

**MINUTES**  
**SENATE FINANCE COMMITTEE**  
**April 19, 2002**  
**9:14 AM**

**TAPES**

SFC-02 # 70, Side A  
SFC 02 # 70, Side B  
SFC 02 # 71, Side A

**CALL TO ORDER**

Co-Chair Dave Donley convened the meeting at approximately 9:14 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 Leman

**Also Attending:** ALISON ELGEE, Deputy Commissioner, Department of Administration; DAN SPENCER, Director, Division of Administrative Services, Department of Administration; JEFF BUSH, Deputy Commissioner, Department of Community and Economic Development; TOM LAWSON, Director, Division of Administrative Services, Department of Community and Economic Development; MARGARET PUGH, Commissioner, Department of Corrections; DWAYNE PEEPLES, Director, Division of Administrative Services, Department of Corrections; KAREN REHFELD, Director, Education Support Services, Department of Education and Early Development; KURT FREDRIKSSON, Deputy Commissioner, Department of Environmental Conservation; FRANK RUE, Commissioner, Department of Fish and Game;

**Attending via Teleconference:** From Off-Net: LARRY PERSILY, Deputy Commissioner, Department of Revenue

**SUMMARY INFORMATION**

HB 403-APPROP: OPERATING BUDGET/LOANS/FUNDS  
SB 289-APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 404-APPROP: MENTAL HEALTH BUDGET  
SB 288-APPROP:MENTAL HEALTH BUDGET

The Committee heard from the Department of Revenue, the Department of Administration, the Department of Community and Economic Development, the Department of Corrections, the Department of Education and Early Development, the Department of Environmental Conservation, and the Department of Fish and Game on the impacts of the budget subcommittees' recommendations.

#HB403

#SB289

#HB404

#SB288

CS FOR HOUSE BILL NO. 403(FIN) am(brf sup maj fld)(efd fld)  
"An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds."

SENATE BILL NO. 289

"An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

CS FOR HOUSE BILL NO. 404(FIN)

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

SENATE BILL NO. 288

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

#### Department of Revenue

LARRY PERSILY, Deputy Commissioner, Department of Revenue, testified via teleconference from an off-net location in Anchorage that the impacts of the proposed \$300,000 unallocated budget reduction, in addition to no funding for certain expenses such as contracted salary increases, would likely be decreased revenue to the State. He explained that the efforts to collect the maximum amount of revenue could not be maintained at the current level. He reminded the Committee that the Department is statutorily mandated

to collect revenue and invest it for gain.

Mr. Persily noted that several divisions rely on general funds to operate, as well as to secure funds from different sources. He stated that each dollar of general funds reduced results in a loss of two to three dollars in other funds.

Mr. Persily spoke to the impacts of the proposed budget to the Tax Division, informing that the historical practice has been to audit every oil company's corporate tax return annually. He explained that despite the stability of tax laws under Alaska's modified apportionment formula, the allowable deductions each corporation is permitted in other jurisdictions, i.e. other countries, affects the amount Alaska receives. This, he stated, is because the State tax is calculated as a portion of the corporation's "worldwide income" and the tax laws in other countries are constantly changing, thus necessitating annual audits. He gave England as an example, stating the country recently announced a ten-percent tax increase to oil and gas income, which would impact the amount of taxes Alaska collects, because the profits of British Petroleum, Inc and North Sea would be lower. He noted that the audits are used in the event of disputes over allowable deductions.

Mr. Persily remarked that the Department oversees charitable gaming activities, the smallest revenue producer for the State at approximately \$2.3 million annually in fees and taxes collected, countered by approximately \$819,000 expended in FY 01 to administer the program. However, he stressed charitable gaming produced \$28 million in FY 01 to licensed non-profit organizations.

Mr. Persily next addressed the Child Support Enforcement Division and qualified that although the activities of this Division are considered primarily collecting money for others, a portion of the revenue is paid to the State. He informed that in FY 01, a record amount of \$91 million was collected and of that amount, \$7 million was retained for the State general fund as repayment for public assistance. He explained that in instances of custodial parents receiving public assistance, delinquent child support payments collected from non-custodial parents are assigned to the State to allow the State to recover the cost of that public assistance. He noted the FY 01 budget for this Division is approximately \$3.1 million general funds, thus the Division generated approximately \$4 million for the State.

Senator Hoffman asked the amount of the reduction from FY 02 proposed in this budget.

Mr. Persily listed an unallocated reduction of \$334,100, in

addition to the increased costs of funding salary increases stipulated in labor contracts.

Senator Hoffman clarified the Department's impact statement [copy on file] asserting that reduced funding and increased expenses would impact the Department's efforts to collect \$3.6 million from the Salmon Enhancement Tax at a cost to the State of \$36,000; \$3.1 million from the Seafood Marketing Assessment, at a cost of \$66,000; and \$2.6 million the Salmon Marketing Tax, at a cost of \$36,000.

Mr. Persily answered that the expenses of the contracted salary increases and the unallocated budget reduction must be "absorbed" by the Department. He emphasized that this would require fewer or less aggressive audits and less enforcement efforts, which would result in less revenue.

Senator Hoffman commented as a "businessman" that the proposed budget for this Department "makes bad business sense."

#### Department of Administration

ALISON ELGEE, Deputy Commissioner, Department of Administration, testified that the reductions proposed to the Division of Finance budget would eliminate an increment recommended by Governor Tony Knowles to address on-going maintenance needs of the AKPAY system. She stressed the AKPAY system is over twelve years old and that it is "becoming extremely difficult" to maintain the system to ensure payroll obligations. She detailed the requirements to convert the existing database system, as the vendor no longer supports the current system.

Ms. Elgee next addressed the Division of Motor Vehicles, noting the proposed budget would reduce the Division's appropriation \$382,300. As a result, she stated, the Division would be forced to hold positions vacant, not fill seasonal positions, and possibly consolidate the Downtown Anchorage office into the Benson office. She surmised these actions would increase the waiting time required by customers.

Senator Hoffman asked if the \$382,000 reduction is compared to the FY 02 appropriation.

Ms. Elgee clarified the FY 03 appropriation would be reduced \$200,000 from FY 02, and the balance is the result of increased postage costs and personnel services expenses.

DAN SPENCER, Director, Division of Administrative Services,

Department of Administration, also clarified that the seasonal positions would not be filled and the impacts would be experienced the following summer because the seasonal positions have already been filled for the upcoming summer.

Ms. Elgee informed the Committee that the Alaska Public Offices Commission (APOC) incurs additional costs during an election year. In addition to normal election expenses, she pointed out that the proposed budget provides no funds to implement the campaign finance reform statutes, which the Governor had vetoed and the Legislature overrode. She warned that training of the new requirements might not occur and that increased complaints of noncompliance would result.

Ms. Elgee next addressed the Public Defender Agency (PDA) reminding of the over \$2 million general funds requested by the Governor for FY 03 as well as a \$600,000 supplemental request of the current year to compensate for short-funding for attorneys handling Smart Start cases and Driving Under the Influence (DUI) Courts. She listed services that have been eliminated, along with shorted business hours, reduced training and travel. She stressed there is no more ability to further reduce costs and that caseloads continue to increase. She predicted at least \$1 million in supplemental funding would be needed the next year to meet the Agency's constitutional mandate to provide legal defense for indigents.

Ms. Elgee continued that the Office of Public Advocacy (OPA) is also underfunded in the proposed FY 03 budget by \$2,270,000 and additionally, supplemental funding for FY 02 is needed. She detailed how the Alaska Court System appoints attorneys directly through the OPA and the Department has little control over the expenses.

Ms. Elgee noted the proposed reductions to the Pioneers' Homes would result in reduced revenues. She told of new beds in the Palmer Pioneers' Home that could not be filled because of staffing limitations. She noted most residents require 24-hour care and that staffing is not available to ensure safety. She stated another ten beds must be eliminated through attrition in the Anchorage Pioneers' Home.

Ms. Elgee concluded with the proposed funding reduction to the Public Broadcasting System. She informed that the System has been operating with continued budget reductions and has been able to do "remarkable things" despite these reductions. However, she stressed the reserves are gone and the Department would be unable to secure \$130,000 federal matching funds, which would result in loss of at least eight full-time positions.

Senator Hoffman commented the Committee has spent considerable effort on HB 4 relating to drunk drivers, noting he supports this legislation. However, he stressed that adequate funding must be provided to the PDA and OPA to implement this and other criminal offense statutes. He suggested the budget include matching funds for public broadcasting to allow the Department to receive the federal funds "that our congressional delegation has fought for."

Co-Chair Donley requested concise written statements from the departments summarizing the testimony presented at this meeting.

Senator Hoffman suggested the statements include identification of requests for "new" funds.

#### Department of Community and Economic Development

JEFF BUSH, Deputy Commissioner, Department of Community and Economic Development, testified about the Power Cost Equalization (PCE) program. He understood the proposed FY 03 operating budget would likely not be the final appropriation for this program; however, he noted it contains virtually no funding for PCE. He also pointed out the budget legislation does not contain the necessary language to appropriate funds from the PCE Endowment fund. He stated that, according to the current seven percent allocation formula, \$12.8 million is available in the endowment for use in the program. In addition, he informed \$2 million general funds are necessary to partially fund the program, as well as \$3 million general funds, as requested by the Governor, to fully fund the program.

Mr. Bush warned that if adequate funds were not forthcoming, the program services must be pro rated. He remarked that with full funding of PCE, the average rate paid by participating customers would be approximately 18.67 cents per kilowatt hour; compared to an average rate of 9.9 cents per kilowatt hour paid by residents of Anchorage, Fairbanks and Juneau. He explained that if \$15.7 million were allocated to the program, the pro-rated rate of the average PCE customer would be approximately 21.85 cents per kilowatt-hour.

Mr. Bush next addressed the proposed \$284,000 unallocated reduction to the Department, pointing out it is \$99,300 more than the cost of the third-year salary increase, as required in the employee contracts. He shared that the "labor cost reductions" would be allocated to the divisions that are funded with general funds, which are primarily the economic development agencies. He remarked this would require the elimination of one position responsible for

25 to 30 percent of the tourism planning efforts in the State. In addition he listed the reductions would be made to the Rural Energy Program and the Circuit Rider Programs. He explained the Circuit Rider Program received an appropriation in FY 02 to perform additional outreach, including on-site training of operators and preventive maintenance activities.

Mr. Bush next addressed two increments proposed in the Governor's FY 03 operating budget that are not included in the committee substitute. The first, \$275,000 for the Alaska Economic Information System, he explained as a new web-based digital economic information system that provides economic data related to various regions of the State. He stated this system requires on-going maintenance and warned that it would rapidly become outdated if the program were not funded. He listed \$90,000 for the Division of International Trade and Market Development to provide trade representation in China as the second request. He informed that China is currently the fastest growing economy in the world with eight to nine percent annual growth to the national product. He stressed that Alaska is not fully capitalizing on this potential market, although the State exports approximately \$100 million in goods to China.

Senator Austerman referred to the proposed unallocated budget reduction and clarified the reductions would be made to tourism and international trade.

Mr. Bush affirmed and added the circuit rider program would be reduced to account for the unallocated budget reduction to the Department.

Senator Hoffman asked if a \$100,000 reduction to the circuit rider program would result in reduced training and a subsequent increase of power outages and costly repairs in rural areas.

Mr. Bush agreed and noted on-site training would be eliminated and maintenance and operations would be reduced.

#### Department of Corrections

MARGARET PUGH, Commissioner, Department of Corrections, testified why she found the proposed budget "unreasonable and illogical". She told the Committee that the Department and the Legislature have made continued efforts to accommodate the increasing prison and probation and parole populations. She reminded of the adopted short-range and long-range plans to meet these challenges and emphasized that the Department has acted in good faith to manage the Department as mandated. She noted the Governor's proposed

budget includes funding increases to continue these efforts.

Ms. Pugh stated the Alaska prison population has continued to grow and would increase approximately four percent this year and three percent the following year, despite lower crime rates and less than average number of bookings. She noted the average national crime rate has increased one-percent this year, which is the lowest growth percentage since 1972. She attributed Alaska's larger inmate growth to legislation that "increases, strengthens and lengthens" incarceration and sanctions.

Ms. Pugh stressed it has been known for three years that the new Anchorage jail would open this year, and informed that it did open earlier in the week. She reminded that with the passage of SB 53 several years prior, the Legislature dictated the amount of operating funds for this facility, which are reflected as a \$1.8 million increase in the governor's proposed budget.

Ms. Pugh furthered that the Legislature insisted that federal funds that the Department intended for capital projects, be used instead for operating expenses. She informed that these funds are now discontinued and \$4 million reflected in the governor's proposed budget are to compensate for this.

Ms. Pugh spoke to increased medical expenses, which continue to rise across the nation as well as in Alaska's prison system. She noted the Department has submitted a significant supplemental budget request for FY 02 medical expenses.

Ms. Pugh remarked that the Legislature has been aware of the increased labor costs mandated in the contracts with collective bargaining units.

Ms. Pugh addressed legislation adopted the previous session, which require funding to continue to implement.

Ms. Pugh noted the appropriation limitation imposed by the Senate Majority is higher than that imposed by the House of Representatives Majority, but that the Senate amount includes \$4.8 million to fund community jails, which the House of Representatives proposed funding through HB 20.

Ms. Pugh summarized this budget "virtually ensures the erosion of public safety." She assured she makes this statement after thorough review.

Ms. Pugh shared that the Department had considered a process of transferring offenders directly from prisons to electronic

monitoring and home furlough programs and thus bypassing halfway houses, or Community Residential Centers (CRC). She stated this is the practice in some other jurisdictions and is less expensive, but also riskier. She noted the budget subcommittee rejected the proposal and recommended the Department be required to hold the CRC component harmless when absorbing the unallocated budget reductions.

Ms. Pugh remarked, "I'm at a loss to the logic of reducing the budget below the 02 level, ignoring the increases in population, which we've known about, ignoring past year's authorizations and directions, and continuing to consider pieces of legislation that will in fact increase the work in the Department of Corrections." She stated the committee substitute provides approximately \$3.2 million less than needed not including the increased labor costs.

Ms. Pugh listed the 109 correctional officer positions and 16 probation officer positions that must be held vacant to allow the Department to fund the increased labor costs, asserting this is unmanageable.

Senator Ward referenced an impact statement [copy not provided] regarding funding to the Correctional Industries Programs, which he stressed has not been reduced from FY 02. He qualified that the Correctional Industries Administration component is appropriated \$1.55 million, a reduction of 3.9 percent from the previous year. He noted the intent language to retain the McKinley Meat Packing Plant for one more year. He asked the Department why this facility would be closed if the budget were reduced only \$47,000.

DWAYNE PEEPLES, Director, Division of Administrative Services, Department of Corrections, responded that operations of the facility require three product managers and two correctional officers. He explained that approximately 20 inmates must be transported from the Palmer Correctional Center to the meat packing plant and overseen by Department staff. He stressed that the proposed budget would impact the Department to such an extent that funding would no longer be available for the additional staff required for all correctional industries operations. He stated that the three correctional officer positions must be relocated to the Palmer prison because over 80 Department positions statewide would be unfunded. He informed that the McKinley Meat Packing Plant has been State subsidized for fifteen years. He spoke of the 1,000 cows and pigs slaughtered each year and the intention to transition the operation to the Department of Natural Resources Division of Agriculture or to private ownership.

Senator Ward remarked that the matter of transitioning ownership

has been discussed for three years and should have been completed. He charged that the Department of Corrections has been disingenuous in failing to negotiate the transfer with the Division of Agriculture. He stressed he is not a supporter of the meat packaging plant and asserted it should be closed along with the Matanuska Maid dairy and other State-operated facilities.

Senator Ward then commented on the testimony asserting that certain laws are overburdening the Department of Corrections. He suggested that if the Department supports the release of inmates directly into communities under an electronic monitor program, the Department should submit a proposal directly to the Legislature for consideration. He stated the existing CRC system is adequate and that he would not trust "rapists and murders with their word of honor." He expressed, "If that means that people are gonna have to do a little bit extra in order to make this whole thing work, they're gonna have to do a little bit extra." He asserted, "This is a tremendous budget... The public demands to have safety and they will have safety under this budget."

Senator Hoffman agreed the public demands safety and he noted this is the point the Commissioner is stressing. Senator Hoffman stated that if the Legislature intends for the Division of Agriculture to operate the McKinley Meat Packing Plant, funds must be appropriated to that Division to do so." He furthered that the Legislature must take appropriate action to make such transfers occur because "it just does not happen instantaneously because we wish it."

Senator Hoffman asked the number of correctional officer positions necessary to operate the new Anchorage Jail.

Ms. Pugh replied she would provide the information. She noted that \$1.8 million of the requested funding increase is to fully fund the operations of the new facility and a significant portion of this amount is for personnel costs.

Senator Hoffman shared that 35-40 positions are required to operate a 200-bed facility. He calculated that the omission of funding for 108 positions could threaten the operation of three 100-bed facilities, such as the one located in Bethel, thus further contributing to overcrowding conditions in other facilities.

Ms. Pugh affirmed.

Senator Hoffman commented that legislators' campaign they are "tough on crime," noting 23 bills relating to public safety are currently under consideration. He specified HB 4 relating to drunk driving.

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Senator Hoffman opined that legislators "need to put the dollars behind our words."

Ms. Pugh informed that 83 new positions are associated with new Anchorage Jail; in addition to the positions transferred from the Fifth Avenue Jail.

Senator Ward asked the number of positions at the new jail would not be filled because of the funding level proposed in the committee substitute.

Ms. Pugh calculated that "the Anchorage Jail impact" would result in a reduction of five and one-half to six correctional officer positions.

Senator Ward clarified that rather than the requested 87 positions the facility would operate with 82.

Ms. Pugh corrected that 83 positions are required to operate the facility and that the impact of the proposed funding level would reduce five to six positions.

Senator Ward asked if intention is to station five fewer positions at the new facility.

Ms. Pugh responded this would be the impact of the proposed funding level, emphasizing that the legislature would force the Department into this situation if this budget were passed.

Senator Ward asked if the intention is to take the unallocated budget reductions from correctional officer positions.

Ms. Pugh answered yes.

Senator Green proposed a solution to the transfer of the McKinley Meat Packing Plant, to operate the program with a sunset date to encourage a transition. She agreed with Senator Ward that the Legislature should not be required to make the transfer decision, but rather it should be "internal" within the Division of Agriculture. She acquiesced that the Department of Corrections has been drawn into the matter as an "enabler, through no fault of theirs," to assist the operation of the facility. She stressed the time has passed for a resolution and suggested addressing the issue

as a capital project to "have more definitive language and ratchet it down".

Senator Hoffman opined that the Committee should be concerned about public safety, but questioned the logic of not funding 109 positions as it could jeopardize that safety. He was concerned for the safety of the remaining correctional officers and inmates.

Ms. Pugh pointed out the Department has a good safety record. She indicated that unsupervised inmates would cause problems, including assaults, and have greater opportunity to attempt suicide. She warned that when an institution is understaffed, there is not only increased risk to inmates, but to staff as well. She credited well-trained personnel and adequate staffing for the fact that Alaska has not had prison riots and other volatile situations that have occurred in facilities located in other states.

Senator Hoffman asked if the witness anticipated this would impact the personnel turnover rate due to concern for personal safety. He asked what is the current turnover rate in Alaska.

Ms. Pugh affirmed the turnover rate would likely increase and she cited studies on the factors that influence the turnover rate of correctional officers and probation officers nationally. She emphasized that working with offenders is well documented as a "high stress job" in any situation. She relayed a conversation she recently had with an Alaska State Trooper who informed her that he "loved his job as a Trooper" and did not know how others could work "behind the bars" in a correctional center. She listed a factor impacting staff turnover, as well as difficulty in personal lives such as divorce and substance abuse, is the increased amount of work and the number of hours that correctional officers are exposed to the conditions of prison life. She noted the national turnover rate varies by job class and averages 20 percent annually. She anticipated the rate in Alaska would be similar if facilities were understaffed.

Senator Austerman cited the budget subcommittee recommendation to allocate \$1.8 million general funds to the new Anchorage Jail. He pointed out this is the amount requested by the Governor. He asked why the witnesses were testifying that positions at this facility would not be funded due to budget reductions.

Mr. Peebles answered, "The increment goes in, it's acknowledged, and then there's a series of component by component percentage point cuts. In the Anchorage Jail, which the final budget is a composite of the Sixth Avenue Jail being closed out-monies being transferred over there and then an increment of \$1.8 \$1.9 million.

That's cut by \$350,000. So it does go down; the money comes in in the first action, and then the allocated reductions by component reduces it down."

Senator Olson surmised from the discussion regarding the McKinley Meat Packing Plant that it should be operated differently because of the expense to the State. He asked about positive impacts of the meat packing plant operation on inmates and why the program is continued.

Ms. Pugh relayed that the previous day, she spoke with program manager about the many inmates who have worked in the plant and their employment after release. She learned that many are working at grocery stores and as butchers across the State. She then asked the manager if former inmates who had participated in the program could be hired to work at the plant. She was told that most who had been through program are employed elsewhere and that competitive salaries would be necessary to entice these workers.

Senator Olson asked if there are plans to eliminate the McKinley Meat Packing Plant program.

Mr. Peeples recalled that the Department of Corrections assumed operation of the McKinley Meat Packing Plant from the private sector after the company lost approximately \$1 million and defaulted on loans from the Agriculture Revolving Loan program. He furthered that inmate labor has been used to maintain operation with oversight of two correctional officers and two production managers. He stated that updated regulations require three production managers. He shared, "historically, it's not been a real viable operation," and the main purpose has been using culled cattle from the dairy herds and to make hamburger to feed inmates.

Senator Olson again asked if there is no intention to close operation because of the social benefits to the State.

Mr. Peeples replied the intention is to discontinue management of the facility because of the sizeable overhead. He spoke to efforts of the Department, along with the Division of Agriculture, to locate an alternate party to operate the facility. He noted that all attempts to date have been unsuccessful.

#### Department of Education and Early Development

KAREN REHFELD, Director, Education Support Services, Department of Education and Early Development, testified that the committee substitute reduces the Department's budget approximately \$5.9 million from the Governor's amended FY 03 request and over \$1.8

million from the FY 02 allocation. She listed the reductions as: \$930,000 for personnel services and travel, \$350,000 for the Head Start program, \$130,000 for the alternative assessment program authorized in SB 133 the previous year, \$100,000 for the statewide library electronic doorway, \$130,000 for Kotzebue Technical Center, and \$200,000 for the community schools program.

Ms. Rehfeld addressed the alternate assessment program, noting that the fiscal note adopted for SB 133 did not reflect the on-going cost of the program. She surmised this was an oversight and that the Legislature intended to retain the position created in the fiscal note as well provide the necessary resources to continue the program.

Ms. Rehfeld spoke to the costs of the high school qualifying examination and the related contract with McGraw Hill. She reminded the Committee of the pending \$500,000 supplemental budget request for the current year contract and the projected need for \$770,000 in FY 03. She noted FY 03 amount includes funds for benchmarking efforts to be undertaken in the summer to determine the "refocused" minimum competency of reading, writing and math skills. She qualified the committee substitute provides approximately \$429,000 for this effort and requested the Committee consider providing the balance.

Ms. Rehfeld next reminded that the Legislature and the public are asking the Department and school districts to be accountable. She referenced the reporting requirements and the use of performance data. She stated the Department is requesting \$730,000 general funds for staffing and contractual resources to collect, analyze, validate and report information. She stated this would provide the Legislature information on the State's public education system.

Ms. Rehfeld informed the proposed reduction to personnel services and travel includes the third-year contract salary increases. She stressed this is "a significant reduction in a very small agency." She reminded that approximately 94 percent of the general fund budget is distributed as grants and that the agency is operated by a small number of staff. She anticipated this funding reduction would result in the loss of 16 positions throughout the Department, including the Alaska Vocational Technical Center, the School Finance and Facilities Section, which manages the pupil transportation system and the school debt retirement program, the State library and museum, and the Department's internal administrative services. She detailed the consequences of the loss of these positions, specifically the impact on securing computers and resources from the Gates Foundation for the State library.

Senator Hoffman commented the funding for this Department should be at least the same amount as appropriated in FY 02.

Department of Environmental Conservation

KURT FREDRIKSSON, Deputy Commissioner, Department of Environmental Conservation, testified that the proposed budget reductions would impact five major programs within the Department. He began with the food safety program, thanking the Committee for "restoring" most of the funding requested for this program, despite the reductions passed by the House of Representatives. However, he informed that, although it was proposed in the budget subcommittee to utilizing federal funding, it has since been learned this would not be possible. He indicated that Senator Leman was attempting to identify an alternate funding source.

Co-Chair Donley asked about the efforts of the Department to encourage local governments to assume food safety responsibilities. He understood that local or county governments operate the food safety program in every state except Alaska.

Mr. Fredriksson and Co-Chair Donley debated this topic with Mr. Fredriksson stating that efforts have been made and pointing out that the Municipality of Anchorage oversees its food safety inspections, and with Co-Chair Donley asserting this was occurring before the Knowles Administration.

Mr. Fredriksson next addressed the funding source change for the solid waste program from general fund program receipts to general funds as stipulated in the provisions of HB 361. He explained the "fair share" of program receipts on permitted activities. He noted the fund source change was not reflected in the budget subcommittee recommendations. He informed the Committee that the impact would be a reduction of services in the larger municipal landfills to allow a focus on "those high risk facilities" located in rural communities. .

Mr. Fredriksson then spoke of the \$715,000 reduction in federal receipts to provide grants to local communities and local organizations for non point source water pollution control efforts. He listed stream cleanup and stream monitoring as activities that would not be addressed with the grant funding.

Mr. Fredriksson informed of the Governor's budget request for general funds to operate the water-permitting program, noting that federal funds have not been available to rebuild this program. He qualified that efforts are being made to secure \$175,000 federal funds from the federal Environmental Protection Agency (EPA), but

expressed he did not expect the funds would be realized. He furthered that the budget subcommittee recommended a reduction of \$98,000 to the water-permitting program, which he informed would cause a reduction in the certification of federal wastewater permits.

Mr. Fredriksson concluded by describing the oil safety and development initiative. He told of the "major increase" in oil and gas development activities, exploration on the North Slope, in Cook Inlet, and federal leasing across the State. He explained the initiative, proposed by the Governor to provide funds for air and water permitting and spill prevention and response, in addition to the creation of a North Slope office. He remarked that the new office would allow field workers to provide direct monitoring and interaction with oil companies.

Senator Leman noted the intent to utilize the \$715,000 of Section "319 federal non point source" funds for Forest Practices Act activities within the Department of Natural Resources and soil and water conservation efforts. Therefore, he assured the funds are not eliminated, but appropriated elsewhere.

Senator Hoffman clarified that the reductions to the solid waste management program would result in discontinuation of services to Anchorage, Juneau, Fairbanks, Mat-Su, Kenai, Fort Wainwright, North Slope Borough; those communities with Class 1 solid waste facilities. He asked if these facilities could fail to meet EPA requirements without the services. He recalled threats by the EPA to close some landfills located in his election district.

Mr. Fredriksson replied the facilities would likely not close because the municipalities would interact directly with the EPA to meet the necessary standards. He explained the Department intent to address the higher risk "less capable" landfills due to the risk of closure of the smaller facilities and the inability for the smaller communities to interact with the federal agency.

Senator Hoffman surmised this is a transfer of financial responsibility to the aforementioned local governments.

Mr. Fredriksson affirmed the municipal governments would be assigned the responsibility.

Senator Leman noted the witness is testifying to the committee substitute, although Mr. Fredriksson is aware the subcommittee is continuing efforts to secure general funds for the solid waste program. Senator Leman indicated draft legislation relating to the appropriation of receipt supported services funds, and expressed

intent that the funds would be utilized for food safety and sanitation programs. He furthered that the general funds currently appropriated to these programs, could be transferred to the solid waste program.

Senator Olson asked Senator Leman if it is his assertion that the funds in question that are considered budget reductions by the Department are actually a redistribution of funds.

Senator Leman affirmed and explained proposal to utilize the federal non point source funds for other programs in the Department of Natural Resources.

Senator Olson asked how the redistribution was prioritized.

Senator Leman replied he would provide details, commenting it was a matter of determining higher priorities.

AT EASE 10:33 AM / 10:36 AM

Department of Fish and Game

FRANK RUE, Commissioner, Department of Fish and Game, testified the Department budget has been reduced approximately 27 percent or \$20 million general funds in the past ten years. He told of the accommodations the Department has made to adjust to these changes, including transferring hatchery operations to the private sector. He furthered that funding source changes have also been made, giving increased crewmember license fees and the use of limited entry permit fees for Department programs, as examples. He also listed an increased use of federal funds, noting the Department now receives more federal funds than State general funds. As a result of these changes, he informed that it has become more difficult to adjust for further budget reductions. He stated that approximately 80 percent of the general funds received are allocated to the Division of Commercial Fisheries, which is important to the State's economy.

Mr. Rue reminded that the fishing industry pays taxes "far in excess of the management costs." He furthered that the use of test fishing receipts to fund Department programs causes "a certain irritant to the fishermen."

Mr. Rue stated that the proposed funding for the Department as reflected in the committee substitute is approximately \$2 million less than that proposed in the Governor's FY 03 budget. He remarked that \$1.7 million of the reduction is below the FY 02 appropriation.

Mr. Rue listed \$741,000 general funds for the Bering Sea Crab Fishery located in federally managed waters near the Aleutian Islands, as one of the three funding reductions. He emphasized these general funds leverage the receipt of "a couple of million dollars of" federal funds in addition to fish test receipts to fund observers. He relayed a conversation he held with a representative of the National Marine Fisheries Service, where he learned that the federal government is currently unable to assume the duties of managing this fishery. Mr. Rue indicated that US Senator Ted Stevens is experiencing increasing difficulty in securing federal funds for fishery programs, due in part to reduced state contributions. Mr. Rue explained the State would chose to discontinue funding this program because the fishery is located in federally managed waters, although the State has managed the program since statehood.

Mr. Rue then stated that the committee substitute budget would reduce \$744,000 general funds for the genetics laboratory. He compared this proposal to the loss of the limnology program eliminated through funding reductions a few years prior. He emphasized these programs provide "basic science" and necessary information to allow the Department to identify which fish are harvested and subsequently manage and protect stocks adequately. He informed that the science conducted in the genetics laboratory relates to fisheries that intercept King salmon and other salmon species, the North Pacific Salmon Treaty issues, and Alaska fisheries management issues. He warned that without this research, the Department would have less information about harvested stocks, which would "threaten our ability to maintain" healthy stocks, as well as defend against "pressures from the Lower 48 and Canada" in fisheries negotiations.

Mr. Rue next addressed the reduction of \$223,000 general funds from the Division of Wildlife for watchable wildlife programs. He told of research conducted on goshawks in the Tongass National Forest, which demonstrated that the species is not endangered and thus prevented the goshawk from being listed under the federal Endangered Species Act. He stated this benefited the timber industry. He also listed other watchable wildlife programs, including bear viewing at Pack Creek and McNeil River. He noted the loss of these general funds would result in a loss of \$671,000 federal matching funds.

Mr. Rue specified that the aforementioned programs would be eliminated if the budget proposed in the committee substitute passed unchanged.

Mr. Rue then told of a proposed oil safety increment within the Division of Habitat and Restoration to address the impacts of oil exploration, funding to monitor the affects of development near the Kenai River and the creation of a permitting center in the Mat-Su.

Senator Austerman shared he has been concerned for several years about the best method to manage wildlife and fisheries. He approved of eliminating programs rather than "weakening" the entire Department. He spoke of the declining population of stellar sea lions and the impact the closure of the genetic laboratory would have on determining the causes. He stressed that funding must be provided to agencies to allow functions to continue.

Senator Hoffman commended the commissioner's approach to the budget given the funding constraints. Senator Hoffman noted his 12 years of experience in drafting the budget for this Department and questioned the "business sense" of the appropriation contained in the committee substitute. He pointed out that the industry contributes a significantly greater amount of revenue to the Department than the cost of operating the programs. He stated this Department has been successful at adapting to fewer general funds and securing funds from other sources. He noted the fishing industry provides thousands of jobs and generates approximately \$65.8 million and the Department should therefore be supported. He asserted that the "reward" given to the Department for adjusting to previous budget reductions has been further reductions. He reiterated that the reductions threaten the Department's ability to generate other revenue.

Co-Chair Donley remarked that the fishing industry utilizes a public resource and that the State's goal should not be to balance the cost of operating that industry with the revenue it generates. He explained "it's the people's resource that's being used" and the State is entitled to a fair return in the form of taxation that could then be used to benefit the entire State.

Senator Hoffman commented the State should receive "maximum return" rather than simply a fair share. He remarked that to realize a maximum return, consideration must be given to the cost of administering the programs. He surmised that the commissioner would agree the Department is currently unable to achieve a maximum return.

Senator Leman opined that this Department manages a budget for the "largest sector of Alaskans" and that competition and conflict between user groups are prevalent. He shared the concerns of Senator Austerman and Senator Hoffman about "hemorrhaging" within the Department. He spoke to the "substantial loss to the federal

government" in the past several years.

Senator Austerman stressed that fisheries utilizes renewable resources, which must be managed in manner of economic value to the State.

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Senator Austerman continued that all industries must be treated fairly, and that the fishing industry has contributed a significant portion to the State's general fund while other industries are continually subsidized using general funds. He warned that once the non-renewable resources, such as oil, are depleted, dependence on the State's renewable resources would increase.

Senator Hoffman expressed that the Bering Sea Crab Fishery must be managed due to the number of jobs the fishery provides.

Mr. Rue summarized that in a number of fisheries in Alaska, the Department has attempted to leverage federal funds and other funds. He assured that Senator Ted Stevens has assisted in this effort.

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**ADJOURNMENT**

Co-Chair Dave Donley adjourned the meeting at 10:56 AM