

HOUSE FINANCE COMMITTEE
February 18, 2004
1:41 P.M.

TAPE HFC 04-25, Side A

CALL TO ORDER

Co-Chair Harris called the House Finance Committee meeting to order at 1:41 P.M.

MEMBERS PRESENT

Representative John Harris, Co-Chair
Representative Bill Williams, Co-Chair
Representative Kevin Meyer, Vice-Chair
Representative Mike Chenault
Representative Eric Croft
Representative Hugh Fate
Representative Richard Foster
Representative Mike Hawker
Representative Reggie Joule
Representative Carl Moses
Representative Bill Stoltze

MEMBERS ABSENT

None

ALSO PRESENT

Cheryl Frasca, Director, Division of Management & Budget, Office of the Governor; Kathryn Daughhetee, Director, Administrative Services Division, Department of Law; Bill Jeffress, Office of Project Management and Permitting, Department of Natural Resources; Janet Clarke, Director, Division of Administrative Services, Department of Health and Social Services; Tom Lawson, Director, Administrative Services, Department of Community and Economic Development; Dan Spencer, Director, Division of Administrative Services, Department of Public Safety; Eric Swanson, Director, Division of Administrative Services, Department of Administration; Eddy Jeans, Manger, School Finance and Facilities Section, Department of Education and Early Development; Karen Rehfeld, Director, Division of Education Support Services, Department of Education and Early Development; Kevin Brooks, Director, Division of Administrative Services, Department of Fish and Game; Nancy Slagle, Director, Division of Administrative Services, Department of Transportation and Public Facilities; Laura Glaiser, Director, Division of Elections, Office of the Lieutenant Governor.

PRESENT VIA TELECONFERENCE

None

SUMMARY

HB 455 An Act making supplemental and other appropriations; amending appropriations; making an appropriation to capitalize a fund; and providing for an effective date.

HB 455 was heard and HELD in Committee for further consideration.

HB 456 An Act making supplemental and other appropriations; amending and repealing appropriations; making appropriations to capitalize funds; and providing for an effective date.

HB 456 was POSTPONED.

#HB 455

HOUSE BILL NO. 455

An Act making supplemental and other appropriations; amending appropriations; making an appropriation to capitalize a fund; and providing for an effective date.

CHERYL FRASCA, DIRECTOR, OFFICE OF MANAGEMENT & BUDGET (OMB), OFFICE OF THE GOVERNOR, gave a concise overview of the two supplemental bills, stating that the proposed additional spending is about \$13.8 million. Savings of about \$8.4 million will offset those General Fund dollars, resulting in a net increase of \$5.4 million. The OMB tried to limit the funding requests to costs the agencies could not anticipate or budget for within their management structures. The Public Defender Agency and the Office of Public Advocacy are caseload-driven, and Ms. Frasca explained that the OMB worked with these agencies on operating changes to enhance savings from the beginning of FY 04. As a result, these agencies' requests in the supplemental are reduced. The Department of Health & Social Services went to an "add-delete" process, resulting in no overall increase in costs, or net zero.

DEPARTMENT OF ADMINISTRATION

Section 1 ETS

Appropriates the ACS disentanglement settlement of \$3,447,647 from the General Fund to the Information Services Fund. \$3,447,647

ERIC SWANSON, DIRECTOR, DIVISION of ADMINISTRATIVE SERVICES, DEPARTMENT of ADMINISTRATION (DOA), stated that Section 1 requests reimbursement of a settlement sum received by the state from Alaska Communication Services as a result of the state severing its contractual agreement with ACS for providing telecommunication services. The state has received roughly half of the sum in the supplemental and expects to receive the balance by the end of this month. The sum would reimburse the state for costs incurred upon severing the contract, including changes to equipment and technology and disputed billings. All costs incurred were paid from the Information Services Fund. The law requires settlement funds be deposited in the General Fund, and the department asks that the funds be returned to the Information Services Fund.

DEPARTMENT OF LAW

Section 2 Environmental Law

Exxon Valdez Oil Spill ongoing costs for experts and outside counsel to analyze continuing injury and develop restoration options; June 30, 2005 lapse date.

EVOS Restoration \$100.0

DAVE MARQUEZ, ASSISTANT ATTORNEY GENERAL, DEPARTMENT of LAW (DOL), explained that the request refers to the EXXON Valdez settlement agreement. Under the settlement terms, the claim can be reopened if there is evidence that the state may have additional claims. This appropriation would assist the department in analyzing confidential environmental studies of Prince William Sound and in making the decision of whether to reopen the claim.

Co-Chair Harris questioned what is involved in reopening the case while EXXON is appealing it to the U.S. Supreme Court.

Mr. Marcus explained that this request isn't related to the ongoing litigation. Through a provision in the settlement agreement, the state retained the right to reopen the claim if remaining damages are determined and the damages have not been properly addressed.

Representative Chenault asked if this is related to the current contract with a firm that evaluates environmental studies.

KATHRYN DAUGHHETEE, DIRECTOR, ADMINISTRATIVE SERVICES DIVISION, DEPARTMENT OF LAW, clarified that the department is asking the firm currently under contract to subcontract with an environmental engineering firm which then would consider the completed analyses to determine the state's position in the decision to reopen the settlement.

Representative Croft questioned if this \$100.0 request would consolidate the review of the studies. Mr. Marcus responded, that it would. An environmental engineer would help the department evaluate whether a claim could be made and how to restructure it.

Co-Chair Harris asked how much is in the EVOS fund. Mr. Marcus was unable to respond.

DEPARTMENT OF FISH & GAME

Section 3 Capital

Receipts from City & Borough of Juneau to complete work at the indoor rifle range in Juneau. These receipts have already been received, and work at the rifle range is scheduled to start early spring.
Statutory Des Program Receipts \$75.0

KEVIN BROOKS, DIRECTOR, DIVISION of ADMINISTRATIVE SERVICES, DEPARTMENT of FISH and GAME, explained that Section 3 would amend an appropriation passed several years ago for the rifle range in Juneau. The addition of \$75 thousand is funding received from the City & Borough of Juneau (CBJ). The project is near completion except for tapping into the city water line. This request would allow the department to receive the money from CBJ.

OFFICE OF THE GOVERNOR

Section 4 Elections

General funds needed for the Help America Vote Act (HAVA) fund maintenance of effort. Some work on the upcoming primary and general elections will take place during FY 04. \$180.0

LAURA GLAISER, DIRECTOR, DIVISION of ELECTIONS, spoke to a proposed change in the language in Section 4 that would read "for the operating costs of the division related to the primary and general elections for the fiscal year ending June 30, 2004."

Representative Croft questioned whether this is a new request of \$180 thousand or a change in the language. Ms. Glaiser said that it is a new request.

Representative Croft asked if the division has additional expenses because it is an election year. Ms. Glaiser affirmed.

Representative Croft asked if this is the typical increment given to the division in election years. Ms. Glaiser pointed to a reduction in the FY 04 budget, and said that the division would still show a reduction if given this appropriation.

Ms. Glaiser discussed decrements and reductions between FY 04 and FY 05 and asserted that the division can't get through this year without the request.

Representative Hawker asked why this funding was missed in the budget cycle, with election-year costs coming up. Ms. Glaiser stated that she takes responsibility for thinking the agency could handle a 10% reduction. She has restructured and reduced the director's travel, but with the statutory deadlines to get the forms out, Ms. Glaiser concluded that the division needs this money

Co-Chair Harris asked if \$180 thousand is adequate and Ms. Glaiser affirmed.

Co-Chair Harris asked if all the polling places are handicap accessible. Ms. Glaiser stated that the division makes those accommodations, and it is required by the Help America Vote Act to make more improvements.

DEPARTMENT OF HEALTH & SOCIAL SERVICES

Section 5(a) Capital

Add the capital project for the State veterans' home conversion in Palmer to speed up the design work and take advantage of the summer construction season. A corresponding FY 05 capital amendment will also be submitted to delete the project from the FY 05 budget.

ASLC Dividend \$3,500.0

JANET CLARKE, DIRECTOR, DIVISION of ADMINISTRATIVE SERVICES, DEPARTMENT of HEALTH and SOCIAL SERVICES, explained that Section 5 (a) is a capital appropriation for the veteran's home. The project would convert the Palmer Pioneer Home to the state veterans' home, a 79-bed domiciliary care facility. The department submitted an initial application for approval with upgrades including heating, electrical,

conservation systems, fire and other codes. The Legislative Budget & Audit Committee has used \$100 thousand of an earlier appropriation for an architectural firm to help complete the final application by April 15. This appropriation would accelerate the project to certify the facility for VA receipts about five months earlier than anticipated in the fiscal notes with the Governor's bill. It would result in cost savings in the operating budget a couple years from now.

Co-Chair Harris asked if Ms. Clarke was referring to \$2.275 million in federal funds. She replied no, the federal government would match 65% for the capital conversion but the department would also receive some operating receipts once the project is certified to offset some of the general fund expenditures for the facility.

Co-Chair Harris asked if there is a proposal to take some funding from the student loan corporation dividend. Ms. Clarke replied yes, that the OMB determination of sources to provide the state match included that funding source.

In response to a question by Co-Chair Harris, Ms. Clarke stated that \$3.5 million is their best estimate for renovation of the Pioneers Home.

Ms. Clarke advised that both the veterans the Alaska Pioneers support the project.

Representative Hawker expressed curiosity over the choice of student loan corporation funding instead of General Fund dollars.

JOAN BROWN, CHIEF BUDGET ANALYST, OFFICE OF MANAGEMENT & BUDGET, OFFICE OF THE GOVERNOR, explained that the OMB decided to use the unappropriated FY 04 dividend balance for the veterans home, as a one-time project. Representative Hawker asked if this would leave any unappropriated FY 04 money. Ms. Brown answered that the supplemental would use it all.

Representative Croft asked if this capital request is dependent on the passage of legislation. Ms. Brown explained that the passage of legislation would allow the department to operate a veterans home, but this appropriation is not contingent on that passage.

Representative Croft questioned making the capital appropriation to convert the facility to a veterans home without the authority to operate it as a veterans home if the bill doesn't pass. Ms. Clarke confirmed that is also her understanding.

Representative Fate recalled that the legislation is generic and doesn't specify the Palmer Pioneers Home or the veterans home. He asked if that would pose a problem in the authorization of this appropriation. Ms. Clarke replied that he is correct but that it would not be a problem.

Section 5(b) Alaska Senior Assistance Program

Reduce excess federal fiscal relief funds.
Fed Unrestricted Receipts (\$3,334.0)

Section 5(c) Senior Care

Use excess federal fiscal relief funds for FY 04 costs for Senior Care program
Fed Unrestricted Receipts \$3,334.0

Ms. Clarke spoke to 5(b) and 5(c) relating to the Alaska Senior Assistance Program and the Senior Care Program. Section 5(b) reduces the amount appropriated from federal funds and allows it to be appropriated to the last quarter of the fiscal year for the Senior Care Program which has a starting date of April 1. The federal tax relief dollars totaling \$3,334.0 will be available for reallocation to the Senior Care Program. She explained that a series of appropriations of General Fund dollars would make up the difference of what is needed to run the Senior Care Program for the last quarter of FY 04. The funding was approved by the Legislative Budget and Audit Committee (LB&A) last summer for the Senior Care Program and the appropriation is consistent with the passed legislation relating to the program.

Co-Chair Harris discussed whether the unrestricted monies are required to be used for senior care. Ms. Clarke agreed they are unrestricted but she reiterated that LB&A authorized their use by the Senior Care Program. Co-Chair Harris indicated that the committee could reauthorize the use of the funds.

Representative Joule asked if the department plans to notify new people of their eligibility in April when readjustments to the poverty level are made. Ms. Clarke stated that she didn't know.

Representative Stoltze asked if hold harmless provisions are no longer in effect since the senior benefit programs have been restructured to income levels. Ms. Clarke explained that the longevity bonus hold harmless program was not income-based, but these programs are income-based and would not have a hold harmless provision related to their payment or their drug benefit.

Representative Hawker questioned the unexpended funds not included in this total, and what would happen if all the money were expended by mid-March in the old program. Ms. Clarke advised that unexpended funds would lapse because the appropriation only spans one year under the authority of the LB&A. The department has estimates but it will monitor the project on a monthly basis to make adjustments.

Representative Hawker noted that this is part of a much larger appropriation, and asked if it is necessary to increment through general funds for the five relatively small items [5(d) through 5(e)(4)]. Ms. Clarke replied that the department identified no other funding sources and looked to general fund dollars when the proposal was written.

Representative Croft asked if the Senior Assistance Program is the federal money used in the transition from the Longevity Bonus, or another program. Ms. Clarke explained that this is the temporary transition from the longevity bonus, and it is income-based at \$120 per month for low-income seniors who need cash assistance.

Ms. Clarke pointed out that Section 12 also makes an appropriation contingent on passage of the Senior Care bill.

Section 5(d) Senior Care

FY 04 costs for Senior Care program	\$154.0
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Section 5(e)(1) Alaska Longevity Programs Mgmt

FY 04 costs for Senior Care program.	\$46.0
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Section 5(e)(2) Health Purchasing Group

FY 04 costs for Senior Care program	\$85.0
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Section 5(e)(3) Public Assistance Administration

FY 04 costs for Senior Care program	\$25.0
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Section 5(e)(4) Public Assistance Data Processing

FY 04 costs for Senior Care program	\$6.8
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Ms. Clarke noted that she had briefly explained Sections 5(d) through 5(e)(4) in the earlier discussion with Representative Hawker. She stated that these increases track with the Senior Care Program bill. The \$3,334,000 of tax relief money for program benefits falls short of the total needed, so the department is requesting the portion that the federal funds can't support.

Ms. Clarke explained that Sections 5(e)(1) through 5(e)(4) relate to the management costs of the Senior Care Program that had not previously been budgeted. These costs directly tie to the fiscal note provided to the committee.

Co-Chair Harris questioned why the request is in the fast track supplemental rather than the operating budget or the fiscal note accompanying the legislation. Ms. Clarke indicated that because the fiscal note appropriation would not be effective until July 1 the supplemental is the only mechanism available if the program begins on April 1. She asserted that the funding is needed quickly.

DEPARTMENT OF NATURAL RESOURCES

Section 6(a) Recorder's Office

Increased costs to process heavy volume of mortgage
refinance activity
Receipt Supported Services \$300.0

Section 6(b) Office of Habitat Mgt. and Permitting

Replace unrealized inter-agency receipts in order
to fulfill workload requirements \$150.0

Section 6(c) Capital

Increased activity in Remote Recreational Cabin
Site Survey Contracts
Land Disposal Income Fund \$119.0

NICO BUS, ACTING DIRECTOR, DIVISION of ADMINISTRATIVE SERVICES, DEPARTMENT of NATURAL RESOURCES (DNR), spoke to Sections 6(a) through 6(c). He explained that \$300 thousand in user fees in Section 6(a) is for the Recorder's Office for extra staff and supplies needed for the increased workload related to mortgage refinance activity. The normal workload of 200,000 documents increased this last calendar year to about 300,000. The department has doubled its revenue, taking in \$8 million.

In response to a question by Co-Chair Harris, Mr. Bus clarified that the user fees derive mostly from refinancing home mortgages due to low interest rates, and real estate activity.

Mr. Bus advised that Section 6(b) requests \$150 thousand and there are not user fees to cover it. The department anticipated various funding sources that have not materialized to pay for staffing when the Office of Habitat Management and Permitting transferred from ADF&G to DNR. This funding is needed to finish FY 04 with the projected

staffing because with the transition, many new staff came in at advanced salary ranges instead of entry level as had been anticipated. The department has also paid for some of the office space.

Co-Chair Harris asked which agencies DNR targeted for interagency receipts. Mr. Bus replied, ADF&G and other agencies, but the projects didn't materialize. In the transfer, the estimate was too high because the department had counted on those funds to pay for the existing staff.

Mr. Bus stated that Section 6(c) is an increase from the Land Disposal Income Fund to pay for remote recreational cabin surveys and appraisals. This funding was previously budgeted in the operating budget. People interested in owning remote recreational sites pay the state beforehand to do a combined survey and appraisal. Because the surveys and appraisals weren't completed in FY 03, this appropriation carries forward into FY 04. Since then, DNR has done a capital request and would like to amend the capital budget for FY 04, increasing it by \$119 thousand. This would enable the department to finish the work and get the contracts out during the summer season.

In response to a question by Representative Fate, Mr. Bus explained it's a "catching up" procedure because DNR was late in getting the surveys out, and contracts have been let which need to be paid.

In response to a question by Representative Croft, Mr. Bus clarified that the capital request is the prospective landowners' money that is held until the survey and appraisal work is completed.

DEPARTMENT OF PUBLIC SAFETY

Section 7 Capital

Scope change for the Ketchikan Public Safety
Building appropriation, sec. 1, ch. 82, SLA 2003,
pg. 33, ln. 22, to include a purchase of a building
and adjacent lot and improvements \$0.0

DAN SPENCER, DIRECTOR, DIVISION of ADMINISTRATIVE SERVICES, DEPARTMENT of PUBLIC SAFETY explained that the department would like to change the scope of an appropriation from constructing a new building to buying an existing facility. The existing building is currently owned by the Ketchikan borough, and is smaller and \$3 million less than the proposed new building. The department could buy this building and move in for \$1.2 million.

Representative Croft questioned how this item would save money. Mr. Spencer explained that last year's appropriation of \$2.4 million was vetoed down to \$1,225,000 by the Governor. The department determined that it could buy a building with the lower appropriation, as well as afford improvements to the building and the lot.

DEPARTMENT OF REVENUE

Section 8(a) Alaska Permanent Fund Corp.
Increased costs to advocate for POMV
Perm Fund Rcpts \$300.0

Section 8(b) Alaska Permanent Fund Corp.
Authorization that APFC may advocate for POMV \$0.0

BOB BARTHOLOMEW, CHIEF OPERATING OFFICER, ALASKA PERMANENT FUND CORPORATION, DEPARTMENT of REVENUE, explained that Section 8(a) is an increase in the FY 04 operating budget to be used for an expanded education and outreach campaign on the POMV, or Percent of Market Value proposal that the board has recommended to the legislature. The corporation had planned to start the campaign toward the end of the fiscal year, but the board has encouraged the public education effort sooner than anticipated.

Mr. Bartholomew explained that Section 8(b) expands the corporation's authority in using state funds. It currently is allowed to use budgeted funds to educate on the operation of the Permanent Fund. This section would expand and broaden that authority to include an advocacy role in promoting a position and encouraging action by the legislature or the voters. An advocacy campaign would require direct approval by the legislature.

Co-Chair Harris asked if the corporation is requesting a language change as well as an increased allocation. Mr. Bartholomew confirmed that is correct. He cited Title 15, which comes into play for ballot propositions. Title 15 specifically states that direct approval from the legislature is required in order for the Permanent Fund to use state funds for advocacy.

Representative Stoltze remarked that advocacy might be called lobbying, and he asked for a description of the planned lobbying efforts. Mr. Bartholomew pointed out that all state agencies including the corporation have the authority to directly lobby the legislature. The corporation over the past year has educated the legislature on the POMV issue. If the resolution passes the legislature, the real issue of advocacy will present when the initiative is placed on the ballot. At that time, the corporation will no longer have the ability to advocate the public or the legislature,

and Mr. Bartholomew stressed that advocating the legislature will be more important.

Mr. Bartholomew continued discussing the current authority of the corporation with Representative Stoltze.

(Tape Change, HFC 04 - 25, Side B)

Representative Stoltze asked if the \$300 thousand request would be adequate for the advocacy effort for the year. Mr. Bartholomew said that the appropriation would be used in FY 04 through June 30. The FY 05 budget contains an additional request.

In response to a question by Representative Stoltze, Mr. Bartholomew stated the corporation would not spend very much money lobbying the legislature. The corporation would like to start educating the public before the passage of the constitutional amendment.

Representative Stoltze asked the total budget for advocacy and education. Mr. Bartholomew replied the maximum amount of a three-tiered plan for FY 04 and FY 05 would total \$1.4 million, depending on how many times the ads are run.

Representative Stoltze asked if requests for proposals to public relations firms have gone out. Mr. Bartholomew replied that the corporation has had an on-going contract with a communications firm in Anchorage for the past four years that helped with the mail-out in January regarding the POMV. In reference to this supplemental request and the FY 05 budget request, he explained that there is a request for proposals from communications and ad agencies. The corporation will not move forward with the contract without legislative approval.

Co-Chair Harris pointed out that the committee asked Mr. Heinze [ANGDA] not to use state money to lobby for more state money. He expressed that it is a philosophical question.

Vice-Chair Meyer advised that many on the House Finance Committee helped to educate the public on Percent of Market Value last summer and fall, but he said that not everyone likes the concept of POMV. It raises the issue of fairness whether to use public funds to advocate this position when an opposing group is raising private funds to advocate their own position. He asked about alternatives if this appropriation is not funded.

Mr. Bartholomew said that education is their best tool because polling groups indicate that a broad segment of the public is not aware of the issue. The corporation has been

advised to use radio and television, and their other tools are very limited.

Mr. Bartholomew described the corporation's struggle to educate the public on two separate issues: How the POMV works, and the use of the fund's earnings. There would be a lot of merit in educating the public, without advocacy. Outreach efforts would be severely limited without this appropriation and without broadened authority, but the corporation has planned for it.

Mr. Bartholomew continued, if the constitutional amendment passes the legislature, the authority provision in subparagraph (b) may be more important than the increased funding.

Representative Hawker asked what the corporation would advocate if this appropriation is forthcoming. Mr. Bartholomew replied, the board advised educating, and if given the authority, advocating on the POMV payout, the spending limit on the Permanent Fund. The corporation has avoided the legislative issue of use of the fund's earnings.

Representative Hawker requested absolute assurance that the appropriation would be used to discuss the merits of Percent of Market Value, and not what the legislature might choose to do with the funds available under the POMV. Mr. Bartholomew stated that is correct.

Co-Chair Harris wondered about the supplemental request if the legislature doesn't pass the POMV. Mr. Bartholomew explained that the money would lapse.

In response to a question by Representative Croft, Mr. Bartholomew discussed two series of radio ads and a six-part series on the fund's history on KTOO public television. He clarified that the ads were educational and currently the corporation does not have the authority to advocate.

Representative Croft asked if the current ads mention the deletion of principal as part of POMV. Mr. Bartholomew replied none of the ads addresses removal of principal. The 30-second spots center on the broad concept that the fund has grown and matured but it has certain guidelines that the corporation feels are outdated. The two public policy issues of the proposal that will be addressed later are the removal of principal and if the 5% spending limit is the right level

Representative Croft asked if the ads mention the spending limit. Mr. Bartholomew said several ads mention that POMV will limit the annual removal from the fund. The approach is that this proposal works best under any of the scenarios, whether dividends or expanded to other uses.

Representative Croft asked the source of the \$300 thousand. Mr. Bartholomew said it is corporate receipts or revenues generated by the investments of Permanent Fund money. He clarified that these receipts go into the Earnings Reserve.

Representative Croft asked if the corporation has a request for an additional \$1.1 million in the budget process. Mr. Bartholomew explained the four-part funding that involves freeing up \$200 thousand in the existing FY 04 budget, which, with this additional \$300 thousand request, will total \$500 thousand for FY 04. The corporation will ask for an amendment to the original FY 05 budget of \$700 thousand, freeing up \$200 thousand of the previous FY 05 request to total \$900 thousand for FY 05. The sum of the two is \$1.4 million.

DEPARTMENT OF TRANSPORTATION

Section 9(a) Anchorage Airport Administration

Tenant improvement inspection oversight. DOT will contract out management of the extensive tenant building activity for the few months prior to opening the terminal. Internal staff cannot handle this level of one-time activity. Cost will not affect FY 05 budget. Internat'l Airports Revenue Fund \$200.0

JOHN MACKINNON, DEPUTY COMMISSIONER, DEPARTMENT of TRANSPORTATION and PUBLIC FACILITIES, spoke to Section 9(a) explaining that Concourse C is scheduled to open in June 2004, and tenant improvements on the concourse are underway. The department needs a consultant contract to manage and inspect the tenant build out being done by a variety of contractors. With the large investment in this building, the tenant build out must conform to specifications and safety levels.

Section 9(b) Anchorage Airport Facilities

Concourse C operations costs of planning and implementation of the consultant contract (to be hired in March) and the first month (June) of operations and maintenance.
Internat'l Airports Revenue Fund \$1,500.0

Mr. MacKinnon explained that Section 9(b) relates to the department lacking staff to handle the maintenance and operations of the expanded Concourse C. The airport administration would like to contract out for maintenance, and this request includes hiring a consultant to handle the request for proposals. The concourse will open in June 2004.

Representative Fate asked if the use of the Fund requires approval.

NANCY SLAGLE, DIRECTOR, DIVISION of ADMINISTRATIVE SERVICES, DEPARTMENT of TRANSPORTATION and PUBLIC FACILITIES replied that the agreement with the signatory airlines involves presenting them with the operating budget for comment. She said that authorization for this supplemental is not required.

Section 10(a) Capital

Earmarked projects passed in January's federal omnibus bill which must all be obligated before September 30, 2004: \$0.0

Co-Chair Harris asked if the following series of capital requests [Sections 10(a)(1) through 10(a)(41) and 10(b)] are all federal and other funding sources, without matching general funds.

Ms. Slagle explained that there are a few projects requiring some matching funds provided either through the AIDEA dividend or International Airport Revenue Funds, but no General Fund match.

Vice-Chair Meyer asked about Section 10(a)(6), Kotzebue Dust and Persistent Particulate Abatement Research. Mr. MacKinnon replied it's a paving project being monitored in an area where dust is a problem.

Representative Hawker expressed concern that if appropriated, the money couldn't be spent before it lapses. Mr. MacKinnon stated that these capital items are part of the recently passed omnibus bill, which contains conflicting language. One version of the bill includes a lapse date of Sept. 30. The department put these items in the fast track supplemental in order to obligate these funds. He commented that it seems unusual that earmarks would lapse. The legislation also involves the earmarks coming off the top of the federal highway funds.

Representative Hawker questioned what would satisfy "obligating" the funds. Mr. MacKinnon responded that federal highway rules require the department to meet milestones before proceeding to the next phase of a project. Once reached, the department can obligate the money. He added that the department would do everything it could to obligate the \$10 million.

In response to a question by Representative Hawker, Mr. MacKinnon noted that the state did not have a choice in accepting the earmarked funds.

In response to a question by Representative Joule about Section 10(a)(1), Mr. MacKinnon observed that most of the earmarks did not come from the department, but from the communities, and he added that it can take months to discern their use.

Co-Chair Harris asked for more information about the two items for the University of Alaska Transportation Research Center in Section 10(a)(4) [\$2,000.0] and

Section 10(a)(35) Capital

University of Alaska Transportation Research Center
(ED 99) \$1,500.0

Mr. MacKinnon explained these items came out of different funding sources in the appropriations bill. The center researches issues including dust control and more durable pavements.

Co-Chair Harris referred to Section 10(a)(20) and asked if the state can authorize giving this money to another federal agency to develop rural projects, for example, to the BIA for the Donlin Creek Road to allow faster procurement. Mr. Mackinnon replied that it is a possibility.

Co-Chair Harris noted that most of the earmarked projects are in rural Alaska, and questioned if the priority for highway monies needed to be rural roads. Mr. MacKinnon agreed.

Representative Croft noted that the AIDEA dividend and the Student Loan dividends are substitutes for general funds. He also noted that half of the amount of these dividends are going toward Section 10(a)(7), the Coffman Cove/Wrangell/Petersburg Ferries and Ferry Facilities, and Section 10(a)(40), the Coffman Cove Inner Island Ferry /Bus Terminal. Ms. Slagle agreed. Representative Croft asked for more information.

Mr. MacKinnon responded that the appropriation would benefit a private organization, not the state's fast ferry system.

Representative Croft reiterated the perception that most of the federal money would be used for rural Alaska and questioned the division. Ms. Slagle observed that they had not done a rural/urban breakdown.

Section 9(c) Capital

Federal contract to perform maintenance and operation for 5 years at Adak air facility.
Interest earnings must be spent on the Adak air

facility. Adak Airport Operations \$10,000.0

Ms. Slagle observed that the project in Section 9(c) is based on a contract with the U.S. Navy to take over the operations and maintenance of the Adak Airport. She clarified that the state would contract with the city of Adak for most of the operations.

Representative Moses explained that the airport had been turned over to the city.

Co-Chair Harris noted that \$10 million would be spent. Ms. Slagle observed that the funding would come from the U.S. Navy over 5 years. Mr. MacKinnon added that the state would receive an additional \$13.5 million from other sources than the Navy over the next three years for both operations and maintenance.

Section 10(a)(41) Capital

Mobility Coalition (ED 99) \$500.0

Representative Hawker questioned this project that provides transportation infrastructure to low-income families statewide. Mr. Mackinnon said that he would provide the information. The coalition is working with the department, which has been involved with mobility issues for years.

Co-Chair Harris stated that HB 455 would be HELD in committee for further consideration.

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ADJOURNMENT

The meeting was adjourned at 3:11 P.M.