

MINUTES
SENATE FINANCE COMMITTEE
March 27, 2002
9:41 AM

TAPES

SFC-02 # 44, Side A

CALL TO ORDER

Co-Chair Dave Donley convened the meeting at approximately 9:41 AM.

PRESENT

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

Also Attending: NANCY SLAGLE, Director, Division of Administrative Services, Department of Transportation and Public Facilities;

Attending via Teleconference: From Anchorage: JEFF JAHNKE, State Forester, Division of Forestry, Department of Natural Resources

SUMMARY INFORMATION

SB 291-SUPPLEMENTAL APPROPRIATIONS: FAST TRACK

The Committee adopted a committee substitute, considered four amendments and adopted one. The bill moved from Committee.

#SB291

SENATE BILL NO. 291

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

Co-Chair Donley spoke to the proposed committee substitute. He detailed the sections as follows.

Section 1: \$6,829.77 GF to the Alaska Court System, Commission on Judicial Conduct for FY 01 legal fees (this is the same amount and funding source as contained in the original SB 291)

Section 2: (Section 2(a) of SB 291) \$25,000 statutory designated program receipts to the Alaska Science & Technology Foundation for research contracts (this is the same amount and funding source as contained in the original SB 291)

Section 3:(Section 3 of SB 291) \$172,200 GF to the Department of Corrections to replace failed water well and pump at the Palmer Correctional Center (the funding source was changed from Northern Tobacco Securitization Fund earnings to general fund; the requested amount remains unchanged)

Section 4:(Section 4(a) of SB 291) Medicaid Services: The total amount requested is included in the supplemental; however, the allocation of funds was changed from the original SB 291 as follows:

General Fund: \$4,570,000 GF (down from \$12,710,000 in SB 291);
Federal Funds: \$114,760,500 (up from \$106,618,000 in SB 291);
Statutory Designated Program Receipts: \$23,903,300 SDPR (same as requested in SB 291)

The general fund amount represents the actual general fund match used to pay FY 01 claims. The balance of the GF in the original SB 291 was an estimate of the match required for the rest of FY 02. The department is working on strategies to reduce the required GF match and a lower amount may be possible. The total amount of spending authority covers provider claims and allows the department to initiate the "fair share" program for FY 02.

Section 5: \$1,438,500 GF to the Alaska Marine Highway System Fund (this is one-half of the amount requested in SB 291)

Section 6: (Section 7 of SB 291) Reappropriation of \$310,100 from the Kalgin Island II, Caribou Hills, South Ninilchik-Dome View and South Ninilchick Block timber sales in the Kenai Peninsula now to be used for Kenai Peninsula Wildfire Risk.

Section 7: (Section 8 of SB 291) \$25,000 to the Office of the Governor, Division of Elections for costs of statewide primary official election pamphlets.

Co-Chair Donley shared he had conversations with the Office of the Governor regarding this item and he explained the new primary election process and the need to educate voters. He noted an initiative to change the primary election process would also be on the primary election ballot.

Section 8: (Section 9(a) of SB 291) Appropriates 3.5% of the PCE Endowment balance as of 2/1/01 for the FY 02 PCE program, approximately \$3,531,100. (This is one-half of what was in SB 291).

Section 9(a)(1) - 9(a)(4): (Section 10(a)(1) - 10(a)(4) of SB 291) \$267,200 GF to pay for rental space and other costs for four DOT&PF maintenance stations (these sections are the same as contained in the original SB 291)

Section 10: \$2,000,000 GF to the Department of Community and Economic Development to be used as a grant to the Alaska Travel Industry Association for marketing efforts to mitigate the economic effects from the September 11, 2001 terrorist attacks.

Section 11(a): Appropriates \$800,000 University Receipts (Natural Resources Fund) for the Lena Point Fisheries & Ocean Sciences Facility (this is the same as contained in the original SB 291)

Section 11(b): Renames the scope of the U of A Biomedical Facilities/Classroom Renovations/Housing Safety Upgrades/Pool Replacement to include HVAC Piping Replacement Phases 1-4 (this is the same as contained in the original SB 291)

Co-Chair Donley noted Section 11 (b) involves no additional funds, but rather "expands the explanation" of how the funds could be expended.

Section 12: Specifies that the appropriations to the Marine Highway System Fund (Section 5) and the Power Cost Equalization Fund (Section 8) are fund capitalizations and do not lapse. Specifies that the appropriations to the Department of Corrections (Section 3), Natural Resources (Section 6) and University (Section 10(a)) are for capital projects and lapse under AS 37.25.020.

General Funds = \$8,479,700 (down from \$19,848,400 in SB 291)
Federal Funds = \$114,760,500 (up from \$106,618,000 in SB 291)
Other Funds = \$28,259,400 (down from \$33,289,100 in SB 291)

Senator Ward moved for adoption of the CS SB 291 (FIN), 22-GS2102\L as a working draft.

There was no objection and the committee substitute was ADOPTED as a working draft.

Amendment #1: This conceptual amendment reads as follows.

Make the lapse date for Section 6 DEPARTMENT OF NATURAL RESOURCES reappropriation for Kenai Peninsula wildfire risk reduction June 30, 2004.

JUSTIFICATION: One of the concerns I've heard is that this project needs to be accomplished timely. The lapse provision under Section 12 is for the life of the project, meaning (according to drafter George Utermohle) that if it takes the department 20 years to do the project, then absent another reappropriation of the same money, the project could continue until completed.

It is likely the department's intent to accomplish this project quickly, and I'd like to augment that intent with a specific lapse date to ensure the wildfire risk reduction is accomplished soon.

Senator Ward moved for adoption of the amendment sponsored by himself and Senator Leman.

Co-Chair Donley explained this amendment specifies a lapse date of this appropriation.

AT EASE 9:47 AM / 9:47 AM

Senator Hoffman requested further explanation.

JEFF JAHNKE, State Forester, Division of Forestry, Department of Natural Resources, testified via teleconference from Anchorage and detailed the 1997 capital improvement project (CIP) appropriation to undertake four large timber sales located on the Kenai Peninsula. He furthered the Department sold approximately 14 million feet, but because of "drastic market changes" the remaining three sales were no longer marketable. At the same time, he noted, efforts have been made by the Kenai Peninsula Borough to address wildfire hazards caused by the Spruce Bark Beetle. He stated the intent is to expend the balance of the CIP appropriation to better address the wildfire hazard of areas near communities.

Senator Hoffman clarified the original appropriation related to timber sales rather than primarily for fire suppression, although the accomplishment is the same.

Mr. Jahnke affirmed and explained the intent is to "remove timber where we can" through timber sales and at the same time provide protection from wildfires to adjacent communities.

Without objection the amendment was ADOPTED.

Senator Hoffman commented on the importance of fully funding the Power Cost Equalization (PCE) program, which is critical to rural Alaska, as opposed to "piece-mealing and stringing along".

Amendment #2: This amendment inserts a new bill section on page 2, following line 8 of the committee substitute to read as follows.

Section 5. POWER COST EQUALIZATION. (a) The sum of \$1,100,000 is appropriated from the general fund to the power cost equalization and rural electric capitalization fund (AS 42.45.100).

(b) The sum of \$1,100,000 is appropriated from the power cost equalization and rural electric capitalization fund (AS 42.45.100) to the Department of Community and Economic Development for the power cost equalization program for the fiscal year ending June 30, 2002.

Senator Hoffman moved for adoption and explained this appropriation is to compensate for increased fuel costs. He pointed out these funds are included in the Governor's proposed regular supplemental budget and informed he would withdraw this amendment if it is the Committee's intent to fund the increment in the later budget.

Co-Chair Donley expressed his intent to continue addressing the PCE endowment fund and the PCE program to ensure success and self-sufficiency. He qualified he was unable to "make an absolute commitment at this time."

Senator Hoffman interjected the purpose of this amendment is primarily to address increased fuel costs for multiple programs. He asked if the intent is to fund these expenses in the regular supplemental budget.

Co-Chair Donley responded the legislation before the Committee is the fast track supplemental and noted it contains funding needed immediately to keep programs operational. He anticipated further discussions on these items in relation to the regular supplemental budget.

Senator Hoffman commented that although this bill is titled "fast track supplemental" this is the 73rd day of the legislative session. He noted the FY 01 fast track supplemental had passed both bodies and was transmitted to the Governor by the 40th legislative day of the previous session.

Senator Hoffman WITHDREW his motion to adopt the amendment.

Amendment #3: This amendment inserts a new bill section on page 3 following line 20 of the committee substitute to read as follows.

Section 12. LEGISLATIVE COUNCIL. (a) The sum of \$474,000 is appropriated from the general fund to the Legislative Council for the Redistricting Board for operations for the fiscal year ending June 30, 2002.

Senator Hoffman moved for adoption.

Senator Ward objected.

Senator Hoffman spoke to the motion, emphasizing the additional work required of the Redistricting Board, given the Alaska Supreme Court decision rejecting portions of the proposed redistricting plan. He informed of the April 1, 2002 deadline to resubmit the plan. Therefore, he asserted it is advisable to provide adequate funds to perform these constitutionally mandated duties.

Senator Ward asked the amount of attorneys' fees and costs related to the actions of the Redistricting Board that the state is obligated to pay.

Senator Hoffman was unsure.

Co-Chair Donley detailed the efforts of the Redistricting Board utilizing funds appropriated by the Legislature.

Co-Chair Donley shared that a letter was received from two members of the Board suggesting that because the majority of the Board was "so politically motivated and ruthless in their spending to reach their partisan, political objectives in producing the first plan," additional funds should not be appropriated toward their efforts. Co-Chair Donley surmised the letter indicated concerns about the fiscal accountability of the Board. He remarked the Board had already overspent the amount originally appropriated and had requested authority from the Legislative Affairs Agency to expend additional funds, and were denied that authority.

Co-Chair Donley noted the Board did not adopt a plan it had written but rather adopted a plan from a "very partisan" outside organization that was funded by anonymous donors. Because of this "reckless, politically bias partisan behavior", he surmised the state would probably be liable for over one million dollars in public interest litigant fees for the groups who challenged the plan and prevailed.

Co-Chair Donley informed that various methods to address

accountability are under consideration. He remarked the current process is flawed because of the ability of the Board to expend funds with a three-member vote. He stated this resulted in the three appointees "of a particular political philosophy" able to control the spending without consulting with the remaining two members of the Board. He expressed that a method to require a four-member vote to expend funds is being "explored" to ensure the process is less partisan.

Co-Chair Donley shared the Senate Leadership is considering funding a lesser amount using existing funds in the Legislative budget. He admitted there is a need for travel and staffing, although he pointed out the Board should have alternate redistricting plans on hand and the entire amount requested would not be necessary.

Co-Chair Donley mentioned the Board held public hearings, and he commented, "they chose to ignore most of the testimony."

Senator Ward maintained his objection to adoption of the amendment, given Co-Chair Donley's comments. He asked if there is a record of the amount of funds spent by corporations to influence the actions of the Board.

Co-Chair Donley replied that a complaint was filed with the Alaska Public Offices Commission (APOC) and the group subsequently reported the sources of their contributions.

Senator Ward pointed out a list of individual contributors exists but he emphasized that corporate entities are behind the individual contributions. He spoke to the "outside interests influencing the State of Alaska" and the undisclosed amount of money that was spent by these entities. He questioned the public accountability and the state's liability for the legal expenses.

Senator Hoffman agreed public process is necessary and he spoke to the legislative action that restructured the appointment process of the Redistricting Board. He noted this restructuring specified the Board could take action through a simple majority vote. He asserted, "We shouldn't be put into a position where after we don't like the outcome that we need to change the rules."

Senator Ward qualified that when he voted for that legislation, he did not anticipate the corporate effort to write a redistricting plan, and present it for approval by three members of the Board without public review or comment.

Co-Chair Donley clarified his earlier statements that he intended to impose standards to improve the accountability of the Board's

expenditures by requiring at least four members' approval.

Senator Olson asked the approximate of funds the Board has spent to date.

Co-Chair Donley said this figure would be provided. He understood the original contract for attorney fees alone was between \$400,000 and \$500,000 and the Board also has three staff members, travel, public meetings and other expenditures. He noted the request is for an additional \$200,000 for attorney fees and that additional funds would be necessary for staffing, travel and public meetings. He hoped the Board would author a new plan rather than allow an outside entity submit one.

A roll call was taken on the motion.

IN FAVOR: Senator Hoffman and Senator Olson

OPPOSED: Senator Green, Senator Ward, Senator Wilken, Senator Austerman and Co-Chair Donley

ABSENT: Senator Lemman and Co-Chair Kelly

The motion FAILED (2-5-2)

The amendment FAILED to be adopted.

Amendment #4: This amendment changes the funding source from the power cost equalization endowment fund to general funds in Section 8. POWER COST EQUALIZATION., on page 2, line 23 of the committee substitute.

Senator Austerman voiced concern that the Power Cost Equalization (PCE) endowment would continue to be spent down and he moved for adoption of the amendment.

Senator Green objected.

Senator Ward asked if efforts have been made to secure funds other than from the general fund.

Senator Austerman had not, but suggested there could be funds available from through an Alaska Industrial Development and Export Authority (AIDEA) dividend or from the Alaska Science and Technology Foundation (ASTF).

Senator Ward noted he objected to the amendment but clarified if another funding source were identified, he would support this request. He stated he agrees with the intent of the amendment.

Senator Austerman replied that it was recognized when the PCE endowment was created that it would not generate adequate income to operate the program for a couple of years. He commented that general funds are often appropriated for items that originally were planned to be funded from other sources.

Senator Ward shared he knew of some possible alternative funding sources for PCE that he would consider.

A roll call was taken on the motion.

IN FAVOR: Senator Hoffman, Senator Olson and Senator Austerman

OPPOSED: Senator Ward, Senator Wilken, Senator Green and Co-Chair Donley

ABSENT: Senator Lemman and Co-Chair Kelly

The motion FAILED (3-4-2)

The amendment FAILED to be adopted.

Senator Ward offered a motion to report CS SB 291 (FIN) from Committee.

Senator Green referenced Section 9, relating to rental space and costs associated with vacating current facilities for the Department of Transportation and Public Facilities maintenance stations, and asked if all the listed facilities were to be vacated or whether some were "simply maintained".

NANCY SLAGLE, Director, Division of Administrative Services, Department of Transportation and Public Facilities, that the facilities have either been vacated or are in the process of being vacated. She stated the Chandalar facility has actually been demolished and that a temporary structure has been purchased and is in use at that location. She continued that other locations have been rented. She noted the Nome facility is the only facility still occupied, as a new facility has not been located. She spoke to the safety concerns related to the original facilities. She described the conditions of the temporary facility in Willow, noting it has no restroom.

Senator Wilken observed that the subject of PCE "has taken considerable amount of time" in this Committee and he asked the status of the acquisition of National Petroleum Reserve-Alaska (NPRA) grants for the endowment.

Co-Chair Donley replied he did not expect an appropriation from NPRA in the near future because of current federal requirements that give priority to the requests of local communities.

Senator Olson noted the funds are utilized for other necessary priority services such as public safety, water and sewer programs.

Senator Wilken asked if there has been interest from communities to relinquish the funds for the "good of the PCE fund" and locate funds elsewhere for those projects.

Senator Hoffman hypothesized if Fairbanks were allocated a certain amount of funds each year, whether that community would forfeit that money to the rest of the state when there are priority items that are unattended in Fairbanks. He stressed the oil activities have had substantial impact on the communities of the North Slope and the NPRA grants are intended to offset those impacts. He reminded of the \$9 million these communities "gave up" at the request of Senator Adams, which was a hardship because of the identified need for \$70 million for other projects.

Senator Wilken replied the question is irrelevant because Anchorage and Fairbanks are not benefited from the PCE program. He countered the NPRA funds are not currently used for public safety, water, sewer, etc., but rather for "fluff" projects. He wanted to know if these communities have been asked to forego the grants, because Senator Adams had indicated they would be requested to do so to benefit the PCE program. He stated this was a factor in the passage of the legislation establishing the PCE endowment in 1999. He suggested other revenue sources might be found for the local projects and that if the communities were asked to relinquish the grants, they might do so. He asserted, "A promise made is a debt unpaid."

Senator Austerman commented he has taken a hard stand to restructure the PCE program to be eventually self-sufficient. He was unaware of the details of Senator Adam's commitment, as he was not in the Senate at the time it was made. Senator Austerman stressed however, that because of Senator Adam's efforts, \$9.4 million NPRA funds were deposited into the PCE endowment. Senator Austerman did not know whether the agreement included continuing this annually.

Senator Austerman suggested accounting the NPRA funds to show how much is available. He understood that because no new leases have been granted and subsequently there is no new revenue for the NPRA, only \$1.2 to \$1.5 million would annually be available for the state. He remarked the NPRA grants are therefore inadequate to

"plug the PCE hole" and this debate could be irrelevant.

Senator Olson answered Senator Wilken's question, stating that he did not know of any requests to communities to relinquish the NPRA grants to the PCE endowment. He remarked it is inappropriate to hold him accountable for the actions of his predecessor.

There was no objection and the bill MOVED from Committee.

Senator Ward shared that during the recent Department of Administration budget subcommittee meeting, discussions were held regarding prioritizing the activities of the Department. He stated there had been miscommunications, resulting in an agreement to set priorities for those efforts that are constitutionally mandated.

Co-Chair Donley responded to Senator Hoffman's comments about whether Fairbanks would forego receiving funds allocated to it. Co-Chair Donley informed this did occur in the form of a \$50 million transfer from the Railbelt Energy Fund.

Senator Hoffman remembered it as a one-time appropriation and that the current situation would require communities to continually relinquish fund on a long-term basis. He predicted this would not gain approval from the affected communities.

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ADJOURNMENT

Co-Chair Dave Donley adjourned the meeting at 10:28 AM