

HOUSE FINANCE COMMITTEE  
March 01, 2004  
9:04 A.M.

TAPE HFC 04 - 32, Side A  
TAPE HFC 04 - 32, Side B  
TAPE HFC 04 - 33, Side A

CALL TO ORDER

Co-Chair Harris called the House Finance Committee meeting to order at 9:04 A.M.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Mike Chenault

ALSO PRESENT

Representative Carl Morgan; Kevin Jardell, Assistant Commissioner, Department of Administration; Eric Swanson, Director, Division of Administrative Services, Department of Administration; Al Clough, Deputy Commissioner, Department of Community & Economic Development; Tom Lawson, Director, Administrative Services, Department of Community and Economic Development; Marc Antrim, Commissioner, Department of Corrections; Jerry Burnett, Director, Division of Administrative Services, Department of Corrections; Eddie Jeans, Manager, School Finance and Facilities Section, Department of Education and Early Development; Mark Lewis, Budget Analyst, Department of Education & Early Development

PRESENT VIA TELECONFERENCE

None

GENERAL SUBJECT(S):

**DEPARTMENT FY05 BUDGET OVERVIEWS**

The following overview was taken in log note format. Tapes and handouts will be on file with the House Finance Committee through the 23rd Legislative Session, contact 465-2156. After the 23rd Legislative Session they will be available through the Legislative Library at 465-3808.

LOG	SPEAKER	DISCUSSION
	<b>TAPE HFC 04 - 32 SIDE A</b>	
000	Co-Chair Harris	Convened the House Finance Meeting at 9:04 A.M.
		<b>DEPARTMENT OF ADMINISTRATION</b>
	Co-Chair Harris	Stated that he would like the Governor's department amendments to reflect the numbers incorporated in the HFC subcommittee reports.
056	MR. KEVIN JARDELL, ASSISTANT COMMISSIONER, DEPARTMENT OF ADMINISTRATION	He observed that the subcommittee proposed a \$232.8 funding change from general funds to interagency receipts in the Commissioner's Office. He maintained that this would amount to an unallocated cut to the department. The reduction would be distributed through their agencies. The Division of Motor Vehicles would be reduced by \$20,000.
210	Mr. Jardell	The Division of Finance has a proposed \$470 thousand reduction in general funds, which is of great concern to the department. The Division performs essential functions. As a result of the funding cut, 6 accountants would have to be laid off. They would also be unable to do the Comprehensive Annual Financial Report. This could significantly affect bonding. The report is essential to maintaining credibility.
395	Mr. Jardell	Spoke to the proposed reduction in the Division of Labor Relations of \$96 thousand, which is a vacant position. He maintained that this would reduce the ability to address problems in FY05.
0504	Mr. Jardell	Explained General Services Purchasing would have a general fund reduction of \$18.8 thousand, which would require the department to keep a position vacant. He observed that the position aids the department's attempts to reduce costs.
0591	Mr. Jardell	The Retirement & Benefits reduction of \$240 thousand will have minimum impact due to a change of direction and philosophy.
0634	Co-Chair Harris	Questioned travel, asking if there has

		been an effort to work out an arrangement with Alaska Airlines to achieve savings.
0713	Mr. Jardell	Responded that the state is pursuing cost savings aggressively.
	Mr. Jardell	The \$22 thousand dollar reduction to group health insurance would have a minimal impact.
0750	Mr. Jardell	The reduction to leases would be extremely detrimental to the budget. The department would need to come back for a supplemental if they are not funded.
0829	Co-Chair Harris	Asked if all leases are long-term and if there are any leases currently in negotiation. Mr. Jardell replied it is difficult to renegotiate 10 percent savings repeatedly. Many leases have already negotiated downward decreases.
0957	Representative Croft	Asked the source of the non-general fund amount in the Division of Group Health.
0022	MR. ERIC SWANSON, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF ADMINISTRATION	Explained that the fund source would be state benefit systems Receipts such as SBS, and health insurance. Administrative costs, such as travel, are paid through other fund sources.
1057	Mr. Jardell	In response to a question by to Representative Croft, noted that the department identified areas of efficiency and cost cutting, which were incorporated into the Governor's budget.
1157	Vice-Chair Meyer	Asked if there has been a savings from outsourcing purchasing.
1228	Mr. Jardell	Replied that the department has issued intent to award a contract. He was unsure if the proposed savings were taken into account.
1307	Mr. Jardell	Discussed reductions to lease administration, which helps save the state money if funded.
1358	Co-Chair Harris	Asked if the proposed cut would eliminate a position. Mr. Jardell responded that the position is vacant.
1429	Co-Chair Harris	Asked if the department has negotiated a lease for less than its previous amount in the past six years. Mr. Jardell observed that they have successfully reduced lease costs through negotiation.
1526	Co-Chair Harris	Mr. Jardell did not think that there was bargaining strength in a reduced budget for leases. Landlords understand the huge costs of moving offices. Supply and demand sets the cost.
1655	Mr. Jardell	Discussed the public broadcasting

		reduction. He noted that 3-6 radio stations would have to be shut. There would be a resulting loss in federal match of \$185 thousand. There are currently 27 stations, the majority of which are in rural Alaska.
1742	Representative Croft	Asked if some of the rural stations would be shut down. Mr. Jardell anticipated that the smaller stations would be those eliminated.
1819	Representative Joule	Asked how much public radio stations generate through fundraisers.
1841	Mr. Jardell	Unable to respond, but acknowledged that they do a significant amount of fundraising.
1921	Representative Joule	Spoke in favor of fundraising efforts of stations.
1940	Mr. Jardell	Discussed the Satellite structure. The department is not sure if funding can go halfway: continue public radio or not. The result of a \$1.18 million reduction represents the rent to the satellite transponder. Public TV in 255 communities would be eliminated; distance delivery of education would go away.
2040	Representative Hawker	Pointed to a huge development of commercial infrastructure in rural Alaska. He questioned if the state is providing something that is available commercially.
2127	Mr. Jardell	Noted that the department has scrutinized this question. The Governor supports maintaining these services and did not feel that services to rural Alaska were duplicated. The level of funding has been stagnant for a number of years.
2314	Representative Joule	Asked if the state would lose federal money. Mr. Jardell affirmed that federal matching money would be lost. All public television, except Anchorage and Fairbanks would be eliminated.
2418	Representative Croft	Asked who owns the satellite.
	Mr. Swanson	Noted that AT&T Alascom is the vendor.
	Representative Croft	Ascertained that UAA distance delivery courses and Gavel to Gavel would be affected. He noted that the intent is to allow Alaskans to communicate with each other in remote areas. He maintained that there are no duplicate commercial services.
2517	Representative Fate	Asked if medical consultations would be affected.

2552	Mr. Jardell	Stated that he would research the question.
2615	Co-Chair Harris	Asked about increased satellite costs, which increased by \$900 thousand between FY03 and FY04.
2652	Mr. Swanson	Thought that the increase could have been due to maintenance work.
2719	Representative Hawker	Observed that the increase is statutorily designated receipts. Mr. Swanson recalled that the authorization would allow local communities to fundraise to pay for maintenance. This amount has not been completely utilized.
2759	Co-Chair Harris	Asked if fundraising efforts were represented in the statutory designated receipts. Mr. Swanson stated that they are not a part of their budget.
2850	Representative Croft	Asked if this eliminates the entire general fund appropriation. Mr. Swanson agreed that all of the satellite funding would be eliminated.
2951	Mr. Jardell	Referred to Mr. Fink's efforts at reorganizing and cost savings in the Office of Public Advocacy. He observed that results won't be seen until later, so it is hard to predict the impact of a \$50 thousand reduction.
3044	Mr. Jardell	The reduction would cost 3 attorneys, which do an average of 960 cases per year. The Office would lose the resources for 960 cases. He observed that the reduction is to an increment, which would be cut in half. Emphasized that it is difficult to predict the impact, but observed that the agency was under-funded this year.
3156	Co-Chair Harris	Clarified that the Office of Public Advocacy and the Public Defender Agency receive court appointed cases. They don't solicit business.
3225	Co-Chair Harris	Asked the amount of the FY03 supplemental.
3258	Mr. Swanson	Replied \$1.1 million for OPA and \$650 thousand for the Public Defenders Office.
3300	Mr. Jardell	Referred to the \$150 thousand general fund reduction to the Violent Crimes Compensation Board. The reduction would affect 75 victims, who would not receive compensation. They would also lose \$90 thousand in federal match.
3337	Mr. Jardell	Clarified that the entire general fund appropriation for the Violent Crimes

		Compensation Board would be eliminated. The Board asked for \$150 thousand to hold them harmless from a reduction in collections. The Administration supports the request, which is the result of smaller permanent fund dividend amounts.
3517	Mr. Jardell	Observed that the funding change to the Division of Motor Vehicles will have no impact.
3727	Mr. Swanson	Discussed amendments to the initial request. He observed that there is a request to transfer positions into the central mail unit from the Department of Transportation and Public Facilities and the Department of Fish and Game.
3758	Co-Chair Harris	Questioned if there were transfers for lease budgets in individual departments. Mr. Swanson stated that the Administration decided not to reallocate the lease budget. The lease budget would be centralized in the department.
3828	Mr. Swanson	Observed that there would be a transfer from the department of Public Safety of just under \$10 thousand to provide facility rent for the Violent Crimes Compensation Board, which is now in DOTPF.
3908	Mr. Swanson	Noted that the last two amendments were for the Division of Risk Management. There is a \$219 thousand increased to cover a rate increase for the Department of Law.
3941	Representative Croft	Clarified that items 4 and 5 are part of the state's self-insurance.
3958	Mr. Swanson	Explained that there was a slight rate increase for workers' compensation. The increase would pay for legal services as part of Department of Administration's risk management.
4037	Mr. Swanson	Observed that the administrative fee paid to the Department of Labor and Workforce Development was increased for their worker's compensation, the amount should have been in the original budget (\$141 thousand).
4145	Mr. Swanson	Explained that \$990 thousand in facility rent would be transferred from the Department of Public Safety to pay for the Violent Crimes Compensation Board lease space. This was previously housed in the Department of Public Safety and has been transferred to Department of Administration.

		<b>DEPARTMENT OF COMMUNITY &amp; ECONOMIC DEVELOPMENT</b>
4230	MR. AL CLOUGH, DEPUTY COMMISSIONER, DEPARTMENT OF COMMUNITY & ECONOMIC DEVELOPMENT	Noted that the subcommittee goals were met.
4333	Representative Croft	Asked for more information regarding the subcommittee report.
	Representative Fate	Observed that \$1.2 million in general funds was replaced with business license receipts. The subcommittee also recommended the reestablishment of the film office.
4440	Mr. Clough	Discussed proposed amendments. He noted that there are three items in the Office of Economic Development, which center around the transfer of the trade function to the Governor's Office. The first item returns less senior trade staff; the second transfers more senior trade staff; and the third transfers money out to the Governor's Office. Pointed out that there is a \$65.3 thousand reduction.
4618	Representative Croft	Asked the purpose of the transfer. Mr. Clough replied that the transfer was made through executive order.
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4616	Co-Chair Harris	Clarified that funding is being transferred into the Governor's office and questioned if there is already a decent size contingency fund.
4504	Mr. Clough	Couldn't respond.
4447	MR. TOM LAWSON, DIRECTOR, ADMINISTRATIVE SERVICES, DEPARTMENT OF COMMUNITY & ECONOMIC DEVELOPMENT	Discussed Regulatory Commission of Alaska audits and the investigations program, which was implemented by EO 111. The Regulatory Commission of Alaska's public advocacy function was transferred to the Department of Law.
4331	Mr. Clough	In response to a question by Representative Joule, stated that there has been on going dialog regarding the lack of revenue sharing and safe community dollars.
4228	Representative Joule	Questioned if communities are beginning to petition the Local Boundary Commission to dissolve.
4210	Mr. Clough	Did not know of any petitions.
4156	Mr. Lawson	Referenced Section #26, Power Cost Equalization. He noted that it would amend the language section. The

		amendment removes \$3.7 million in general funds. Money would be used out of the PCE Endowment, which would allow funds to remain in the PCE Fund for use in FY05.
4047	Tom Wright, Staff, Co-Chair Harris	Pointed out that the language was contained on page 7, Line 140.
4026		<b>DEPARTMENT OF CORRECTIONS</b>
3954	MR. MARC ANTRIM, COMMISSIONER, DEPARTMENT OF CORRECTIONS	Voiced appreciation for Representative Hawker and all the work of the Subcommittee.
3912	MR. JERRY BURNETT, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF CORRECTIONS	Spoke to the cuts recommended by the subcommittee. The FY05 Governor's proposed budget required the department to absorb \$2 million in fixed PERS and lease costs. He pointed out that the department had implemented some efficiencies prior to the subcommittee's recommendation. The subcommittee's proposed funding level represents a significant reduction. He spoke to cuts in inmate gratuities. He acknowledged that actual gratuities paid have been below the authorized amount. However, the reduction would be an actual cut of \$670. Gratuities are used to pay inmates to work at facilities, which benefits the state and the inmates. Stated that it would have a detrimental effect on inmate behavior.
3706	Co-Chair Harris	He asked if gratuities were paid by the contractor.
3641	Mr. Burnett	Replied that the state pays the gratuities. The state is attempting, through negotiation of a new contract, to have the contractor pay inmate gratuities. The subcommittee budget assumes that gratuities would be paid by the contractor.
3543	Vice-Chair Meyer	Asked if that payment would go toward health and dental insurance.
3529	Mr. Burnett	Explained that there is a co-payment fee.
3517	Commissioner Antrim	Noted that inmates are charged \$4 dollars the first time the inmate sees a physician on a particular medical issue. Subsequent visits are not charged.
3500	Vice-Chair Meyer	Questioned when the co-pay was implemented.
3448	Commissioner Antrim	The co-pay has not been changed since it was put in place 3 years ago.
3431	Representative Hawker	Explained that gratuities have been eliminated in out-of-state facilities.

		The actual amount authorized and paid to inmates was ½ the budgeted amount, which was further reduced by a factor of .5%. The subcommittee did not touch employee salary funds.
3255	Representative Croft	Clarified that the intent was to find a realistic amount for gratuities within the system.
3241	Representative Hawker	Agreed and noted that the amount was an estimation.
3209	Representative Croft	Asked the purpose of deleting gratuities from the out of state facilities.
3153	Mr. Burnett	Replied that currently the contractor has control over how much work the inmates do and who benefits from it. The rate should include the payment for the gratuities. Then there would be no extra incentive to over utilize gratuities.
3102	Mr. Burnett	Addressed the elimination of a superintendent position. He emphasized the need for the position and pointed out that it provides the first level of supervision. He maintained that level in the department is currently too thin.
3005	Commissioner Antrim	Pointed out that the department has eliminated a couple of those positions on their own. The ones currently in place are in operational positions, which address supervision issues.
2840	Representative Hawker	Stated that the effort was not to devastate the ability of the front line function. Last year, the Governor issued Administrative Order 207, which stipulated that the position would be eliminated. He noted that the titles had been changed. The subcommittee looked at high level administration positions, two of which are already vacant. The subcommittee looked at all the assistant superintendent positions.
2650	Mr. Burnett	Addressed cuts to probation and parole regions, which would be unallocated personal service cuts. The cuts will result in higher caseloads for probation officers. There are increasing number of people under supervision each year. The personal services costs are running below the level authorized as a result of complex difficulties in hiring staff this year. Those positions need to be filled.
2518	Mr. Burnett	Noted that there is a 20 percent reduction to the training academy. Training requirements have been increased

		during FY04. He spoke to travel costs. Highly trained officers are essential and improve officer morale.
2358	Commissioner Antrim	Referred to the hiring of Steve Smith, who has the capability of training a swat team and stressed the need for training.
2326	Representative Hawker	Acknowledged the need for training. Observed that the department was given latitude [for fund shifting] in last year's budget structure. The subcommittee cleaned up fund shifting. He stressed that the numbers attending the academy are projected to decrease and that there is a need to do more with less.
2157	Mr. Burnett	Reviewed eliminated positions for the Alaska alternative to incarceration project established in 2002. There were nine new positions in 2003. There was a \$611 thousand reduction by the subcommittee. Probation officers were brought on to provide alternatives to incarceration. Electronic monitoring costs \$19 per day. Alternative supervision is cost-effective.
2006	Commissioner Antrim	The average daily count [for alternative monitoring] is 130. Over the course of a month there are up to 1200 people, people otherwise in jail or community residential centers.
1841	Representative Croft	Questioned the effect of reducing probation and parole officers. Commissioner Antrim replied that the classification process is exhausting, even for short-term offenders. They are charged not to put high-risk offenders out on the street and emphasized the level of associated paperwork.
1652	Mr. Burnett	The reductions would be in the classification section, which is where they belong.
1605	Mr. Burnett	Discussed the elimination of 3 programmers from the Information Technology (IT) staff, for a \$330 thousand reduction. He pointed out that the existing staff is needed to rewrite the offender tracking information system (OTIS).
1503	Representative Croft	Questioned if the department had looked at replacing the system? Mr. Burnett noted that they had researched the issue and concluded that no off the shelf software would work.

1243	Representative Croft	Asked if there isn't a single company that writes both jail and prison software. Mr. Burnett replied that they have looked at a number of options. Programmers have customized it so many times, which makes it more difficult to replace. [In house programmers] could do it over three years for about \$750 thousand.
1129	Representative Croft	Asked if the intent is for the funding to come from the capital budget instead.
1119	Representative Hawker	He noted that there are 14 employees in the IT system, with six analyst programmers. Additional employees were added during the ramp up period. He maintained that the process only requires the critical employees.
0930	Representative Croft	Questioned if the program could be done with slightly fewer resources. Mr. Burnett replied that the current program has significant issues. It takes longer to book inmates on line. The program still does not work correctly. On the parole side, it works well. There is an inefficient use of staff resources.
0800	Representative Croft	Pointed out that good information about recidivism is key for the legislature to make decisions about what works in the criminal justice system.
0723	Mr. Burnett	Spoke to the reduction of staff in the Commissioner's office. About half of the staff would be eliminated. He pointed out that the eliminated positions have specific work; the special assistant is in charge of probation and parole. Someone must do that job. The Deputy Commissioner is in charge of all security operations. The department would have to take money out of other components or have work done someplace else.
0550	Commissioner Antrim	Pointed out that the department had already eliminated a number of deputy director positions.
0523	Representative Hawker	Discussed the Commissioner's office and noted that it had increased positions since FY03. Some positions in the Commissioner's Office are paid out of other BRUs. There has been a growth in the higher executive ranks. He felt that the resources should be distributed throughout management in the department.
0406	Mr. Burnett	Reviewed the change from one appropriation RDU as proposed by the

		department to 9 RDUs. In FY04 the department was structured under 3 BRU's. Separate appropriations reduce flexibility. He acknowledged that money was moved between components within the same appropriation but not documented and identified. He emphasized that management flexibility is valuable to the department.
0112	Co-Chair Harris	Stressed the need for legislative control over the money.
0044	Representative Hawker	Noted that the department was given wide latitude in last year's budget to restructure, which resulted in a real budget reflecting actual expenditures.
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0059	Representative Joule	Asked the status of the Kotzebue jail.
0118	Commissioner Antrim	Observed that funding for the Kotzebue jail was removed. People are being transported to and from Kotzebue for a savings of \$200 thousand.
0144	Mr. Burnett	Noted that they estimate that \$367 thousand will be spent on prisoner transport in FY04. The Kotzebue jail contract was \$580 thousand.
0230	Representative Joule	Spoke to an audit relating to employees in the department of Corrections. He observed that locals in rural areas such as Nome and Bethel are not applying [for Department of Corrections jobs] because others with more seniority are transferring into these areas to get their three high years [for retirement]. He questioned if the department is acting on the recommendations.
0303	Commissioner Antrim	Stated that the department agrees with the points recommended in the audit. The Legislative Budget and Audit Committee audit identified Tier 1 employees getting their high years. Of a workforce of 1500 officers, only 61 employees took advantage of [the option to transfer to rural areas]. He observed that the department started a program in Nome involving an area-wide effort, which includes sending mail-outs about available positions. Pre-certification involves a background check before a person can be hired. Locals did not pursue pre-certification due to the perception that jobs were unavailable. The department has made a commitment to Nome to fix the problem. Bethel employs

		53% Alaska Native.
0603	Representative Hawker	Asked for an update on the out of state contract.
0637	Mr. Burnett	Explained that the FY05 number is a placeholder for out-of-state contracts. The department has received and considered responses to the RFP, which was sent out in January. At this point, the department has not received a response that would lead to a contract. There is limited competition nationwide. He would be surprised if there were price reductions.
		<b>DEPARTMENT OF EDUCATION</b>
0755	MR. EDDY JEANS MANAGER, SCHOOL FINANCE AND FACILITIES SECTION, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT	Provided information regarding the department's budget proposal. There is one increment of \$8 million in general funds, which would hold the Foundation Formula level with FY 04. The department will need legislation passed to disburse the money.
0889	Vice-Chair Meyer	Explained that the funding was placed in the Foundation Formula on the request of the department.
0923	Mr. Jeans	Discussed proposed amendments. There is a request for an increase in the postsecondary lease for \$288 thousand. The second request is for an increase in mining & minerals of \$40, which was eliminated last year. This item was \$50 thousand in prior years.
1018	Mr. Jeans	Reviewed the reduction in pupil transportation of \$876,600 due to fewer students. The reduction in students means that the department does not need the half million in a CPI increase or the \$300 thousand additional money for the program.
1109	Co-Chair Harris	Asked if there would be fewer bus routes based on the loss of students.
1200	Mr. Jeans	Noted that districts are looking at reconfiguring the way they provide pupil transportation due to the change in the funding mechanism for a reimbursable program to a grant program. He could not say if fewer students would translate to fewer routes.
1295	Co-Chair Harris	Speculated that the cost of operating a bus would not be reduced because there are five less students on the bus.
1235	Vice-Chair Meyer	Expressed appreciation for the increase in the foundation formula. He pointed to

		the challenges with no child left behind legislation and exit exams. He expressed the desire to add more funding for school districts, which are facing [increased costs in] PERS and TRS.
1356	Representative Croft	Noted that the formula was changed in the last year, allowed for costs to only increase by half of the rate of inflation. He stressed that inflation is being under funded. He maintained that there is a double trap in pupil transportation.
1421	Mr. Jeans	Noted that the department started with the reimbursable program in the past year. He thought that pressure by school districts would eventually lead to the end of the grant program and reinstatement of a reimbursable program, but felt that the rate would be less than 100 percent. He noted that some districts have lowered their costs. He felt that the program was beneficial.
1608	Representative Croft	Stressed that the need remains and stated that funding should not be lapsed.
1648	Representative Hawker	Observed that there is a tendency to overlook funding for archives and museums, which has eroded steadily for ten years. He stated that he would like to take a closer look at these budgets.
1752	Vice-Chair Meyer	Stated that the subcommittee did look at these programs and offered to provide more information.
1809	Co-Chair Harris	<u>ADJOURNMENT</u>
		The meeting was adjourned at 10:58 A.M.