

MINUTES
SENATE FINANCE COMMITTEE
March 24, 2003
10:07 AM

TAPES

SFC-03 # 28, Side A
SFC 03 # 28, Side B
SFC 03 # 27, Side A*

*Audio recording of this meeting begins with tape SFC-03 #28 and continues with tape SFC-03 #27

CALL TO ORDER

Co-Chair Gary Wilken convened the meeting at approximately 10:07 AM.

PRESENT

Senator Gary Wilken, Co-Chair
Senator Lyda Green, Co-Chair
Senator Con Bunde, Vice Chair
Senator Ben Stevens
Senator Donny Olson

Also Attending: SUSAN TAYLOR, Director, Division of Administrative Services, Department of Revenue; DAN SPENCER, Director, Division of Administrative Services, Department of Administration; KIM GARNERO, Director, Division of Finance, Department of Administration; TOM LAWSON, Director, Division of Administrative Services, Department of Community and Economic Development;

Attending via Teleconference: From Anchorage: JOHN MALLONEE, Data Processing Manager, Child Support Enforcement Division, Department of Revenue; MIKE MORA, Common Carrier Specialist, and Project Manager, Regulatory Commission of Alaska; GENE KANE, Director, Department of Community and Economic Development; From off net locations: JULIE STINSON, Department of Administration; MIKE HARPER, Deputy Director, Rural Energy, Alaska Industry Development and Export Authority; From Fairbanks: JO GROVE, Grants Manager, Division of Community and Business Development, Department of Community and Economic Development

SUMMARY INFORMATION

SB 100-APPROP: CAPITAL PROJECTS

The Committee heard from the Department of Revenue, the Department of Administration, and the Department of Community and Economic Development. The bill was held in Committee.

[Note: Audio recording of this meeting begins with tape SFC-03 #28 and continues with tape SFC-03 #27.]

#SB100

SENATE BILL NO. 100

"An Act making capital appropriations and reappropriations; capitalizing a fund; 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."

The Committee heard overviews of the departmental budget requests.

Department of Revenue

Child Support Enforcement Case File Imaging Project

\$363,800 federal receipts

\$187,410 receipt supported services

Reference No.: 37886

Category: Health/Human Services

Location: Statewide

Election District: Statewide

Estimated Project Dates: 07/01/2003 - 06/30/2008

State Match Required

Phased Project

This is a project to provide paperless case files to be used for child support cases. All information regarding cases including support orders from the court, correspondence, forms applications, etc., are currently in over 48,000 paper files. A file center staff of 3 full time employees is devoted to delivering them to caseworkers as requested, retrieving, updating and re-filing. As the number of documents that are handled by CSED grows over the coming years, the ability to create imaged files instead of paper files will greatly increase the efficiency of the caseworkers, accounting and audit staff and will also allow file center personnel to be reallocated to provide even more client service.

SUSAN TAYLOR, Director, Division of Administrative Services,

Department of Revenue, testified this request would fund the first of two phases of the project.

Co-Chair Wilken asked the source of the receipt-supported services.

JOHN MALLONEE, Data Processing Manager, Child Support Enforcement Division, Department of Revenue, testified via teleconference from Anchorage that the funds are "the money that we collect back that are reimbursements for public assistance that was paid out previously."

Senator Olson asked if other departments had undertaken imaging projects that could be reviewed to determine the benefits of such an undertaking.

Ms. Taylor stated she would survey other departments and report to the Committee.

Child Support Enforcement Computer Replacement Project -
Phase 4

\$269,300 federal receipts

\$35,700 receipt supported services

Reference No.: 37810

Category: Health/Human Services

Location: Statewide

Election District: Statewide

Estimated Project Dates: 07/01/2003 - 06/30/2008

State Match Required

Phased Project

This is a continuation of the computer and printer replacement project initiated in FY 00. The agency objective is to replace personal computers, printer and servers that have exceeded their useful life. With 250 computers in use in the Division, we have at least 60 computers in that situation, as well as several network and mainframe printers and two servers.

The funding for this project includes one-time excess federal funding of \$200,000 derived from FY 02 and FY 03 Alaska Court System expense reimbursement.

Ms. Taylor informed that it is no longer economical to repair the existing equipment.

Senator Olson asked when the computers were replaced last.

Ms. Taylor informed that some of the computers are over eight years old. She was unsure the best practices for replacing the units, but estimated four to five years was preferable.

Department of Administration

Payroll and Accounting Systems Replacement Analysis

\$400,000 general funds

Reference No.: 37950

Category: General Government

Location: Statewide

Election District: Statewide

Estimated Project Dates: 07/01/2003 - 06/30/2004

Phased Project

Funding will be used to continue replacement analysis and planning for the statewide accounting and payroll systems (AKSAS and AKPAY) currently managed by the Division of Finance.

DAN SPENCER, Director, Division of Administrative Services, Department of Administration, introduced Ms. Garnero.

KIM GARNERO, Director, Division of Finance, Department of Administration read a statement relating to this request into the record as follows.

The Division of Finance is currently leading a project to assess our statewide administrative systems and plan for their eventual replacement. This analysis is well underway with a multi-department steering committee overseeing the project. We're developing a business case, which will analyze various possible solutions and their total costs of ownership. These options will be presented to policy makers for a decision on how to proceed.

At the same time, we're compiling business requirements, which any selected solution will have to meet. Both of these products are scheduled for completion July 1. The \$400,000 request before you today will be used to administer an rfp [request for proposals] and conduct subsequent contract negotiations with the resulting vendors. The rfp and contract negotiations are critical paths, which will determine the overall replacement cost and ongoing maintenance of the selected solution.

Shortcomings of these tasks could cost the State millions over the long terms. For perspective, our current statewide accounting system is 18 years old and costs \$15 million to implement in the early 1980s.

Our intent is to bring to you a funding request for the selected solution during the next legislative session. We're

currently planning status meetings on this project for our users in mid April and I'd like to invite any interested legislators or their staff to attend one of these meetings.

Co-Chair Wilken asked how the \$600,000 appropriated in the current fiscal year has been expended.

Ms. Garnero told of a nationwide firm, Maximus, that "specializes in serving government" contracted to assist in developing the "business case and our business requirements", which would be completed July 1, 2003. She added that some of the funds would also be utilized for travel to Anchorage and Fairbanks for the aforementioned April meetings.

Co-Chair Wilken asked how the \$400,000 requested in this item would be used to continue the process.

Ms. Garnero replied this would allow the Department to continue its relationship with Maximus to administer the rfp and assist in contract negotiations. She stressed the rfp is a complicated procurement and that the State would be "ill-advised" to undertake without professional consulting.

Co-Chair Wilken asked if a total of \$1 million appropriated over two fiscal years would result in a "structure" to go out to bid.

Ms. Garnero explained that a solution would be selected and a contract negotiated.

Co-Chair Wilken asked whether the State would purchase a new accounting system.

Mr. Spencer clarified that these efforts would determine whether it is preferable to purchase a prepared system or create one in-house.

Co-Chair Wilken asked the estimated cost of a payroll accounting system for the State.

Ms. Garnero replied that other states have purchased systems for between \$20 million and \$250 million, the amount appropriated by the State of Pennsylvania. She assured the intent is to expend less than the maximum amount.

Co-Chair Wilken asked the savings realized by the State by such a purchase and whether staff reductions or other efficiencies would occur.

Ms. Garnero responded that such savings is not known at this point.

She stated that analysis of the requirements to "do business" is underway and she anticipated that the question of savings would be considered in determining the solution.

Co-Chair Wilken asked if the solution posed to the legislature would include information on the potential savings.

Ms. Garnero remarked that "hard savings" would be difficult to measure. She reiterated the existing system was purchased in 1985 and she spoke to the maintenance expenses of this system. She noted that licensing and maintenance of a new system would surpass the current expenditures.

Co-Chair Wilken qualified that a definitive amount is not necessary, but rather requested a range of the estimated expense.

Co-Chair Green suggested the question could rather be the consequences of not making this purchase.

Ms. Garnero spoke of the limited use of the existing system and that the payroll system is the "driving force" to streamline data processing for the State.

Co-Chair Wilken reminded of conversations on this matter the previous year and stressed that the Committee must be "comfortable" with the proposed solution before the significant appropriation could be made. He therefore encouraged the Department to "burden" the Committee with analysis and information.

Labor Contract Negotiations Support
\$250,000 general funds
Reference No.: 38476
Category: General Government
Location: Statewide
Election District: Statewide
Estimated Project Dates: 07/01/2003 - 06/30/2005
One-time Project
Funding will be used for labor contract negotiations.

Mr. Spencer informed that tentative agreements for one-year contract extensions have been reached with all but two bargaining units, but that longer-term agreements must still be reached.

Co-Chair Wilken noted the \$330,000 appropriation of the current fiscal year has resulted in the one-year contract extensions.

Mr. Spencer affirmed and expressed he would research whether an unexpended balance of that appropriation remains.

Co-Chair Green asked if funding for this purpose is always a capital expenditure.

Co-Chair Wilken understood this request is for "support".

Mr. Spencer affirmed and furthered that this is not an ongoing expense, but rather a specific project that would have a finite end, and therefore should not be "buried" in the operating budget. He noted that this funding had been included in an operating budget several years ago, but that concerns arose about the appropriation lapsing at the end of the negotiations.

Co-Chair Green asked whether a period of time would elapse between these negotiations and the beginning of the negotiations for long-term contracts.

Mr. Spencer responded that the next negotiations would begin in July 2003. He spoke of the lengthy process involved in reaching agreements.

Co-Chair Wilken asked if the negotiations must begin again shortly because the current agreements are one-year contracts.

Senator B. Stevens asked if the contracts for all 12 bargaining units are one year.

Mr. Spencer answered yes.

Senator B. Stevens asked if the negotiations must therefore begin anew.

Mr. Spencer affirmed and explained the timeframe of the new gubernatorial administration, and the statutory requirement that the governor must submit negotiated contracts to the legislature by the 60th day of the legislative session. Because of the limited time, he stated the decision was made to negotiate one year contracts to allow further review of the matter before longer agreements were negotiated.

Senator B. Stevens surmised the strategy would begin negotiations on July 1, 2003, rather than December 1, 2002.

Mr. Spencer informed that Governor Murkowski began contract negotiations immediately upon taking office. However, given the complexities, he said it was determined that additional time was necessary to negotiate longer-term agreements.

Senator B. Stevens asked the number of labor negotiations administered by the Department of Administration.

Mr. Spencer answered 13 or 14.

Senator B. Stevens asked if 90 percent of the labor contracts are on the same cycle.

Mr. Spencer replied that the previous administration negotiated bargaining unit contracts so all would be on the same cycle. He noted the benefits of undertaking all negotiations at one time.

License Plates, Tabs and Manuals
\$400,000 receipt supported services
Reference No.: 37942
Category: General Government
Location: Statewide
Election District: Statewide
Estimated Project Dates: 07/01/2003 - 06/30/2004
On-going Project
Funding will provide for the purchase of license plates and tabs to maintain necessary statewide inventory levels.

Mr. Spencer noted this item has historically been included in both the operating capital budgets. He stated the Division of Motor Vehicles is required to have license plates, training manuals, decals, etc. He listed the Division annually expends between \$200,000 and \$300,000 for these items.

Co-Chair Wilken asked whether unexpended funds appropriated for the current fiscal year could be lapsed and utilized for the upcoming fiscal year expenses.

Mr. Spencer answered that because it was a capital appropriation, any unexpended funds could not be lapsed. He explained the expenditures occur on a calendar year basis, rather than a fiscal year basis, with a surge of business occurring during the summer months. He said the Division attempts to control inventory, yet retain an adequate supply.

Co-Chair Wilken asked why this item is not currently included in the operating budget.

Mr. Spencer responded that the previous time this item was included in the operating budget, it appeared to be a funding increase and therefore the legislature transferred the item to the capital budget.

Payroll and Accounting Systems Replacement Analysis
Reference No.: 37950 (continued)

Senator B. Stevens noted the existing consulting contract with Maximus and asked whether this company is a potential bidder on the new system.

Mr. Spencer answered it is not and that this company only provides consulting services. He informed that the State also entered into a separate contract agreement with another division of the Maximus company to advise on federal cost allocation plans. He emphasized this company does not write operating systems. He assured the Department is careful to not procure advice from entities that could subsequently bid on the projects they provide advise for.

Senator B. Stevens asked the percentage of the system's operations that are for payroll operations. He questioned whether the Department is attempting to replace the entire system when only the payroll portion is obsolete. He requested the Department provide further information on this matter.

Mr. Spencer indicated Ms. Garner would research the matter.

Alaska Land Mobile Radio
\$680,000 general funds
Reference No.: 37949
Category: Development
Location: Statewide
Election District: Statewide
Estimated Project Dates: 07/01/2003 - 06/30/2006
Phased-underway Project
Funding will be used to continue the process of converting Federal, State, and local emergency communications systems to technology that will provide for interoperability (the ability of different agencies with different communications systems to communicate across jurisdictions and with each other.)

Mr. Spencer explained that the Department does not have adequate funding from receipt authority funds for this project. He reminded that this project has been before the legislature for several years. He told of efforts of Alaska's congressional delegation to secure federal appropriations. He stated the requested funds would be utilized to complete the first phase of the project.

Mr. Spencer spoke of a concept demonstration recently conducted in Valdez, which was successful.

Senator Bunde relayed criticisms that this project would create a

significant unfounded mandate for local governments, by requiring the purchase of new equipment, when less expensive options were available.

JULIE STINSON, Department of Administration testified via teleconference from an off-net location that the system would be constructed utilizing State and U.S. Department of Defense funding. She assured this project would not create a mandate but is rather intended to support existing systems, although local governments could purchase new equipment that would fully utilize the services available.

Ms. Stinson furthered that this Alaska Land Mobile Radio (ALMR) project would utilize standard-based technology and would encourage other manufacturers to produce equipment compatible to this standard.

Senator Bunde noted the system would exist, although municipalities would be required to purchase new radios to fully utilize the system.

Ms. Stinson corrected that other radio systems could be interfaced with the new system. She qualified that all features would not be available and that dispatch would be necessary.

Senator Bunde and Ms. Stinson continued to debate the requirements of local governments to participate in the new system.

Ms. Stinson noted new radios would cost between \$2000 and \$4000 per unit depending upon the features desired.

Senator Olson asked about the cost of interfacing with the systems.

Ms. Stinson surmised a memo of understanding would be signed based on interface needs. She furthered that equipment could be purchased by local governments through State procurement contracts at bulk rate prices.

Senator Olson restated his question about operating expenses for municipalities.

Ms. Stinson noted some discussion of user fees have been held for operation and maintenance of the system, and although she did not know the exact amount, she predicted it would be minimal.

Senator Bunde reiterated this would be considered an unfunded mandate by municipalities and expected that additional operating expenses would be incurred.

Senator Olson asked the cost to the State if the ALMR project were not funded.

Ms. Stinson did not know and would research the matter through an engineering firm working on the project.

Co-Chair Wilken understood the current system would be utilized, although communication between the various emergency groups would not be available.

Ms. Stinson corrected that the aging system would eventually require replacement. She noted that replacement equipment could no longer be purchased for the system currently utilized by the Department of Transportation and Public Facilities.

Co-Chair Wilken asked the definition of "standards based communications".

Ms. Stinson told of the multiple types of communication equipment that had been purchased separately and subsequently were not compatible with each other. She stated the intent is that manufacturers would design and construct equipment according to a standard to ensure compatibility.

Co-Chair Wilken next referenced federal funding received in previous years, but noted the proposed FY 04 budget does not contain a request to receive and expend such funds.

Mr. Spencer explained that the previous federal appropriation authority was to receive and expend approximately \$16 million, however only approximately \$2 million has been received and therefore no expenditure authority is now requested. Therefore, he stated that the Department has received authority to receive and expend more money than received and additional authority is unnecessary at this time. He told of efforts with U.S. Senator Ted Stevens to secure the remaining funds.

Co-Chair Wilken asked if the 10 percent match requirement would remain the same.

Ms. Stinson responded that the match requirement percentage is unknown because the State has yet to decide which grants it would apply for. She noted the \$2 million of grant funds received in FY 03 did not require matching funds from the State, although that funding source could not be utilized for program management services, including professional services and Federal Communication Commission (FCC) licensing.

Co-Chair Wilken surmised that no commitment has been made to fund the program at a 90 to 10 matching fund ratio, and that the requirement for matching funds and the amount of the percentage could change.

Ms. Stinson affirmed.

Co-Chair Wilken asked what agency would be expected to maintain the system once in operation.

Ms. Stinson understood the State and Federal governments would maintain the system with assistance from local governments. She did not expect operation fees would be higher than the current expense. She spoke of the current system of collecting user fees.

Co-Chair Wilken asked if other State agencies were requesting funds for this project.

Ms. Stinson informed that the Department of Transportation and Public Facilities is requesting matching funds to receive federal grant monies, and noted the Department has received \$3.3 million federal funds for subscriber units and could request matching funds from the legislature. She indicated she is researching whether the matching funds utilized by the Department of Administration could also be applied as matching funds for the Department of Transportation and Public Facilities project as well. She furthered that the Department of Public Safety has requested federal receipt authority. She expected these were the total requests the legislature would receive for the ALMR project.

Co-Chair Wilken clarified that only the Department of Administration, the Department of Transportation and Public Facilities and the Department of Public Safety would submit funding requests.

Ms. Stinson affirmed, qualifying that other two-way communication requests could be received, but would be "stand alone" systems not related to the ALMR system.

Senator Bunde requested the cost estimates of the four largest Alaskan communities to take full advantage of the ALMR system. He spoke of the benefits of full communication. He warned that in event of disaster, the State would be blamed for not providing adequate funds.

Co-Chair Wilken clarified the request is for a range of costs for Anchorage, Fairbanks, Juneau and the Mat-Su Valley, rather than

specific amounts.

Ms. Stinson stated she would research the estimated costs to these communities. She noted that through the system design process, some data is already available.

Mr. Spencer noted that one or two municipalities and nonprofit organizations have received "substantial" federal funds for subscriber units.

Ms. Stinson furthered that the Department has received \$1.7 million Informational Services Fund (ISF) for Fairbanks, through the federal Office of Domestic Preparedness. She stated that once the system is operational in Valdez, efforts would focus on the Fairbanks area with intent the "system would go live this summer". She stated that a review process would commence to determine how the grant funds would be distributed.

Senator B. Stevens noted the estimated cost for completion of the north zone phase of the ALMR project. He understood that \$6.8 million federal funds would be available for 90 percent of the cost to purchase the subscriber units. Therefore he surmised the federal government would pay the subscriber unit costs.

Co-Chair Wilken restated the question.

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Co-Chair Wilken continued.

Senator B. Stevens attempted to understand who would purchase the subscriber units given the significant amount of federal funds available.

Ms. Stinson understood the estimated cost of subscriber units in the Fairbanks area would be significantly higher than \$6.8 million. She informed that \$6.8 million federal funds are designated for State agencies' subscriber units and infrastructure and that \$1.7 million of federal funds is designated for locally owned subscriber units. She stated that the Department is evaluating the "federal funding issues" to request additional subscriber units for State agencies.

Co-Chair Wilken asked for information on what the requested \$8.5 million would purchase.

Co-Chair Green questioned the ISF funds.

Mr. Spencer explained these funds are utilized for operations of the Informational Technology Group. He stated this funding source was initially used for the matching requirements when this project began.

Co-Chair Wilken furthered these funds are collected from State agencies "across the board" to pay telecommunications and computer services expenses.

Co-Chair Wilken stressed the ALMR project entails a major expenditure and he wanted to ensure that appropriate considerations are given.

Priority Maintenance for Facilities not in the Public Building Fund
\$300,000 general funds
Reference No.: 37947
Category: General Government
Location: Statewide
Election District: Statewide
Estimated Project Dates: 07/01/2003 - 06/30/2005
On-going Project
Funding for maintenance projects in Department of Administration managed facilities that are not part of the Public Building Fund.

Mr. Spencer explained that the request for FY 04 only includes the Dimond Courthouse Roof Repair project. He noted that although many projects are necessary, this project is included because water is leaking into the walls of the building.

Co-Chair Wilken noted an earlier request for carpeting in the courthouse and asked why the two projects are not combined.

Mr. Spencer informed that the Department of Administration is responsible for maintenance and the Alaska Court System addresses other matters such as re-carpeting.

Public Building Fund Projects
\$2,500,000 public building fund
Reference No.: 37943
Category: General Government
Location: Statewide
Election District: Statewide
Estimated Project Dates: 07/01/2003 - 06/30/2005
Funding is requested for renewal projects in PBF facilities.

Mr. Spencer reminded that this project addresses ongoing maintenance needs utilizing funding generated from rent collected from occupant agencies.

Co-Chair Wilken noted the public building fund is in its third year of operation and asked the balance of the fund.

Mr. Spencer did not know. He noted the requested funding of this item would utilize future revenues because the projects are deferred maintenance.

Co-Chair Wilken detailed the proposed projects. He clarified that the entire \$2.5 million would not be expended in FY 04.

Mr. Spencer affirmed and detailed. He exemplified waterline replacements, warning that if the system failed the repair costs could be triple the amount of the initial replacement cost.

Co-Chair Wilken questioned if these projects should be accounted as encumbrances rather than expenditures.

Mr. Spencer answered it could, but pointed out the projects listed in the backup material are the planned expenditures; however if breakage occurs elsewhere, the funds would be diverted for those repairs.

Co-Chair Wilken requested the total fund balance.

Senator B. Stevens asked if the building fund consists of the contributions of all tenants.

Mr. Spencer listed the eight facilities included in the public building fund. He noted this is a pilot project and that the intent of the fund is to "capture" non-general funds for deferred maintenance expenses.

Mr. Spencer furthered that in prior years the Department of Administration undertook minimal maintenance projects because the facilities were the responsibility of the Department of Transportation and Public Facilities.

Senator B. Stevens commented that 76 percent of this allocation would be for one facility and asked if 76 percent of the revenue generated is from that facility. He questioned whether the public building fund is equitable.

Mr. Spencer responded that in the short term the fund would not be

equitable, although it would be in the long term. He explained that the income generated in a given year might not match the expenditures of one facility; however the expenditures in another year would be higher at a different facility. He qualifies the expenditures would vary for different projects.

Senator Bunde asked if the public building fund has adequate funds to undertake the substantial repairs necessary to the Atwood building caused by damage of the recent windstorm.

Mr. Spencer gave examples of other projects could be delayed to enable funding to be expended on repairs to the Atwood building.

Co-Chair Wilken listed the balance of the public building fund at the end of FY 02 at \$45 million, of which \$4.3 was cash.

Mr. Spencer affirmed but qualified the cash balance fluctuates.

Information Technology Group Equipment Replacement
\$2,465,000 Information Services funds
Reference No.: 37948
Category: General Government
Location: Statewide
Election District: Statewide
Estimated Project Dates: 07/01/2003 - 06/30/2006
On-going Project
Funding will be used to purchase/lease the top priority equipment and services that will meet current and expected customer demand, within the amount collected through rates for depreciation.

Mr. Spencer explained that the ISF funds are collected as earlier described by Co-Chair Wilken, and utilized to replace outdated equipment.

Senator Bunde commented to on-going maintenance versus the ALMR project. He compared the expense of maintaining and repairing existing equipment to purchasing new equipment, pointing out that either option has expense.

AT EASE 11:13 AM / 11:14 AM

Department of Community and Economic Development

Rural Internet Access
\$7,500,000 federal receipts
Reference No.: 37909
Category: Development

Location: Statewide
Election District: Statewide
Estimated Project Dates: 07/01/2003 - 06/30/2008
One-time Project
Grants to local governments and non-profit organizations to expand internet service throughout rural Alaska.

TOM LAWSON, Director, Division of Administrative Services, Department of Community and Economic Development gave the funding history of this item beginning with \$7.5 million appropriated in the FY 03 supplemental budget appropriation legislation.

Co-Chair Wilken asked the locations where this program would be implemented.

Mr. Lawson explained the competitive grant process and noted the recipients have not yet been determined.

Co-Chair Wilken asked if the grants would be utilized to access satellite signals or cable optic signals.

MIKE MORA, Common Carrier Specialist, and Project Manager, Regulatory Commission of Alaska testified via teleconference from Anchorage that the grant program was initially intended to be "technologically neutral". However, he pointed out that the majority of the rural areas eligible for this funding would receive service via satellite transmission.

Senator Bunde noted the intent that through Internet providers, the program would become self-sufficient. He asked if the subscribers or providers would eventually pay the service expenses.

Mr. Mora explained that once the grant program expires, residents of the participating communities would be responsible for the fees. He surmised the fees should be comparable to that of larger communities.

Senator Bunde estimated the amount at \$20 to \$50 per month.

Mr. Mora affirmed.

Senator Bunde surmised this is a substantial fiscal expectation for rural economies that could not support local government. He asked the consequences to the State if communities do not continue to subscribe to the service.

Mr. Mora assured that the grant would be issued to telecom carriers, which must submit a business model to demonstrate

evidence that the program would be sustainable through consistent demand for services.

Co-Chair Wilken assumed that the rfp applications for grants would be scored according to the potential for the grantee to provide ongoing funding without State support.

Mr. Mora answered this is correct. He pointed out that although no matching funds are required to receive the federal funds, the Department would require partial funding from the carrier.

Co-Chair Wilken asked if the Department would require evidence of ongoing support.

Mr. Mora replied that a component of the grant qualification is to demonstrate ongoing sustainability.

Co-Chair Wilken asked if this would be a requirement or a suggestion.

Mr. Mora answered it would be a requirement and also would be included in the scoring process.

Community Development Grants
\$3,470,000 federal receipts
\$150,000 general funds
Reference No.: 33925
Category: Housing/Social Services
Location: Statewide
Election District: Statewide
Estimated Project Dates: 07/01/2003 - 06/30/2008
State Match Required
On-going Project
Multiple federally-funded programs, enabling Department of Community and Economic Development to provide grants to communities and non-profit organizations for community development.

Mr. Lawson listed the main funding source as the Federal Emergency Management Agency (FEMA) and the U.S. Department of Agriculture, among others.

Community Block Grants
\$6,000,000 federal receipts
Reference No.: 33488
Category: Housing/Social Services
Location: Statewide
Election District: Statewide

Estimated Project Dates: 07/01/2003 - 06/30/2008

On-going Project

Multiple federally-funded programs, enabling Department of Community and Economic Development to provide grants to communities and non-profits that provide services and/or benefit the low- to moderate-income individuals.

Mr. Lawson noted no state match is required.

Language Section: National Petroleum Reserve Alaska Impact Grant Program; PCE Pgm

\$35,300,000 federal receipts

Reference No.: 35360

Category: Development

Location: Barrow

Election District: Arctic

Estimated Project Dates: 07/01/2003 - 06/30/2008

Grants to communities for public facilities and services. Priority is given to those communities directly or severely impacted by the leases and development of oil and gas within the National Petroleum Reserve.

Mr. Lawson explained this item relates to authorization to receive funds from the National Petroleum Reserve - Alaska (NPR-A) lease sales and annual least payments for the purpose of providing grants to communities impacted by the development of oil and gas within the NPR-A.

Mr. Lawson gave an updated amount available as \$33.6 million. He noted the funds would be allocated for 20 projects at a total cost of \$25 million with the balance of the funds deposited into the permanent fund, the public school trust fund and the Power Cost Equalization (PCE) fund as outlined in statute.

Co-Chair Wilken noted the funding source is listed as federal receipts but he pointed out the funds actually are the State's share of projected rent, lease payments and royalties on production for FY 04.

Mr. Lawson affirmed and detailed the lease sales of 1999 and 2002, from which the revenue is generated.

Co-Chair Wilken calculated the total revenue from NPR-A development would be approximately \$70.6 million.

Mr. Lawson answered yes.

Co-Chair Wilken detailed that the total revenue is equally divided

between the State and federal government, and of the State's portion, approximately \$25 million would be allocated to the community impact grants, and 25 percent, or approximately \$2.5 million, of the remaining \$10.2 million would be deposited into the permanent fund, one-half percent would be allocated to the public schools trust fund, leaving approximately \$7.3 million for PCE. He furthered that any remaining funds not utilized by PCE would be deposited to the general fund.

Mr. Lawson affirmed, but qualified differing legal opinions have been issued about the distribution of funds in excess of the community impact grants.

Co-Chair Wilken cited Article IX, Section 15 of the Alaska Constitution, "At least 25 percent of all mineral lease rental, royalties, royalty sale proceeds ... received by the State shall be placed in a permanent fund..." He therefore opined the current practice of allocation of NPR-A funds is in direct conflict with the constitution.

Co-Chair Wilken continued that if the applications for community impact grants were greater than the available funds, no funds would be deposited from this source into the permanent fund.

Mr. Lawson affirmed.

Co-Chair Wilken furthered that funds from this source could not be contributed to the State general fund or the school trust fund.

Mr. Lawson again affirmed.

Co-Chair Wilken surmised that the benefits of the National Petroleum Reserve - Alaska (NPR-A) would only benefit those living north of the Brooks Range.

Co-Chair Wilken was unsure that Alaskans understand that the NPR-A does not actually benefit the school trust fund or other State services. He stressed that current law allows four communities to claim all the benefits at the expense of distributing these funds to benefit the remaining residents of Alaska.

Co-Chair Wilken calculated that the grant requests for FY 04 total \$53.2 million of which \$35 million has been approved.

Mr. Lawson did not have the exact amount, although knew the amount exceeded \$35 million.

Co-Chair Wilken compared the situation of the grant funds

appropriated to four communities to a hypothetical per capita appropriation of \$420 million capital grants to the Fairbanks North Star Borough or \$1.2 billion for Anchorage.

Co-Chair Wilken asked for a description of how the grant applications are scored. He understood the criteria based on the impact of oil development and asked whether additional State or federal criterion is involved. He asked whether the extent of oil development impact is measured, whether directly or indirectly and how a sewage treatment facility relates to oil fields located hundreds of miles away.

Co-Chair Wilken noted other funding requests included in the FY 04 capital budget to construct oil field connector roads and asked why they were not proposed to be undertaken with NPR-A funds, given the direct impact on local communities.

Co-Chair Wilken summarized his arguments stated above.

Senator Olson pointed out that the oil fields are not hundreds of miles away from Barrow and asserted that sewage treatment is necessary because of the influx of people brought as a result of the oil production activities.

Senator Olson noted that only projects within the North Slope Borough are included and questioned whether needs from other communities could be addressed with these funds.

GENE KANE, Director, Department of Community and Economic Development, testified via teleconference from Anchorage, that other requests were denied for various reasons. He listed incomplete applications, lack of detail, unclear impact of the NPR-A, and duplication for projects already funded.

JO GROVE, Grants Manager, Division of Community and Business Development, Department of Community and Economic Development, testified via teleconference from Fairbanks added that most of the applications were from communities within the North Slope Borough, and would benefit Anaktuvuk Pass, Barrow, Nuiqsut and all communities within the Borough. She exemplified the village school counselor program and the waterfowl continuation study.

Senator Olson asserted that denial of applications because they were incomplete or lacked detail appeared to be more lack of sophistication rather than actual need. He predicted that the North Slope Borough has excellent grant writers.

Co-Chair Wilken detailed a list of the proposed projects [copy not

provided], their scores and the delineation of the approved projects based on the amount of funding available.

Senator Olson commented that many of the proposed projects had greater merit, citing a proposed senior center. He referenced a proposal to eliminate or reduce the Alaska Longevity Bonus benefit payments to senior residents. He requested that the reviewing committee impose a "broader perspective" as to what programs would offer the greatest benefit and fulfill greatest needs.

Senator B. Stevens asked about a proposed project titled "Grant Oversight and Supervision" and asked how this application received a 100 percent score.

Ms. Grove stated she would provide the information.

Senator B. Stevens also requested the "approved indirect rate" as approved by the U.S. Department of Labor. He asserted that management of grants should be included in the grants themselves.

Co-Chair Wilken clarified the request for the scoring criterion of applications, whether the criterion is established by State or federal guidelines, and the relationship of the approved grants to the NPR-A laws.

SFC 03 # 27, Side A 11:44 AM

[Note: Audio recording of this meeting begins with tape SFC-03 #28 and continues with tape SFC-03 #27]

Senator B. Stevens asked if the Department serves as the oversight agency for all these grants.

Mr. Lawson affirmed.

Rural Utility Preventative Maintenance
\$300,000 general funds
Reference No.: 32588
Category: Health/Human Services
Location: Statewide
Election District: Statewide
Estimated Project Dates: 07/01/2003 - 06/30/2008
On-going Project
Preventative maintenance to electric power systems in rural Alaska intended to prevent the need for more costly future emergency responses to rural Alaskan electric power system failures.

Mr. Lawson outlined this request.

Co-Chair Wilken asked if this would be the first year this project was funded.

Mr. Lawson answered that this request has been submitted in past years and was funded some years and not funded in other years.

Co-Chair Wilken asked if this program operates in conjunction with the Denali Commission sustainability initiative.

Mr. Lawson responded that the programs are interrelated utilizing various funding sources.

Senator Bunde questioned if PCE was fully funded whether that program would pay the maintenance and circuit rider expenses.

Mr. Lawson was unsure.

MIKE HARPER, Deputy Director - Rural Energy, Alaska Industry Development and Export Authority (AIDEA), testified via teleconference from an off-net location that properly maintaining equipment would allow greater production for each gallon of diesel used. He furthered this would benefit the PCE program. He warned that not cleaning up and repairing systems would result in inefficient operations and generator failures. He noted that failures would require emergency repairs, thus increasing operating expenses for the PCE program.

Senator Bunde asked whether completion of this project would result in reduced electrical rates.

Mr. Harper replied the rates would decrease eventually. He noted that the rates in smaller communities are three to four times the rates experienced in Anchorage and Fairbanks. He furthered that this project would improve power generators and other equipment.

Language Section: Electrical Emergencies

\$ 330,000 Rural Electric funds

Reference No.: 32590

Category: Health/Human Services

Location: Statewide

Election District: Statewide

Estimated Project Dates: 07/01/2003 - 06/30/2008

On-going Project

To provide technical support when an electric utility has lost the ability to generate or transmit power to its customers and

the condition is a threat to life, health, and/or property in the rural community.

Mr. Lawson spoke of the rural electrification revolving loan fund and the implementation of those funds in situations where a system has "basically failed." He characterized this program as "another tool to help rural communities."

Senator Bunde clarified that the previous request was for funding to prevent failures and this separate request is for funding in the event of a failure.

Mr. Lawson affirmed.

Senator Bunde asked if the reason for the two programs is to keep costs minimal.

Mr. Lawson replied this has been the practice for several years.

Co-Chair Wilken requested a listing of past expenditures.

Mr. Lawson indicated he would provide the information.

Co-Chair Wilken asked if the funds appropriated for this program would lapse at end of the fiscal year.

Mr. Lawson affirmed.

Diesel Efficiency and Alternative Energy Program

\$250,000 general funds

Reference No.: 32591

Category: Health/Human Services

Location: Statewide

Election District: Statewide

Estimated Project Dates: 07/01/2002 - 06/30/2007

On-going Project

This program's objective is to lower the cost of power and heat to predominately rural communities while maintaining system safety and reliability. This is done by funding projects such as fuel efficiency improvements, wind resource development, biomass development, and geothermal energy resource development. A portion of this appropriation will be used to provide the required state match to federal grants also used to fund this program.

Mr. Lawson explained this request is for matching funds to receive federal funding through the US Department of Agriculture (USDA) and the US Department of Energy (USDOE). He noted the following budget

item reflects the requested federal funding grants, pointing out that sometimes the State does not receive the grants.

Co-Chair Green asked whether this request could be interpreted as providing matching funds for any Denali Commission project requests.

Mr. Lawson understood some could be utilized in this manner, although he was uncertain.

Mr. Harper furthered that a small portion of the requested funds are intended as matching funds for the Denali Commission, but that the majority are intended as matching funds for the federal grants.

Co-Chair Wilken noted the State has authorized more than \$66 million over the past three years and asked how that funding was expended.

Mr. Lawson clarified the amount Co-Chair Wilken cited represents programs in addition to the alternate energy projects, and has been utilized to fund a rural power system upgrade, bulk fuel storage, and other projects. He offered to provide a listing of all projects.

Co-Chair Wilken requested detail of how the funds have been utilized.

Federal Energy Projects

\$35,000,000 Federal Receipts

Reference No.: 36338

Category: Health/Human Services

Location: Statewide

Election District: Statewide

Estimated Project Dates: 07/01/2003 - 06/30/2008

On-going Project

AEA [Alaska Energy Authority] anticipates receiving over \$35 million in federal funding from various federal agencies in FY 2004. These awards cover several programs including bulk fuel upgrades, rural power system upgrades and alternative energy projects.

Mr. Lawson reiterated this item is authorization to receive and expend grant funds from federal agencies, including the Denali Commission, the USDA and the USDOE.

Kodiak Launch Site Infrastructure

\$64,000,000 federal receipts

Reference No.: 37910

Category: Development
Location: Kodiak
Election District: Kodiak
Estimated Project Dates: 07/01/2003 - 06/30/2008
One-Time Project
Kodiak launch site infrastructure to support the U.S.
Department of Defense's Missile Defense Program.

Mr. Lawson outlined this item.

Co-Chair Wilken asked whether these activities have been funded in prior years.

Mr. Lawson answered that various improvements have been funded in the past. He explained the backup documentation does not reflect previous funding because the proposed improvements relate to missile defense, while other projects related to infrastructure specific to other activities.

Southeast Conference - Southeast Intertie Planning and Organization
\$160,000 general funds
Reference No.: 37215
Category: General Government
Location: Juneau Areawide
Election District: Juneau Areawide
Estimated Project Dates: 07/01/2003 - 06/30/2008
One-Time Project
Grant to provide funding for the Southeast Conference Organization

Mr. Lawson explained this request would provide grant funding to the nonprofit Southeast Conference for the design and permitting costs of an intertie.

Senator Bunde asked whether this project has local support or if it would be "derailed" due to environmental concerns.

Mr. Lawson understood the Southeast Conference is "very much interested" in securing these funds. He stated he would request further information regarding public support.

Senator Bunde pointed out that the Southeast Conference does not "speak" for all residents of Southeastern Alaska.

Co-Chair Wilken asked why funding for this appropriation would not be generated from utility rates assessed to the beneficiaries of an intertie.

Mr. Lawson was unsure and stated he would research the matter.

Senator Bunde furthered that the universal service charge assessed to all utility customers is intended for projects such as the proposed intertie.

Co-Chair Wilken noted alternative funding for this item would be researched.

Senator Olson referenced the backup material indicates that previous funding for this item was utilized to hire consultants. He asked the percentage of the requested \$160,000 would be utilized for consultant fees.

Mr. Lawson replied he would research the matter.

Co-Chair Wilken surmised a good portion would be utilized for consultant expenses.

Inter-Island Ferry Authority
\$250,000 general funds
Reference No.: 37192
Category: Transportation
Location: Prince of Wales Island
Election District: Cordova/Southeast Island
Estimated Project Dates: 07/01/2000 - 06/30/2008
One-Time Project
Grant for operation of the Inter-Island Ferry Authority (IFA)

Mr. Lawson stated this funding would assist the IFA in its operations. He relayed that another vessel would be on line the upcoming summer, which would improve cash flow and eliminate the need for future State general funding.

Co-Chair Wilken asked if the requested funds would be working capital.

Mr. Lawson affirmed.

Senator Bunde asked if the ferries would be self-sufficient.

Mr. Lawson replied, "That's my understanding, but certainly I'm not an expert on this project."

Senator Olson asked if the IFA has been operating "in the black" to date. He requested the "track record" of the Authority's cash flow.

Mr. Lawson did not have a record, but stated he would research and provide further information. He stated that the IFA was formed in 1997 with vessels funded from federal grants.

Senator Olson asked if the Authority owns the vessels or contracts for their use.

Mr. Lawson understood the Authority owns the vessels.

Co-Chair Green asked the distinction between this request and the Department of Transportation and Public Facilities' planning procedure for a ferry system.

Co-Chair Wilken asked why this request is included in the proposed capital budget.

Mr. Lawson did not know.

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ADJOURNMENT

Co-Chair Gary Wilken adjourned the meeting at 12:02 PM