

MINUTES
SENATE FINANCE COMMITTEE
February 24, 2004
9:03 AM

TAPES

SFC-04 # 19, Side A
SFC 04 # 19, Side B
SFC 04 # 20, Side A

CALL TO ORDER

Co-Chair Lyda Green convened the meeting at approximately 9:03 AM.

PRESENT

Senator Lyda Green, Co-Chair
Senator Gary Wilken, Co-Chair
Senator Con Bunde, Vice Chair
Senator Fred Dyson
Senator Ben Stevens
Senator Lyman Hoffman

Also Attending: KATHRYN DAUGHHETEE, Director, Division of Administrative Services, Department of Law; BOB BARTHOLOMEW, Chief Operating Officer, Alaska Permanent Fund Corporation, Department of Revenue; SUSAN TAYLOR, Director, Division of Administrative Services, Department of Revenue; JANET CLARKE, Director, Division of Administrative Services, Department of Health and Social Services; JOHN MACKINNON, Deputy Commissioner of Highways and Public Facilities, Department of Transportation and Public Facilities; NANCY SLAGLE, Director, Division of Administrative Services, Department of Transportation and Public Facilities; TOM LAWSON, Director, Division of Administrative Services, Department of Community and Economic Development; JERRY BURNETT, Director, Division of Administrative Services, Department of Corrections; KAREN REHFELD, Deputy Commissioner, Department of Education and Early Development; EDDIE JEANS, Manager, School Finance and Facilities Section, Education Support Services, Department of Education and Early Development; JOHN CRAMER, Director, Division of Administrative Services, Department of Military and Veterans' Affairs;

Attending via Teleconference: From Anchorage: CRAIG TILERY, Chief Assistant Attorney General, Statewide Section

Supervisor, Environmental Section, Civil Division, Department of Law; MARK JOHNSON, Commissioner and Chair, Regulatory Commission of Alaska, Department of Revenue

SUMMARY INFORMATION

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

The Committee heard presentations on the funding requests from the Department of Law, the Department of Revenue, the Department of Health and Social Services, the Department of Transportation and Public Facilities, the Department of Community and Economic Development, the Department of Corrections, the Department of Education and Early Development, and the Department of Military and Veterans Affairs. The bill was held in Committee.

#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 second hearing for this bill in the Senate Finance Committee.

The Committee continued hearing presentations from departments on the budget requests of both bills. The Committee referenced a spreadsheet prepared by the Office of Management and Budget dated February 23, 2004, outlining each request [copy on file].

Department of Law

SB 313

Section: 2

Budget Request Unit (BRU): Environmental Law

Supplemental Need: Exxon Valdez Oil Spill on-going costs for experts and outside counsel to analyze continuing injury and develop restoration options; June 30, 2005

lapse date.
\$100,000 EVOS Restoration fund

KATHRYN DAUGHHETEE, Director, Division of Administrative Services, Department of Law, testified that Assistant Attorney General Craig Tilery would be best able to outline this request.

CRAIG TILERY, Chief Assistant Attorney General, Statewide Section Supervisor, Environmental Section, Civil Division, Department of Law, testified via teleconference from Anchorage as follows.

Section 2 of the fast track supplemental appropriation contains an item for the sum of \$100,000 to be appropriated from earnings on the moneys received as restitution from Exxon in connection with their criminal plea agreement in the Exxon Valdez oil spill. The money is to be used to fund analysis of a continuing injury from the oil spill and to develop options for restoration of such injury. Many of the natural resources injured by the Exxon Valdez oil spill have recovered or are well along in the process of recovery. One area of particular concern stems from their discovery in 2001 that there is significantly more oil remaining in a toxic state in the environment than was expected. Preliminary studies indicate that this lingering oil is bio-available to species that feed in the inter-tidal and near shore environments. Preliminary studies also indicate that certain species with access to this oil, in particular harlequin ducks and sea otters, continue to ingest the oil and may be adversely affected by it. In addition there are other species such as herring where injury persists, but the connection to the oil spill remains clouded. This appropriation is intended to allow the State to retain independent outside experts to review these studies and, if warranted, to develop a strategy to deal with any problems.

Co-Chair Green asked if this request must be a FY 04 supplemental appropriation.

Mr. Tillery affirmed and explained the funds must be secured this year to enable field studies to begin at the start of the summer season.

SB 314
Section: 9
BRU: Civil Division, Deputy Attorney General
Supplemental Need: Judgments and Claims

as of February 5, 2004 \$2,825,490.66
\$ 2,825,500

Ms. Daughheteer stated that this reflects an annual request by the Department of Law to compensate for judgments and claims, which are amounts arising from legal issues that the State is obligated to pay.

Co-Chair Green asked for an overview of those judgments and claims in excess of \$200,000.

Item #2
Dillion & Fincley
Markey v. State
Settlement-house destroyed following collapse of roadway
Date: 10/20/2003
Amount: \$1,138,844.73
Interest: \$29,719.17
Total: \$1,168,563.90

Ms. Daughheteer explained that the largest judgment and claim is the Markey v. State case involving the collapse of a roadway embankment, which resulted in the "total destruction" of the Markey home. This case went to trial as an "inverse condemnation". The jury determined that the State's rehabilitation projects along Juneau's Fritz Cove Road had lead to an over-compaction of the embankment. The negotiated settlement is \$175,400 below the overall amount awarded by the court. This judgment and claim is listed on the spreadsheet provided by the Department of Law titled, "2004 Judgments & Claims - General Funds" [copy on file].

Item #10
James P. Jacobsen itf Bennett White
Bennett White v. State, Department of
Transportation and Public Facilities
Maritime personal injury case
Date: 6/19/2003
Amount: \$324,000
Interest: \$12,549.45
Total: \$336,549.45

Ms. Daughheteer informed that Mr. White was an "able-bodied seaman" employed by the Alaska Marine Highway System. While directing traffic on the M/V Aurora ferry he seriously injured his left knee. After a series of operations, a medical doctor determined that Mr. Bennett could not continue to work aboard ships. Mr. Bennett subsequently sued the State under the federal Jones Act claiming that the State was negligent in

failing to paint the traffic lanes, and did not provide safe working conditions. An economic expert determined that Mr. Bennett's future earnings based on his age at the time of the injury would total approximately \$600,000. The negotiated settlement is \$360,000. A portion of the settlement has already been paid; the remaining portion is \$324,000.

Ms. Daughheteer noted that the legislature passed a worker's compensation law effective July 1, 2003, which should hinder cases like Mr. Bennett's from occurring in the future.

Item #11
Jermain, Dunnagan & Owens
ASEA v. State
Damages awarded in health insurance cost shifting
Date: 11/28/2003
Amount: \$1,005,720
Interest: \$22,215.39
Total: \$1,027,935.39

Ms. Daughheteer explained that the Association attempted to implement a cost shifting mechanism within its health benefits trust that would allow employees with double-coverage the option of moving the cost of premiums for their independents to Select Benefits health coverage. The State argued that statutes prohibited the union from this cost shifting; however, the court determined that the State could not hinder the union from implementing the mechanism. The court also found that the State was liable for 20% of costs the ASEA could have saved if allowed to implement the cost shifting mechanism. The State is required to award the ASEA \$1,005,720 million.

The State eventually authored regulations that reduced State employee coverage to 30% for anyone participating in cost shifting. These regulations have prevented much cost shifting.

Senator Hoffman asked the amount of the judgment that pertains to attorney fees.

Ms. Daughheteer answered that this award is the amount the ASEA would have saved if allowed to implement the cost shifting mechanism. She added that she was unsure if attorney fees were included in the award amount.

Ms. Daughheteer mentioned a judgment and claim resulting from a personal injury case involving a pedestrian on a State-owned bicycle path who stepped on some unsecured metal, fell and broke his leg. The settlement for the negligence claim was \$117,500.

Ms. Daughheteer added that the Department of Law is requesting an extended lapse date for certain FY 03 legal cases, including the Planned Parenthood case, because the timing of the legal events related to those cases would continue beyond FY 04.

Senator Dyson asked for a summary of the Planned Parenthood case.

Ms. Daughheteer responded that the Planned Parenthood case arose out of legislation that requires a minor female to have the consent of a parent or guardian before seeking an abortion.

SB 314

Section: 10

BRU: Civil Division and Criminal Division

Supplemental Need: Technical change to sec. 60, ch. 82, SLA 03 which appropriated \$175,000 to Department of Law, Civil Division for outside counsel costs. The appropriation should have been to the Criminal Division \$0

Ms. Daughheteer stated this item is a technical correction, which would ratify an appropriation to the Civil Division of the Department of Law. The Department has since realized that the appropriation should be directed to the Criminal Division. This ratification would enable a transfer of the funds.

Co-Chair Green asked if Section 10 and the extended lapse date requests relate to the same court cases.

Ms. Daughheteer replied that the technical change in Section 10 relates to one of two cases that would be affected by the extended lapse date.

Department of Revenue

SB 313

Section: 8(a)

BRU: Alaska Permanent Fund Corp.

Supplemental Need: Increased costs to advocate for POMV \$300,000 Perm Fund Receipts

BOB BARTHOLOMEW, Chief Operating Officer, Alaska Permanent Fund Corporation, Department of Revenue, testified that when drafting the FY 04 operating budget the Alaska Permanent Fund Corporation had not realized that educational advertising would be needed in FY 04. This advertising would educate the

public about the Alaska Permanent Fund Corporation's Board of Trustee's Percentage of Market Value (POMV) proposal. During the last Board of Trustee's meeting the Trustees determined that the educational advertising must occur as soon as possible due to lack of public understanding.

SB 313

Section: 8(b)

BRU: Alaska Permanent Fund Corp.

Supplemental Need: Authorization that APFC may advocate for POMV

\$0

Mr. Bartholomew recommended a technical correction in the language of the bill to clarify that the Board of Trustees does not interact directly with the legislature, rather that the operating officer interacts with the legislature on the Board's behalf.

Mr. Bartholomew expressed that this request is more important than the preceding request for funding to use for POMV education purposes. This language would demonstrate that the legislature supports a POMV method of managing the Alaska Permanent Fund, and also would authorize the Alaska Permanent Fund Corporation to campaign in support of adopting a POMV method for the Fund. Current statutes would subject the Corporation to Alaska Public Offices Commission (APOC) rules if a resolution were passed to place a Constitutional amendment initiative on the ballot. He asserted that the Corporation would be "severely restrained" in the efforts it could undertake in lobbying for passage of the ballot measure, as the Corporation is not currently authorized to influence actions.

Mr. Bartholomew qualified that APOC rules would allow representatives of the Corporation to speak on the subject of POMV if invited, but would not allow representatives to speak at meetings if not previously requested to participate. He commented on the "gray area between education and advocacy" and he asserted both would be necessary.

Senator Hoffman commented that this request raises concerns and that a decision on the matter would be premature as a resolution to amend the Constitution has not yet been adopted. He questioned the need for FY 04 supplemental funding and instead recommended the funding be addressed in a fiscal note accompanying the resolution itself.

Mr. Bartholomew responded that the Board deliberated on the issue during meetings held in December 2003 and January 2004

and established intent to begin education efforts in February 2004. He told of a proposal to contract with a media firm to assist the Alaska Permanent Fund Corporation with educating the public. The education efforts would demonstrate how management of the Fund currently operates and how it would operate under a POMV method, therefore education would be useful even if the POMV resolution were not passed. The Board has considered the potential reactions of the public in response to the use of public funds to support the education efforts.

Senator Dyson shared concerns about using public money to advocate for something that "government wants". He asked for examples of other instances when the government has used government funds to "sell a position that government wants voters to approve."

Mr. Bartholomew did not have examples of other instances. Some government agencies utilize State funds to promote Alaskan products, such as the Alaska Seafood Marketing Institute's promotion of Alaskan seafood, but selling a product is different from selling a public policy position. Both State and local governments have used limited amounts of government funds to educate the public about bond proposals, but the education methods were not as extensive as those proposed in this request.

Co-Chair Wilken also shared concerns about the timing of this request. He had understood that \$1.4 million or \$1.8 million would be expended on the campaign to amend the Constitution. He asked if this \$300,000 request represents a supplement to the larger sum, or a change in plans.

Mr. Bartholomew replied that this FY 04 supplemental budget request and the request for funds to be appropriated in the FY 05 budget totals \$1.4 million. The total projected FY 04 expenditures would be \$500,000: \$300,000 from this request, and \$200,000 from funds appropriated in the FY 04 operating budget. The total projected FY 05 expenditures would be \$900,000. These amounts reflect the maximum amount proposed for the education efforts.

Mr. Bartholomew pointed out that if a resolution to amend the Constitution were not adopted by the legislature, only those funds appropriated in the FY 04 operating budget and supplemental budget would be expended.

Senator Bunde disagreed with Senator Hoffman's comments and asserted that the funds would be well spent. Many people are not familiar with the operation of the Permanent Fund and the

public should have an opportunity to learn about it. However, he agreed that the timing of this request is wrong. These efforts should have been undertaken months ago, rather than at a time when a proposed change is placed on the ballot.

Mr. Bartholomew stated that regardless of whether the legislature appropriates this funding, authority to speak on the merits of POMV is still necessary. He predicted that POMV education efforts could be undertaken "relatively inexpensively", as has occurred in the past; however, without the necessary authority the Permanent Fund cannot sponsor any public discussion on the POMV plan.

Co-Chair Green clarified that without this authority representatives of the Corporation could not include POMV as a topic of conversation.

Mr. Bartholomew affirmed that in consultation with APOC and the Office of the Attorney General, it was determined that the Corporation would be limited in its activities and could not give advice on the ballot measure.

AT EASE 9:33 AM / 9:34 AM

SB 314

Section: 14(a)

BRU: Municipal Bond Bank

Supplemental Need: Increased management fees due to increased activity

\$150,000 Muni Bond Bank Receipts

SUSAN TAYLOR, Director, Division of Administrative Services, Department of Revenue, testified that existing authorization allows four to five debt issuances annually. However, last year funds were requested to allow for seven issuances. The base authorization for these issuances has not been adjusted because they are difficult to predict. The Department is estimating eight to nine issuances in FY 04. The primary costs of the bond bank are a percentage of the dollars issued. The Department is requesting a similar amendment for the FY 05 operating budget to eliminate the need for a supplemental budget amendment in FY 05.

Co-Chair Green asked if the increase in issuances reflects an overall increase in activity.

Ms. Taylor responded that interest rates are factors that affect the number of issuances, and in addition the Department should have increased its FY 04 base budget.

SB 314

Section: 14(b)

BRU: Alaska Permanent Fund Corporation

Supplemental Need: Language clarifying that the appropriation made in sec. 67(2), ch. 82, SLA 2003 was for inflation proofing

\$0

Mr. Bartholomew stated this request is for clarification and affirmation of legislative intent. When the FY 04 capital budget was passed, it included a provision, which swept approximately \$354 million from the Permanent Fund's earnings reserve account into the principal of the Permanent Fund. Senator Therriault later specified that the fund transfer be intended to be a prepayment of the inflation proofing of the Fund for FY 04. The Permanent Fund distinguishes inflation proofing appropriations and special appropriations. This request would specify the intent of the appropriation.

SB 314

Section: 14(c)

BRU: Alaska Permanent Fund Corp.

Supplemental Need: Balance needed to inflation proof the fund in FY 04

\$177,000,000 Permanent Fund Earnings Reserve

Mr. Bartholomew informed that the appropriation necessary to inflation proof the Fund for FY 04 was repealed at the time of the transfer. This request would reinstate the inflation proofing appropriation when the inflation proofing amount is determined after June 30, 2004. At that time the \$354 million appropriation by the legislature would be subtracted from the inflation proofing amount to determine if an additional appropriation is necessary. The current estimate for an additional appropriation is \$170 million.

Senator Hoffman asked if this amount is more than the anticipated FY 04 inflation-proofing amount estimated last year.

Mr. Bartholomew answered this amount is close to the amount predicted in 2003. He added that the legislature retained a \$100 million balance in the earnings reserve account, and swept all other remaining funds into the principal of the Permanent Fund for inflation proofing.

Senator Hoffman understood, but asked why the initial appropriation was inadequate to inflation proof and this additional appropriation is needed.

Mr. Bartholomew responded that the estimate has not changed, but that the amount of funds available in the earnings reserve account was inadequate to fully inflation proof the fund when the initial appropriation was made. When the legislature decided to pre-inflation proof the Permanent Fund, it was informed that the balance in the earnings reserve account would only allow for a partial pre-inflation proofing, and that additional funds would be required. Historically, inflation proofing does not occur until June 30th of each year.

Senator Hoffman asked if this appropriation is at the request of the Permanent Fund's Board of Trustees.

Mr. Bartholomew affirmed, and reported that the Board has historically requested that the legislature "follow the existing statutes" and inflation proof the Permanent Fund.

Senator B. Stevens recalled that the amount necessary to inflation proof the Permanent Fund has always been calculated on June 30th. Therefore, the amount necessary for FY 04 would not be determined until the upcoming summer.

Mr. Bartholomew confirmed and pointed out that the Permanent Fund Corporation supplies inflation proofing amount estimates to the legislature. These estimates change because the Corporation receives deposits from oil development royalties monthly.

Senator B. Stevens noted the proposed FY 05 operating budget contains an appropriation to inflation proof the Fund for FY 05.

Mr. Bartholomew again affirmed and explained that the legislature would authorize the appropriation, although the funds would not be allocated until FY 06 when the necessary inflation proofing amount is finalized.

Senator B. Stevens suggested the practice could be changed with the amount necessary for the current fiscal year appropriated in the budget legislation for the following fiscal year.

Mr. Bartholomew agreed this was a possibility if two effective dates were established.

Department of Health and Social Services

SB 313
Section: 5(a)

BRU: Capital

Supplemental Need: Add the capital project for the State veterans' home conversion in Palmer to speed up the design work and take advantage of the summer construction season. A corresponding FY 05 capital amendment will also be submitted to delete the project from the FY 05 budget

- \$2,275,000 federal funds
- \$ 459,200 general funds
- \$ 765,800 Alaska Student Loan Corporation (ASLC) dividend

\$3,500,000 Total Funds

JANET CLARKE, Director, Division of Administrative Services, Department of Health and Social Services noted this supplemental request would transfer a capital budget appropriation into the fast track supplemental. This appropriation would appropriate \$3.5 million total funds to bring the Palmer Pioneers' Home into compliance with the federal Veterans' Administration. Governor Murkowski is requesting this appropriation change because it would allow the State to have an operational State Veterans' Home five months earlier than a capital budget appropriation would allow. A 65-percent match from the federal Veterans' Administration is included in this appropriation request. Specifically, this appropriation would be used to upgrade the heating system, electrical systems, make seismic safety and energy conservation improvements, meet Americans with Disabilities Act (ADA) accessibility requirements, and fire codes, mechanical codes, and other appropriate codes of the Palmer Pioneers' Home.

Co-Chair Green clarified that the facility would be divided between veterans' home residents and pioneers' home residents. She mentioned the benefits this facility-sharing system would provide the Palmer Pioneers' Home, and suggested that this system would be appropriate for other pioneers' homes as well.

Co-Chair Wilken noted the ASLC dividend fund source and asked if the dividends would be derived from bond proceeds or from traditional dividends earned from ASLC activities.

Ms. Clarke replied that the Department had originally requested general funds for the required match but the Office of Management and Budget made the determination to utilize ASLC dividend funds.

SB 313

Section: 5(b)

BRU: Alaska Senior Assistance Program

Supplemental Need: Reduce excess federal fiscal relief

funds
(\$3,334,000) Federal Unrestricted Receipts

SB 313
Section: 5(c)
BRU: Senior Care
Supplemental Need: Use excess federal fiscal relief funds
for FY 04 costs for Senior Care program
\$3,334,000 Federal Unrestricted Receipts

Ms. Clarke explained this allocation would allow the Department to utilize federal funds appropriated to the Alaska Senior Assistance Program for the Senior Care program. Section 5(b) reduces the federal funds, and section 5(c) appropriates those funds to the Senior Care program.

SB 313
Section: 5(d)
BRU: Senior Care
Supplemental Need: FY 04 costs for Senior Care program
\$154,000 general funds

SB 313
Section: 5(e)(1)
BRU: Alaska Longevity Programs Mgmt
Supplemental Need: FY 04 costs for Senior Care program
\$46,000 general funds

SB 313
Section: 5(e)(2)
BRU: Health Purchasing Group
Supplemental Need: FY 04 costs for Senior Care program
\$85,000 general funds

SB 313
Section: 5(e)(3)
BRU: Public Assistance Administration
Supplemental Need: FY 04 costs for Senior Care program
\$25,000 general funds

SB 313
Section: 5(e)(4)
BRU: Public Assistance Data Processing
Supplemental Need: FY 04 costs for Senior Care program
\$6,800 general funds

Ms. Clarke explained that these sections would appropriate general funds to allow the Senior Care program to begin on April 1, 2004. The Senior Care program is more expensive than the Alaska Senior Assistance Program because of the benefits

it offers. The Department needs the funds requested in Section 5(d) for the additional program costs. Sections (e)1, 2, 3 and 4 would also appropriate funds to cover program operating costs. These appropriations would enable the Department to begin the Senior Care program on April 1, 2004.

SB 314

Section: 8(a)

BRU: Pioneer Homes

Supplemental Need: Transfer within H&SS to cover projected funding shortfalls as part of net-zero general fund supplemental.

\$711,900 general funds

SB 314

Section: 8(a)

BRU: Pioneer Homes

Supplemental Need: Excess authority from discontinued Longevity Bonus payments relating to failed SB 117.

(\$775,000) Receipt Supported Services

SB 314

Section: 8(b)

BRU: Alcohol Safety Action Program

Supplemental Need: Operating expense belt tightening to achieve net-zero general fund supplemental

(\$42,100) general funds

Ms. Clarke commented on the Departments' approach to the FY 04 supplemental. She continued to testify as follows.

Section 8 basically provides to the legislature a net-zero delete add supplemental related to increasing costs for Medicaid, for the catastrophic assistance and illness assistance program, and for a shortfall we have in revenue for the pioneers' homes. Overall, Madame Chair, our shortfall is almost \$29 million of general funds, and we are coming to the legislature with a net-zero [request], which finances that entire \$29 million internally.

The other important parts of our program and our plan here is that this \$29 million also includes what we are calling "the gap" in our fair share receipts. We have a ratification that we will talk about later, in FY 02. Our budgeted amount for fair share is about \$55 million. We receive revenue, its varied anywhere from \$33 to \$37 million so there is a gap in our revenue, in our receipt that we are earning from fair share. This also takes care of that problem for FY 04, which is why the number is so

high.

The other important part of our proposal is that we went to the Legislative Budget and Audit Committee this summer with an one-time increase in pro-share receipts that we believed we could earn because of the federal fiscal year and the State fiscal year, and in that quarter where we have the first State [federal] quarter and the final State fiscal year quarter, we were able to do a one-time increase in pro-share receipts, and the Legislative Budget and Audit Committee asked us to come back to them with a full accounting of that pro-share. We are using, in this plan, the \$14 million that we had identified of those pro-share receipts in our net-zero supplemental. So I want to make sure that the Committee understands that as well.

In general, Madame Chairman, in addition to the pro-share payments, we were also able to continue to look to enhancements in federal revenue, and we are continuing to look at other efficiencies in our operations to come up with the balance of the \$15 million of general funds to make this a net-zero supplemental.

In your back up, you have a memo that the Commissioner sent to all divisions outlining a belt tightening process to allow us to generate the general fund savings that you see in the net-zero supplemental. We are taking a hard look at filling vacancies except if they are essential or have to do with a life-health safety of clients.

SFC 04 # 19, Side B 09:52 AM

Ms. Clarke continued to testify as follows.

We are also taking a tough look at any contracts we are going to renew. We also did an extensive review of all of our grants, and there were several grantees that had not spent funds in the first half of the fiscal year, and we were able to reduce those as well.

Ms. Clarke stated that the regular supplemental requests reflect general cutbacks.

Co-Chair Wilken asked for the source of the funds in Section 8(i).

SB 314

Section: 8(i)
BRU: Senior/Disabilities Medicaid Services
Supplemental Need: Increased federal receipts for
Medicaid
\$ 24,098,600 federal funds

Ms. Clarke replied that the funds reflect a federal increase in Medicaid funding. All of the federal funds reflected in Section 8 represent increased Medicaid funding.

Co-Chair Wilken asked if the Department was aware of these federal increases last year.

Ms. Clarke replied that the Department anticipated Medicaid cost containment measures but were unable to implement all of them because many require regulation changes. She reported an "incredible" growth in claims for Personal Care Attendant program services for senior and disabled clients, which was not expected. The cost of these services increased from \$13 million to an anticipated \$56 million for FY 06 if no cost containment measures are implemented. This program has "gotten out of control". She offered to further detail the situation to the budget subcommittee.

Co-Chair Green clarified the annual increase from \$13 million to \$56 million.

Co-Chair Wilken referred to a packet provided by the Department of Health and Social Services titled "DHSS FY2004 Delete/Add Supplemental Request" [copy on file], and specifically a chart on page 15. He used this chart to point out that in 1998 the State spent \$5.3 million on the Personal Care Attendant program within the Division of Senior and Disability Services, and in 2004 the State is expecting to spend \$53.1 million on this program.

Ms. Clarke informed that this program changed in FY 02 through regulations adopted by the previous gubernatorial administration. The Department needs to restrict staff working hours, and make other changes to this program to slow program cost increases.

Co-Chair Green asked whether these changes would require legislation to enact.

Ms. Clarke replied the changes could be made through the regulation process.

SB 314
Section: 8(j)

BRU: Nursing

Supplemental Need: Operating expense belt tightening to achieve net-zero general fund supplemental (\$188,600)

Senator Hoffman asked whether the State health services savings being implemented in FY 04, specifically the cuts in nursing positions, are one time savings, or if they will be ongoing belt tightening measures.

Ms. Clarke responded that the belt tightening measures are a one time savings; however, she did not expect that public health nurses would agree that their positions will be "back to normal" in FY 05. The Department has offered a proposal to restructure public health nursing in the FY 05 budget.

Senator Hoffman voiced concern about the nursing cut backs and expressed interest in hearing other measures under consideration for restructuring public health nursing.

Senator Bunde cited demographic predictions by the Department of Labor and Workforce Development indicating that the majority of Alaska's population would be over the age of 65 or under the age of five in the "relatively near future". He asked how the growth of these programs equates to the changing demographics, and how problematic is the issue.

Ms. Clarke attributed some of the program's growth to demographics, as the fastest growing segments of the population are seniors and disabled people. She remarked that these services have become a "niche" in the market.

Senator Dyson informed that several states are saving significant Senior Care funds by allowing seniors to direct how their care is supplied, partially by allowing families to subsidize care. He asked if the Department has been allowing similar senior involvement, and whether legislation is needed to allow that level of involvement.

Ms. Clarke responded that the Department would need to review the issue to determine if legislation is needed. She added that the Personal Care Attendant program is consumer driven. The Department supports the program, but parameters need to be established to hinder abuse of the program.

Senator Dyson commented on the consumer driven programs he has heard about and observed, and expressed satisfaction in learning that certain programs within the Department implement consumer management.

Senator B. Stevens asked for clarification on the chart on page 15 of the DHSS packet. He asked for a document that would show the fund sources and their specific contribution to the Division of Senior and Disability Services.

Ms. Clarke responded that a document could be produced.

Senator Dyson asked for an explanation of the waivers listed on the chart on page 15 of the DHSS packet.

Ms. Clarke answered that the "AD Waiver" is the Adults with Physical Disability Waiver, the "CCMC Waiver" is the Children with Complex Medical Conditions Waiver, the "MRDD Waiver" is the Mental Retardation or Developmental Disabilities Waiver, and the "OA Waiver" is the Older Alaskans' Waiver.

Co-Chair Green asked for a more detailed explanation of Section 8(a).

Ms. Clark explained that the Department has implemented this net-zero budget plan by making internal fund transfers. The revenue generated from pioneers' homes' resident fees have dropped severely. The Department has been able to internally reallocate \$173,100, but the overall shortfall is \$885,000. The request for \$711,900 from the general fund represents a transfer of funds appropriated to other areas of the Department, to the pioneers' homes to completely fund the shortfall. She commented that it would be useful to further discuss the declining enrollments of some of the pioneers' homes in the Senate Health and Social Services Finance Subcommittee. The pioneers' homes do not typically experience the decline in revenue that is evident this year, and this concerns the Department.

Co-Chair Green mentioned that senior citizens have more assisted living facility options than they have had in the past. These increased options may affect the demand for pioneers' homes. She supported further discussion on this issue.

Co-Chair Green asked if the pioneers' homes revenue shortfalls were a result of increased operating costs.

Ms. Clarke replied that the shortfalls were a result of low enrollment.

Co-Chair Green emphasized that this shortfall is significant and unanticipated.

SB 314

Section: 8(d)
BRU: Front Line Social Workers
Supplemental Need: Operating expense belt tightening of 96.3 to achieve net-zero general fund supplemental and anticipated additional Social Services Block Grant funds of 150.0
(\$246,300) general funds

Co-Chair Green asked if the Department has sufficient federal receipt authority to allow for the additional \$150,000 in Social Services Block Grants.

Ms. Clarke replied that the Department has sufficient revenue.

Co-Chair Green referenced Section 8(d) affecting the Subsidized Adoptions and Guardianship program and stated that this component request is historically a "huge issue". She asked what contributed to the amount of this request such as better planning, less program growth, or more funding in FY 03.

Ms. Clarke responded that all of those reasons contributed. In the past, the Subsidized Adoptions and Guardianship program has had large cost increases. The cost increase in FY 03 was approximately nine-percent, but the forecasted growth had been 12-percent. The program is leveling off.

Co-Chair Green requested a spreadsheet that detailed all of the Department's internal fund transfers.

Ms. Clarke stated that she would provide the spreadsheet.

SB 314
Section: 8(g)
BRU: Kenai Peninsula Youth Facility
Supplemental Need: 200.0 savings from delay in opening the facility plus 112.4 in operating expense belt tightening to achieve net-zero general fund supplemental (\$312,500) general funds

Senator Hoffman asked if the \$200,000 savings reflected a contract that was not issued to the Kenai Peninsula Youth Facility.

Ms. Clarke replied that the legislature provided the funding to enable the Kenai Peninsula Youth Facility to begin operations on July 1, 2004. However, there were delays in the facility's opening, which made some of the contract funds available for reappropriation.

Senator Hoffman asked specifically what the contracts were for.

Ms. Clarke replied that she would get Senator Hoffman the requested information.

SB 314

Department: Miscellaneous Claims

Section: NEW

BRU: Health and Social Services

Supplemental Need: Feb.23 Amd: miscellaneous claim of \$1,959.94

\$2,000 general funds

Ms. Clarke explained that this appropriation addresses three vendor claims relating to the State medical examiner. The Committee should be receiving back up information regarding this request.

Co-Chair Green asked about the Department's ratifications.

Ms. Clarke stated that Section 18(a)(3) was a ratification from FY 02 relating to the Medicaid program and the statutory designated program receipts from the Fair Share program. This request reflects the shortfall between the amount the Department budgeted for Medicaid, and the amount the Department was able to earn. The Department typically approaches the legislature two years after a fiscal year has closed so that Legislative Budget and Audit Committee can review the federal adjustments, and verify their accuracy. In FY 02, the legislature implemented the fair share program. The Department had anticipated receiving \$55 million in receipts from the tribal hospitals in payment back to the State. Only \$33 million was received. The Department is certain that no additional receipts will be received. She added that the Fair Share program's shortfalls have been included in the FY 04 supplemental request, so the Department would not be requesting a ratification of this magnitude for FY 04.

Co-Chair Green confirmed that the legislature should not anticipate a future ratification of this amount.

Ms. Clarke responded that approximately eight million dollars has been proposed in the Department's FY 05 budget to close the Fair Share programs shortfalls. She commented that this is another issue that deserves further discussion in the Senate Health and Social Services Finance Subcommittee.

Senator Hoffman referred to testimony given last year that suggested that the State would be obligated to fund this \$54

million of anticipated tribal hospital receipts. He asked how this ratification amount would be reconciled.

Ms. Clarke responded that the Department had budgeted approximately \$55 million for the Fair Share program. The earnings were \$33 million. This ratification is the gap between the estimated earnings and the actual earnings.

Ms. Clarke continued that the Department has a claim to the funds that were not granted through the Fair Share program. The Department has established a legal case in an attempt to garner the funds; the case is currently being appealed.

Senator Hoffman asked what efforts were being expended to ensure the payment of the shortfall, and the timeline of those efforts. He also asked the likelihood of collecting the shortfall.

Ms. Clarke responded that the Department has made numerous efforts to come to a resolution; however the federal Appeal Board has no restrictions on how long it considers an appeal.

Senator Hoffman restated his earlier question and asked if the Department's efforts are reflected in the budget.

Ms. Clarke responded that the Department has made many internal efforts to produce a favorable resolution. Department staff has provided information to the necessary federal agencies. She added that the Department could provide the Committee information pertaining to these efforts. The Department is confident in a favorable resolution.

Senator Hoffman asserted that this Department of Health and Social Services supplemental budget request is the most significant request, and the information provided is insufficient.

Co-Chair Green commented that this supplemental request has "some very, very interesting history". She had asked the previous gubernatorial administration to address this ratification by cutting the budget, but action was not taken until Governor Murkowski came into office.

Department of Transportation and Public Facilities

SB 313

Section: 9(a)

BRU: Anchorage Airport Administration

Supplemental Need: Tenant improvement inspection oversight. DOT will contract out management of the

extensive tenant building activity for the few months prior to opening the terminal. Internal staff cannot handle this level of one-time activity. Cost will not affect FY 05 budget.

\$200,000 International Airports Revenue Fund

JOHN MACKINNON, Deputy Commissioner of Highways and Public Facilities, Department of Transportation and Public Facilities, overviewed this request.

Co-Chair Green clarified that existing staff would be unable to handle the significant increased activities.

SB 313

Section: 9(b)

BRU: Anchorage Airport Facilities

Supplemental Need: Concourse C operations costs of planning and implementation of the consultant contract (to be hired in March) and the first month (June) of operations and maintenance.

\$1,500,000 International Airport Revenue Fund

Mr. MacKinnon anticipated that all of the operation and maintenance required for Concourse C would be conducted through contract services. This request would allow the hiring of a contract consultant who would develop a request for proposals (RFP). The current annual cost estimate for the contracted services is approximately six million dollars. This request would allow the Department of Transportation to hire the contract consultant, and would fund one month of Concourse C operations. Concourse C is scheduled to open in June 2004.

Co-Chair Green asked if this expense was unanticipated when the FY 04 budget was prepared.

NANCY SLAGLE, Director, Division of Administrative Services, Department of Transportation and Public Facilities, testified that the Department did know now the opening date of Concourse C and had therefore been "hesitant" to request funding in the original FY 04 budget.

SB 313

Section: 9(c)

BRU: Capital

Supplemental Need: Federal contract to perform maintenance and operation for 5 years at Adak air facility. Interest earnings must be spent on the Adak air facility.

\$10,000,000 Adak Airport Operations

Mr. MacKinnon informed that commercial air activity has begun at this airport. The additional costs of this project would be \$13.5 million, which would be funded by various federal fund sources over the next three years.

Co-Chair Green asked if future responsibility of the facility would transfer to the State.

Mr. MacKinnon answered that it could, and noted the current agreement is for five years.

SB 313

Section: 10(a)

BRU: Capital

Supplemental Need: Earmarked projects passed in January's federal omnibus bill which must all be obligated before September 30, 2004:

(1) Alaska Statewide Airports Runway and Related Improvements (ED99)

\$3,000,000 federal funds

\$ 157,900 Alaska Industrial Development & Export Authority (AIDEA) Dividend

(2) Fairbanks Terminal Redevelopment (ED99)

\$1,000,000 federal funds

\$ 52,700 International Airport Revenue Fund

(3) Kodiak Terminal Improvements (ED36)

\$1,000,000 federal funds

\$ 26,400 AIDEA Dividend

(4) University of Alaska Transportation Research Center (ED99)

\$2,000,000 federal funds

(5) Circumpolar Infrastructure Task Force, Arctic Council and Northern Forum (ED99)

\$1,000,000 federal funds

(6) Kotzebue Dust and Persistent Particulate Abatement Research (ED40)

\$1,000,000 federal funds

\$ 250,000 AIDEA Dividend

(7) Coffman Cove/Wrangell/Petersburg Ferries and Ferry Facilities (ED1-5)

\$2,000,000 federal funds

\$ 500,000 AIDEA Dividend

(8) Arctic Winter Games Transportation Improvements (ED99)

\$1,000,000 federal funds

(9) Ft. Wainwright Alternative Access and Chena River Crossing (ED60)

\$5,700,000 federal funds

\$ 565,800 AIDEA Dividend

(10) Big Lake to Wasilla Pedestrian Trails (ED70)

\$500,000 federal funds
 (11) Kincaid Park Trail Connection (ED 50)
 \$900,000 federal funds
 (12) Funny River Bridge Crossing (ED 90)
 \$5,000,000 federal funds
 (13) Glacier Creek/Nome Bypass (ED39)
 \$3,000,000 federal funds
 (14) McCarthy Creek Tram (ED 6)
 \$200,000 federal funds
 (15) Bartlett Access Intersection Safety
 Improvement (ED50)
 \$500,000 federal funds
 (16) Nome Bypass Road (ED39)
 \$2,000,000 federal funds
 (17) C Street Railroad Bypass (ED50)
 \$2,000,000 federal funds
 (18) Chenega Road System (ED5)
 \$850,000 federal funds
 (19) Craig Road Improvements (ED 5)
 \$1,000,000 federal funds
 (20) Donlin Creek Road (ED6)
 \$10,000,000 federal funds
 (21) False Pass Causeway and Road to the Terminus
 of the South Arm Breakwater (ED37)
 \$3,000,000 federal funds
 (22) Fairbanks Transit Bus Replacement (ED60)
 \$3,000,000 federal funds
 (23) Girdwood Project (ED32)
 \$1,000,000 federal funds
 (24) Hydaburg Road Improvement (ED5)
 \$2,000,000 federal funds
 (25) Keystone Drive and Related Improvements (ED90)
 \$1,500,000 federal funds
 (26) Lucille Street and Mack Drive Improvements-
 Wasilla (ED14)
 \$1,000,000 federal funds
 (27) Mat-Su Roads Improvement (ED70)
 \$3,000,000 federal funds
 (28) North Pole Roads Lighting (ED11)
 \$950,000 federal funds
 (29) North Slope Borough Road Improvements (ED40)
 \$3,000,000 federal funds
 (30) Port of Ketchikan Ferry Facility (ED1)
 \$1,000,000 federal funds
 (31) Seldovia-Homer-Jakolof Bay Halibut Cove Ferry
 Planning and Design (ED35)
 \$2,000,000 federal funds
 (32) Seward Road Improvements (ED35)
 \$2,000,000 federal funds
 (33) Ship Creek Improvements (ED50)

\$1,000,000 federal funds
(34) Sitka Road Improvements (ED2)
\$1,500,000 federal funds
(35) University of Alaska Transportation Research
Center (ED99)
\$2,000,000 federal funds
(36) Williamsport/Pile Bay Road Kenai (ED90)
\$3,000,000 federal funds
(37) Winner Creek Trail Improvements (ED50)
\$1,000,000 federal funds
(38) Yakataga River Bridge (ED5)
\$3,000,000 federal funds
(39) Alaska Mobility Coalition Bus Replacement
\$500,000 federal funds
(40) Coffman Cove Inner Island/Bus Terminal (ED1-5)
\$1,500,000 federal funds
\$ 375,000 AIDEA Dividend; ASLC Dividend
(41) Mobility Coalition
\$500,000 federal funds

SB 313

Section: 10(b)

BRU: Capital

Supplemental Need: Fund source section for projects
listed in Section 10(a)

\$0

Mr. MacKinnon explained that funding for a number of projects was approved by federal omnibus legislation. This request is necessary because certain confusions exist within the omnibus bill. The language specifies that project funds must be obligated by September 30, 2004, or the funds might lapse. By including these projects in the fast track supplemental budget, the Department could begin to process and obligate the projects by September 30, 2004.

Co-Chair Wilken asked why this request could not be included in the FY 05 capital budget. He also questioned the definition of "obligate" in this context.

Mr. MacKinnon replied that "obligate" refers to the Department satisfying certain criteria established by the federal government in order to receive funds. The federal government funds project costs as the State can exhibit need; therefore, total project costs may not be obligated all at once.

Co-Chair Wilken clarified that the Department simply needs authorization to begin the obligation process as early as possible.

Mr. MacKinnon affirmed.

Senator Hoffman asked if the projects listed in this request represent all of the projects approved by the omnibus legislation.

Mr. MacKinnon responded that the projects listed represent only a portion of the projects approved.

Co-Chair Green surmised this situation is different than from the previous year.

Mr. MacKinnon affirmed.

Senator Hoffman asked about the projects not included in this request, and what criterion was used to select the included projects.

Mr. MacKinnon replied that the federal legislation includes funds from various sources. Some of the proposed projects would be funded with appropriations that could lapse in September 2004. Therefore, these projects must be underway before that date.

Senator Hoffman clarified that the projects, of which the funding would not lapse, are included in the proposed FY 05 capital budget.

Ms. Slagle also noted that several airport projects are not included in this supplemental request and would not be included in the FY 05 capital budget either. She explained the funding for these projects do not require additional legislative approval.

Senator Hoffman requested additional information on this request.

Ms. Slagle qualified that many of the projects are not proposed at the request of the Department, but rather are requests of local governments and other agencies.

Co-Chair Green asked if these projects are in lieu of, or in addition to, "normal" projects.

Mr. MacKinnon replied that the language of the omnibus bill is different than previous legislation. He stated that the Department interprets this language to imply that the appropriation would be made from existing funds allocated to the State. Normally the language stipulates that specified projects would be funded in addition to the regular project

funding supplied to the State. The Department has been assured that this discrepancy would be corrected to provide that these projects would not take funds from existing projects.

Co-Chair Green clarified that this federal appropriation would change the usual method of determining Department of Transportation and Public Facilities' capital projects.

Co-Chair Green asked if the legislature could select certain proposed projects or whether all the projects must be accepted as a package.

Mr. MacKinnon was unsure that the State would have the option of not accepting particular projects. Many projects were submitted by "other entities", and the Department has not fully identified each of the projects. He reiterated that he was unsure of the intent of the appropriation language, noting that some of the projects appear to be duplicates of existing proposed projects, although utilizing different fund sources.

Ms. Slagle added that the Department inquired about not accepting certain projects. However, given the current language of the federal appropriation, the State would lose funds from its regular appropriation if it chose not to accept a project.

Co-Chair Green assumed the Department is attempting to get clarification on this language. She asked if this would be determined before May 2004, when the FY 05 State budget would be adopted.

Mr. MacKinnon agreed the Department is making efforts to clarify the issue and has been assured that the language would be amended to specify this federal appropriation is separate than that for existing projects. However, he had no guarantee of when this legislation would be amended.

Senator B. Stevens understood the proposed projects were included in the federal omnibus transportation bill. He clarified that the transportation portion of the omnibus legislation should have been passed by October 1, 2003.

Senator B. Stevens expressed confusion about the possibility that funding for these projects could be transferred from appropriations for other surface transportation projects. He asked if Congress had not approved the funding increase for Alaska projects over the next six years.

Mr. MacKinnon informed of the two versions of the omnibus bill, one adopted by the Senate and one by the House of

Representatives. A conflict exists between those versions and the version supported by the President Bush administration. None of the versions have been passed out of Congress.

Senator B. Stevens noted the appropriation included in the Senate version is less than the appropriation included in the House of Representatives version, and the appropriation in the Bush administration version is even less.

Senator B. Stevens expressed concern in authorizing the Department to consider and plan for certain projects and project appropriations when the federal omnibus bill has not yet passed, and may be adjusted.

Co-Chair Wilken referenced the projects included in Sections 10(a)(39) and 10(a)(41) that would provide funding for the purchase of vehicles for disabled persons and nonprofit organizations. He asked what organizations would receive this funding and also asked the criteria to qualify for the funds.

Mr. MacKinnon replied the Alaska Mobility Coalition requested the funding. The Department would administer the funding on behalf of the Coalition.

Co-Chair Wilken pointed out the inaccuracy of the election districts listed for the proposed projects.

Co-Chair Green assumed more information on this request would follow.

Mr. MacKinnon affirmed and stated that the Department is attempting to learn more specifics about the proposed projects.

Senator Hoffman clarified Mr. MacKinnon is the contact for further questions.

SB 313
State Debt
Section: NEW
BRU: Debt Service
Supplemental Need: Feb 23 Amd: Fund source switch of \$500,000 to the International Airports Revenue Fund from Passenger Facility Charges (\$500,000) for debt service on international airports revenue bonds. The \$500,000 of PFCs will be used for capital projects appropriated in prior years from this fund source.
\$0.0 Passenger Facility Charges; International Airports Revenue Fund

Ms. Slagle reviewed this amendment and explained that the Commissioner of the Department of Transportation and Public Facilities had reached an agreement with the signatory airlines, which specified that debt service contributions made by Passenger Facility Charges would not exceed two million dollars on an annual basis. This amendment would enable the agreement.

Co-Chair Green questioned the component title of the amendment on the spreadsheet dated February 23, 2004, which is listed as "State Debt".

Ms. Slagle clarified that this amendment would specifically affect the debt reimbursement of the Anchorage International Airport.

SB 314

Section: 17(a)

BRU: Capital

Supplemental Need: Proceeds from the 2003 sale of the MV Bartlett will be spent on the new Prince William Sound marine highway maintenance facility in Cordova. This and the \$900,000 authorization requested in the FY 05 capital budget will complete the project
\$389,500 Marine Highway System Fund

Ms. Slagle informed that federal regulations, Title 23, stipulate that any the proceeds from the sale of a vessel in which federal highway funds were used for its initial purchase or renovation, must be utilized for an eligible project of the same purpose or be returned to the federal government.

Co-Chair Green asked if the proposed maintenance facility is eligible for these funds.

Ms. Slagle answered it is.

SB 314

Section: 17(b)

BRU: NR Leasing and Property Management

Supplemental Need: Funds needed due to legal challenges to recent changes in airport leasing rates in AS 17.
\$ 50,000 Receipt Supported Services

Ms. Slagle told of the legal issues resulting from leases at the Deadhorse airport. She stated that leases at rural airports in Alaska are about one-half of the fair market value and that this dispute is a result of the Department's attempts to implement the regulations.

SFC 04 # 20, Side A 10:40 AM

Senator Bunde asked if the leasers were suing to maintain their subsidy.

Ms. Slagle clarified the parties are not suing the State, rather just appealing the implementation of the regulations.

Senator Bunde commented that the leasers had been receiving a substantial subsidy and are appealing the reduction of that subsidy.

Co-Chair Green informed that she has been following this matter and that the issue is not straightforward.

SB 314

Section: 17(c)

BRU: CR Hwys and Aviation

Supplemental Need: Snow hauling in Anchorage. Funds budgeted in FY 04 have been exhausted due to the heavy snowfall so far this winter. Additional costs of removing snow from Anchorage sidewalks are included in this request.

\$200,000 general funds

Ms. Slagle reported that Anchorage had received a total of 76 inches of snow as of a couple of weeks ago, which is three feet more than normal. In FY 04 the Department had allocated \$500,000 for snow haul purposes and \$696,500 had been expended to date for snow removal activities.

Co-Chair Green asked if snow-hauling activities encompassed airport maintenance as well as roadway maintenance.

Ms. Slagle corrected this funding would be expended only for the streets in downtown Anchorage that the State is responsible to maintain.

Senator B. Stevens clarified this funding is for State-maintained roads located in Anchorage and not for those roads included in the Anchorage Metropolitan Area Transportation Solutions (AMATS) program.

Ms. Slagle affirmed.

Co-Chair Green asked if additional expenses were not incurred in areas surrounding downtown Anchorage.

Mr. MacKinnon explained that snow storage in urban areas does not exist and that after a certain amount of accumulation, the snow must be removed from the area. By contrast, he stated that other areas along State-maintained highways have sufficient snow storage.

Co-Chair Wilken cautioned that granting this request would establish an undesirable precedence.

SB 314
Section: 17(d)
BRU: SE Hwys and Aviation
Supplemental Need: Funds needed due to legal challenges to recent changes in airport leasing rates in AS 17.
\$50,000 Receipt Supported Services

Ms. Slagle stated this section relates to leases held by the Yakutat airport and a dispute in the best interest finding award of an airport lease.

Co-Chair Green asked if the Department usually requests funding for legal challenges.

Ms. Slagle replied these expenses are unusual, and that the leasing budgets are limited and unable to absorb the costs of large legal disputes. She furthered that legal issues on leases are uncommon.

Co-Chair Green did not recall such funding requests in previous years.

SB 314
Section: 17(e)
BRU: Marine Vessel Operations
Supplemental Need: Masters, Mates and Pilots union has ratified its contract as of January 1, 2004. In the FY 04 budget, the Legislature appropriated \$60,500 to cover a full year's monetary term cost, but six months of the appropriation is not needed.
(\$30,200) Marine Highway System Fund

Ms. Slagle outlined this return of funds.

Department of Community and Economic Development

SB 314
Section: 2(a)
BRU: Regulatory Commission of Alaska Audits & Investigations
Supplemental Need: Additional funds for expert witness

costs are required for a) completion of Alaska Communications Systems cases (\$20,000), b) Enstar case participation (\$15,000), c) assistance on the telecom regulations preceding responsive to HB 111 (\$20,000), d) participation in other cases (\$60,000).

\$115,000 RCA Receipts

SB 314

Section: 2(b)

BRU: Regulatory Commission of Alaska

Supplemental Need: Due to major developments in Cook Inlet and the Trans Alaska Pipeline System, the Regulatory Commission of Alaska's effort in regulating pipelines has significantly increased. To provide the necessary expertise two new positions, a range 21 Research Analyst IV and a range 19 Utility Financial Analyst are requested. Funds for additional office space, furniture and equipment are also requested.

\$114,600 RCA Receipts

TOM LAWSON, Director, Division of Administrative Services, Department of Community and Economic Development, testified that Sections 2(a) and 2(b) relate to the Regulatory Commission of Alaska (RCA), and are funded by RCA receipts. He briefly explained the two requests.

MARK JOHNSON, Commissioner and Chair, Regulatory Commission of Alaska, Department of Community and Economic Development, testified via teleconference from Anchorage, that the request in Section 2(a) relates to the Audits and Investigations section of the RCA, which is under the supervision of the State Attorney General per Executive Order #111. The Office of the Attorney General has requested certain expert witness fees regarding four particular issues. He emphasized the reasonableness of the request.

Mr. Johnson noted that Section 2(b) relates to an increase in the regulatory filings involved in the intrastate transport of natural gas. A separate commission formerly supervised this function, but it was merged into the Alaska Public Utilities Commission, the predecessor of the Regulatory Commission of Alaska. Regulatory filings have increased particularly in the Cook Inlet region and the North Slope region. Additional staff is needed to handle the increased regulatory filings expeditiously in order to "enable economic development in the oil fields."

SB 314

Section: 2(c)

BRU: Capital

Supplemental Need: Repeal of funds to Saxman for Public Safety Bldg sec. 87, ch. 1, SSSLA 2002, pg. 138, In 9. Actual grant amount is \$1,074,341 (\$1,074,300) general funds

Mr. Lawson informed that this would repeal the appropriation that was granted to the City of Saxman for construction of a public safety facility. This facility would be built elsewhere in the Ketchikan Borough.

SB 314

Section: 2(d)

BRU: Power Cost Equalization

Supplemental Need: PCE Endowment fund appropriation to PCE fund to replace the general funds requested in the FY 05 budget. This is the balance of the statutory 7% limit of the PCE Endowment monthly average market value for appropriation in FY 04. An FY 05 budget amendment will also be submitted.

\$4,581,000 PCE Endowment Fund

Mr. Lawson stated this appropriation would fund the Power Cost Equalization (PCE) program. He explained that this request would compensate for an FY 05 budget shortfall. It would also replace \$3.7 million of general funds requested in the FY 05 operating budget. The FY 04 operating budget authorized a withdrawal of up to \$12.6 million from the PCE Endowment fund. In FY 04 \$7.9 million was transferred from the PCE Endowment fund into the PCE fund. The PCE fund reached its \$15.7 million funding level after a one-time National Petroleum Reserve-Alaska (NPR-A) appropriation. Approximately \$4.6 million of the PCE Endowment fund remains available for withdrawal, and this request would authorize a transfer from the PCE Endowment fund to the PCE fund. This appropriation would be used in FY 05 to fully fund the PCE fund.

Department of Corrections

SB 314

Section: 3(a)

BRU: Inmate Health Care

Supplemental Need: The cost of drug and scientific supplies continue to rise annually and contractual costs have increased due to eight catastrophic cases, each costing in excess of \$100,000.

\$1,100,000 general funds

JERRY BURNETT, Director, Division of Administrative Services, Department of Corrections, testified this request would provide for the increased costs of contractual services and

medical supplies.

SB 314

Section: 3(b)

BRU: Out of State Contracts

Supplemental Need: Due to increases in population and subsequent management of placement of prisoners, the out of state contracts and related travel costs are increasing from the budgeted 650 prisoners to in excess of 775 by the end of FY 04.

\$920,000 general funds

Mr. Burnett told of the increased number of Alaskan inmates housed in a correctional facility in Arizona. He qualified that the actual need could be less than the need reflected in this request and that a subsequent adjustment would be made once the actual number of inmates is determined.

Senator Bunde asked if Section 3(a) included pharmaceutical costs.

Mr. Burnett responded that pharmaceuticals are one component of the request in Section 3(a) because pharmaceutical costs have gone up by more than 20%, and an increasing number of inmates have pharmaceutical needs.

Senator Dyson reminded of the previous appearance of this witness before the Committee when Senator Dyson complemented the Department on its care of inmates. He recalled his earlier questioning of how the legislation could verify the truth in the Department's reporting. He clarified he did not intend to infer disbelief in the reporting.

Mr. Burnett detailed that an "open [reporting] process" exists within the State's correctional institutions.

Senator Dyson furthered that inmates are not prevented from reporting complaints to the legislature or others.

Mr. Burnett affirmed, and added that daily communications occur between the correctional facilities and people in the community.

Senator Dyson apologized for his earlier comments, and thanked the Department for their good record.

Department of Education and Early Development

SB 313

Section: NEW

BRU: Alyeska Central School
Supplemental Need: Feb 23 Amd: Additional operating
costs of \$653,736
\$653,700 general funds

KAREN REHFELD, Deputy Commissioner, Department of Education and Early Development, testified that in the previous legislative session, the legislature provided the Alyeska Central School (ACS) funding for a one-year transition to be incorporated by a local school district. A school district has expressed interest in assuming the program and is undergoing the process for establishing a charter school to operate the correspondence program. The projected budget assumed the enrollment of 800 students, and actual enrollment has declined by nearly one-half, possibly due to uncertainty of the future of the program. The lack of enrollment will create an approximately \$1.3 million loss in revenue. In addition, many staff members have resigned. The Department needs approximately \$654,000 to complete the program for the students enrolled, and to complete the incorporation of the ACS into a local school district.

Co-Chair Green asked the consequences of not providing the requested additional funding.

Ms. Rehfeld replied the program would be unable to "make payroll". The staff would be laid off, and the educational program would be discontinued.

SB 314
Section: 4(a)
BRU: Foundation
Supplemental Need: FY 04 foundation program entitlement
adjustment based on actual student count.
(\$3,654,000) general funds

Ms. Rehfeld stated the surplus of funds is the result of decreased enrollment.

Senator Bunde asked the number of fewer students and whether the impact of the decreased enrollment was more noticeable in certain parts of the State.

Ms. Rehfeld replied that the overall reduction in enrollment is approximately 1,500 students. She deferred to Eddie Jeans.

EDDIE JEANS, Manager, School Finance and Facilities Section, Education Support Services, Department of Education and Early Development, testified he would provide a comparison of the student count of the previous year to the current year and a

school district comparison. He informed that the enrollment in public and community schools reduced by approximately 1,800 students while the enrollment of correspondence programs increased by 382 students.

Senator Bunde clarified that he is interested in whether a large percentage of the decreased enrollment occurred in one part of the State.

Mr. Jeans told of decreased enrollment in the Kenai Peninsula School District, although no major population decreases have occurred in the area. However, he commented that the decrease in enrollment has not been concentrated in one part of the state.

Senator Bunde asked if a method exists to track student movements as they change schools.

Mr. Jeans told of the student identification system that could track students as they move around the State, but this system has only been in place for three years. Therefore, the data is not yet meaningful.

Co-Chair Green asked if enrollment in public schools is a net decrease.

Mr. Jeans answered yes.

SB 314
Section: 4(b)
BRU: Pupil Transportation
Supplemental Need: Pupil transportation program
adjustment based on actual student count
(\$788,400) general funds

Ms. Rehfeld outlined this item.

SB 314
Section: 16(a)
BRU: School Debt Reimbursement
Supplemental Need: FY 04 entitlement adjustment based on
actuals, down from \$37,424,100 to \$32,052,000
(\$3,399,900) Debt Funds
Supplemental Need: FY 04 Cigarette Tax revenue increase
adjustment from \$28,600,000 to \$30,572,200
\$1,972,200 School Fund

SB 314
Section: 16(a)
BRU: School Debt Reimbursement

Supplemental Need: FY 04 Debt Retirement Fund decrease from \$37,424,100 to \$32,052,000 that corresponds with the increase in cigarette tax revenue (\$1,972,200) Debt Fund

Ms. Rehfeld overviewed these items.

Department of Military and Veterans Affairs

JOHN CRAMER, Director, Division of Administrative Services, Department of Military and Veterans' Affairs, testified that an earlier spreadsheet detailing the proposed amendments to the regular supplemental budget stated the Department of Military and Veterans' Affairs request would be appropriated from the general fund, when it would actually be appropriated using federal funds.

SB 314

Section: 11(a)

BRU: Homeland Security and Emergency Services

Supplemental Need: Transfer of federal authorization from Army Guard to Homeland Security for increased FEMA grants \$767,000 general funds

SB 314

Section: 11(b)

BRU: Army Guard Facilities Maintenance

Supplemental Need: Transfer of federal authorization from Army Guard to Homeland Security for increased FEMA grants (\$767,000) general funds

Mr. Cramer detailed these requests.

Co-Chair Green asked if these would be technical amendments.

Mr. Cramer affirmed, and stated that this is a net-zero request.

Senator Dyson asked if the Department had too much funding for maintenance.

Mr. Cramer replied affirmed and added that the Department has "excess authorization".

Co-Chair Green noted that a committee substitute would be prepared that would include the Governor's proposed amendments, at which time the Committee would determine which projects to approve. She requested member input.

Co-Chair Wilken referenced a chart on page 15 of the packet

provided by the Department of Health and Social Services titled "DHSS FY2004 Delete/Add Supplemental Request" indicating increases in disability services. He expressed interest in the details of this issue.

Co-Chair Green agreed that the growth of disability services is an important issue.

Co-Chair Wilken commented on the dramatic growth of certain Department of Health and Social Services' programs illustrated in the chart.

Senator Dyson mentioned that the states that are allowing consumer-directed health services have set base rates that cannot be exceeded. These restrictions prevent the State from overspending while allowing consumers to determine the specifics of their care. He added that consumer directed services are "a fascinating concept".

Co-Chair Green commented on the unpredictable impacts of the negotiated rate process in Alaska.

Co-Chair Green ordered the bill HELD in Committee.

#

ADJOURNMENT

Co-Chair Lyda Green adjourned the meeting at 11:10 AM