

MINUTES
SENATE FINANCE COMMITTEE
February 12, 2004
9:05 AM

TAPES

SFC-04 # 9, Side A
SFC 04 # 9, Side B
SFC 04 # 10, Side A

CALL TO ORDER

Co-Chair Lyda Green convened the meeting at approximately 9:05 AM.

PRESENT

Senator Lyda Green, Co-Chair
Senator Con Bunde, Vice Chair
Senator Fred Dyson
Senator Lyman Hoffman

Also Attending: SCOTT NORDSTRAND, Deputy Attorney General, Civil Division, Department of Law; EDGAR BLATCHFORD, Commissioner, Department of Community and Economic Development; JERRY BURNETT, Director, Division of Administrative Services, Department of Corrections; JANET CLARKE, Director, Division of Administrative Services, Department of Health and Social Services; TOM BOUTIN, Deputy Commissioner, Office of the Commissioner, Department of Revenue; SUSAN TAYLOR, Director, Administrative Services Division, Department of Revenue; WILLIAM TANDESKE, Commissioner, Department of Public Safety; GARY POWELL, Director State Fire Marshal, Central Office, Division of Fire Prevention, Department of Public Safety; KURT FREDRIKSSON, Deputy Commissioner, Department of Environmental Conservation; KEVIN JARDELL, Assistant Commissioner, Department of Administration; ERIC SWANSON, Director, Division of Administrative Services, Department of Administration; JOHN CRAMER, Director, Administrative Services Division, Department of Military and Veterans Affairs; CRAIG CHRISTENSEN, BG, Assistant Adjutant General, Army Director, Alaska Army National Guard, Department of Military and Veterans Affairs;

Attending via Teleconference: There were no teleconference participants.

SUMMARY INFORMATION

Department FY 04 Status Reports

The Committee heard updates of implemented changes and improvements to achieve efficiencies and better service from the State agencies. Co-Chair Green emphasized that the proposed FY05 budget would not be discussed at this hearing.

Department of Law

SCOTT NORDSTRAND, Deputy Attorney General, Civil Division, Department of Law, indicated an audit by the Conference of Western Attorney Generals was conducted [copy on file] and informed that many of the suggestions have already been implanted or are being considered. He was encouraged that outside evaluators came to recommend changes.

Mr. Nordstrand continued that the Department is limiting the purchase of law books. He estimated that the Department has spent approximately \$150,000 to \$200,000 annually on law books despite their availability through West Law, a subscription service. The Department is eliminating the purchase of certain unnecessary books, and is renegotiating the West Law contract to increase services and establish a standard rate.

Mr. Nordstrand stated that the Department intends that lawyers in the Civil Division of the Department share work products with one another so as to increase efficiency. Past attempts to share work products had been unsuccessful. The Department is currently working with West Publishing to implement West Knowledge Management, a system that would allow the Department to electronically store legal briefs, opinion letters and other important documents. These documents would then be accessible to Department employees through West Law. A portion of the funding saved by eliminating the purchase of certain law books is being applied towards this project.

Mr. Nordstrand continued that the administration portion of the Department has reduced lease space. In addition, the Department has reduced dues and subscriptions to organizations and publications.

Mr. Nordstrand stated that the Department is also transferring a portion of juvenile delinquency work from the Civil Division to the Criminal Division at the recommendation of the audit. Currently, the Civil Division has offices in Anchorage, Fairbanks, Juneau and Bethel. The Civil Division handles juvenile delinquency work in these areas, and in some outlying areas. The District Attorney's offices handle juvenile delinquency work in the other areas of the

State. The evaluators and the Department agree that this split of duties is inefficient. In March the juvenile delinquency work that the Civil Division now assumes would be transferred to the Criminal Division. This change should produce a more coherent approach to juvenile delinquency and more consistent outcomes.

Mr. Nordstrand continued that when he joined the Civil Division approximately 23 supervisors oversaw the work of approximately 130 lawyers. There was a supervisor position for each subject matter section in every town where that section operated. At the recommendation of the audit, the Department has decided to consolidate the supervisory structure by creating statewide supervisors. There are now nine statewide supervisors who each oversee a subject matter section.

Mr. Nordstrand informed that the Department has modified and expanded its settlement policy for the Civil Division. The previous settlement policy was largely based on the amount of the claim being considered. The new policy would diverge from that method to more fairly address all of the cases and hearings that the settlement policy is applied to.

Mr. Nordstrand specified that the Department is reevaluating the use of outside counsel. The Department is not opposed to using outside counsel in situations where the expertise of the Department is insufficient. However, in some instances outside counsel is being used simply because it has been used in the past. A closer consideration of the use of outside counsel must be undertaken to determine if the Department is capable of the task. The cost of obtaining outside counsel could be \$200 to \$300 per hour. The Department might be able to hire another attorney to do some or part of the work at a lesser cost.

Senator Hoffman referenced the audit report that Mr. Nordstrand had provided, and asked Mr. Nordstrand to outline the recommendations regarding the Department's interactions with the legislature.

Mr. Nordstrand responded that the auditors suggested the Department should give their legislative liaison greater "empowerment" to directly deal with the legislature. He asserted that the Department has achieved that recommendation. The current liaison, Dave Marquez, is a very active liaison that is in constant communication with the attorney general. Mr. Nordstrand reminded that these recommendations were based on an audit that was conducted in February 2003, only a few months after the current gubernatorial administration was in office. The Department has been communicating with the legislative leadership.

Mr. Nordstrand addressed the recommendation regarding the inadequacy of funding and budget flexibility. The Department's proposed FY 05 budget requests more attorneys based on stated needs, primarily in criminal prosecution and child protection. He explained that approximately two-thirds of the Civil Division budget is garnered from contracts with other departments. In drafting the budget proposal, the Department must fund each position. For example, the employment of a transportation attorney could be dependent on a reimbursable services agreement (RSA) with the Department of Transportation and Public Facilities. However, if the Department decides to have this attorney temporarily work on another case funded by the general fund, the Department of Law could not bill the Department of Transportation and Public Facilities for the attorney's wages. In addition, the hours this attorney spends on the other project must be assigned for billing purposes, and the funding comes from the general fund. Therefore, the Department "looses twice." This process does not allow the attorney general the flexibility to move resources as needed.

Senator Hoffman asked if these were the reasons the Department is attempting to minimize outside counsel.

Mr. Nordstrand replied that the two issues are unrelated because the outside counsel is typically funded through reimbursable services agreements, though outside counsel used for oil and gas issues are funded by the general fund. In the Labor and State Affairs Section of the Department of Law three or four attorney positions are funded from the general fund. These positions field the miscellaneous work that comes into the Civil Division. At times the attorneys are all obligated to RSA work and staff is not available to handle the miscellaneous work.

Senator Dyson appreciated the Department's efforts to strengthen its legislative liaison position. He asked if the Department has a "gag rule", prohibiting employees from talking to legislatures.

Mr. Nordstrand answered that the Department does not have such a rule.

Senator Dyson questioned whether a Department of Law employee must report inquiries they receive from legislators.

Mr. Nordstrand responded that the Department requests that employees who are questioned by legislators report the subject matter and concern to the legislative liaison. This request is not designed as a means of control, but rather as a means for the Department to better support the legislature. The Civil Division has been striving to provide assistance, and not just criticism, to

the legislature. The Division has tried to offer constructive criticism and suggestions to better legislation, or at least to warn legislatures of the "pitfalls" of certain legislation and offer solutions.

Senator Dyson commented that he has benefited from the suggestions of the Department of Law. He asked if the Department would approve of one of its employees discussing issues with a legislator while not at work.

Mr. Nordstrand answered that yes, it would be acceptable because "this is America".

Senator Hoffman questioned whether a Department employee discussing issues with a legislator is required to report the discussion to the legislative liaison.

Mr. Nordstrand answered, no. If an employee is working on a project for the Department they are asked to keep the legislative liaison informed of the concerns of the legislators.

Department of Community and Economic Development

EDGAR BLATCHFORD, Commissioner, Department of Community and Economic Development, explained that he would be presenting the Department's status report for the FY 04 budget. He continued to testify as follows.

The Department's total operating budget for FY 04 is \$114,252,000. Major funding sources: unrestricted general fund revenue, Madame Chair, is \$10.5 million or nine-percent of DCED's FY 04 total funds. The total budget for the Department is 0.5-percent of the statewide unrestricted general funds. Federal funds account for \$25,740,000, or 22-percent of the total operating budget. Receipt supported services include the Community Development Quota program, the Division's of Insurance, Occupational Licensing, and Banking, Securities, and Corporations, [and] the Alaska Seafood Marketing Institute, and RCA funds total \$26.5 million or 23-percent of the total Department budget. In terms of expenditures, Madame Chair, grants issued account for \$38,243,000 or 34-percent of the total Department budget. Funding sources for grants include unrestricted general funds, federal funds, power cost equalization, inter-agency receipts and other funds.

As to the question of reductions, there are 503 full-time positions and four part-time positions. There has been a net-reduction of two full-time positions and two part-time

positions from FY 03. The FY 04 DCED operating budget is a net decrease from the FY 04 management plan of \$40,570,000 with the elimination of the revenue sharing, safe communities, and Alaska Science and Technology Foundation programs. General fund reductions totaled \$30 million. The highlights for FY 04, Madame Chair, [are the following]. New this year with the passage of house bill 162 last session, business license fees were increased from \$25 to \$200 per year. To date, this fiscal year business license revenues have exceeded by \$4.4 million, more than twice the FY 04 amount appropriated by the legislature, occupational licensing [revenues have exceeded] for a total of \$755,000, [and] trade and development [revenues have exceeded] at \$1.4 million. The Alaska Industrial Development and Export Authority (AIDEA) annual dividend for FY 04, Madame Chair, is \$18.1 million. The commercial fisheries revolving loan fund is paying for \$800,000 for the Department of Fish and Games' subsistence division. The food and safety and sanitation program in DEC (Department of Environmental Conservation) to the tune of \$177,000, and the Division of Investments and Community Advocacy received \$3.1 million. In FY 03 we had \$36.6 million in revenues from various fees. Taxes based on DCED programs paid to the Department of Revenue were \$41.5 million.

As for organizational changes, Madame Chair and members of the Committee, budget changes [include] the Alaska State Community Service Commission was transferred into Department of Community and Economic Development beginning this fiscal year. The [Alaska State] Community Service Commission fosters, supports and promotes the ethics of service and volunteer activities and to engage Alaskans of all ages and backgrounds in tangible, results-oriented community projects. Since 1994 the [Alaska State] Community Service Commission has been increasing volunteer activities and community services in Alaska. One of the Commission's primary functions is to oversee grants provided to local non-profit and community based organizations to run national service programs like Americorps and learn and serve America. For an investment of \$65,000 in general funds the federal government paid to the Department \$2.8 million.

Post-budget adjustments. The Office of Economic Development was established in January of this year to facilitate economic development and employment opportunities in Alaska. The primary function of the Office of Economic Development was to implement the governor's access to the future initiative. In addition, the Office of Economic Development offers specialized assistance in tourism, fisheries and minerals

economic activities support services. Types of assistance include local possible sources of financing, business planning, and provision of business and community data. Additionally, the Office of Economic Development manages the State's tourism marketing contract; international trade services are carried out by the governor's office. The community development quota program, or the CDQ program, has had enormous success and rapid growth. The program fosters fisheries related economic development in western Alaska. The administrative demands of the program have become fiscally complex to the extent that the highly specialized financial analytical skills of the professional staff in the Division of Banking, Securities, and Corporations are needed for the effective oversight of the CDQ program. Consequently, the CDQ program has been transferred from the Division of Community Advocacy to the Division of Banking, Securities, and Corporations.

We have a new initiative, Madame Chair and members of the Committee that is the governor's [Alaska] Fisheries Revitalization Strategy. The fisheries development program within the Office of Economic Development serves as staff to the governor's fish cabinet, and administers the seven million dollars in aid to [the] impacted communities program, the \$13 million in Fisheries Economic Development Grant program, the \$13 million for the Alaska Salmon Marketing Grant program, and we look at quality and transportation improvements for the salmon industry. Madame Chair, members of the Committee that concludes my brief overview of the Department's activities of the year.

Senator Bunde asked if the \$13 million Salmon Marketing Grant program was related to the Alaska Seafood Marketing Institute (ASMI).

Mr. Blatchford replied that the \$13 million allocated to the Salmon Marketing Grant program is federal funding.

Senator Bunde asked if the funding is used for most salmon or for activities "on the ground".

Mr. Blatchford answered that the funding would be used to promote the marketing of salmon products in Alaska.

Department of Corrections

JERRY BURNETT, Director, Division of Administrative Services, Department of Corrections, explained that this year the Department

has begun a number of initiatives, and has "a number of good things to report." The new gubernatorial administration focused on staffing the correctional facilities with more correctional officers. As of this week, there are 13 more correctional officers working in the facilities than at this time last year. The Department eliminated some deputy director positions, assistant superintendent positions and middle management positions to fund the additional correctional officer positions.

Mr. Burnett continued that late last year an audit of the Department's rural hiring practices was completed. This audit pointed out that over the last ten years, only one of 35 hires at the Anvil Mountain Correctional Center was a local resident. The other hires were transferred to the area. The last two correctional officers hired to work at the Anvil Mountain Correctional Center are local residents. The Department is concentrating advertising and community outreach in that area to recruit rural residents to work for the Department. These recruitment attempts are a change from past methods used by the Department.

Mr. Burnett stated that the Department has become more efficient in arranging transportation between the correctional facilities. Ground transportation is being used between Anchorage, Mat-Su and Fairbanks, allowing the Department to save considerable transportation funds. The Department is also using Department of Public Safety transportation to transfer inmates.

Mr. Burnett informed that in January 2004 the Department opened the medical segregation unit at the Anchorage Correctional Complex, which allows the Department to hold inmates who had been receiving care at the Alaska Regional Hospital. The opening of this unit should save the Department several hundred thousand dollars each year. Last week three inmates were in the medical segregation unit.

Mr. Burnett detailed that last year the legislature passed legislation that allows certain inmates to be released on special medical parole. The Department estimated that three inmates would be released on special medical parole annually, which would create savings of approximately \$500,000. Only one inmate has been released under the special medical parole. Mr. Burnett emphasized the savings that this legislation has produced by pointing out that this individual's medical bills cost the Department approximately \$200,000 over a two-month period. The Department would identify additional inmates that could be released on the special medical parole.

Mr. Burnett explained that this year the Department has hired additional training officers at the academy in an attempt to "beef

up" the training programs and increase the focus on officer safety and moral. The Department has also invested in field equipment for the correctional officers. The Department has begun a certification project with the National Institute of Ethics and would be the first correctional department in the nation to receive this certification. Numerous police forces are involved with this Institute.

Mr. Burnett continued that last year the legislature passed a bill that allows the Alaska correctional industries to become self-sufficient by paying employee salaries with their product cost revenues. The Department is working on establishing that self-sufficiency by developing new revenue sources. In addition, the Department no longer operates the Mount McKinley meat plant.

Mr. Burnett informed that the Department is opening a "faith pod" in cooperation with local churches and non-profit groups at the Palmer Correctional Center. Three inmates would live in this "transformational living community" for 12 to 18 months where their personal growth will be focused upon. The Palmer Correctional Center's "faith pod" would be privately funded. The faith pod in the Arizona correctional facility has been very successful in managing inmate behavior.

Mr. Burnett explained that the Department recently entered a memorandum of understanding with the Southcentral Foundation, a Native non-profit organization in Anchorage, which received a federal grant. This Foundation provides intake assessment, program recommendations in the correctional facilities and referral into treatment programs upon release. The Foundation would institute the Wellness Warriors program statewide among the Native community. The Foundation would provide at least one, and potentially two professional-level counselors within the facilities at their expense, and would also transition inmates into the appropriate programs upon release. This program is another example of the Department's partnership with community groups and organizations to provide services at no cost to the State.

Mr. Burnett stated that the Department has eliminated one treatment program within the sexual offender program, and has transferred this program to a risk assessment program, which should increase public safety. Under the risk assessment program the risk of inmates is evaluated before and upon release. These assessments enable the probation officers and the community treatment teams to better predict the relapse of an offender.

Senator Bunde commented that an individual who qualified for the special medical parole would probably receive Medicaid healthcare

coverage in which case the savings to the State would be insignificant.

Senator Bunde relayed discussion about "creative transfers" such as senior correctional officers transferring to positions in rural Alaska to increase their income before retirement. These senior officers likely fill many of the positions in rural Alaska that the Department desires local residents to fill. He asked for more information about the Department's attempts to increase local recruitment.

Mr. Burnett responded that the past correctional officer contract required a supervisor to first review the transfer list, and hire an individual requesting to be transferred to that area from within the Department before recruiting outside the Department for that position. The majority of the employees who desire to transfer are employees who were hired before 1986 who are in the Tier I State retirement system. These employees are becoming fewer and fewer. He agreed with Senator Bunde's comment regarding senior correctional officers.

Senator Bunde clarified that such creative transfers occur in many State agencies.

Co-Chair Green added that the Departments could not control these transfers because they are a function of labor contracts.

Mr. Burnett commented that these transfers are also a function of the retirement system.

Senator Dyson stated his interest in the prison industry. He requested a Department briefing in the future. He continued that the Department of Corrections has one of the best records in the nation in terms of inmate on inmate assaults and rape, and staff on inmate assaults as well.

Mr. Burnett confirmed.

Senator Dyson asked how legislators, other State agencies or the public would know if the Department's good record was a façade, and the Department was actually "covering up" incriminating information.

Co-Chair Green requested that this conversation be postponed.

Senator Hoffman referenced the overcrowding of the Yukon-Kuskokwim Correctional Center and asked the level of the overcrowding, and whether the overcrowding has decreased in the past year. He also

asked what improvements had been made on the facility this year.

Mr. Burnett replied that he does not have the information needed to answer that question. He stated that he does not believe that overcrowding has been reduced this year, and that at certain times the facility has been "significantly" over capacity.

Co-Chair Green suggested that Mr. Burnett could present the requested information to the Department of Corrections Senate Finance Subcommittee.

Senator Hoffman restated his question.

Mr. Burnett responded that he did not bring any information regarding recent improvements to that facility.

Department of Health and Social Services

JANET CLARKE, Director, Division of Administrative Services, Department of Health and Social Services, stated that the Department's major accomplishment in FY 04 is the implementation of Executive Order #108, which provided for the first major restructuring of the Department in 20 years. Several new programs have been added, and these programs are serving over 800 individuals. The reorganization divided the Medicaid program into four distinct units to connect the program management to the Medicaid management. This reorganization would provide more accountability in the budget and more comprehensive program management. The Department also merged the Division of Alcoholism and a portion of the Division of Mental Health and Developmental Disabilities. Senior services from the Department of Administration has been merged into a new Division of Senior and Disabilities Services. The childcare program has been transferred from the Department of Education and Early Development to the Division of Public Assistance within the Department of Health and Social Services. The Department established the Office of Children's Services from the Division of Family and Youth Services and added some additional children's services. The management of the Pioneers' Homes has also been transferred to the Department.

Ms. Clarke continued that the Department has begun the implementation of the Medicaid-related statutory changes the legislature passed the previous year, which allow for cost containment of the Medicaid program. The Department has also heavily invested in other areas of Medicaid cost containment and federal financing of the Medicaid program. These investments have included working with many Native health corporations, particularly the Yukon Kuskokwim Health Corporation.

Ms. Clarke highlighted that the Department obtained the necessary federal approval to implement the Office of Children's Services program improvement plan. The federal government has assessed nearly every state's child protection system, including that of the State of Alaska. The Department has submitted a program improvement plan to the federal government in response to this assessment. The Department has worked with the federal Veteran's Administration to initiate efforts to establish a State veteran's home. The Senior Assistance program was developed and implemented to provide cash assistance to all low-income seniors. The Department also cooperated with the lieutenant governor's faith-based and community initiatives task force to provide support for that effort. In addition, the Department has implemented a new system to improve the results and efficiencies of the juvenile justice program and reduce the juvenile detention counts so as to focus more services on the community.

Ms. Clarke informed that the Department has achieved compliance with the federal SYNAR requirements, relating to the illegal sales of tobacco to youth. Over the past eight years, the State's illegal sales to youth had been approximately 30 percent, and this year the percentage was reduced to 10 percent. The Department also "met and exceeded" all federally mandated work participation rates for the temporary assistance program. The Department has invested in efforts to reduce fraud in Medicaid and public assistance.

Ms. Clarke communicated that the Department has completed a review of the grants and contracts functions, and has implemented a consolidation to improve the efficiency and service. The grants and contracts are currently managed independently through each division of the Department.

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Ms. Clarke continued that because each division administers grants, certain grant recipients have been receiving multiple grants. For example, the Bristol Bay Area Health Corporation had received 22 different grants from the Department. In response to this inefficiency, the administration involved with grants would be consolidated, and a new, web-based, automated grant system would be implemented so that grantees can use automation to apply for grants.

Ms. Clarke stated that the Department has completed an information technology plan to improve its use of technology. An extensive

review of the Department's IT resources including staff, hardware, and software has been conducted. The Department is also planning an integration of information technology services to increase efficiency. The information technology process has been very "illuminating". Improvements could be made in this area to increase control and efficiency and reduce costs.

Ms. Clarke informed that the Department is conducting system development for child protection. Within the next year the Department would have a new child protection information system called Orca. The legislature has been very supportive of this system.

Ms. Clarke stated that the Department has signed a new development contract for the Medicaid management and information system. The new system would be implemented over a two-year period. A new, primarily federally funded, integrated behavioral health management information system is also being developed.

Ms. Clarke explained that the Department has worked "extensively" to manage the Department budget without a general fund supplemental budget request. The supplemental budget request does contain a series of "delete/add" and "net zero" supplemental budget requests. This is the first time that the Department has produced a net zero supplemental budget. This supplemental budget request was produced through a high scrutiny of all budget areas, the implementation of belt tightening measures, and federal refinancing. In addition, the Department has been able to increase its level of pro-share refinancing which made certain funds available for reappropriation.

Co-Chair Green stated that in the past the supplemental budget requests have become difficult to accommodate. She asked for more information on the Orca program.

Senator Dyson pointed out that the legislature has attempted to reduce the number of children who have been in State custody beyond the 12 to 18 month period established through federal guidelines. "Special efforts" have been made to eliminate this problem. He asked how many children currently have been in the custody of the State for over 18 months.

Ms. Clarke replied that she does not have that information, but she would provide the information at a later time.

Department of Revenue

TOM BOUTIN, Deputy Commissioner, Office of the Commissioner, Department of Revenue, informed that the Department of Revenue is a

small Department with 825 employees, which receives approximately nine million dollars from the general fund. The Department houses the Natural Gas Development Authority, the Alaska Housing Finance Corporation, the Mental Health Trust Authority, the Permanent Fund Corporation, the Bond Bank, and the Pension Investment Board agencies. The Treasury Division is the smallest Division in the Department with 35 employees, and the largest is the Child Support Enforcement Division with 200 employees.

Mr. Boutin informed that the Department is taking efforts to integrate human resources and information technology with a lead agency in the gas pipeline negotiations. The Department intends to provide the legislature with information on the current gas pipeline negotiations when the time is appropriate.

Mr. Boutin communicated that the Department's Tax Division collects approximately \$1.3 billion in taxes and the Treasury Division invests approximately \$18 billion of State revenue. He highlighted the thousands of hours of assistance the Department's tax auditors have provided legislatures in helping them consider revenue proposals, and presenting those proposals.

Mr. Boutin explained that Susan Taylor would continue the Department's presentation.

SUSAN TAYLOR, Director, Administrative Services Division, Department of Revenue, informed that over time the Permanent Fund Dividend Division has been able to process applications more efficiently without increasing staff. This year the Department is eliminating the Permanent Fund Dividend application receipt letter, and is directing the public to the Internet for further information. The Department is attempting to use technology to provide better customer service without increasing staff. The Division is taking other cost containment measures including a reduction in staff.

Ms. Taylor continued that the Child Support Enforcement Division is reducing costs through technology and is saving approximately \$1.4 million by fully computerizing data processing. In addition, the Department is implementing the use of computer imaging in certain divisions to improve operations. The Child Support Enforcement Division has received capital funding to purchase hardware and software to implement computer imaging. The Tax Division would also be implementing computer imaging.

Ms. Taylor communicated that the Department is considering overall costs, and attempting to limit expenditures while continuing to offer services. Whenever the Department has a position vacancy, the

necessity of the position is considered. The Department is attempting to increase revenue by collecting the maximum amount of taxes possible.

Senator Bunde asked the cost of processing a Permanent Fund Dividend application.

Ms. Taylor replied that the amount appropriated to process applications is \$5.5 million in the current fiscal year.

Senator Bunde asked the source of those funds.

Ms. Taylor answered that the Permanent Fund Dividend fund is the source.

Senator Bunde clarified that earnings of the Permanent Fund are being used to support the application process.

Ms. Taylor affirmed.

Senator Dyson stated that many legislators receive calls regarding the Permanent Fund Dividend applications, and the Child Support Enforcement Division. Complaints called in to his office about the Child Support Enforcement Division have lessened over the past year and six months. He asked if the Department agreed that the Division has improved its level of service.

Ms. Taylor answered that many highly dedicated staff work in the Child Support Enforcement Division, and agreed that the Division has improved.

Senator Dyson questioned whether the Department has any "gag orders" pertaining to Department staff discussing issues with legislators, specifically when they are not at work.

Mr. Boutin replied that he was unaware of any "gag order". The Department of Revenue has regular management meetings, and he has never heard of this issue during those meetings.

Senator Dyson asked if any employee would receive reprimand for talking with legislators.

Mr. Boutin would be "surprised" to learn of a reprimand or probation as a result of such a discussion.

Senator Hoffman explained that he worked with a constituent who wanted to pay all the child support he owed by mortgaging his home. It took the Child Support Enforcement Division several months to

process this payment when the process should only have taken a few days. He asked whether any improvements have been made to increase the efficiency of processing such payments.

Ms. Taylor agreed that such a transaction should be straightforward and efficient. She was unsure if improvements have been made.

Co-Chair Green recommended that the information could be presented to the Department of Revenue Senate Finance Subcommittee.

Senator Hoffman asserted that this issue should be "one of the highest priorities of the Department."

Mr. Boutin continued that of the \$18 billion the Treasury Division manages, \$6 billion of fixed income is managed internally. The following figures are un-audited and refer to the progress made in FY 04 to date. The investment return of this sum has exceeded the indexes by six percent, which represents a significant success. The retirement funds have earned an 11.61 percent rate of return. The internally managed funds of the Treasury Division cost less than six basis points. The State Pension Investment Board uses an external investment manager to manage a small amount of fixed income. This investment manager charges the Board 20 basis points. He explained basis points by giving the example of a fiscal note assignment for a resolution that would bring \$12 billion into the State's treasury for approximately three months. The incremental cost for the Treasury Division to manage this investment would be \$1.8 million at six basis points whereas if managed by an external firm, the cost would have been \$6 million at 20 basis points. The Treasury has sold \$463 million worth of general obligation bonds in two parts in April 2003. Many bidders competed for these general obligation bonds. The level of competition exhibited was exceptionally high considering the size of this issuance of public debt. The State's AA rating was capped despite the rating agencies' concerns about the State's use of one-time fund reserves for ongoing expenditures.

Department of Public Safety

WILLIAM TANDESKE, Commissioner, Department of Public Safety, referenced handouts he had presented the Committee [copy on file.] He stated that the foundation of the Department and its organization had been reviewed, and as a result of this review the Department was able to centralize fiscal functions into the Division of Administrative Services. This centralization of functions should increase quality control and improve operational consistency.

Mr. Tandeske continued that as part of the reorganization process the Department created the Division of Statewide Services. The Department's primary law enforcement also merged this year.

Mr. Tandeske emphasized that the realignment of functions within the Alaska State Troopers has been an important issue within the Department. The Department has formed three statewide bureaus under single commands. Prior to this realignment investigations had been decentralized.

Mr. Tandeske pointed out the Department's commitment to highway safety. The Department has created a driving under the influence enforcement team using federal funds. This team is housed in Palmer because of the high traffic in that community, but would be active at special events statewide, specifically events that would create a temporary and dramatic increase in traffic.

Mr. Tandeske noted that the Department is working to develop rural public safety strategies.

Mr. Tandeske stated that the Department has provided "tangible support at the service level." The Department has requested ten more courts services officer positions over the past few years. In the reorganization of the Department, certain positions have been reclassified to court service officers. The goal of the Department is to reclassify two or three more positions to courts services officers by June 30, 2004. This reclassification of positions is an "excellent investment" of Department resources.

Mr. Tandeske communicated that a director position was eliminated to address under-funding. In addition, two management positions in the Division of Alaska State Troopers were reclassified to lower level positions. These positions were ground level State Trooper positions, which focused on the seizure of drugs and alcohol. This year the number of drug and alcohol seizures in rural Alaska have increased 27 percent compared to the number of seizures in 2003 without additional costs.

Mr. Tandeske explained how the Department is focusing on moving resources to the "ground level". As part of the statewide reorganization pertaining to investigations, four investigators were transferred out of Anchorage to three different communities.

Mr. Tandeske discussed developments within the Division of Fire Prevention. This is the second consecutive year that the State has realized a record low in fire-related deaths. He referenced a graph in the aforementioned packet outlining this information.

Senator Hoffman asked if the graph included fatalities related to carbon monoxide poisoning.

Mr. Tandeske deferred to the State Fire Marshal.

GARY POWELL, Director State Fire Marshal, Central Office, Division of Fire Prevention, Department of Public Safety, responded that the graph does not include fatalities related to carbon monoxide poisoning because a fire is not involved in those deaths. He qualified that a fire may produce carbon monoxide, and carbon monoxide poisoning may prove to be the cause of death of an individual in a fire; however, these deaths are still considered fire fatalities.

Mr. Tandeske continued by emphasizing the importance of the Project Code Red, which provides rural communities "capabilities and assets" related to fires and fire prevention.

Mr. Tandeske mentioned Department activities involving investigations, patrol, and drug and alcohol issues.

Mr. Tandeske discussed a case in Nome where a police officer was charged with homicide. He also mentioned that the 1985 Opal Fairchild homicide cold case was solved, which also assisted another jurisdiction in solving a case.

Mr. Tandeske emphasized the breadth of the issues the Department handles. For example, last month a tactical team was flown into Savoonga to bring a man into custody that had warrants out for his arrest. He explained that the Department's tactical teams and other resources are based in Palmer, Fairbanks, and Anchorage. The Department must be flexible and adaptable to move resources as needed.

Co-Chair Green stated that the Department spends a lot of time coordinating activities with public safety entities from local areas and the federal government. She suggested that coordinating so many entities is challenging.

Mr. Tandeske responded that he interacts with the head of the Federal Bureau of Investigation (FBI) in Alaska, the U.S. Attorney General, and the director of the State Troopers. There are many entities to be coordinated. Many organizations have very focused missions in addition to daily duties.

Mr. Tandeske informed that the Department has redoubled efforts to complete missions and solve cases with the assistance of other agencies, specifically federal agencies. For example, the

Department has worked with the federal Alcohol Tobacco and Firearms (ATF) agency to obtain funding for certain drug and firearm cases.

Mr. Tandeske referred to the usefulness of advances in DNA testing, and communicated that out of 18 "hits", eight linked a convicted offender to a crime scene, and ten linked one case to another. As federal funding allows states to process backlogged DNA samples more cases should be solved.

Senator Bunde asked about the professor at the University of Fairbanks who was caught for bootlegging and dealing drugs. Specifically, he asked what courses the professor had taught at the University.

Mr. Tandeske answered the professor taught economics.

Senator Hoffman congratulated the Department on its work in alcohol and drug busts in western Alaska. Senator Hoffman commented on the reinstatement of the reward program, which was implemented due to legislation he sponsored. He asked how the Department would evaluate the work of the Village Public Safety Officer's (VPSO) during the past year.

Mr. Tandeske asked whether Senator Hoffman wanted an evaluation on the individual officers or the program.

Senator Hoffman explained that previous commissioner's have relayed that this program has received nationwide recognition as a well-conceived and functional means of delivering public safety in rural areas.

Mr. Tandeske responded that the VPSO's are doing a good job given their limitations. The program does have certain issues because the goal of the Department is to provide services to all of the State's communities, and the VPSO program only assists a limited number of the State's communities. He stated his support for the VPSO's.

Department of Environmental Conservation

KURT FREDRIKSSON, Deputy Commissioner, Department of Environmental Conservation, explained that Governor Frank Murkowski signed Administrative Order 202. This order directed all state agencies to consider their statutory mandates and the efficiencies and effectiveness of their programs. The Department of Environmental Conservation has engaged in this process of review, which was used to build the Department's proposed FY 04 budget. The FY 04 budget included a \$773,000 reduction in general funds, and eliminated 13 positions.

Mr. Fredriksson continued that in response to the aforementioned review, the Department eliminated the Statewide Public Service Division, and consolidated certain functions within that Division to the Division of Information and Administrative Services, specifically services relating to information. The Public Service Division had provided compliance assistance to individuals and communities. An information program has been developed using the Internet to provide the Department's program information, training, and other services.

Mr. Fredriksson communicated that the Department's Food Safety and Sanitation program had been overextended. The program came to encompass personal injury and safety issues in schools instead of strictly food safety and sanitation issues. The Department has reduced personnel in this program as well as the unrelated activities.

Mr. Fredriksson relayed that the Department closed its chemistry lab in Juneau. The laboratory personnel had been providing educational services in conjunction with the local high school and college, and were not completing their lab service work. The private sector is now able to provide the lab service work this laboratory formerly provided. This closure did not create a loss in the service of the Department.

Mr. Fredriksson continued that the Department has been strengthening core programs. In the review conducted in response to Administrative Order 202 the Department determined that some programs could use improvements and could become more effective and efficient. The air permit program is being strengthened due to the passage of enabling legislation. Last week the regulations for the air permit program were submitted for public review. Approximately one year ago there was a backlog of 128 air operating permits; by November 2003 this backlog was eliminated. The Department has also reduced the time frame needed to issue an air construction permit.

Mr. Fredriksson informed that legislation was also passed which provided for oil spill contingency plans. Under previous law, the plans expired three years after being approved by the Department, and the recent legislation extends the expiration to five years after approval. The most effective preparedness is accomplished through inspection, and spill drill exercises with the industry and the affected public. The five-year life of the contingency plans would allow for these preparedness measures. The Department has realized an increase of 45 percent in the number of drills conducted during the past year. In addition, 60 percent more facility inspections have been conducted this year compared to last

year.

Mr. Fredriksson explained that Food Safety and Sanitation program has concerned the Department because it is dependant on State inspections regarding the community outreach of program staff, and these inspections are never funded. The Department has submitted legislation, which would establish an active managerial control program. Food safety is best achieved when the operator and the food handler are responsible for food safety. The active managerial control program would require a certification to ensure that employees of restaurants and food retail outlets are knowledgeable about necessary food sanitary practices. The Department also operates an online training program for food handlers to ensure workers have a basic understanding of sanitation practices.

Mr. Fredriksson emphasized that the Department has been strengthening its water programs. The Department recently consolidated water program activities previously divided between three divisions: the Division of Facility Construction and Operation, the Domestic Wastewater Program, and the Air and Water Division into the new Division of Water. He explained that the number of divisions within the Department has remained the same, but certain divisions have been refocused on water.

Mr. Fredriksson reported that the Department's emphasis on water programs is a component of the Raindrops to Oceans Initiative. The Department's water programs have been fragmented, and this reorganization would allow the Department to reconsider the importance of water.

[Note: The following portion of the meeting was not recorded due to audio malfunction.]

Mr. Fredriksson stated that the solid waste program has been reviewed and that a fair amount of accomplishments have occurred in larger landfills. Accomplishments have been more difficult to achieve with "class 3", or rural, "dumps". He told of efforts to assist communities in bringing these facilities into compliance, including an Internet risk calculator to lower the risk, as well as preparing best management practices communities could use. The permit requirements are being addressed to eliminate the burden of the permit process.

Mr. Fredriksson reminded that one of five elements of the Governor's fiscal plan relates to payment of fees for services provided by the State. Currently no fees are assessed for pesticide registration, drinking water testing, shellfish safety, or approval of oil spill prevention plans for non-crude operators. The

Department would work with the legislature to draft legislation to address this.

Senator Hoffman read articles where many states have instituted programs that require restaurants to publish the ratings given for food safety standards. Those restaurants then rated in the high 90 percentiles because people would not frequent restaurants that score lower.

Mr. Fredriksson responded that the Department has considered this approach. Currently, the Department conducts inspections and makes the scores available to the public.

Senator Hoffman asked about a requirement that inspection information be posted in the restaurant.

Mr. Fredriksson replied that no such requirement is in place in Alaska.

Senator Hoffman asked if the Department has considered this option, and if rejected, why.

Mr. Fredriksson reiterated the Department has investigated this. He agreed with the importance of supplying inspection information to the public. The public is what the inspections are intended to protect. He stated the matter of posted information would be considered further. Agree that getting info to publish is good.

Department of Administration

KEVIN JARDELL, Assistant Commissioner, Department of Administration, highlighted the Department's efforts in community services, information technology (IT) planning, and management of the Office of Public Advocacy (OPA). Last September, the Department hired Eric Swanson as director of the Division of Administrative Services.

ERIC SWANSON, Director, Division of Administrative Services, Department of Administration, told of the integration of all State agency's human resources functions. The Department of Administration could provide services more efficiency and in a standardized method. This consolidation is a "tremendous undertaking", but the Department is committed to it's success.

Mr. Swanson informed that the Department and IT managers are working with a consulting team to address State investment in IT to bring efficiencies through integration and to manage from an innovation level. These efforts include establishing IT standards,

procurement procedures, consolidating services and application software.

Mr. Swanson overviewed activities of the Division of General Services, which include State leases, procurement, and mail services. The Department is continuing to negotiate reductions in lease agreements, revising space standards and increasing enforcement of those standards. Price agreements with vendors are under review, and procurement is being coordinated with the IT plan to improve efficiencies.

Mr. Swanson reported that mail services in Juneau have been consolidated, which involved the transfer of some positions.

Mr. Swanson commented that other divisions provide direct services.

Mr. Swanson stated that the Division of Motor Vehicles business is "booming this year" with the number of overall transactions up five percent. The State has an increased number of business partners to address. Auto dealerships provide registration and transfer of ownership when customers buy and sell vehicles; dealerships provide services at no cost to the State as a benefit to their customers and their business. The Division would begin issuing digital drivers licenses, which are more difficult to forge and would be standardized with most other states.

Mr. Swanson told of the newly appointed director of the Office of Public Advocacy, Josh Fink and efforts to make business operations of the OPA more efficient. The offices in Palmer, Anchorage, Fairbanks and Juneau have been established as separate offices to avoid a number of conflicts and to reduce the amount of outside council hires necessary.

Senator Dyson expressed concern that indigent people not disadvantaged when in court. He asked how the legal counsel could be evaluated to ensure the OPA is serving citizens.

Mr. Jardell replied that the system self-regulates though court action and judges' behavior. He told of the instances of clients that file an "ineffective assistance motion" and detailed the process whereby another attorney represents the attorney in question and the matter is determined by a judge. An increase in the number of these actions would increase if the OPA were not providing adequate services.

Senator Dyson asked if the same self-regulating system applies to the parents involved in cases of a child in protective custody.

Mr. Jardell answered it is the same system.

Senator Dyson asked whether people know this option is available.

Mr. Jardell answered yes.

Senator Dyson clarified that the judge would make it known to a client that the client has inadequate representation.

Mr. Jardell replied this would occur.

Mr. Jardell then stated that the human resource integration has eliminated numerous positions resulting in general fund savings. More important is the consistency of hiring practices that would occur and the ability to determine best practices.

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[Note: Audio-recording resumes.]

Mr. Jardell commented that the Department could make cutbacks to reduce costs and increase efficiency.

Senator Dyson stated that in the past the State has had "clumsy" procurement regulations. He suspected that these regulations have been both overly permissive and overly inhibitive. He gave the example of the State's delay in approving airline ticket expenditures. These delays caused the State to lose savings because the tickets were not reserved in advance. He asked if the current gubernatorial administration would conduct reviews of the purchasing and contracting methods of the State agencies similar to the reviews the Department of Environmental Conservation has conducted on information technology and personnel processes. He asked when these reviews would occur.

Mr. Jardell explained that these reviews are being conducted, and would continue. The Department is aggressively attempting to utilize its market share from the State to achieve the maximum amount of savings.

Senator Dyson appreciated the Department's efforts, but warned that if the Department were too centralized it would limit the abilities of field staff and field operations.

Senator Hoffman asked the timeframe for the implementation of digital licensing.

Mr. Swanson understood that digital driver's licenses would be produced beginning in March.

Mr. Jardell added that some of the delay in implementation is due to "cumbersome procurement."

Senator Hoffman asked if license holders would be able to receive digital licenses at their convenience, or if they must wait until their license needs to be renewed.

Mr. Swanson replied that the current driver's licenses would be traded for digital licenses, as they are due for renewal. Everyone would not need to immediately have their driver's licenses converted to digital licenses.

Senator Hoffman asked if an individual who would be traveling could receive a digital license before their current license is due for renewal.

Mr. Swanson answered that they should be able to obtain a digital license.

Department of Military and Veterans Affairs

JOHN CRAMER, Director, Administrative Services Division, Department of Military and Veterans Affairs testified as follows.

During fiscal year 2004 the Department has initiated several major operational transformations. We have enhanced federal funding opportunities and consolidated various administrative functions in addition to our normal operations. Some of our accomplishments during the current fiscal year are the creation of the Homeland Security and Emergency Management Division. We did that by combining the Homeland Security Office and the Division of Emergency Services. The reason we did that was to create some benefits, of course, and those are the elimination of duplicative program management activity. We had two sets of those going on. [Another benefit is] creating an effective and aggressive natural disaster and security threat response agency. And I think the general will talk a little bit about some of the activity that took place over the holiday.

Working with the U.S. Attorney's Office we were able to consolidate the U.S. attorney's anti-terrorism task force and the governor's homeland security task force creating one entity known as the Anti-Terrorism Advisory Council of Alaska.

So instead of having two sets of meetings that you have to go to, and all these people, we have one. It seemed to make good sense and it has worked so far.

We are in receipt this year now of over \$41 million in federal grant funds that we took into the office primarily to be made available and distribution to local governments in support of homeland security efforts, and we'll be distributing those out. People and government entities will be applying for those and distribute those out. And with that we implemented the First Responder Homeland Security Local Government Assistance Program, the Citizen Core Program, and the Law Enforcement Terrorism Prevention Program to help distribute those funds and get them out to the right places.

In the Department, Administrative Services [Division] consolidations have also been initiated for effectiveness. They are the consolidation of the budget and finance accounting activities in the Department. Two phases of this multiple phase integration plan have occurred. Full integration is expected for fiscal year 2005. We had in the Department, when we came in there, each division was doing some piece or trying to accomplish some budget and finance type accounting out in there divisions and it created some real problems, and we are starting to consolidate that and seeing some efficiencies created because of that.

We are proceeding with the realignment of procurement activities from the Army National Guard Facilities Maintenance Office into the existing procurement office within the Division of Administrative Services and we are moving forward with the consolidation of the Department's information technology components into a centralized unit. That was also an activity that was spread throughout the Department and every division had one, two, three people trying to carry out those activities and bringing them in. We know that we will see some results from that. These consolidations will or have resulted in the streamlining of information technology, work and elimination of duplicative functions. Benefits have been the consistency and standardization as well as improved effectiveness and efficiencies of direct program services. Some of the benefits include the closeout of 13 disasters returning over two million dollars for redistribution to current disaster recovery projects, resolution of prior year procurement audit findings, reduction in personnel costs, and enhancement of federal funding opportunities. Additional fiscal management savings due to improved effectiveness are expected throughout the remainder of this year.

We had a tremendous level of activity going on this year. I think we have been around to most of the offices, some of the things that we did were the commissioner was able to put together an annual report for each of you that hits the highlights of the Department as well as the Department's strategic plan that I think all of you have had an opportunity to take a look at.

Mr. Cramer deferred to Mr. Christensen.

CRAIG CHRISTENSEN, BG, Assistant Adjutant General, Army Director, Alaska Army National Guard, Department of Military and Veterans Affairs, informed that this year the Alaska Army National Guard experienced a higher operations tempo and number of mobilizations than has occurred since World War II. There are currently 33 Army National Guard soldiers at Kulis Air National Guard Base on a two-year federal act of duty call-up. This call-up should terminate in November 2004. All of the individuals on the call-up volunteered for duty.

Mr. Christensen explained that the 1st BN 207th Aviation Alaska Army National Guard helicopter organization received a federal call-up. Currently there are 67 soldiers from around the State who have been deployed to Kosovo for one year of peacekeeping operations. That unit will provide helicopter support and lift in a supply and logistics role for the other forces stationed there. Those soldiers left family at home. The Alaska Army National Guard is keeping in contact with the family members and the service members overseas.

Mr. Christensen communicated that a fixed wing aircraft crew based in Anchorage has been deployed to Kuwait for one year. Several individuals have personally volunteered. A soldier in Anchorage would be going to Germany to provide logistics support. Other individuals have volunteered within the State.

Mr. Christensen commented that the Scout Battalions should not be called out in the near future. The deployment of smaller, company-sized entities is being discussed. The Alaska Army National Guard is expecting five aircraft and five airplane crews to be mobilized in the fall of 2004 for a six-month rotation in Afghanistan.

Mr. Christensen highlighted the activation and operation of the nation's only ground-based, intercontinental ballistic missile defense system at Fort Greeley. Alaska Army National Guard soldiers operate this defense system 24 hours per day every day of the year. The activation ceremony for this system was on September 22, 2003.

The defense system should be fully operational by October 1, 2004. There are 49 individuals providing security on the missile site, and 15 launch operators undergoing certification who would be arriving in Fort Greeley this summer.

Mr. Christensen stated that the Alaska Army National Guard is seeking relevant missions outside of its traditional missions within the State. The Army National Guard is pursuing missions to Korea involving non-combatant evacuation in times of conflict. In addition the Army National Guard is pursuing missions within the State with Alaska Command and Joint Task Force Alaska to provide homeland security and homeland defense missions. Both of these missions should be underway later this year.

Mr. Christensen informed that the Alaska Army National Guard has partnered with the University of Alaska Southeast. The two entities will be sharing a facility which would house the University's recreational and fitness facilities and the Alaska Army National Guard's armory. The facility should be complete in the spring of 2005.

Mr. Christensen detailed that another facility initiative is underway in Bethel. The city of Bethel granted the Alaska Army National Guard the use of certain land and properties. The Army National Guard is hoping to complete plans and begin construction of a new armory within one year. The property being developed is large enough to allow for a swimming pool facility, which the city of Bethel has been pursuing for several years. Savings should be realized if the swimming pool and armory are constructed on the same property. A memorial to the Alaska Territorial Guard would be housed in the new armory facility.

Mr. Christensen explained that two weeks ago the Alaska Army National Guard was notified that Nome would be granting the National Guard over ten acres adjacent to the city for a minimum lease over the next 55 years. The Army National Guard would eventually replace the existing armory in Nome with a new facility.

Mr. Christensen highlighted that the Army National Guard would adapt the building plans for the Juneau armory to the Bethel armory in order to save costs.

Mr. Christensen detailed that Alaska Army National Guard has undergone a cost reduction initiative to implement approximately a \$200,000 general fund reduction within the National Guard's facilities maintenance operation. This reduction represents the use of federal funds, the implementation of energy efficiencies and reduced personnel costs.

Mr. Christensen informed that the Alaska Army National Guard has established an Army Reserve Officers' Training Corps (ROTC) in Nome. Bethel has had a successful, ongoing ROTC program. The Nome Army ROTC program should have increased membership next year. Next summer the Alaska Army National Guard should have an Army ROTC program in place in Kotzebue. An Army ROTC program in Barrow is also being considered.

Mr. Christensen communicated that other Alaska Army National Guard initiatives include the Army National Guard and Air National Guard headquarters being combined into a joint forces headquarters to reduce redundancy and improve communications.

Mr. Christensen continued that over the recent holiday period several locations in the State were threatened. Over 150 soldiers and Alaska State Defense Force members were activated in response.

Mr. Christensen explained that the Alaska Air National Guard has been busy. Over 200 airmen have been deployed to Afghanistan and Uzbekistan. Senior leadership has been deployed to Pakistan, Bahrain and Qatar. The Air National Guard would assume the responsibility of space surveillance relating to the intercontinental ballistic missile defense system at Fort Greeley. The Air National Guard is in the third year of transitioning the responsibility of operating the air operations center at Elmendorf Air Force Base from the U.S. Air Force to the Alaska Air National Guard, which will increase the number of Alaska Air National Guard positions.

Mr. Christensen communicated that the Rescue Coordination Center directed 236 air rescue missions resulting in 72 saves. This was one of the busiest years since he joined the service in 1972.

ADJOURNMENT

Co-Chair Lyda Green adjourned the meeting at 11:22 AM