

**MINUTES**  
**SENATE FINANCE COMMITTEE**  
**February 20, 2004**  
**9:03 AM**

**TAPES**

SFC-04 # 16, Side A  
SFC 04 # 17, Side A

**CALL TO ORDER**

Co-Chair Gary Wilken convened the meeting at approximately 9:03 AM.

**PRESENT**

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

**Also Attending:** DOUG LETCH, Staff to Senator Gary Stevens; ERIC SWANSON, Director, Division of Administrative Services, Department of Administration; KEVIN BROOKS, Director, Division of Administrative Services, Department of Fish and Game; LAURA GLAISER, Director, Division of Elections, Office of the Lieutenant Governor; DAN SPENCER, Director, Division of Administrative Services, Department of Public Safety; DENISE HENDERSON, Executive Director, Council on Domestic Violence and Sexual Assault, Department of Public Safety; NICO BUS, Administrative Services Manager, Division of Support Services, Department of Natural Resources; RANDY BATES, Deputy Director, Office of Project Management and Permitting, Office of the Commissioner, Department of Natural Resources;

**Attending via Teleconference:** From Kodiak: STEVEN THOMSEN, Alaskan Wilderness Wine; From Anchorage: JOHANNA BALES, Revenue Auditor, Department of Revenue; JOSH FINK, Office of Public Advocacy, Department of Administration; From an offnet location: BARBARA BRINK, Director, Public Defender Agency, Department of Administration; DICK MYLIUS, Deputy Director, Division of Mining, Land and Water, Department of Natural Resources;

**SUMMARY INFORMATION**

SB 82-ALCOHOLIC BEVERAGE TAX FOR WINE & OTHERS

The Committee heard from the sponsor, the Department of Revenue and a winemaker. The bill reported from Committee.

SB 313-FIRST SUPPLEMENTAL APPROPRIATION  
SB 314-SECOND SUPPLEMENTAL APPROPRIATION

The Committee heard from the Department of Administration, the Department of Fish and Game, the Office of the Governor, the Department of Public Safety, and the Department of Natural Resources. The bill was held in Committee.

#SB82

CS FOR SENATE BILL NO. 82(L&C)

"An Act relating to the state alcoholic beverage tax for certain wine and other beverages."

This was the second hearing for this bill in the Senate Finance Committee.

Co-Chair Wilken stated that this bill "reduced the tax burden for all small Alaskan wine producers. Currently wine is taxed at the rate of \$2.50 per gallon at the time it is sold in the state or consigned in the State. SB 82 exempts the taxation for the first 100 gallons of wine, each month per taxpayer. Department of Revenue estimates tax loss to the State to be \$18,400." He noted a new fiscal note dated 2/17/04.

DOUG LETCH, Staff to Senator Gary Stevens overviewed the sponsor statement, updated 4/23/04, into the record as follows.

SB 82 "An Act relating to the state alcoholic beverage tax for certain wine and other beverages." This bill will aid Alaska's four small wineries; two of which are located on Kodiak Island, a third is in Haines, the fourth is in Anchorage.

When the 22nd Alaska Legislature passed into law House Bill 225, breweries were allowed to keep the former tax rate of \$.35 per gallon on sales of the first 60,000 barrels of beer sold in the state. Wineries were not given similar consideration; as a result, the tax on wine rose from \$.85 per gallon to \$2.50 per gallon. This important revenue measure, while helping breweries, has, unfortunately, put Alaska's small, emerging wineries at a competitive disadvantage in the

marketplace.

Recognizing that a revision to current state statute to allow wineries an exemption similar to breweries would lead to a substantial revenue loss, SB 82 attempts to level the playing field for our small wineries by offering a tax exemption of 100 gallons per month. This figure was derived after much consultation with winery operators and the Department of Revenue. The 100 gallon per month figure is also an attempt to minimize revenue loss from unintended beneficiaries, while keeping within the constrictions of interstate commerce law.

The bill also includes language that will further reduce unintended revenue loss by treating as a single taxpayer, two or more taxpayers who have a relationship, as defined in 26 U.S.C. 267(b)(Internal Revenue Code).

By supporting SB 82, you will help this developing Alaska industry produce a competitively-priced product, allowing them to continue to contribute new revenue to the state's changing economy.

Mr. Letch shared that Senator Gary Stevens sponsored this legislation on behalf of the wineries located on Kodiak Island to assist an emerging industry.

STEVEN THOMSEN, Alaskan Wilderness Wine, testified via teleconference from Kodiak in support of the bill.

Co-Chair Wilken asked whether this legislation would assist in the expansion of the witness's winery operations.

Mr. Thomsen affirmed it would.

JOHANNA BALES, Revenue Auditor, Department of Revenue, testified via teleconference from Anchorage, that the Department does not oppose this bill. She clarified the Department supports the 100-gallon exemption per taxpayer, as opposed to the exemption to small breweries, which she stated has become administratively burdensome.

Senator Olson asked that given the small amount of revenues involved, why the Department opposes this bill.

Ms. Bales corrected that the Department does not oppose this bill and the subsequent exemption.

Senator Dyson commented on attempts to encourage cruise ships operating in Alaska to use Alaskan products and he hoped this

legislation would benefit this process.

Senator Bunde offered a motion to report the bill from Committee with individual recommendations and new fiscal note.

There was no objection and CS SB 82 (L&C) MOVED from Committee with a new zero fiscal noted from the Department of Revenue, dated 2/17/2004.

AT EASE 9:12 AM / 9:13 AM

Co-Chair Green chaired the remainder of the meeting.

#SB313

#SB314

SENATE BILL NO. 313

"An Act making supplemental and other appropriations; amending appropriations; making an appropriation to capitalize a fund; and providing for an effective date."

SENATE BILL NO. 314

"An Act making supplemental and other appropriations; amending and repealing appropriations; making appropriations to capitalize funds; and providing for an effective date."

This was the first hearing for these bills in the Senate Finance Committee.

Co-Chair Green noted that the committee would hear presentations from the departments for funding requests in both bills.

Department of Administration

SB 313

Section: 1

Results Delivery Unit [RDU]: ETS

Supplemental Need: Appropriates the ACS disentanglement of \$3,477,647 from the general fund to the Information Services Fund  
\$3,447,600 general funds

\$3,447,600 Total Funds

ERIC SWANSON, Director, Division of Administrative Services, Department of Administration testified the amount of this item represents two payments made by the Alaska Communication System (ACS) to the State as part of a settlement agreement to end a

contractual relationship in which ACS provided telecommunication services. He stated this transfer is necessary to offset costs incurred during the transition to revert the internal systems to the pre-contract state.

Co-Chair Green asked whether these expenditures have already been made.

Mr. Swanson affirmed they had.

Co-Chair Green asked if the funding is necessary in the "fast track" supplemental budget rather than the regular supplemental budget.

Mr. Swanson responded it is necessary to receive the funds timely to prevent cash flow problems.

Co-Chair Green asked if any portion of the funding could be deferred to FY 05.

Mr. Swanson answered it could not.

Senator Olson asked the total cost of the settlement and disentanglement.

Mr. Swanson replied that the State would receive \$3,447,600 from ACS, however the total cost to the State would exceed that amount.

Senator Olson asked if the difference would be a significant amount.

Mr. Swanson estimated the actual expenditures would not be significantly more than the settlement.

SB 314

Section: 1(a) and (b)

RDU: OPA

Supplemental Need: FY 04 projected caseload and case cost growth.

\$800,000 general funds

\$300,000 SDPR

\$1,100,000 Total Funds

Mr. Swanson listed factors contributing to this supplemental funding need. He stated that the previous fiscal year, the OPA received two supplemental appropriations, the second of which of \$357,000 was not included in the base calculations for determining the FY 04 appropriation. Secondly, he reminded that in past years the OPA has received interagency receipts from the Department of

Health and Social Services to fund child custody cases; however, this funding would not be forthcoming in FY 04. He noted this is despite the continued caseload growth. He furthered that the overall caseload continues to increase, with felony cases, the most expensive to handle, increasing eight percent over the previous year.

AT EASE 9:18 AM / 9:19 AM

JOSH FINK, Office of Public Advocacy, Department of Administration, testified via teleconference from Anchorage that he was available to answer questions. He pointed out that \$700,000 of this request is to offset interagency receipts not received to fund the Balloon Project. He attributed the need for the remaining \$300,000 to the increased caseload over FY 03. He assured the OPA is "aggressively" pursuing cost saving measures and efficiencies. He detailed the increases of the past several years.

Senator B. Stevens asked the whether the FY 05 funding request would be adequate for that budget year. He questioned whether the Department would continue to submit supplemental requests every year.

Mr. Fink deferred to Mr. Swanson.

Mr. Swanson responded that the Department has taken this supplemental request into account when submitting the FY 05 budget recommendations. He qualified that the actual caseload growth is difficult to project and is therefore not factored into annual budget requests. He reiterated that the OPA has "fundamentally changed" its operating practices. He stated it is likely that a supplemental request would not be necessary for FY 05.

Senator Dyson asked for clarification of the funds necessary for the Balloon Project.

Mr. Fink had anticipated the OPA would receive less than \$400,000 in interagency receipts to fund legal representation in Balloon Project cases, although no such funding was received. He noted the Public Defender's Agency did not receive any of this funding either. Despite this, he stressed that both offices are aggressively pursuing those cases.

Senator Dyson shared that he was involved in the establishment of the Balloon Project, with intent that it would be a one-time project. However, he noted the program was first extended for another year, and has continued to operate although has never been reauthorized by the Legislature as a continuing project.

Co-Chair Green reminded that the budget subcommittee provided full funding for the Balloon Project last session. She agreed that the project was intended to have a two-year lifespan but instead has "taken of a life of its own" and is no longer a project but rather a program.

Co-Chair Green recalled discussions held in the budget subcommittee the previous session that the actual number of cases for adoptee was decreasing. She asked whether this is so.

Mr. Fink did not have the actual numbers of adoptions completed, but stressed that the project has been successful. He noted that the backload has been significantly reduced and therefore the number of cases is fewer than in past years.

Co-Chair Green asked whether new full time staff were hired specifically to administer the Balloon Project cases, with the intent that the positions would be eliminated once the need subsided.

Mr. Fink qualified that the Balloon Project began before his tenure at the OPA. He understood that three staff positions were created, although the caseload was distributed to all the guardian ad litem positions. He emphasized that no positions solely perform Balloon Project cases.

Co-Chair Green asked which types of cases have experienced the largest increases.

Mr. Fink replied that the OPA has experienced a "natural increase" in all caseloads.

Co-Chair Green assumed the OPA would not request any funding in addition to this supplemental budget request.

SB 314

Section: 1(c)

RDU: Public Defender

Supplemental Need: FY 04 projected caseload and case cost growth.  
\$ 650,000 general funds

Mr. Swanson reiterated that funding from the Department of Health and Social Services for the Balloon Project is no longer forthcoming. He noted that both the Public Defender's Agency (PDA) and the OPA are assigned these adoption cases. He also spoke to the increased caseload the PDA is experiencing.

Co-Chair Green pointed out that the funding request is significantly higher than the PDA's cost of the Balloon Project.

Mr. Swanson agreed, noting this request is for funding to address the increases of all caseloads.

BARBARA BRINK, Director, Public Defender Agency, Department of Administration, testified via teleconference from an offnet location that caseload increase of approximately 1,000 new annual cases, has been "rather astonishing" over the last two years.

Ms. Brink assured the Committee that the PDA is always taking steps to reduce expenditures. She noted that vacancies have been unfilled in eight offices, despite the increase this creates for the remaining attorneys. She also informed that the PDA is refusing to automatically accept clients whose cases relate to parole violations. She stated that the Agency used to accept clients at the request of parole officers. She remarked that the court must establish a system to determine eligibility of these defendants.

Ms. Brink furthered that the PDA has reduced the number of subscriptions, and that travel is limited to only what is necessary. She stated that the PDA has increased its usage of volunteers and uncompensated interns, has eliminated positions and shortened office hours. She stated that all expenditures of over \$100 are reviewed in a three-step process. She also noted that the PDA has begun charging private attorneys who accept cases for the cost of duplicating the case file.

Senator Olson noticed that the practice of interagency receipts transferred from the Department of Health and Social Services to the PDA has been discontinued and asked the reason.

Mr. Swanson responded that those funds were no longer appropriated to the Department of Health and Social Services, although he was unsure the reason.

Department of Fish and Game

SB 313

Section: 3

RDU: Capital

Supplemental Need: Receipts from City and Borough of Juneau to complete work at the indoor rifle range in Juneau. These receives have already been received, and work at the rifle range is scheduled to start early spring.

\$ \$75,000 Statutory Designated Program Receipts (SDPR)

KEVIN BROOKS, Director, Division of Administrative Services, Department of Fish and Game, clarified that construction had begun and that the range is nearly complete. He informed that these additional funds became necessary due to difficulty in attaining water; however, the City and Borough agreed to allow the facility to link to the municipal water system and also to assist in funding the process.

SB 314

Section: 6

RDU: Capital

Supplemental Need: Language change to FY 02 appropriation relating to the use of proceeds from sale of vessels to also include repair and maintenance of vessels

\$ 0.0 Total Funds

Mr. Brooks informed that a replacement vessel was purchased before the sale of the existing vessel. He noted that costs were incurred to prepare the new vessel, including painting.

[NOTE: Audio recording interruption.]

Co-Chair Green commented that the supplemental request for this Department is very different than in previous years.

#### Office of the Governor

SB 313

Section: 4

RDU: Elections

Supplemental Need: General funds needed for the Help America Vote Act (HAVA) fund maintenance of effort. Some work on the upcoming primary and general elections will take place during FY 04.

\$ 180,000 general funds

LAURA GLAISER, Director, Division of Elections, Office of the Lieutenant Governor, testified that the language is incorrect and should read, "the sum of \$180,000 is appropriated from the general fund to the Office of the Governor, division of elections for the operating costs of the division related to the primary and general election for the fiscal year ending June 30, 2004." She clarified the funds would be utilized for "maintenance of effort" based on primary and general election expenditures.

Senator Olson asked if these funds are necessary in the fast track supplemental budget.

Ms. Glaiser responded they are to allow for preparation for the

upcoming primary election. She explained that statutory requirements necessitate the purchasing forms in FY 04 so they could be delivered during FY 05.

SB 314

Section: 7

RDU: Elections

Supplemental Need: Additional Election Funds for improving accessibility to voting locations

\$100,000 Election Fund

Ms. Glaiser stated this request is for authorization to expend grant funds for improved accessibility as part of the HAVA.

Department of Public Safety

SB 313

Section: 7

RDU: Capital

Supplemental Need: Scope change for the Ketchikan Public Safety Building appropriation, sec. 1, ch. 82, SLA 2003, pg. 33, In. 22, to include a purchase of a building and adjacent lot and improvements.

\$ 0.0 Total Funds

DAN SPENCER, Director, Division of Administrative Services, Department of Public Safety, testified that rather than constructing a new building as earlier planned, the Department, would purchase and renovate an existing building. He stated that the purchase of an additional lot might be necessary for storage and to operate an impound lot.

SB 314

Section: 13(a)

RDU: ABC Board

Supplemental Need: Enabling language to allow the department to pay a prior year bill using the FY 04 appropriation

\$ 0.0 Total Funds

Mr. Spencer explained that this would provide authorization to pay a claim of a previous fiscal year submitted during this fiscal year. He noted that this is authorization is necessary because adequate lapsed funds are available and must be utilized for this purpose as required by statute.

SB 314

Section: 13(b)

RDU: Capital

Supplemental Need: Denali Commission grant to the Council on Domestic Violence and Sexual Assault for domestic violence and sexual assault shelter facility funding  
\$4,750,000 federal funds

Mr. Spencer explained this request is to expend funds received from the Denali Commission to solicit bids for improvements and repairs to shelters for victims of domestic violence and sexual assault. He noted this request is included in the FY 04 supplemental budget request rather than the FY 05 capital budget request because the Denali Commission dictated the funds must be allocated by July 1, 2004.

Co-Chair Green asked why this item was not included in the regular FY 04 budget.

Mr. Spencer replied that the Department was unaware of this issue until a couple months ago.

Co-Chair Wilken requested list of the communities where this funds would be dispersed, as well as the amount of local contribution to the projects.

Mr. Spencer qualified that a list of projects would not be available until the end of the current fiscal year, although he would provide it at that time.

Co-Chair Wilken understood that 21 agencies responded to a survey on needs and planned projects.

Mr. Spencer clarified the survey was conducted in prior years.

DENISE HENDERSON, Executive Director, Council on Domestic Violence and Sexual Assault, Department of Public Safety, testified that the Council was contacted by the Denali Commission council and asked to oversee the distribution of these federal funds. She informed that the Denali Commission has sponsored many capital projects and that when the funds were included in the federal omnibus budget, the Commission requested the Council conduct a survey of service providers to assess the unmet needs.

Co-Chair Wilken expressed concern that \$4.75 million was to be distributed to as many as 21 communities and he asked whether local matching funds were required.

Ms. Henderson answered no.

Co-Chair Wilken clarified the program would solely consist of

federal funds with no expectation of State funding.

Ms. Henderson replied that this is the first time the Commission has received this significant amount of funds. She stated that the Council has decided to have service providers "bid" for the funds to establish standard requirements. She explained this is to ensure the sustainability of the projects and the organizations that would operate them, given funding reductions from the State and federal governments.

Co-Chair Wilken commented that traditionally, the Denali Commission provides funding for projects in Rural Alaska. He asked whether all communities would be eligible to receive these funds.

Ms. Henderson affirmed all communities in Alaska are eligible to receive this funding.

Co-Chair Green asked whether a board or other group would review the applications and undertake a selection process on behalf of the Denali Commission.

Ms. Henderson replied that the Counsel would act in this capacity. She added that the Denali Commission has requested that the State government assume more control over how these funds are allocated.

Co-Chair Green asked whether any Counsel members are involved in organizations that would be requesting this funding.

Ms. Henderson assured that no member of the Counsel holds a position in a shelter or other organization affected by decisions of the Council. She stated that she and a representative of the Denali Commission would conduct site visits themselves and that there are many factors they intent to take into account.

Co-Chair Green told of concerns expressed to her that no "wall" exists between those awarding grants and recipients of those grants.

Ms. Henderson responded this is one reason the Denali Commission has requested that the State oversee this process.

Senator Olson asked what percentage of the \$4.7 million would be utilized for construction versus administrative costs.

Ms. Henderson replied that the original appropriation was \$5 million and that the Denali Commission has retained \$300,000.

AT EASE 9:49 AM / 9:50 AM

SFC 04 # 17, Side A 09:50 AM

[NOTE: Side B of #16 is not recorded. No portion of the meeting is unrecorded.]

Department of Natural Resources

SB 313

Section: 6(a)

RDU: Recorder's Office

Supplemental Need: Increased costs to process heavy volume of mortgage refinance activity

\$300,000 Receipt Supported Services

NICO BUS, Administrative Services Manager, Division of Support Services, Department of Natural Resources testified this request is necessary due to the "extremely heavy workload in refinancing". He informed that the workload has increased almost 50 percent and that no permanent staff has been hired to address this extra workload. He reported the Office has generated almost \$10 million in additional revenue and that the nonpermanent staff positions would be eliminated once the workload decreases.

SB 313

Section: 6(b)

RDU: Office of Habitat Mgt. and Permitting

Supplemental Need: Replace unrealized inter-agency receipts in order to fulfill workload requirements

\$150,000 general funds

Mr. Bus stated this request is necessary to fund new positions created with the acquisition of the habitat management and permitting activities. He recalled the anticipation of inter-agency receipts and statutory designated program receipts, which he said, "did not materialize". He relayed that the original intent was that the positions would be filled at Step A salary levels; however many of the transferred employees were higher steps and therefore, the Department has inadequate funding for five positions. He stressed that with increased development efforts, the positions must be filled.

SB 313

Section: 6(c)

RDU: Capital

Supplemental Need: Increased activity in Remote Recreational Cabin Site Survey Contracts

\$ 119,000 Land Disposal Income Fund

Mr. Bus informed that the Department contracts with private professional to conduct the surveys, the cost of which is reimbursed by the purchasers. He reported that the intent to undertake these efforts the previous summer were unfeasible; however, it was since determined that the funds should accurately be accounted as capital rather than operating expenditures.

SB 314

Section: 12(a)

RDU: Capital

Supplemental Need: FESCO Settlement for Contaminated Site Cleanup

\$118,638.12

\$118,600 SDPR

Mr. Bus explained this relates to a lease settlement located on the North Slope in which the company, the Department and the Department of Environmental Conservation agreed that contamination cleanup was necessary. He stated that the company paid the State \$118,639 and this request is for funds to allow the company to execute the lease and undertake further development.

Co-Chair Green asked why this item is included in the FY 04 supplemental budget.

Mr. Bus responded that the terms of the settlement requires payment be made before June 2004 and the start of FY 05.

SB 314

Section: 12(b)

RDU: Capital

Supplemental Need: BLM 2009 Accelerated Land Transfer - Year 1 of a 5-year project to significantly increase the rate of federal land transfers to individual Native Allottees, the ANCSA Corporations, and the State.

\$1,268,000 federal funds

Mr. Bus informed that the federal Bureau of Land Management decided to complete all land transfers by the year 2009. Because the Department would be unable to perform its functions necessary to accomplish this using existing funding, he said that the federal government would provide the funds.

Senator Olson asked why three Department positions would be necessary to undertake this operation.

Mr. Bus deferred to Dick Mylius.

DICK MYLIUS, Deputy Director, Division of Mining, Land and Water, Department of Natural Resources, testified via teleconference from an offnet location, about the approximately 300 Native allotments of land transferred to the State before the Native allotments were filed. As a result, he stated that the State must first transfer these parcels back to the federal government so it could then transfer to the Native allottees. He listed the steps involved, including best findings, identification of easements, third party interests, and etc., which must be conducted for each parcel

SB 314

Section: 12(c)

RDU: Capital

Supplemental Need: Denali Park Visitor Destination Access - US Park Service grant for planning and design of new visitor facilities  
\$1,268,000 federal funds

Mr. Bus shared that the Department is evaluating a South Denali Access planning as well as improvements to the Petersville road corridor. He emphasized that this item is comprised of 100 percent federal funds and no State funds.

SB 314

Section: 12(d)-(e)

RDU: Capital

Supplemental Need: Afognak Coastal Wetlands grant for purchase of waterfall parcel within the Perenosa Bay area of Afognak Island  
\$2,000,000 federal funds  
\$650,000 SDPR  
\$ 2,650,000 Total Funds

Mr. Bus reminded this matter was discussed the previous session. He noted the size of the project has been reduced to 2,100 acres located on the northern coast of Afognak Island. He stated \$2 million was received from the National Park Service and the Rocky Mountain Elk Foundation provided the \$650,000.

Co-Chair Wilken asked if the Governor vetoed funding for this project the prior year.

Mr. Bus affirmed the larger land purchase as funds from the Exxon Valdez Oil Spill settlement were involved.

Co-Chair Wilken asked if this proposal addresses the Governor's earlier concerns.

Mr. Bus affirmed it does.

SB 314

Section: 12(f)

RDU: Office of Alaska Coastal Zone Management

Supplemental Need: Increased Department of Law costs for Coastal Zone regulations

\$95,000 general funds

Mr. Bus explained that as a result of the passage of HB 91 the previous session, the Department has worked with the Department of Law to draft regulations and coordinate with the coastal districts implement changes. He noted the legislation predicted less involvement from the Department of Law; however, the significant changes have required additional efforts. He summarized this request would fund the legal expenses of the transfer for remainder of FY 04.

Senator Olson understood these legal services are necessary because the Administration changed the management of the Alaska Coastal Zone Program. He asked if the changes would require long-term review by the federal agencies overseeing the Program. He wanted to know if additional funding would be necessary in FY 05 and future years.

RANDY BATES, Deputy Director, Office of Project Management and Permitting, Office of the Commissioner, Department of Natural Resources, testified that the need for additional supplemental funds is not expected. He relayed that the Office anticipates the federal regulators would complete review of the changes and the process would be completed.

Co-Chair Green noted the Department submitted no request for supplemental funds for fire suppression.

Mr. Bus affirmed the budget request contains no funding for fire suppression activities in FY 04, although additional expenditures were necessary for May and June of FY 03 as indicated in the ratification section. He gave the estimate for those fire activities was initially \$6.5 million, but the actual cost was \$6,233,000.

#

**ADJOURNMENT**

Co-Chair Gary Wilken adjourned the meeting at 10:05 AM