

MINUTES
SENATE FINANCE COMMITTEE
February 22, 2002
9:06 AM

TAPES

SFC-02 # 15, Side A
SFC 02 # 15, Side B
SFC 02 # 16, Side A

CALL TO ORDER

Co-Chair Dave Donley convened the meeting at approximately 9:06 AM.

PRESENT

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

Also Attending: DAN SPENCER, Director, Division of Administrative Services, Department of Administration; ALISON ELGEE, Deputy Commissioner, Department of Administration; TOM LAWSON, Director, Division of Administrative Services, Department of Community and Economic Development; DWAYNE PEEPLES, Director, Division of Administrative Services, Department of Corrections; LARRY JONES, Executive Director, Board of Paroles, Department of Corrections; KAREN REHFELD, Director, Division of Education Support Services, Department of Education and Early Development; EDDY JEANS, Manager, School Finance and Facilities Section, Division of Education Support Services, Department of Education and Early Development;

Attending via Teleconference: From Anchorage: BARABARA BRINK, Director, Public Defender Agency, Department of Administration

SUMMARY INFORMATION

SB 291-SUPPLEMENTAL APPROPRIATIONS: FAST TRACK

This bill was scheduled but not heard.

SB 292-SUPPLEMENTAL APPROPRIATIONS

The Committee heard testimony from the Department of

Administration, Department of Community and Economic Development, Department of Corrections, and the Department of Education and Early Development. The bill was held in Committee.

#sb292

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 second hearing for these bills in the Senate Finance Committee.

Department of Administration

Section 1(a)(1)

Department of Administration

Finance

Contractual costs for maintenance of the State payroll system (AKPAY)

\$150,000 general funds

DAN SPENCER, Director, Division of Administrative Services, Department of Administration stated this request is a high priority item for the Department as the state's "antiquated" payroll system is requiring constant maintenance and is generating additional operating expense. He continued that, in addition, the system's software is being phased out, resulting in the need for the Department to train programmers to convert existing data to a new database management system.

Co-Chair Donley asked if a request for training had been included in the FY 02 budget.

Mr. Spencer affirmed it had been requested, but had not been funded.

Co-Chair Donley asked why the Department did not re-adjust priorities to accommodate this need.

Mr. Spencer stated adjustments were made; however, the current staff time is absorbed in repairing the existing software to keep it functioning. He stated the Department currently is minimally staffed and "are in a day-to-day keep the system going mode." He noted that during the summer, the Department had a staff shortage;

however currently there is a full programming staff. He stressed that being fully staffed now allows time for people to get the additional training necessary for the upcoming conversion to new software.

Co-Chair Donley asked the number of press relation's staff the Department employs.

ALISON ELGEE, Deputy Commissioner, Department of Administration, stated the Department has no press officers.

Co-Chair Donley asked if the Governor's office handles the Department's press releases.

Ms Elgee responded the Department uses the Governor's Office staff for assistance with press releases.

Co-Chair Donley asked if the Department could not have shifted "other less priority" resources toward these programming needs.

Mr. Spencer responded, "this is a situation where the Department has a need and knows the cost of the need and is bringing it" to the Committee. He stated, "obviously, if you don't feel it rises to a priority level, we will have to see if we can reassign some folks or create the savings somewhere else."

Co-Chair Donley asked if the Department has determined this was such a priority as to "feel it's a need that would cause you to reassign things" to get it done.

Mr. Spencer affirmed that it is of such a need, and the Department would have to start reassigning people if this supplemental request is not granted. He warned that other Department responsibilities would not be addressed. He stressed that the Department "would rather not have to stop doing other things."

Co-Chair Donley asked what activities the Department would forego if it shifted priorities to meet this need.

Mr. Spencer responded that the Department has not created a list yet, as they have been waiting for the outcome of this request.

Co-Chair Donley stated the Committee had requested a prioritization list from the commissioner. He surmised the list should have been created by now.

Mr. Spencer replied that a list was created prioritizing items for the FY 03 operating budget, but not for the supplemental requests.

Co-Chair Donley stated the Department's correspondence did not appear to prioritize duties or specify which programs could be eliminated if resources needed to be shifted to support other programs.

Mr. Spencer stated the Department's response qualified that the duties the Department performs are set in statute and the Department is obligated to fulfill them.

Co-Chair Donley countered that the Governor could introduce legislation to amend statutes to address this concern.

Mr. Spencer asked the Committee to communicate this suggestion to the Governor's Office.

Senator Ward confirmed that the request sent to the Department's Commissioner specifically requested prioritization of programs. He continued that knowing exact monetary needs of the various departments' and a list of departments' priorities would assist the legislature in determining how to address the state's needs in the FY 03 budget. He clarified that the intent of the letter was for a prioritization list.

Mr. Spencer voiced appreciation for the clarification. He reiterated the need for the Department to comply with statutory mandates, and stated that one mandate involves the state payroll system and "keeping the employees paid." He continued that these statutes have been "on the books for some time," and that the Department has not received a request to consider statutory changes. He stressed that the Department's roll in prioritizing programs is presented according to current statute mandates, and that statutory changes suggested now would not affect the current situation.

Senator Ward expressed that schools and other entities are experiencing funding shortfalls and he stated that "government needs to be reduced some amount, and everybody needs to share in this a little bit." He requested the Department to examine its programs "to determine where cuts can be made." He stated this information is essential in determining the best way for the Legislature to approach downsizing the budget without doing "across the board cuts." He stated that the Committee receives requests for more money; however, they also need to see what programs can "live with less." He stressed he has not seen any "we can live with less stuff."

Co-Chair Donley stated the Committee understands the position the

Department is in regarding statutory mandates, and commented that he had requested suggestions for statutory law changes from the Department's Commissioner; however, the Commissioner did not supply any suggestions.

Co-Chair Donley requested the Department to examine any non-statutory duties and to determine the lowest priority statutory duties that could be statutorily eliminated or altered to cause the "least amount of impact upon the services that the state delivers to the people of the state."

Senator Hoffman reminded Committee members that in the 1990's, Alaska was the only state in the nation to reduce its budget, and now other states are evaluating cutting their budgets. He stressed the need for Alaska to develop a long-term plan to balance the budget in order to have "a sustainable budget and provide the services that the people want." He stressed that minor cuts "here and there" would not accomplish this; and questioned what the Legislature is doing to achieve the goal of sustainability. He stated his election district has felt the impacts of cutbacks and is ready to address whatever is needed to secure a workable budget.

Senator Ward agreed with Senator Hoffman, and said that while taxes may be necessary to address the revenue shortfall, "government as a whole is on the table." He insisted that the state's departments "have an obligation to come in with at least a one dollar reduction" from the previous year; however "what we have is an Administration saying we need this much more because this is really an important thing." He continued "of course it is, but where are you going to take it from... from government." He stated, "everyone has to share in this, that the whole burden can't be placed on the people to keep government going. Let's just do the services that we need."

Senator Hoffman asked Senator Ward why, if he is supporting spending "even one dollar less," is he supporting spending additional money for tourism and other items.

Senator Ward voiced support for Senator Hoffman's remarks and said the Administration must set the priorities and inform the Legislature if spending money on such things in the budget as the Arctic Winter Games, public radio, and the Power Cost Equalization program are as important as keeping schools functioning. He stated that everybody has to share in this reduction and start prioritizing within the Departments. He noted he had not voted for legislation appropriating funds to the tourism industry, and there are several other appropriations he would not support; however, he would prefer the Departments to prioritize programs and reduce

expenditures. He stated the savings could then be reallocated to programs that "really need the money."

Co-Chair Donley reiterated, "prioritization is more than just prioritizing new spending, its prioritizing spending you don't have to do anymore to substitute and make room for the new spending. It runs both ways and all we see is one way in this Administration." He stated this is "what concerns" and "disappoints" the Legislature. He stated the Legislature is continuously told by the Departments that "it is not our job to prioritize, it's not our job to make choices." He stated it is hard for the Committee to determine whether the testifiers are following instructions they received from the Administration "to put the Republican legislature in a box, don't help us solve the fiscal crisis, or whether you really don't know the answer. I don't know whether you are following instructions or whether you are doing your job." He commented, "there is a difference between the two, for the people of Alaska."

Senator Leman stressed the purpose of this meeting is not to cut the budget, rather to address supplemental requests that increase the budget. He commented that supplementals are the result of changing conditions, and he is interested in knowing what conditions have changed or if the cause is unplanned expenditures or incorrect planning.

Section 1(a)(2)
Department of Administration
General Relief
Shortfunding for projected caseload.
\$273,000 general funds

Ms. Elgee explained this item addresses caseload increases involving the "placement of vulnerable adults in assisted living where protected services are needed because the individual is at risk." She stated this funding was proposed but not funded in the FY 02 budget.

Co-Chair Donley asked what efforts were made by the Department to minimize the need for this supplemental request.

Ms. Elgee responded that the Department has been undergoing a regulation process that will assist the Department to better control the program. She informed the Committee that when the revised regulations were first introduced, there was a great deal of confusion amongst the providers. She stated there was disagreement as to whether the Department correctly interpreted the Legislative intent of the program, and the Department was asked by

the Legislature to postpone the adoption of the replacement regulations until the Legislature had an opportunity to re-review the regulations. She continued that, at the present time, the regulations are under review by the Department of Law with an expected adoption date of July 2002.

Co-Chair Donley asked the amount of money these regulations are projected to save on an annual basis.

Ms. Elgee responded the Department would meet the parameters of the prepared fiscal note that was submitted with SB 73 when that legislation was passed.

Co-Chair Donley asked what efforts have been made to offset the increase of funding for this program.

Ms. Elgee responded this is a difficult situation as the Department has been working through "the confusion that has been created" amongst the provider community as well as amongst Legislators about the intent of SB 73; specifically the setting of very specific daily rates that the Department pays assisted living facilities for placement of an adult in the facility. She detailed the historical payment plan and the changes imposed by SB 73 relating to the charges for room, board and services. She stated that by not having the regulations in place, the Department has had to negotiate a "payment mechanism" with each provider. She elaborated on the complications involved if the patient also needs assistance through the Medicaid waiver. She stated the confusion, combined with an increase in the number of individuals needing assistance, has resulted in this supplemental request. She stated that once the regulations are in place, the Department would be able to work within the guidelines of the fiscal note.

Senator Green asked what savings would occur if the regulations were set in place now instead of July.

Ms. Elgee responded the regulations are in final review at the Department of Law and are not anticipated to be in place until July; however, at that time, the Department's FY 03 budget proposal would be in place and would be adhered to.

Co-Chair Donley asked if the Department is confident of the timing on the implementation of the regulations as this could affect the FY 03 budget.

Ms. Elgee affirmed the regulations would be in place by July 1

Senator Green asked the Department for other suggestions to improve

this situation.

Ms. Elgee responded the Department has been working closely with the Department of Health and Social Services due to the overlap in departments resulting from the Medicaid waiver for the elderly. She suggested that changing the Medicaid waiver reimbursement for assisted living to allow for a community based system would be beneficial. She explained that the current "Medicaid reimbursement system is based on an old adult foster care rate structure that was in place in the early 1990's" and reimburses homes based on the size of the home, which does not reflect the need level of the individual. She noted that many of the small homes currently receive a small reimbursement amount although they care for people with very high needs. She continued, "we need to get this fixed so that the assisted living community gets adequately compensated for the services they are delivering." She stated the Department "is exploring with Department of Health and Social Services the opportunity to refinance, through the Medicaid program, a portion of what is presently paid" to individuals through Adult Public Assistance. She stated if this endeavor were successful, it would allow the Department to use funds that are presently in the Adult Public Assistance Program to "leverage federal funds through the Medicaid program and shift more costs to the Medicaid program where we are sharing those expenses with the federal government."

Senator Green asked if classifying some of these costs as emergency procedures would be beneficial and would allow some of the costs to be shifted to federal Medicaid; thereby allowing the state to leverage state funds.

Ms. Elgee responded that, "emergency regulations are very specifically defined as to what constitutes an emergency."

Senator Green inquired if this could be addressed through current regulations.

Ms. Elgee stated Medicaid regulations are administered by the Department of Health and Social Services, and not through the Department of Administration; therefore discussions need to involve that Department. She assured the Committee the interpretation of the regulation "is a very high priority" and the departments have "agreed to try to expedite this regulation result."

Senator Green requested the Committee to encourage "the expedition of these revised regulations that would increase funding" and leverage "state dollars to impact payment for the people in assisted living homes."

Section 1(a)(3)
Department of Administration
Leasing
Shortfunding for the amount required to pay leases with the
private sector
\$1,300,000 general funds

Mr. Spencer commented the original FY 02 request was short-funded \$1.9 million, and based on a recent reassessment of needs, this amount is needed to pay state long-term leases. He elaborated on the types and lengths of leases the state currently holds with the private sector. He stressed that the Department has economized where it could; however, as leases expire, there are not many lower cost leases options. He qualified, however, that this request is significantly lower than the Department projected.

Ms. Elgee cited the Department's success in reducing costs over the years, and that even with this request factored in, the total general fund expense for the leasing program is less than the amount required in FY 01.

Senator Leman inquired about the lease status of the state-owned Atlin Building.

Ms. Elgee explained that the Atlin Building is included in the Public Building Fund and the occupants of the building pay rent to that fund. She stated those monies are used for the maintenance and operation of that facility. She continued Alaska Housing Finance Corporation (AHFC) carries the debt service for the Atlin Building.

Senator Leman asked what percent of the building is occupied by state entities.

Ms. Elgee responded that approximately 80 percent of the building is occupied by state entities, and the few private tenants have continuing leases that were in effect when the building was acquired.

Mr. Spencer stated that tenants are aggressively sought for the few vacancies that are in the Atlin Building.

Co-Chair Donley stated the public has commented that the state lease costs are higher than what the private sector would charge. He restated the Committee's directive to the Department to cut its lease costs. He stated that the Department has not reduced their costs as reflected by this supplemental request.

Ms. Elgee responded that the Department has reduced its lease costs

by \$600,000 from FY 02 projections. She stated leasing has historically been under-funded intentionally because so much of the proposed budget is based on projections. She continued this process has worked very effectively, and "over the course of the past ten years," the supplemental requests have been lower than their corresponding year's projections, thus "avoiding an unnecessary appropriation of funds." She noted this "keeps pressure on the Department to reduce these costs."

Section 1(a)(4)
Department of Administration
Leasing
FY 02 appropriation for the Anchorage Jail lease is short
\$4,784.38
\$4,800 general funds

Mr. Spencer stated this request is to correct a technical error in the debt payment schedule that was not appropriately reflected in the FY 02 appropriation.

Section 1(a)(5)
Department of Administration
Office of Public Advocacy
Shortfunding of current year exacerbated by increased costs.
\$1,865,000 general funds

Mr. Spencer stated this is another agency that has been historically under-funded. He explained the caseload of this program continues to increase primarily as a result of contractual costs of private attorneys representing the individuals that the Office Of Public Advocacy (OPA) is assigned and required to represent.

Co-Chair Donley inquired what percentage of this request is the result of criminal defense work.

Mr. Spencer could not provide that specific information; however, he stated the estimate is based on the current caseload, and its comparison to prior years. He stated there are a lot of variables that affect the Office.

Co-Chair Donley asked if there is any intent language in the budget that supports the Department's position that the OPA was intentionally under-funded, and that a supplemental is expected.

Mr. Spencer responded there is no such supportive language.

Co-Chair Donley inquired if a Senate Finance Co-Chair had inferred

this in any conversation.

Mr. Spencer responded there was no specific conversation regarding this matter.

Senator Donley asked why the Department concluded that a supplemental request was appropriate.

Mr. Spencer stated that the conclusion was reached when no change was made in the program, after a history of approximately thirteen years of being under-funded. He stressed it is difficult to predict the costs of this program; however, he stated, the Department has been "pretty accurate in the last couple of years."

Co-Chair Donley asked if there are any statutory or structural organizational changes that can be addressed to reduce the cost of the program.

Mr. Spencer replied not at this time.

Senator Hoffman inquired as to why the caseloads are so expensive

Mr. Spencer responded that some of the expense is generated by an effort to reduce the backlog of children's cases.

Co-Chair Donley stated the budget was increased in FY 02, and inquired if the "high degree" of budgetary increases the OPA has been receiving would address this backlog or whether the caseload is increasing and driving the budgetary growth.

Mr. Spencer stated the backlog of cases is primarily child-in-need-of-aid cases and although the backlog of these cases has been reduced, the program continues to grow.

Co-Chair Donley asked if this growth is due to "statutory changes that are increasing the protection for children, because the government is more aggressive about reaching out and protecting children, or is that there are more children in need of aid for some social reason."

Mr. Spencer responded "all of the above." He continued there is no one single factor, and that a larger population also contributes to the growth.

Ms. Elgee stated that changes at the state and federal level have mandated "tighter timeframes in terms of permanency planning for children."

Senator Hoffman inquired if the increase in child in need of aid cases can be attributed to any particular area of the state.

Ms. Elgee responded the Department would provide a breakout of caseloads to the Committee.

Section 1(a)(6)
Department of Administration
Public Defender
Shortfunding of current year need and fiscal notes
\$600,000 general funds

BARABARA BRINK, Director, Public Defender Agency, Department of Administration, testified via teleconference from Anchorage and explained this supplemental request is the result of reduced funding and higher costs due to increases in caseloads and workloads. She explained that half of the request is the result of reductions in the Agency's Smart Start program FY 02 budget request. She detailed that the under-funding essentially eliminated two attorneys in the OPA; however the caseloads continued to increase due to the responsibilities of the Smart Start Program. She continued that the Agency is obligated to investigate every report of child neglect and harm. She stated she made the decision to keep the two attorneys to continue to represent children within the strident timelines required by statute. She mentioned these attorneys also work on Balloon Project cases, another child placement program.

Ms. Brink informed the Committee that a portion of the request is for funds for legal support and attorney reclassification She said the reclassification was necessary to retain qualified staff.

Ms. Brink summarized the balance of the request as covering the "accumulative affect of not being funded sufficiently to handle" the increasing caseloads the Court appoints to the Agency.

Ms. Brink stated the Department has taken steps to avoid the need for supplemental funding including: laying off an investigator in the Kodiak office; attorneys working long hours without compensation; and the elimination of on-call staffers.

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Ms. Brink continued that the Agency has also reduced its training budget, hired at lower ranges, and reduced the amount of computerized legal research. She stated that the Agency's caseload

exceeds maximum recommended levels, and she feels the Agency has done everything it can to stay within its budget. She stated the Department is trying to recruit a Jesuit volunteer from Catholic Social Services to work for the Agency in the Bethel office as funding was not sufficient within the Agency to staff this position.

Ms. Brink stated the Agency's responsibility is to its clients and to the Court.

Section 1(a)(7)
Department of Administration
Public Defender
Mental Health Court attorney approved by the Mental Health Trust
\$73,000 MHTAAR

Ms. Brink stated the Alaska Mental Health Trust Authority recommends the Agency receive these funds to assist its mentally ill population caseloads. She stated this money would allow the Agency to devote one full-time attorney to handle this work.

Co-Chair Donley stated a recent audit [copy not available] questions decisions that were made, and the number of appeals that were made by the Office of Public Defenders, and asked what the Agency has done to address these concerns.

Ms. Brink did not recall these concerns addressed in the audit report.

Co-Chair Donley stated the comments were included as quotes from individuals interviewed about the operations of the Agency.

Ms. Brink stated that one individual made such comments in a statewide survey of prosecutors, members of the Court System, and the Departments of Law and Corrections. She clarified this survey was no included in the Audit report.

Ms. Brink stressed that the Agency monitors and conducts meetings to scrutinize what issues the Agency might appeal. She informed the Committee that a criminal defendant has a constitutional right to appeal, and the Agency has to abide by his or her decision.

Co-Chair Donley asked if the Agency could decide against making a "frivolous appeal or create some new law that doesn't really make sense just because some defendant wishes."

Ms. Brink responded that was correct, and she stressed that the

Agency has never presented a frivolous appeal. She stated, however, the Agency does have a duty to provide a defendant with an appeal if the defendant wishes.

Section 1(b) & (c)
Department of Administration
Senior Services
Senior Services Employment Program hold harmless - Federal regulations not promulgated so funds not needed
(\$120,000)

Ms. Elgee stated that in the year 2001, the Department was notified of federal changes that affected how much the Department could pay seniors in programs administered under the Commission on Aging. She stated the Legislature added money to the program in order to address the federal change; however federal regulations are forthcoming and the need for this allocation is not necessary this fiscal year.

Section 19
Miscellaneous Claims
Department of Administration
Miscellaneous Claims: -0-. Stale-dated warrants: \$23,744.07
\$23,700 general funds

Mr. Spencer stated this request would pay invoices from previous fiscal years.

Department of Community and Economic Development

Section 2(a)
Department of Community and Economic Development
Alaska Aerospace Development Corporation
Replace \$311.9 of unrealized FY 02 Alaska Science & Technology Foundation Investment Earnings with AADC receipts
\$ 0 fund request

Section 2(a)
Department of Community and Economic Development
Alaska Aerospace Development Corporation Facilities Maintenance
Replace \$69.2 of unrealized Alaska Science & Technology Foundation FY 02 Investment Earnings with AADC receipts
\$ 0 request

TOM LAWSON, Director, Division of Administrative Services, Department of Community and Economic Development, stated the Alaska Aerospace Development Corporation (AADC) normally receives an

annual appropriation from the Alaska Science and Technology Foundation (ASTF). He furthered this request is a funding source change necessary because of a poor performance of the (ASTF) endowment the past year. He noted that this request would change the funding source to cover the expected shortfall.

Senator Green asked for clarification that general funds would be used to fund this shortfall.

Co-Chair Donley stated the Governor, not the Legislature, is proposing to use general funds to cover this request.

Mr. Lawson clarified that this request does not involve general funds.

Co-Chair Donley asked which funds would be used to replace the endowment funds.

Mr. Lawson responded that Aerospace Corporate receipts, which are earnings generated from launches at the site, would replace the endowment funds.

Co-Chair Donley clarified that corporate receipts would be used to fund the shortfall.

Co-Chair Donley asked if there are any projections regarding the Endowment's performance in FY 03.

Mr. Lawson informed the Committee that at a recent ASTF Board Meeting, Robert Storer, Executive Director of the Alaska Permanent Fund Corporation and managers of the ASTF Endowment, estimated the earnings of the fund would be approximately 2.9 percent of the principal; therefore the earnings would be approximately \$2.9 million for FY 02.

Co-Chair Donley stated it is difficult to project the amount of receipts. He inquired as to how the Department would be compensating for the market downturn and its affect on the Endowment fund.

Mr. Lawson responded the Department is addressing each endowment earnings situation on a one-by-one basis. He specified that AADC has received partial funding from ASTF for several years. He continued that in the Governor's FY 03 Budget Request these funds are not included.

Co-Chair Donley clarified that the AADC funding specified in the FY 03 budget consists entirely of corporate receipt funds.

Mr. Lawson responded yes, with additional CIP funds from federal projects.

Senator Hoffman asked for a projection of corporate receipts generated by launches.

Mr. Lawson cited three launches are scheduled for FY 03.

Co-Chair Donley inquired as to what other state programs would have a shortfall due to loss of ASTF endowment funding.

Mr. Lawson stated that the University would be affected by the shortfall in ASFT endowment fund earnings.

Section 2(c)

Department of Community and Economic Development
Alaska Aerospace Development Corporation Facilities
Grant from the US Department of Defense for Kodiak Launch
Computer Improvements - Infrastructure Safety Upgrades,
Range Safety System, and Road Improvements
\$20,000,000 federal funds

Mr. Lawson stated this capital project is funded by a federal grant to provide safety upgrades and improvements to the facility. He said the funds are expected to be available in May 2002.

Department of Corrections

Section 3(a)

Department of Corrections
Facility - Capital Improvement Unit
The \$160.5 general fund fiscal note funding Ch.32, SLA 2001
(HB 149 Private Prison in Kenai) is no longer needed since
Kenai voters rejected the proposal. Funds are reappropriated
to inmate Health Care.

DWAYNE PEEPLES, Director, Division of Administrative Services, Department of Corrections, stated this appropriation request is the result of not building a private prison in the Kenai area as approval of the project did not pass a vote of the people in the affected area. He stated these funds were never expended and are now available for reappropriation.

Mr. Peoples stated this request, if granted, would transfer these general funds to address the short-funding in inmate health care. He explained that this program has historically been short-funded, and he informed the Committee that the FY 01 budget shortfall of \$1.7 million was subsidized by utilizing retirement incentive program (RIP) savings and other funds in the Department. He continued that due to "population growth in the Department", and the exhaustion of RIP savings, the Department predicts an approximate \$2 million shortfall this year.

Mr. Peeples informed the Committee "the Department is in the process of modernizing its medical services, including closer utilization review, developing an electronic medical information system, renegotiating services contracts, reevaluating the health services it is providing for its inmates, distinguishing between sentenced population and un-sentenced population."

Co-Chair Donley asked for "the distinction" between sentenced and un-sentenced population.

Mr. Peeples responded that the Department is responsible for the entire inmate population, and has been providing uniform health services to all inmates regardless of their status. He explained that the Department is planning to "emulate" a plan currently being used in Oregon and Washington, identifying specific health services based on incarceration time. He continued that the plan would specify chronic and preventive health care services coverage for sentenced inmates, as well as the care to be provided to an un-sentenced inmate based on the length of their incarceration.

Chair Donley clarified that if an inmate is incarcerated for a short amount of time, the state's legal obligation to address an individual's long-term health care issues would be reduced.

Section 3(b)

Department of Corrections

Inmate Health Care

Shortfunding in health care costs resulting from continued inflation of pharmacy costs, staff salaries (includes \$676.0 for health care worker/nurses salary costs), contract physician costs and hospital care.

\$1,839,500 general funds

Mr. Peeples informed the Committee that the Department is exerting "tighter control on a pharmacy formulary" of what drugs would or would not be issued. He stated that the acceleration in pharmacy costs in FY 01 compared to FY 00 reflects an increase of \$400,000, with expectations of the same amount of increase when comparing FY 02 to FY 01. Mr. Peeples stated new control measures include: a closer review of contract services; staffing patterns; and switching to keep-on-person drugs. He stated the acceleration of costs should be reduced in FY 03 as a result of the implementation of these measures.

Co-Chair Donley asked if the Department could explain what was the "driver" of the increase in pharmaceutical costs.

Mr. Peeples responded there was not a single factor. He continued that there would always be a certain number of very expensive

cases, however, the increasing costs of pharmaceuticals and inflation drive the expense. He informed the Committee that the Department projects a seven to nine percent rate of inflation in FY 01, and double-digit inflation figures in FY 02.

Co-Chair Donley inquired if the Department anticipates costs continuing in this manner.

Mr. Peebles responded these costs would continue to increase. He furthered that a portion of this supplemental request is the result of the Department experiencing medical cost under-funding in FY 00, and this combined with a statewide adjustment in nursing salaries in FY 01, has resulted in approximately half of this \$2 million request being attributed to "legacies we have been carrying forward."

Co-Chair Donley stated that the state's obligation to provide medical care has been driven by court decisions. He inquired if there is any sort of "chart" which reflects the long-term scenario associated with illnesses from which the Department could determine a course of medical treatment based on an inmate's length of incarceration.

Mr. Peebles responded that he was not aware of any long-term medical synopsis, and that historical medical management indicates that providing treatment for long-term inmates is the best approach. He stated there is no one answer to the cost increases, however the Department is looking at various solutions such as: creative financing or providing alternative funds to cover some of the medical expenses; medical parole activities; and the refinancing of some health care cases.

Co-Chair Donley voiced that from the public policy perspective, and in consideration of the public's perception that inmates are being provided more medical options than the public could afford, the Department "needs to strike a balance" between following court ordered criteria and keeping medical coverage within acceptable levels. He asked if a policy or procedure chart could be developed that would reflect how the Department arrives at the appropriate course of action regarding medical coverage.

Mr. Peebles stated the Department would provide a copy of the current health plan to the subcommittee.

Senator Hoffman asked if the correctional facilities use generic brands of pharmaceuticals.

Mr. Peebles responded that generic brands are primarily used, and explained that Alaska "participates in a multi-state consortium" which purchases drugs at a very good price.

Section 3(c)
Department of Corrections
Parole Board
Shortfunding in operations due to increased prisoner hearings
and Parole Board activity
\$100,000 general funds

LARRY JONES, Executive Director, Parole Board, Department of Corrections, explained this request is the result of a technical change in the budgetary process in FY 02. He stated that historically the Parole Board was funded using a DOC BRU; however, "a new plateau" of expenses has been reached as the result of such things as increased hearings due to recently enacted victim impact laws. He continued that the Parole Board is supportive of these new regulations; however, having victims and the accused face to face at parole hearings tends to lengthen the proceedings, resulting in fewer hearings per day. He reiterated that the new regulations affect the Parole Board in a "very positive" way.

Mr. Jones reported that the Parole Board has also become involved in addressing the Department of Corrections' medical costs through a new "special medical parole" program. He detailed the stringent eligibility requirements for this type of parole and explained that the medical expenses of individuals on medical parole are covered by a different funding mechanism than through the Department of Corrections.

Co-Chair Donley asked if the eligibility requirements for this medical parole could be better "crafted."

Mr. Jones responded that discussion is underway to present new language to the Legislature.

Co-Chair Donley stated that in recent "no-frills prison" legislation, criteria was actually "liberalized" to allow for increased usage of the medical parole program. He stated that if the program needs further flexibility, legislation to address that could be "entertained."

Mr. Jones agreed that more flexibility would be needed.

Mr. Jones assured the Committee that the five-member Parole Board has strived to save money even in light of increased workloads by implementing such measures as changing the logistics of the hearings. He continued that travel expenses are high as this is a "traveling board." He noted that the Parole Board has received the same compensation level since 1984, and "this is all but a full-time job."

Co-Chair Donley clarified that the Board is paid a per diem.

Mr. Jones stated that in addition to compensation, Board Members are paid \$75 for a half day and \$100 for a full day of business as established in 1984.

Co-Chair Donley inquired if the number of Board members should be increased or if subcommittees could be introduced.

Mr. Jones responded that other states have tried subcommittees and have gone back to a single Parole Board. He noted that the current five-member Parole Board compliments the size of Alaska's prison population, and would be sufficient until the prison population becomes "substantially greater." He continued that the Board holds its decision-making to a high standard where public safety is concerned. He stated the Board recognizes that some individuals do not receive an adequate sentence to benefit from Department of Corrections' treatment programs, and if those individuals are released on parole, "they can be ordered, as part of a parole condition, to participate, on their own dollar, in a private treatment program."

Senator Hoffman asked about the contractual amount of \$60,000 purchases.

Mr. Jones stated the funding would primarily cover travel costs, shipping of files, telephonic costs of hearings, and other operational costs of the Board.

Co-Chair Donley commented he has received favorable reports about the operations of the Parole Board, and voiced appreciation for the "good job" they are doing. He cited that any negative comments he receives are not with the Parole Board but with the fact that the Parole Board is required to review certain cases after a relatively short time of incarceration.

Mr. Jones voiced appreciation for the support the Parole Board has received from the Legislature.

Section 3(d)
Department of Corrections
CIP
Offender Tracking Information System Development
\$762,000 federal funds

Mr. Peebles explained that this federally funded capital project request would allow for completion of an automated medical information system being co-developing with State of Utah.

Section 19

Miscellaneous Claims
Department of Corrections
Miscellaneous Claims: \$3,204.11
\$3,200 general funds

Mr. Peeples noted this request would provide funds to pay for "old" medical and shipping invoices.

Department of Education and Early Development

Section 5(a)(1)
Department of Education and Early Development
Pupil Transportation
Cost for new bus routes approved in current year
\$541,600 general funds

KAREN REHFELD, Director, Division of Education Support Services, Department of Education and Early Development, explained that this item is a request for funds to cover pupil transportation.

Ms. Rehfeld noted that the current funding appropriation is not sufficient to cover these costs.

EDDY JEANS, Manager, School Finance and Facilities Section, Division of Education Support Services, Department of Education and Early Development, explained to the Committee that prior to FY 02, the Department of Education and Early Development projected pupil transportation costs; however, beginning in FY 02, the Department receives the cost projections directly from the school districts. He continued that during this transition, some school districts did not include projections for new routes. He stated that when the new school year began, the new routes had to be factored in at the local level, resulting in this supplemental request.

Senator Lemman commented that last year, transportation costs were increased "quite a bit," and he inquired as to what other factors in addition to fuel costs and negotiated contracts have caused the increase in new routes.

Mr. Jeans replied that the increase last year was the result of new contracts that were negotiated for the Anchorage, Fairbanks, Kodiak and Mat-Su areas. He stated that this year's increases are due to an increase in routes and exemplified that Fairbanks had an increase in traditional programs and special education summer school routes. He continued that North Slope Borough students had been using public transportation buses, however, those students are now using school buses. He continued that in another area, a new school was built, and the school district had to reassign routes to transport students.

Mr. Jeans informed the Committee that the state reimburses hazardous routes, even if within a mile and a half of the school, at 100 percent, and that regular routes within a mile and a half of a school are reimbursed at 50 percent.

Senator Green inquired if the state has always reimbursed school districts for summer school transportation.

Mr. Jeans responded that state reimbursement for summer school transportation is restricted to special education transportation.

Senator Hoffman asked why there has been a reduction of transportation costs in some areas.

Mr. Jeans responded that in some areas parents transport their children and in other areas, such as Juneau, the school district contracts the bus transportation out and incurs less administrative costs. He noted that administrative costs are reimbursed under the Department of Education and Early Development transportation program. He continued that as districts request new routes, the Department of Education and Early Development asks them to rework existing routes to ensure efficiency.

Senator Green cited the back-up information as stating that without this additional funding, the Department of Education and Early Development would have to prorate school district payments in FY 02. She asked if this would be a statewide pro-ration whereby all school districts would be penalized for those with overages.

Mr. Jeans responded that is correct; that all districts would be uniformly pro rated.

Co-Chair Donley asked for confirmation that current statute requires the reimbursable percentage for transportation expensed for districts to be a minimum of 90 percent, and that non-district reimbursement is a minimum of 100 percent.

Mr. Jeans stated that is correct.

Section 5(a)(2)
Department of Education and Early Development
Schools for the Handicapped
Education costs for children in state custody who require out-
of-state placement
\$165,500

Ms. Rehfeld explained that this request is for children who are in state custody under Family In Need services, but "because of their severely emotionally disturbed condition," these children are housed in out of state residential treatment programs. She stated

that "most of these children are Medicaid eligible; however, Medicaid does not provide coverage for educational costs of their treatment program. She reported this request would pay for those costs.

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Co-Chair Donley inquired if these costs are included as regular budget items.

Ms. Rehfeld responded that within the FY 02 operating budget, there is \$500,000 to cover these programs based on historical needs; however, based on current numbers of children in this program, projections are that the budget will be short this requested amount.

Co-Chair Donley asked if this the result of increased costs of the program or an increase in the number of children in the program.

Ms. Rehfeld responded that the length of treatment is the "driver" of this need, as the children are staying in the program longer therefore the educational costs are increasing.

Senator Green asked if this money is paid to other states.

Ms. Rehfeld responded that the Department's money is actually allocated to the Department of Health and Social Services, which pays the costs of these various out-of-state treatment programs.

Senator Green clarified that other states are ultimately paid for these services.

Ms. Rehfeld concurred.

Senator Green stated there is recent legislation that addresses bringing these children back to the state for treatment.

Section 5(b)
Department of Education and Early Development
Foundation
Use balance in foundation program resulting from the October student count to fund supplemental needs.
(\$1,975,900) general funds

Ms. Rehfeld stated this decrement projection is based on the October 2001 statewide student count and this amount will be available in the current year appropriation.

Section 5(c)
Department of Education and Early Development
CIP
Federal School Renovation, Individuals with Disabilities
Education Act (IDEA) and Technology grants for local school
districts
\$5,400,000 federal funds

Ms. Rehfeld commented this is a capital supplemental request through which a one-time federal grant appropriation would be available to the Department of Education for construction of new schools and major maintenance projects for schools meeting certain criteria.

Co-Chair Donley asked if there is a list of qualifying school projects in the back-up material.

Mr. Jeans replied that a list is currently not available as the Department is still working with the federal government to determine which projects meet the eligibility criteria. He stated that the Department is working from the list of CIP projects that were not funded this prior year.

Co-Chair Donley stated the Legislature would need more specifics before the request could be approved.

Mr. Jeans stated there is federal eligibility criterion imposed on the State regarding this funding that dictates how the projects are selected. He continued that the list is being finalized and would be provided to the Legislature. He stated that 75 percent of this grant money is available for school construction with 25 percent to be awarded on a competitive basis for technology activities and renovation necessitated by the Americans with Disabilities Act.

Senator Hoffman asked if federal education reform measures would be implemented in FY 02.

Mr. Jeans responded the education reform measures pending in Congress would not be implemented until FY 03.

Ms. Rehfeld clarified that federal education reform appropriations would be reflected in the Governor's FY 03 operating budget.

Section 5(d)(1)-(2)
Department of Education and Early Development
Along with a reappropriation of \$198,600 from the Department
of Law, this will fund the McGraw-Hill assessment contract
increase of \$498,900

Ms. Rehfeld stated this request pertains to the statewide

assessment program, specifically to current efforts re-focusing on high school qualifying exit examination measuring the essential skills required for students to graduate.

Senator Green asked if funds specified for reappropriation in Section 5(d)(2) could be used for other purposes.

Co-Chair Donley responded the \$198,600 amount is from a State settlement and could be re-directed by the Legislature.

Ms. Rehfeld responded this allotment was re-appropriated to fund this request in the Governor's budget proposal.

Co-Chair Donley asked Senator Green to review the High School Qualifying Exit Exam funding in the FY 02 budget and determine the total funding appropriation.

Ms. Rehfeld stated the cost of the contract to administer the exit exam has increased as well as the cost of revisions, field-testing, and printing needs. She concluded the total cost of the exit exam in FY 02 would be approximately \$4 million.

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ADJOURNMENT

Co-Chair Dave Donley adjourned the meeting at 10:52 AM