

MINUTES
SENATE FINANCE COMMITTEE
February 10, 2004
9:04 AM

TAPES

SFC-04 # 7, Side A
SFC 04 # 7, Side B

CALL TO ORDER

Co-Chair Lyda Green convened the meeting at approximately 9:04 AM.

PRESENT

Senator Lyda Green, Co-Chair
Senator Gary Wilken, Co-Chair
Senator Con Bunde, Vice Chair
Senator Fred Dyson
Senator Donny Olson

Also Attending: NICO BUS, Acting Director, Division of Support Services, Department of Natural Resources; KAREN REHFELD, Director, Education Support Services, Department of Education and Early Development; ED FISHER, Deputy Commissioner, Department of Labor and Workforce Development; MIKE BARTON, Commissioner, Department of Transportation and Public Facilities; KEVIN BROOKS, Director, Division of Administrative Services, Department of Fish and Game

Attending via Teleconference: There were no teleconference participants.

SUMMARY INFORMATION

DEPARTMENT FY04 STATUS REPORTS

The Committee heard updated information on activities in FY 04 from the Department of Natural Resources, Department of Education and Early Development, Department of Labor and Workforce Development, Department of Transportation and Public Facilities and Department of Fish and Game.

Co-Chair Green shared that over the interim, she has heard about "really good things that have happened" in each department; some as a result of legislation passed the previous year.

Co-Chair Green stressed that the FY 05 budget would not be discussed at this hearing.

Co-Chair Green reminded that the missions and measures apply and asked the testifiers provide any relevant updates on these.

Department of Natural Resources

NICO BUS, Acting Director, Division of Support Services, Department of Natural Resources, testified to the emphasis on revenue generation and job enhancements. He noted the department is in the midst of identifying which activities accomplish this goal that oil and gas development has subsequently become the primary focus, with other activities organized to synergize these efforts.

Mr. Bus informed of activities at Flint Hills, a lease negotiation in Bristol Bay, and of negotiations with companies to construct a natural gas line, as announced by Governor Murkowski the day before. He pointed out that addressing these initiatives normally require ten to 15 Department staff for each proposed project; however the Department is employing technology to reduce the number of additional staff necessary. He thanked the Legislature for providing adequate funding for staff needs. He also noted the permitting process is being streamlined, and that the incorporation of Habitat Restoration functions into the Department has assisted this endeavor.

Mr. Bus listed the six large mining operations in the State that require significant coordination on the part of the Department. He emphasized that the focus is on results.

Mr. Bus also told of less "obvious" efforts to accomplish the goals of job enhancement and revenue generation, including addressing increased workload for the Recorder's Office with temporary staff increases funded through supplemental appropriations. He explained that due to low interest rates nationwide, refinancing of home and property loans has risen. He noted the workload has increased 50 percent since calendar year 2000, although revenue has increased 100 percent. He assured that as the workload decreases, the nonpermanent staff is dismissed. He stated that the increased revenue is primarily possible through better technology.

Mr. Bus said that the Department's Pipeline Coordinator Office is working with "State and Federal organizations" and the Kenai Kachemak gasline has recently commenced with transportation of gas. He also noted the processing of the "Happy Valley extension amendments", with construction planned to begin in May 2004 with

completion expected in October 2004. He added that the Trans-Alaskan Pipeline System (TAPS) strategic reconfiguration is underway to maintain the same level of service at a significantly lower cost and subsequently generate more revenue to the State.

Mr. Bus remarked that the Department is developing prospectuses with Native corporations and other landowners with regard to timber issues in Interior Alaska. He stated that the Department is promoting more timber sales with the intent to allow for the opening of the Ketchikan Veneer Mill and create more jobs in Southeast Alaska.

Mr. Bus listed the Department's total budget at approximately \$100 million, with only \$30 million general funds, or 30 percent of the total budget. Of the total general funds, he pointed out that \$15 million, or 50 percent, is expended for fire suppression activities. He furthered that the largest single expenditure of the Department is for fire suppression.

Mr. Bus informed that the Department is changing the decision model in determining when fires would be fought. He announced this would be the first year that the Department is not requesting supplemental funding for fire suppression. He stated this is not asking for supplemental for fire suppression. Even though fire in critical area told managers not to fight every fire to full extent of resources... proved to be effective strategy.

Mr. Bus continued that the Department has eliminated some warehouse space used to store fire suppression supplies. He said that currently warehouses in Fairbanks and Palmer store all equipment with the expectation that if another area, such as the Kenai Peninsula were identified as a high-risk area at some point in the fire season, supplies and equipment would be stockpiled in that area for the duration of the risk. He stated this practice lessen the need to store supplies for an entire fire season in every area.

Mr. Bus remarked on efforts to identify those who start fires and hold them financially accountable. He informed that \$500,000 has been recovered, and that although these funds are deposited to the general fund, this is a significant accomplishment. He anticipated these actions would result in others exercising caution in preventing fires to avoid similar charges.

Mr. Bus told of a warehouse located in Eagle River utilized to store all core samples. He stated that although the Division of Geological and Geophysical Surveys is only the custodian of this material, the State was bearing the storage costs. He informed that regulatory fees assessed by the Alaska Oil and Gas Conservation

Commission (AOGCC) on industry would be utilized to pay these expenses.

Mr. Bus relayed that the Department is also working with the private sector to reduce expenses. He exemplified that certain information is now provided via the Internet rather than through printed material.

Mr. Bus also informed that the Division of Oil and Gas and the Division of Geological and Geophysical Surveys are combining efforts on energy-related projects.

Mr. Bus spoke of the 121 park units within the State and the decision to outsource operation of these units. He reminded that the Department was faced with the closure of 11 units in 2002 because of inadequate funding, although nine were opened through the use of private contracting and additional funding was identified to operate the two remaining units. He stated that the Department received feedback from the contractors on continuing the process of outsourcing and he relayed intent to identify additional units in FY 05 to outsource.

Mr. Bus noted the Division of Agriculture utilizes no general funds; however, he informed the Committee of the Department's goal to maximize returns to the Agriculture Revolving Loan Fund. He also reminded that the Division assumed operation of the meat processing plant, and he relayed that immediate management actions were taken to reduce the number of inmates working at the facility and thus reducing the number of guards needed. He stated the intent is to transfer the facility to private ownership or a cooperative organization by 2006.

Mr. Bus summarized the "underpinning" of all efficiency measures. He stated that investments in automation of resource management activities would save money. He also noted the Department is partnering with the federal Bureau of Land Management, as both agencies utilize the same system to manage land. In addition to eliminating duplication of efforts, he said this partnering allows the Department to receive federal grants to fund 40 percent of operations compared to the previous need for 100 percent general funds. He added that the Department is also able to utilize "soft funds" from Native corporations and private landowners.

Mr. Bus also noted that no additional administrative staff was added, despite the assumption of the Habitat and Restoration duties from the Department of Fish and Game.

Co-Chair Green suggested that the budget subcommittees address

questions and further information on these presentations.

Department of Education and Early Development

KAREN REHFELD, Director, Education Support Services, Department of Education and Early Development, testified that the Department has a budget of \$952 million, not including funding for school debt reimbursement. She stated that 95 percent of the budget is appropriated to school districts in the form of grants. She listed 319 full time positions within the Department, and of those, 104 employed by Alaska Commission on Postsecondary Education, i.e. the student loan program.

Ms. Rehfeld cited the Department's main mission is to improve student achievement. She noted that to achieve this goal, the Alaska Vocational Technical Center (AVTEC) was transferred from the Department to the Department of Labor and Workforce Development, and childcare programs were transferred to the Department of Health and Social Services. She stated these changes have allowed the Department of Education and Early Development to focus on its mission and administer programs without affecting school districts.

Ms. Rehfeld informed that the Department has consolidated activities with other agencies to improve services for a lower cost. She furthered that some systems have been converted to web-based systems to become easier available to the public and to school districts.

Ms. Rehfeld relayed that the new commissioner started in June 2003 and impressed upon Department employees a "vision" that communication is the "key element". She told of positive feedback from school districts regarding the quality of service provided by the Department. She noted that many Department staff were focused on internal processes to ensure a high level of service.

Ms. Rehfeld said the State Board of Education has focused on four areas: closing the achievement gap; refining state assessment and accountability system; professional development, standards-based instruction; and effective use of instructional time.

Ms. Rehfeld overviewed major program areas, including the integration of the Learning Opportunity Grants funding into the "student base", implementing the provisions of SB 202 Public Schools Funding Program, passed by the Legislature the previous session, implementing the pupil transportation grant program, as well as the federal No Child Left Behind program. . She noted the base student allocation is currently \$4,169 per student. She told of efforts with us Department of Education and Early Development

federal regulators and areas still needing addressing, such as possible changes to the accountability workbook waivers and the testing requirements for the heritage language programs, in addition to the requirements for "highly qualified" teachers. She stated the Department is addressing smaller schools in which teachers are instructing multiple subjects.

Ms. Rehfeld reminded that the high school graduation "exit exam" would be in effect this spring. She stated that the Department has implemented regulations for a waiver and appeal process.

Ms. Rehfeld told of a contractor employed to evaluate and upgrade the assessment examinations. She stated the Department is also attempting to ensure more instructional time with students.

Ms. Rehfeld described the transition of the State-operated Alyeska Central School to the Yukon-Kuskokwim School District. She stated that the Y-K District would submit a charter school application to the Board of Education outlining how the correspondence program would be operated.

Ms. Rehfeld summarized that the Department has made significant progress in meeting its goals.

Senator Bunde read that the National Education Association-Alaska has passed a resolution suggesting the State "ignore" the No Child Left Behind program. He noted this would result in a loss of federal funding, and asked if the Department had information on the financial impact of such an action.

Ms. Rehfeld told of discussions as to amount of federal funds that would be relinquished if the State did not participate in the federal program. She relayed that the exact amount of federal funding that would be jeopardized is unknown.

Department of Labor and Workforce Development

ED FISHER, Deputy Commissioner, Department of Labor and Workforce Development, testified that the Department is a "mixture of products and services and divisions that primarily are focused on helping people and employers find each other", including the Division of Business Partnership, the Division of Employment Security, and the Division of Vocational Rehabilitation. He also noted the Division of Workers' Compensation provides benefits for injured workers, thus ensuring replacement compensation for salaries when these workers are unable to work.

Mr. Fisher stated that the Division of Labor Standards and Safety

acts as a law enforcement entity occupational safety and health laws, wage and hour laws, and building and public safety laws. He noted this Division performs mechanical inspections and issues Certificates of Fitness to electricians, plumbers, boiler operators, and also enforces the federal Occupational Safety and Health Act as directed by the Legislature.

Mr. Fisher relayed that the Division of Administrative Services oversees the data processing and information technology functions, as well as standard administrative functions.

Mr. Fisher informed that the Commissioner's Office operates the Alaska Labor Relations Agency. He explained the primary function of this agency is labor certification and to settle disputes between employers and bargaining units, both within State government and private employers. He noted the Agency follows the same guidelines as the federal Labor Relations Board.

Mr. Fisher emphasized the Department is attempting to make the delivery of services more efficient, particularly in the area of workforce development. He stated that the Division of Business Partnerships was separated from the former Division of Employment Security with the intent of providing an "employer friendly" environment for grant funds through the Workforce Investment Act, the Denali Training Fund and other programs. He explained this new Division allows for a single process for all grant programs relating to training Alaskans for jobs, regardless of the funding source. He stated that a "process of due diligence" has also been implemented with the intent to ensure the grantees financial ability and wherewithal to carry out the stipulations of the grants which it receives. He noted this has been attempted previously.

Mr. Fisher told of the reduction of "several layers of management," including the combination of workforce investment boards, into a single statewide planning area as directed by the Workforce Investment Act. He stated this merger has resulted in \$450,000 to \$500,000 administrative cost savings, which is now available for training programs and grants.

Mr. Fisher furthered that the Department has eliminated a number of positions and reduced the number and cost of State vehicles, and reduced travel to "only that travel which is necessary to carry out the functions of the Department-the programs of the Department." He stated that more meetings are conducted by teleconference and videoconference technology and that most travel is directed to areas without the technology for teleconferencing.

Mr. Fisher reminded of Governor Murkowski's State of the State

address of 2003, in which the Governor listed his priorities to create jobs by developing the economy, and ensuring healthy families and safe communities. Mr. Fisher translated this into the Department's mission to strive for full employment of the Alaska workforce to meet the Governor's goals. He also noted the importance of eliminating accidents fatalities in the workplace.

Co-Chair Green noted the reductions outlined by the Deputy Commissioner and asked if the level of services has remained unchanged.

Mr. Fisher assured that customers would not experience any material change in services from actions taken as a result of the FY 04 budget. However, he pointed out that the FY 05 budget would result in service reductions.

Senator Olson noted the decreasing number of employees in the Department and asked the number of eliminated positions as well as the number of vehicles utilized by the Department.

Mr. Fisher qualified that the "numbers are misleading" due to the Department's acquisition of the Alaska Vocational and Technical Center and the 35 employees of the Center. He anticipated the elimination of 27 positions in FY 05.

Senator Olson requested further clarification.

Co-Chair Green directed further discussion on this matter be held in the budget subcommittee.

Senator Bunde inquired about the "challenges" to the workers' compensation program and the "unemployment issue".

Mr. Fisher relayed that the Division of Insurance in the Department of Revenue, has declared a crisis for the Workers' Compensation program as a result of the insolvency of an insurance carrier, Freemont Indemnity. This insolvency, he said has affected the guarantee association, "the safety net for workers comp insurance", which is subsequently experiencing a "serious cash flow situation". He noted legislation has been introduced to provide funding for the program, as well as restructure the program.

Mr. Fisher continued that unemployment insurance premiums would increase because of a calculation made to determine the solvency of the trust fund, after two or three years of high unemployment in which the trust fund was "slightly depleted". However, he noted that the trust allows for recuperation of these funds with the current increase in employment.

Senator Bunde commented that these two matters would have the greatest impact on Alaskans, given that most Alaskans are employed.

Department of Transportation and Public Facilities

MIKE BARTON, Commissioner, Department of Transportation and Public Facilities, testified that Governor Murkowski reorganized the Department into three major "deputy areas": aviation, highways and public facilities and marine operations. Mr. Barton furthered that the Governor also created two advisory boards: the Aviation Advisory Board and the Marine Advisory Board. Mr. Barton noted that these boards are working diligently and are proving beneficial to the Department's efforts.

Mr. Barton told of the consolidation of aviation leasing activities and the realized savings for personnel and other costs, and more importantly, the consistency that has resulted between and within airports.

Mr. Barton stated that the design functions of the Department were decentralized. He admitted that this change, affecting 500 employees, is still being implemented, noting valid reasons for centralization and decentralization. However, he expressed this change "sets the stage" for a new project management scheme from inception to completion. He assured this would result in shortened timelines.

Mr. Barton informed that the Department is implementing "term contracts", which he explained as a system of developing a comprehensive listing of engineering services and pre-qualified firms available to perform these services. He detailed that firms would be chosen from this list to provide services for various projects, thus eliminating the need to issue bidding requests and subsequently saving several months time.

Mr. Barton relayed that studies of the Alaska Marine Highway System (MHS) are underway that may result in a number of changes or outsourcing. He listed areas under review: ticketing and reservations, coordination with the Alaska Railroad, terminal operations, marketing, shore side management, and vessel construction management. He stated that changes to current practices could result in significant savings. He furthered that the Department is reviewing the fare structure to determine price sensitivity in the marketplace.

Mr. Barton listed road projects under development as a result of the Resource Roads Program, created under the direction of the

Governor: Colville River Road, Pleasure Creek Road, Pogo River Road off of Spine Road. Crooked Creek Road to access Doyon, and Pebble Copper Road near Lake Illiamna.

Mr. Barton said the Department is also working to streamline the environmental permit process, acquiescing most of which beyond the State's control due to federal regulations. He stated this has provided incentive to undertake projects without federal funding. He noted however that the federal Corps of Engineers has been assisting in expediting the process, as well as the US Coast Guard, which has been assisting in securing navigation permits.

Mr. Barton relayed that sea trials for the newly constructed M/V Fairweather are underway.

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Mr. Barton continued that this vessel is able to travel at speeds up to 42 knots. He reported that the State should receive ownership in March 2004 and the vessel would be put into service in May.

Mr. Barton also reported that the Lieutenant Governor Lemman christened the M/V Lituya, which would ferry passengers between Saxman and Metlakatla and is able to withstand heavy seas.

Mr. Barton informed that the State recently attained ownership of the Adak Airport through an agreement with the Native corporation. Although some have characterized this acquisition as another "Seward's Folly", he deemed it an investment in Alaska's future.

Co-Chair Wilken asked if State law prohibits expansion of design and build efforts.

Mr. Barton responded that he was reviewing the matter and would report his findings.

Co-Chair Wilken surmised that such efforts are appropriate but recalled earlier attempts to undertake design and build projects presented difficulty.

Mr. Barton agreed that these efforts were not always "greeted" favorably by contractors and design consultants. He admitted that the Department has undertaken seven or eight design build projects over the past several years.

Co-Chair Green shared that she has been serving with the

Commissioner on the Knik Arm Bridge and Toll Authority and she appreciated the professional services and advice provided by the Department.

Mr. Barton next announced that he was uncertain whether the federal highway reauthorization would be completed before the next presidential election in November 2004, suggesting that instead the current resolution could be continued or reauthorized for 18 months rather than the usual six-year reauthorization.

Mr. Barton stated that the Omnibus Appropriation Act passed by Congress also has "some challenges" for the State.

Co-Chair Green spoke to the difficulty for the public in hearing for many years about certain projects that are never constructed. She appreciated the "reality check" the Department provides in relaying timelines of projects, as well as specific federal requirements and subsequent penalties if not complied with.

Department of Fish and Game

KEVIN BROOKS, Director, Division of Administrative Services, Department of Fish and Game, testified that of the total \$132.5 million budget, only 20 percent is general funds. Of the general funds, he stated that 90 percent, or \$24 million of \$27 million, are appropriated to the Division of Commercial Fisheries. He reminded that the Division's budget was reduced \$1 million general funds in the current fiscal year. He informed that this reduction was minimized with additional federal funding and funding from other sources.

Mr. Brooks reported on coordination of efforts of the Division of Commercial Fisheries and the Division of Sport Fish for the management of fisheries. He qualified that the divisions have different missions. He spoke of federal funds received to research Chinook salmon. He stated that the divisions would consolidate technical reporting processes and review biometrics functions. He also noted that the printing of all regulation booklets has been consolidated, utilizing the Internet wherever possible.

Mr. Brooks furthered that the Division of Commercial Fisheries is reviewing all assets used for fisheries management, specifically research vessels and aircraft. He informed that older vessels are being replaced, and the fleet is being streamlined. He stated that the Department owns many smaller boats in various locations across the State. He informed that the Department and the Department of Public Safety are collaborating on the use of these vessels. He noted that in many instances, personnel from both departments are

in the field at the same time for various fisheries openings.

Mr. Brooks reminded of the changes relating to the habit permitting process in which the Division of Habitat Restoration was eliminated and its functions transferred to the Division of Sport Fish and the Department of Natural Resources. He listed the four primary function areas retained by the Department of Fish and Game: special areas permitting; access defense across federal lands; habitat research and restoration, i.e. Kenai riverbank restoration projects, and the research facility located at Kachemak Bay restoration; and mariculture leases.

Mr. Brooks stated that wildlife predator control has begun in Nelchina and McGrath, with the intent of benefiting game populations in these areas.

Mr. Brooks remarked that the Department has been actively involved in statewide administrative initiatives including the human resources consolidation, consolidations of mailroom services in Juneau, and statewide information technology planning. He added that the Department is more closely scrutinizing travel requests and reducing them where possible. In addition, he stated that numerous memberships and subscriptions have been cancelled.

Co-Chair Wilken commented that he had not realized that 90 percent of the general funds appropriated to the Department were allocated to the Division of Commercial Fisheries.

Senator Dyson asked the amount of revenue anticipated from test fishing.

Mr. Brooks responded that \$1.8 million was generated in FY 03 from these activities.

Senator Dyson asked the amount generated from salmon fisheries compared to other species.

Mr. Brooks stated he would provide this information.

Senator Dyson understood the Department anticipated generating a similar amount of revenues from test fisheries in the next year.

Mr. Brooks informed that the Department was granted receipt authority for \$2.8 million of test fisheries revenue, an amount higher than the anticipated actual revenues. He stated that the revenue varies by project and that although small increases have occurred there have been no dramatic increases in revenue.

Senator Dyson asked if all receipts generated from test fisheries are invested in research activities.

Mr. Brooks replied that the revenues are utilized for the management of the test fishery in which the funds were generated and not transferred to other fisheries or other areas of the State.

ADJOURNMENT

Co-Chair Lyda Green adjourned the meeting at 10:09 AM