as revenue from the sale of the Four Dam Pool. He stressed that statute specifies how the PCE program is to be funded. He stated, "the managers' job is to inform the legislature about the program and what the costs are, and the legislature's job is to allocate limited resources to fund those needs." He stated the good news is the "endowment fund really helps a lot." He stated that Section 9(c) might be an area that could be funded from other funding sources.

Senator Austerman supported Mr. Poe's comments and stated efforts are underway to change how the PCE program operates, and this would result in "a significant difference" in how the PCE program operates in FY 03.

Senator Wilken stated this is the first time the Committee has seen an effort by the PCE program to try to work within its resources and the pro-rating endeavor should be recognized.

Co-Chair Donley voiced appreciation to ADEIA and the PCE program for their efforts toward working within their budget.

SB 292
Section 16(d)
Department of Revenue
Treasury Division
Correct fund source for Ch 60, SLA 2000 PCE Fund/Sale of 4 Dam Pool/Energy (HB 446) fiscal note.

Mr. Poe informed that this item is to cover fees charged by the Department of Revenue Treasury Division to manage the endowment. He stated, in prior years, those fees were charged against the PCE funds, not the PCE endowment fund. He stated these management fees are a cost to the ratepayers receiving PCE, and this request asks to have these fees charged to the endowment fund instead.

Senator Wilken clarified this is a request for zero funds since it is a transfer of funds.

Mr. Poe responded that is correct, and this section would repair a "technical problem."

SB 292
Section 2(b)
Department of Community and Economic Development
Power Project Fund
Denali Commission Appropriation to the Power Project Fund
\$4,900,000 federal funds

Mr. Poe stated this project seeks ways to reduce the cost of power in rural Alaska, and utilities that serve rural Alaska were asked for suggestions on how to reduce those costs. He stated that 40 proposals were received, "15 of which showed a positive cost benefit." He clarified that each of the proposals has "a grant portion and debt portion so there would be a loan aspect to it as well." He informed that the 15 proposals total approximately \$7.5 million with a loan program portion of \$4.9 million. He continued this request "asks to receive those Denali Commission funds in the Power Project fund and then loan that money to rural utilities for these projects that will lower the cost of power in those communities."

Military and Veteran Affairs

SB 291
Section 6
Department of Military and Veterans Affairs
Disaster Planning & Control
Costs 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
\$100,000 general funds

NICO BUS, Administrative Services Manager, Division of Support Services, Department of Natural Resources, stated this is a request to maintain the 24-hour state emergency coordination center. He stated the center was created the prior year with \$203,000 in funding support from the legislature and an expected annual cost of \$450,000. He stated the Department reallocated funds to support the center; however that funding is now exhausted.

Senator Austerman asked if the \$203,000 the legislature funded was general funds.

Mr. Bus concurred.

Senator Austerman reconfirmed that, at that time, the Department stated it would cost \$450,000 to run the center.

Mr. Bus commented that the Department was not sure of the total amount initially, as negotiations with the union had not been completed. He stated that with the \$203,000 appropriation from the legislature, the Department believed they could try to make it work; however, the funding is "still shy about \$100,000."

Senator Austerman asked the total cost of the program.

Mr. Bus responded \$450,000.

Senator Austerman confirmed this amount, and asked how much federal dollars are involved.

Mr. Bus replied the Department has investigated the federal funding option, and currently there is no Federal Emergency Management Agency (FEMA) grant monies available.

Senator Austerman stated that the \$203,000 allocation from the legislature plus this request for \$100,000 would bring the general fund allocation to \$303,000.

Mr. Bus concurred.

Senator Austerman stated that \$147,000 is provided by the Department.

Mr. Bus concurred and elaborated the \$147,000 is also general funds that the Department had received but had redirected to the center.

Senator Austerman stated therefore, this program is funded fully by general funds.

Mr. Bus stated that Oil and Hazardous Response funds are contributed, but are not reflected.

SB 291

Section 7

Natural Resources

CIP

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 Bick timber sales in Kenai Peninsula to Kenai Peninsula to reduce risks from wildfire.

Zero fund request

Mr. Bus informed the Committee this request for a reappropriation

of a timber sale project on the Kenai Peninsula was intended to administer sales on the islands specified in the request. He stated the Department has been successful in part of the sale; however, "the timber sale market collapsed" and the project could not be completed as originally intended. He continued that the Department held meetings with the residents of the Kenai Peninsula area, and this request is to redirect the balance of the funds to smaller sales that would reduce the risk of wildfire.

SB 292

Section 4

Department of Military and Veterans Affairs

Disaster Relief Fund

The Disaster Relief Fund directly funds the core services of the Division of Emergency Services, 10 full-time positions and the match for another 10 positions. Fund capitalization to cover the core services costs has been done in the supplemental for several years.

\$680,000 general funds

Mr. Bus stated this request is intended to capitalize the disaster relief fund. He stated this is an annual request to fund the salaries of staff working on disasters.

Senator Austerman inquired as to what this money is spent on.

Mr. Bus responded it pays for staff working on direct disaster assistance with communities and working on disaster plans.

Senator Austerman asked why this request is included in the supplemental budget if it is for normal staffing.

Mr. Bus stated this money has never been added into the base funding; however the Department would support it being reflected in the base funding.

SB 292

Section 7

Natural Resources

Fire Suppression

Fixed costs and fire suppression costs incurred to date. Updated costs for spring fire suppression will be provided as needed.

\$7,235,000 general funds

Mr. Bus explained this request is to cover the expenses of fires in the summer of 2001, and the balance of fixed costs. He informed the Committee the average expenses in a year are \$12 million and the

base funds appropriated in the FY 02 budget was \$3 million. He stated this request does not include suppression costs for May and June 2002 activities.

Senator Wilken suggested the Committee consider investigating the expenditures, as Alaska did not seem to have many major fires in the summer of 2001. He voiced concern as to how Alaska is reimbursed for expenses incurred by "shipping people out to assist with fires" in other regions of the country.

Mr. Bus stated the Department would provide a breakout of the costs incurred relating to last summer's fires.

SB 292
Section 13
Department of Military and Veterans Affairs
Army Guard Facilities Maintenance
Federal funds for increased telecommunications costs for the
Distance Learning project.
\$350,000 federal funds

Mr. Bus stated this item is fully funded by federal dollars to addresses telecommunication costs of providing the Distance Learning project to armories in the outlying regions of the state.

SB 292
Section 14(1)
Department of Natural Resources
Geological Development
Federal grant awards for geological projects
\$493,400 federal funds

Mr. Bus said these federal funds would allow for geological projects

SB 292
Section 14(2)
Department of Natural Resources
Parks Management
Increased fuel costs
\$20,200 general funds

SB 292
Section 14(3)
Department of Natural Resources
Parks Management
Increased costs for two-way radio circuits
\$40,700 general funds

Mr. Bus listed these requests.

SB 292
Section 14(4)
Department of Natural Resources
Recorder's Office
Costs of title records for new title companies. Title insurance laws require companies to have duplicate records for the past 25 years.
\$300,000 Statutory Designated Program Receipts

Mr. Bus stated this request is a result of new title insurance companies starting business, as state law requires these entities to have duplicate records for the last 25 years. This request would allow the Department to make the duplicate copies and the cost would be fully reimbursed by the businesses.

SB 292
Section 14 (4)
Department of Natural Resources
Recorder's Office
Assume recording duties in Valdez, Glennallen, and Seward that were previously done by the Court System without charge. Increased costs to process heavy volume of mortgage refinance activity and implement completed classification study.
\$235,000 Receipt Support Services

Mr. Bus specified this request is for receipt-supported services. He noted that the Department has relied on the Alaska Court System for all court recording activities done in the communities outlined in the request; however, due to staffing constraints, the Court System could no longer provide the services. He stated that in addition, the court staff is not trained in the Department's procedures. He stated this request would complete the transfer from the court to the Department.

Mr. Bus stated that as a result of a large increase in loan refinancing, additional non-permanent staff was hired in November and December to keep up with the workload. He stated this assisted in expediting the refinancing process, resulting in an increase of one million dollars in extra revenue for the state treasury. He continued; however, labor costs increased as well. He stated the non-permanent positions would expire at the end of February, as the workload would be brought current.

Mr. Bus continued that a portion of this request also covers salary increases for Recorders as a result of reclassification. He stated

the total request of \$235,000 would be covered by new revenue generated this year.

Co-Chair Donley summarized Section 14 pertains to expenses that would be covered by additional revenue.

Mr. Bus stated that was correct. He stated the work would not be done if customers do not pay for it.

Senator Olson asked if the temporary workers generated the entire one million dollars in new revenue.

Mr. Bus responded that regular staff generated the new revenue with support from the non-permanent staff. He stated that normally the Department generates \$4 million dollars in revenue and this year, "the Department pulled in \$5 million."

Mr. Bus stated that refinancing has been beneficial to business, the general public, and the state.

SB 292
Section 20(b)
Department of Natural Resources
Fire Suppression
FY 2001 Fire suppressions costs
AR 37313-01 Fire Suppression
\$4,730,000 general funds

Mr. Bus stated this is a Ratification that provides for fire suppression projected costs for May and June 2002 that are not covered in the supplemental.

SB 291
Section 19
Miscellaneous Claims
Military & Veterans Affairs
Miscellaneous Claims: \$274,000
\$300 general funds

Mr. Bus stated this is for a miscellaneous claim.

Office of the Governor

SB 291
Section 8
Office of the Governor
Division of Elections
Costs for printing and mailing a Primary Election Voter

Education Guide in time to explain the new law (shifted from
FY 2003 budget which will be amended)
\$25,000 general funds

GAIL FENUMIAI, Election Program Specialist, Division of Elections, Office of the Lieutenant Governor informed the Committee this \$25,000 request is "for the production of a primary election voter education guide as a result of the changes in the primary election system." She continued this is part of the state's voter outreach efforts. She stated this amount would be offset in the Governor's amended FY 03 budget with a reduction to the Election funding request.

University of Alaska

SB 291
Section 11(a)
University of Alaska
Systemwide Small Planning, Design and Construction
Funding authority needed in excess of the FY 02 small project non-general funds receipt authority for Lena Point fisheries and ocean sciences facility for simultaneous excavation with NOAA to prevent disruption and damage to the facility at a later date.
\$800,000 University of Alaska Receipts

WENDY REDMAN, Vice President for University Relations, University of Alaska, informed the Committee that the University of Alaska and the National Oceanic and Atmospheric Administration (NOAA) is requesting these funds for excavation and dynamite site work for the Lena Point joint-use research facility. She noted that the NOAA would be soliciting requests for bids for site excavation this month, and the University's cost for this work would be significantly less if done in conjunction with NOAA's site excavation.

SB 291
Section 11(b)
University of Alaska
CIP
Scope change for Sec 3, CH 61, SLA 2001 to include University of Alaska Anchorage heating, ventilation, and air conditioning Piping Replacement Phases 1-4

Ms. Redman stated this request resulted from a change in scope on a FY 01 \$10 million Capital Improvement Project (CIP) that the University received for renovation and repair at the Anchorage campus. She informed the Committee that during the CIP project

work, major pipe damage was discovered that resulted in the University having to request this change in scope to accommodate the unanticipated expense.

Senator Austerman asked which University receipts would be used for the Lena Point Project, as it is a capital project.

Ms. Redman stated the receipts for the project would be allocated from the National Resources Fund, generated from the Land Grant Fund. She stated portions of that fund have been dedicated to planning and design work for facilities. She informed the Committee of a request for the cost of construction of the facility in the FY 03 budget request.

Senator Austerman asked that further information on the National Resources Fund be supplied to the Committee.

Ms. Redman responded the information on the Fund is forthcoming as it is submitted annually to the Legislature.

Senator Austerman asked for further information on the FY 01 allocation for the University of Alaska Anchorage renovation.

Ms. Redman stated the FY 01 money was appropriated to address deferred maintenance, code compliance and bio-medical and science laboratory renovation. She continued that as these upgrades were being undertaken, several pipes exploded and approximately \$2 million of the allocation was used for emergency pipe repair and renovation. She stated this required a change in the scope of the project.

Senator Olson inquired if the biomedical project is in jeopardy due to the change of the University of Alaska Anchorage project's scope.

Ms. Redman replied that the funding originally allocated for the biomedical portion of the FY 01 funding was used to repair the pipe system as the laboratory upgrades were not designated as an emergency; therefore, the University would pursue further capital funding to upgrade the laboratories in conjunction with another project.

Senator Olson summarized there are no biomedical field upgrades occurring now at the University of Alaska, Anchorage.

Ms. Redman responded that there is approximately \$8 million worth of renovation money being utilized at the University of Alaska Anchorage campus; however, she is not sure which specific projects

are underway.

PAT PITNEY, Director of Budget Development and Institutional Planning, University of Alaska, testified via teleconference from Fairbanks and specified \$3.6 million was dedicated for science renovation, biomedical lab renovation, and planning for science instruction. She continued that with this reduction would "hit within that \$3.6 million."

Ms. Redman stated the replacement of this money has already been addressed in the deferred maintenance bond legislation.

Senator Austerman, noting that the campus in Juneau occupies several acres of land, asked why the University rented space for a University budget office downtown.

Ms. Redman responded her single room downtown office is easily accessible to the Legislature, and results in a savings of both transportation time and fuel costs.

Co-Chair Donley announced these presentations complete the fast track supplemental requests in SB 291.

Co-Chair Donley stated the legislature does "the best we can and try to make sure there is public services delivered and that we do the best we can with the state treasury." He noted there are a lot of items in the fast track supplemental, and reminded that the funding of these requests is a process that takes place each year.

Co-Chair Donley stated it is a challenge for the legislature to determine what funding is appropriate.

Co-Chair Donley voiced concern that endowments are treated as dedicated funds, since the state of Alaska has "a constitution that prohibits dedicated funds, and there is a lot of groups around here that have programs and they may be good programs but to try to protect their programs politically, they have created endowments in our state budget." He elaborated endowments "are really just general funds, and those are funds that could be used to reduce the fiscal gap, could be used for education, or things that are constitutional priorities." He stated "as we look at funding coming from endowments, we shouldn't just think that they are not real money, because they are real money that could be used for police, or fire, or public health or education." He stressed that because a program has a statute that suggests its endowment funds "should be used for a particular purpose, doesn't mean that's always the highest and best use for that money at this particular time for the state of Alaska."

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ADJOURNMENT

Co-Chair Dave Donley adjourned the meeting at 11:44 AM.