

HOUSE FINANCE COMMITTEE
March 04, 2004
1:43 P.M.

TAPE HFC 04 - 44, Side A
TAPE HFC 04 - 44, Side B

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 1:43 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

Representative Jim Holm; Barbara Cotting, Staff To Representative Holm; Laura Baker, Budget Chief, Division of Administrative Services, Department of Health & Social Services; Pat Davidson, Legislative Auditor, Legislative Audit Division, Legislative Affairs Agency; Patrick Sidmore, Commission on Aging Grants, Senior and Disability Services, Department of Health & Social Services; Pete Ecklund, Staff to Representative Bill Williams; Bob Loescher, Alaska Native Brotherhood, Juneau; Steve Porter, Deputy Commissioner, Department of Revenue; Kim Garner, Director, Finance Division, Department of Administration;

PRESENT VIA TELECONFERENCE

Larry Meyers, Deputy Director, Division of Finance, Department of Revenue, Anchorage; Steven Borcharding Sr., General Manager, Gold Cash Bingo, Anchorage; John Focht, Vice President of Prepaid Card Products, US Bank, Milwaukee, Wisconsin; Peter Brown, Key Bank Alaska, Anchorage;

SUMMARY

HB 296 An Act making an appropriation for the operation of the Alaska Natural Gas Development Authority; and providing for an effective date.

HB 296 was heard and HELD in Committee for further consideration.

HB 394 An Act extending the Alaska Commission on Aging.

CS HB 394(HES) was REPORTED out of Committee with a "do pass" recommendation and with a new fiscal note.

HB 494 An Act relating to the disbursement of money by the state, including employment compensation, unemployment payments, and permanent fund dividends, and to bank investments and deposits by the state; and providing for an effective date.

HB 494 was heard and HELD in Committee for further consideration.

HB 509 An Act relating to establishing the Alaska Gaming Commission.

CS HB 509(FIN) was REPORTED out of Committee with individual recommendations and a previously published fiscal impact note.

#HB 394

HOUSE BILL NO. 394

An Act extending the Alaska Commission on Aging.

BARBARA COTTING, STAFF TO REPRESENTATIVE JIM HOLM, explained that Section 1 extends the sunset for the Alaska Commission on Aging. Sections 2 and 3 reflect Executive Order 108 in 2003 which moved the commission from the Department of Administration to the Department of Health & Social Services. Ms. Cotting referred to page 13 of the audit report (copy on file) recommending extension of the commission. The fiscal note indicates that the Department of Health & Social Services will receive \$13 million in federal funds because the commission meets the federal requirements.

Co-Chair Harris asked for clarification of the federal funds on the fiscal note.

PATRICK SIDMORE, COMMISSION ON AGING GRANTS, SENIOR AND DISABILITY SERVICES, DEPARTMENT OF HEALTH & SOCIAL SERVICES, explained that the Commission on Aging is responsible for planning for Title 3 federal money of the Older Americans Act that provides for nutrition, transportation and support

services (NTS) for seniors. Title 3 funds Meals on Wheels, congregate meals, rides for seniors, and the National Family Caregiver program. The commission is tasked with allocating the money to meet the targets of federal law.

Co-Chair Harris reiterated his question of whether federal money is involved. Mr. Sidmore explained that interagency receipts are administration money from the federal government based on senior population. He said that Alaska receives the minimum amount. Referring to Fiscal Note 1 dated 02/12/04, Mr. Sidmore stated that a portion of \$202.4 in "Other (1007 Interagency Receipts)" is the federal administration money.

REPRESENTATIVE HOLM referred to the second page of the fiscal note, "analysis continuation," that explains the department would lose \$13 million in federal dollars for senior services if the commission expires.

Co-Chair Harris questioned that the fiscal note analysis indicating the extension of the commission has no fiscal impact because it is funded in the Governor's office, while the second fiscal note shows an increase over the original fiscal note to reflect changes in the amended Governor's budget.

Representative Holm was unable to respond.

LAURA BAKER, BUDGET CHIEF, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF HEALTH & SOCIAL SERVICES (DHSS), explained that when DHSS updated the fiscal note for the Senate version [Senate Bill 263], the department realized it had submitted a budget amendment for interagency receipts for the commission that reflected what would have been in the budget if the department had not proposed a consolidation of several boards in the original proposal. The \$417.9 totals the cost of the four current full-time positions in the commission. With the plan to consolidate, the FY 05 budget had revised these to two part-time and two full-time positions.

Co-Chair Harris asked if the department is proposing four new permanent full-time members. Ms. Baker clarified that the \$417.9 reflects the Governor's amended budget, and while there is a slight increase over FY 04 in interagency receipts and retirement costs, it shows the cost of the aging commission if it is extended. She said it is already built into the budget.

Representative Hawker asked if these changes came through a late amendment incorporated in the budget process rather than in the Governor's budget. Ms. Baker affirmed, and explained that the new fiscal note is a technical adjustment showing the increase in interagency receipts in the budget

amendment. Representative Hawker advised that the budget amendment resulted from a negotiated settlement over a potential lawsuit regarding changes proposed to the boards and commissions.

In response to a question by Co-Chair Harris, Representative Hawker explained that the \$417 thousand is already in his subcommittee recommendations for the Department of Health & Social Services.

Representative Fate brought up the Legislative Budget and Audit report in FY 02 giving directives regarding the mixing of funds for sub-recipients, and asked if those corrective actions are on-going. Mr. Sidmore explained that corrective actions have been taken. There was concern over the sub-recipients not reporting their older workers in the federal Mature Alaskans Seeking Skills Training (MASST) Program. Each of the larger sub-recipient agencies is visited at least once a year for an audit. The department also corrected the reporting of federal monies. The department is under a new system of managing grants, and the FY 02 audit is outdated.

Representative Foster MOVED to report CSHB 394(HES) out of Committee with the accompanying fiscal note and individual recommendations.

#HB 509
HOUSE BILL NO. 509

An Act relating to establishing the Alaska Gaming Commission.

Co-Chair Harris MOVED to ADOPT Work Draft 23-LS1768, Version U. There being NO OBJECTION, it was so ordered.

Representative Croft asked for explanation of the changes.

SUE STANCLIFF, STAFF TO REPRESENTATIVE KOTT explained that the new changes in Version U have resulted from working with the gaming industry. On page 2, "Creation of commission," the commission would still consist of five voting members, but would now include two non-voting members from the industry. Addressing a question that arose during a previous hearing, she stated that one voting member must have five years' experience in law enforcement. One of the industry members must hold a permit or license under AS 05.15, and the other ex-officio nonvoting member must hold a license or permit under AS 04.11. The voting members elect the chair.

Ms. Stancliff noted that in Subsection (b), page 2, the voting members serve staggered terms of three years and it is already defined in AS 39.05.55. The nonvoting members

serve a non-staggered three-year term. The change on page 3, (f) sets out that an ex officio member may not serve if the person has been convicted of a crime

In response to a question by Representative Croft, Ms. Stancliff advised that ex officio members can hold permits for charitable gaming, must submit to a criminal background check, and cannot serve on the commission if they have a criminal record. She stated that there would be five voting members and two non-voting members.

Ms. Stancliff referred to page 4, explaining that the provision that the commission may participate with other states in multi-gaming activities was moved from "Duties and powers of the commission" in Version S to "Gaming activities" in Version U.

Ms. Stancliff pointed out a change on page 5, "Duties of director." The director now would be exempt but not the director's employees. This change resulted from a concern that the seven current non-exempt employees in the Department of Revenue would gain exempt status by moving to the commission.

Ms. Stancliff referred to page 5, line 8, "Duties of director," and explained that the contractual questions with agents have been removed in the current version because no gaming is allowed under AS 05.18. On page 6, "Gaming activities," language has been removed that stated, "the commission may not authorize a charitable gaming activity unless that activity is authorized under AS 05.15." The language was unnecessary because this section speaks only to AS 05.18.

Ms. Stancliff pointed out a change on page 6, "Prohibited acts," which removed price fixing from the previous version because it would be inappropriate for the state to set prices on raffle tickets. She added that it was confusing language that doesn't apply to AS 05.15.

PETE ECKLUND, STAFF TO REPRESENTATIVE BILL WILLIAMS, clarified that AS 05.15 is the charitable gaming statute. Most of this bill would create a new section of law, AS 05.18, for future new gaming. He noted existing confusion over how AS 05.15 and AS 05.18 interplay, and he pointed out that these are totally separate sections of law.

Ms. Stancliff noted that page 6, "Prohibited acts," (b) does not reflect a change but speaks only to AS 05.18 under which no gaming is allowed. The Governor and his staff can still buy a raffle ticket under AS 05.15.

Ms. Stancliff explained one requested change that was not made to Version U. The Department of Law asked for added

language on page 8,(C), stating "expressly authorized under AS 05.15 or 05.18." The legal drafter thought it would apply to specific activities like Blackjack and that it was unnecessary.

Representative Hawker MOVED to ADOPT Amendment 1. Co-Chair Williams OBJECTED for purposes of discussion.

Amendment 1 reads:

Page 3, following line 25:

Insert a new subsection to read:

"(c) The voting members of the commission may exclude the ex officio members from executive sessions otherwise permitted by law."

Ms. Stancliff explained that Am#1 would give only the voting non-industry members the authority to go into executive session.

Co-Chair Williams WITHDREW his OBJECTION.

Representative Hawker MOVED to ADOPT Amendment 2. Co-Chair Williams OBJECTED for purposes of discussion.

Amendment 2 reads:

Page 6, line 5, following "if":

Insert "that participation and those activities are"

Ms. Stancliff explained that Am#2 was recommended by the gaming industry and the sponsor does not object to the change.

Representative Stoltze asked for examples of these types of activities. Ms. Stancliff replied that Am#2 falls under AS 05.18, which currently has no gaming activities, so the expansion of new gaming could not take place without the authority of the legislature.

Co-Chair Williams WITHDREW his OBJECTION.

LARRY MEYERS, DEPUTY DIRECTOR, DIVISION OF FINANCE, DEPARTMENT OF REVENUE, VIA TELECONFERENCE, ANCHORAGE, provided background on staffing of the charitable gaming unit. He explained that it is a regulatory unit that oversees 1200 permittees who, in FY 03, paid about \$2.6 million in taxes and fees to the state. While gambling is illegal and falls outside the gaming unit's regulatory authority, charitable gaming is the exception.

STEVEN BORCHERDING SR., GENERAL MANAGER, GOLD CASH BINGO, VIA TELECONFERENCE, ANCHORAGE, expressed that he's been in the industry for fourteen years, and that this bill is

nothing more than a springboard for full scale gambling in the future. He stated that charitable gaming is currently working very well, with enforcement and regulatory statutes in place. The majority of the gaming industry is truly charitable and non-profit.

BOB LOESCHER, ALASKA NATIVE BROTHERHOOD (ANB), JUNEAU, explained that he has worked with a number of charitable permittees, including the ANB and the Tlingit-Haida Community Council. The ANB has worked with the legislature for two years on charitable gaming legislation. He expressed the ANB's support of HB 509; in particular, the restructuring that would move the Department of Revenue commission to a new commission, and separation of charitable gaming and any new gaming in the future. He stated that he has received assurances that any changes to statute and regulation would come before the legislature. He expressed support that the industry is included in an advisory role as part of the commission. He expressed that the issue of taxes and fees is an important condition of his support for HB 509 because the ANB believes the legislature should establish taxes and fees.

Representative Foster MOVED to report CSHB 509, Version U out of committee with the accompanying fiscal note and individual recommendations.

Representative Stoltze OBJECTED.

A roll call vote was taken on the motion to move the bill from committee.

IN FAVOR: Moses, Chenault, Croft, Fate, Foster, Hawker,
Joule, Harris, Williams
OPPOSED: Stoltze

Vice-Chair Meyer was not present for the vote.

The MOTION PASSED (9-1).

Representative Foster commented that he does not object to the concept of the bill, but he expressed concerns over creating another commission that would come to the legislature with additional funding requests.

CSHB 509(FIN) was REPORTED out of Committee with individual recommendations and one fiscal note.

#HB 296
HOUSE BILL NO. 296

An Act making an appropriation for the operation of the Alaska Natural Gas Development Authority; and providing for an effective date.

REPRESENTATIVE ERIC CROFT explained that HB 296 is identical to Senator Therriault's bill [SB 241]. It would appropriate \$2.15 million to the Alaska Natural Gas Development Authority (ANGDA) so that the authority can proceed with its work. He expressed frustration that neither the legislature nor the administration has shown support for the authority and has taken six months to appoint the board and fund the authority. The authority received some funding in November 2003, a year after it was established, but it is still awaiting significant funding to implement the will of the Alaska voters.

Co-Chair Williams stated his intention to hear and hold the bill today.

STEVE PORTER, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE, acknowledged that the issue concerns the plans of the Department of Revenue and ANGDA for the funding requested in this legislation. He noted that Harold Heinze, the Chief Executive Officer of ANGDA, has provided substantial information to the committee on ANGDA's budget needs and concerns.

Mr. Porter pointed out that the Department of Revenue has compiled a 3-page list of items requiring funding over the next eighteen months to meet the requirements of the Stranded Gas Act, and to allow ANGDA to proceed (copy on file.) The department is currently responding to three stranded gas applications, and supporting ANGDA as well as energy legislation. He explained that the department is cooperating with the Canadian government on pipeline issues. He gave a breakdown, explaining that the broad projection in FY 04 and FY 05 with the producers is about \$2.6 million, with MidAmerican at about \$450 thousand, the Port Authority, if the application is approved, at about \$700 thousand, and ANGDA at about \$450 thousand. Mr. Porter said that the energy bill in FY 04- FY 05 could take as much as \$1 million. The total request is \$3.48 million.

Mr. Porter stated that some these projected costs may not actually have to be spent because of potential negotiated agreements, but he said that the department needs nearly all of the \$3 million that it has recommended.

Mr. Porter informed the committee that although ANGDA is earmarked for only \$450 thousand, some of the benefit ANGDA will receive is through contracts the department is negotiating on the Stranded Gas Development Act. There is about \$200 thousand spread through different groups, with ANGDA receiving substantially more benefit than \$450 thousand. He said the \$450 thousand is attributable to ANGDA

and it cannot benefit the Stranded Gas Development Act negotiations.

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Representative Croft questioned the infrastructure support for ANGDA in the department's proposal. Mr. Porter replied that it is in operating budget for the Department of Revenue, which includes a line item for ANDGDA allocated to the CEO and staff. The money in HB 296 would go to contractors and additional support. Representative Croft asked the amount. Mr. Porter replied that the details are being worked out, but he thought it would be between \$150 and \$274 thousand.

Vice-Chair Meyer stated that he is co-sponsoring HB 296 in order to keep all avenues open for development of a gas pipeline. He asked if MidAmerica will meet their contract deadline by March 12 and expressed concern about getting ANGDA funded sooner if MidAmerica does not meet the deadline.

Mr. Porter replied that there is always the possibility of reaching agreement by March 12 if the details can be negotiated. For ANGDA to be strong and viable, the funding is needed quickly in order to execute contracts.

In response to a question by Representative Croft, Mr. Porter clarified that he never told the ANGDA board that it wouldn't get any funding if it didn't support the \$3 million request. He admitted making statements to the board that the best way to get funding for ANGDA and the Stranded Gas Act is the vehicle the Department of Revenue put before them.

Representative Croft argued that a number of board members have told him that they heard from Mr. Porter that this was only way they would get significant funding. Mr. Porter replied he would clarify it with the ANGDA board in open session during their March 15 meeting.

Representative Hawker asked the sponsor if the \$2.15 million is consistent with the lapse date of 2009. Representative Croft replied no, that most of the money would need to be spent soon, and he chose 2009 as the expected date that construction would begin. He offered to shorten it if Representative Hawker would like.

Representative Hawker asked Co-Chair Williams to arrange public testimony from the ANGDA board because he is hearing conflicting perceptions. Co-Chair Williams affirmed that it could be arranged.

In response to a question by Representative Croft, Co-Chair Williams clarified that more committee work would be done on the bill to keep the numbers but change the language.

Representative Joule asked Mr. Porter if ANGDA participated in the budget. Mr. Porter responded that Mr. Heinze had not seen this report. He said that because Mr. Heinze's budget does not include research costs for the Stranded Gas Act negotiations, the numbers would not necessarily match.

Representative Croft expressed continuing concern that only a small portion of the \$3 million would reach ANGDA. He stated that only \$450 thousand is not good administrative efficiency, and not what he intended in sponsoring the bill. His intention was that ANGDA receive the entire \$2.15 appropriation. He expressed support for the separate structure of the board to make decisions independent of political administrations or the legislature.

Co-Chair Williams commented that Representative Croft has not had direct discussion with the ANGDA board on a day-to-day basis.

HB 296 was heard and HELD in Committee for further consideration.

#HB 494

HOUSE BILL NO. 494

An Act relating to the disbursement of money by the state, including employment compensation, unemployment payments, and permanent fund dividends, and to bank investments and deposits by the state; and providing for an effective date.

SUE STANCLIFF, STAFF TO REPRESENTATIVE KOTT, explained that HB 494 relates to the disbursement of money by the state including unemployment payments and Permanent Fund dividends, and bank investments and deposits by the state. The bill would change how the state disburses funds and it has the potential of saving the state considerable money in the reduction of check fraud, reissuing lost or stolen checks, postage, check printing costs, bank fees and reduced labor costs.

Ms. Stancliff commented that the sponsor would work with the administration to refine the legislation. Statistics provided by the administration indicate that as of 2003, electronic deposits executed 89% of the state payroll. She noted that the issue of vendors poses a difficulty. The department has almost 50,000 vendors and currently only 500, or 1.3%, are using electronic payment. Ms. Stancliff expressed that the sponsor would like to see vendor payments

increased, and believes it is achievable even though labor-intensive.

Ms. Stancliff explained that the payroll and first check issuance must be by a warrant. The committee substitute will address that issue and build in flexibility.

KIM GARNERO, DIRECTOR, DIVISION OF FINANCE, DEPARTMENT OF ADMINISTRATION, expressed concern regarding the mandatory language in Section 19 of the current version. She stated that the department would work with the sponsor on the bill, which benefits the way the state does business. She shared the history of electronic payments, noting that wire transfers have been used for decades and are both expensive and labor intensive. She said that all of the big state revenues including royalties and large tax payments, and most of the \$1.7 billion received from the federal government last year come in electronically. She explained that currently 67% of public assistance payments and 90% of pension payments to retirees are made electronically. Electronic payments to vendors began in 1999 and it has about doubled each year.

Ms. Garnero provided examples of agencies that use electronic deposit for payment. The Department of Revenue, Treasury Division, is developing an Automated Clearinghouse (ACH) origination software to either send or receive payments that will likely be a payment system for Medicaid.

In response to a question by Vice-Chair Meyer, Ms. Garnero clarified that the state is paying by electronic deposit almost \$1 billion per year to vendors and contractors. Vice-Chair Meyer asked if it could be made a requirement for vendors. Ms. Garnero replied that the state has tried to expand to vendors without success. In rural areas of the state, the post office or grocery store often serves as a bank. Workers Compensation electronic payments would not in state's best interest. Ms. Garnero stated it would be difficult to make electronic deposit mandatory.

Vice-Chair Meyer wondered if the state could include a preference for Electronic Data Interchange (EDI) when it puts work out to bid. Ms. Garnero affirmed that the department could add the preference to procurements because of a continuing relationship with the contractors.

Representative Hawker expressed strong support for the bill. He noted that "the heart" of the bill is Section 19. He questioned an account established by a state agency and an electronic payment card. Ms. Garnero was unable to respond.

JOHN FOCHT, VICE PRESIDENT OF PREPAID CARD PRODUCTS, US BANK, VIA TELECONFERENCE, MILWAUKEE, explained that the bank delivers electronic products in five states, to more than

100,000 recipients. He explained the methodology, which is a debit card for VISA or Mastercard. Instead of setting up a checking or savings account, the bank establishes a funding account. The state then creates a direct deposit file (ACH), and that amount is deposited to the card. The cardholder can go to an ATM anywhere in the world and access the money.

Representative Hawker asked if those states using the product for their state programs are pleased with it. Mr. Focht replied yes, and added that Iowa, one of the five states, made it mandatory that benefits to child support recipients are by electronic deposit. The other three states have made the program voluntary, and 25% have opted for the card. Mr. Focht said the model is working in Colorado, Washington, Minnesota, Iowa and Oregon.

Representative Hawker asked if Mr. Focht has any experience in controlling misappropriation or fraud. Mr. Focht admitted that he does not have expense reduction information from the five states regarding fraud, returned checks, or stop payments. As the financial institution, US Bank has taken on responsibilities that include managing and minimizing fraud.

Representative Hawker asked the cost to the state for the product. Mr. Focht replied that there is tremendous cost savings through reduced check production and mailing, reduced handling of lost checks, and reduced fraudulent activity. The state is not billed for any of the services, but it has higher costs due to increased electronic deposits, which he feels is a minor offset to cost reduction. US Bank benefits from the deposits until the actual money is spent, because payroll is not withdrawn entirely or spent immediately. His bank also makes money by the merchants' discount on VISA and Mastercard, with merchants paying a small fee to the bank whenever the card is used. Fees are assigned to the cardholder, but for the most part, the card can be used without charge.

Representative Fate asked if there could be a judgment against the card in case of indebtedness. Mr. Focht clarified that because the bank authorizes transactions, it wouldn't authorize above the amount on the card. The bank would deal directly with overdrafts by the client, which could happen.

PETER E. BROWN, KEY BANK ALASKA AND VICTORY CAPITAL MANAGEMENT, VIA TELECONFERENCE, ANCHORAGE, expressed that the administration would achieve economies through this legislation. He felt that latitude is needed to make disbursements in the old manner, but that electronic payments should be used whenever possible and practical. Instead of a difficulty imposed on rural bush residents, it could be a boon if the recipient is able to transact with

a merchant over the telephone or the Internet with a card. He said that the technology not too distant.

Representative Hawker requested that Mr. Brown work with the sponsor to craft language addressing the exception problems from the industry perspective. Mr. Brown replied that he and his staff would assist. Representative Hawker commented on the need for community input on changes that would not compromise cost efficiency to the state.

HB 494 was heard and HELD in Committee for further consideration.

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ADJOURNMENT

The meeting was adjourned at 3:14 P.M.