

**MINUTES**  
**SENATE FINANCE COMMITTEE**  
**April 02, 2004**  
**9:05 AM**

**TAPES**

SFC-04 # 67, Side A  
SFC 04 # 67, Side B  
SFC 04 # 68, Side A

**CALL TO ORDER**

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

**PRESENT**

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

**Also Attending:** GUY BELL, Director, Division of Administrative Services, Department of Labor and Workforce Development; ERIC SWANSON, Director, Division of Administrative Services, Department of Administration; JANET CLARKE, Director, Division of Administrative Services, Department of Health and Social Services; NICO BUS, Administrative Services Manager, Division of Support Services, Department of Natural Resources; NANCY SLAGLE, Director, Division of Administrative Services, Department of Transportation and Public Facilities; KAREN REHFELD, Deputy Commissioner, Department of Education and Early Development; EDDIE JEANS, Manger, School Finance and Facilities Section, Education Support Services, Department of Education and Early Development; STEVE PORTER, Deputy Commissioner, Department of Revenue; CHERYL FRASCA, Director, Office of Management and Budget, Office of the Governor;

**Attending via Teleconference:** From an offnet location: PAT PITNEY, Budget Director, University of Alaska; MARK MYERS, Director, Division of Oil and Gas, Department of Natural Resources; JOE BEEDLE, Vice President of Finance, University of Alaska; From Anchorage: DAWN BISHOP-KLEWENO, Special Assistant, Regulatory Commission of Alaska, Department of Community and Economic Development; CRAIG TILLERY, Chief Assistant Attorney General,

Statewide Section Supervisor, Environmental Section, Civil  
Division, Department of Law

**SUMMARY INFORMATION**

SB 357 INSURANCE

The bill moved from Committee.

SB 313 FIRST SUPPLEMENTAL APPROPRIATION  
SB 314 SECOND SUPPLEMENTAL APPROPRIATION

SB 313 and SB 314 were HEARD and HELD in Committee for further consideration. The Committee heard overviews on the budget requests of the Department of Labor and Workforce Development, the University of Alaska, the Department of Community and Economic Development, the Department of Health and Social Services, the Department of Law, the Department of Natural Resources, the Department of Transportation and Public Facilities, the Department of Education and Early Development, and the Department of Revenue.

SJR 3 CONST AM: APPROPRIATION/SPENDING LIMIT

SJR 3 was HEARD and HELD in Committee for further consideration. The Committee heard from the sponsor, the University of Alaska, and the Office of the Governor. Two amendments were adopted.

Co-Chair Wilken chaired this portion of the meeting.

#sb357

CS FOR SENATE BILL NO. 357(L&C)

"An Act relating to the regulation of insurance, insurance licenses, qualifications of insurance producers, surplus lines, fraud investigations, electronic transactions, and compliance with federal law and national standards; and providing for an effective date."

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

Co-Chair Wilken stated this bill "contains numerous changes to ensure that State statutes are consistent with federal law model acts, standards, and guidelines."

Co-Chair Wilken offered a motion to report CS SB 357, 23-LS1684\H from Committee, as amended, with accompanying fiscal note and individual recommendations.

There was no objection and CS SB 357 (L&C) MOVED from Committee with zero fiscal note #1 from the Department of Community and Economic Development.

Co-Chair Green chaired the next portion 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."

The Committee continued hearing presentations from departments on the budget requests of both bills. The Committee referenced a spreadsheet titled "FY2004 SUPPLEMENTALS" dated March 31, 2004, which outlined the requests [copy on file].

Co-Chair Green referenced the spreadsheet and clarified that it is intended for the purpose of convenience and discussion. This spreadsheet contains all but two of the proposed amendments.

Department of Labor and Workforce Development

Section: 2

Department: University Education Labor

Supplemental Need: Mar 22 Amd: appropriate the June 30, 2004 balance of the Alaska Technical and Vocational Education Program account (TVEP) to the four entities allowed to receive the funds: UA, Galena Project Education Voc Training Ctr, Kotzebue Technical Ctr, and AVTEC  
\$1,002,100 TVEP

GUY BELL, Director, Division of Administrative Services, Department of Labor and Workforce Development, testified that the Alaska Technical and Vocational Education Program is funded by one-fifth of the employee contributions made to the unemployment insurance trust. These funds are designated to vocational education programs around the State. The current allocation is based on the following

percentages: 63-percent for the University of Alaska, 22-percent for the Alaska Vocational Technical Center, 11-percent for the Kotzebue Technical Center, and four-percent for the Galena Project Educational Vocational Training Center. This request would allow the FY 04 TVEP fund balance to be allocated according to the above percentages. The amount of TVEP fund balance is dependent on whether the funds "swept" from the TVEP fund into the general fund in FY 03 are returned through a "reverse sweep".

Co-Chair Green asked the balance amount if the reverse sweep does not occur.

Mr. Bell responded the balance would be approximately \$88,000.

Co-Chair Green questioned the amount of funding each of the vocational education programs received in FY 04.

Mr. Bell replied that the total amount appropriated in FY 04 was approximately \$4.6 million. This amount was then allocated to the four vocational education programs using the percentages detailed above.

Co-Chair Green asked how much of the appropriation was swept into the general fund.

Mr. Bell answered that \$913,600 was swept at the end of FY 03. If this amount were reinstated to the TVEP fund the fund balance would be just over one million dollars.

Co-Chair Green asked how these programs would be affected if this request is not included in the FY 04 supplemental budget.

Mr. Bell responded that the balance of the TVEP fund at the end of FY 04 would remain in the account; the funds would not be allocated until a future appropriation by the legislature.

Co-Chair Green restated her earlier question.

Mr. Bell answered that if this request were not included in the supplemental budget the FY 05 operating budget would dictate the TVEP fund. The FY 05 operating budget would appropriate approximately \$4.6 million to TVEP, and this appropriation would then be allocated to the vocational education programs.

Co-Chair Green asked for a chart comparing the affects of this supplemental budget request if adopted, and if not adopted.

Mr. Bell responded that he would need to compare the affects of

this supplemental request if passed with the reverse sweep, if passed without the reverse sweep, and if not adopted.

PAT PITNEY, Director of Budget, University of Alaska, testified via teleconference from an offnet location that the University supports this request. The TVEP is directed at high demand work force areas determined by the Alaska Workforce Investment Board. The University is attempting to respond quickly to certain high priority workforce needs, and this additional appropriation would allow the University some financial flexibility. Specifically, the University's vocational health care programs need additional funds to complete classroom set-up and distance course development. The University requests that these additional funds be appropriated in FY 04.

Co-Chair Green asked Ms. Pitney if she had written a letter to the Committee expressing the University's support of this request.

Ms. Pitney answered no, and added that she would be able to draft a letter for the Committee.

Co-Chair Green requested that Ms. Pitney also draft a comparison of the affect on the University's vocational education programs if this request is adopted, and if it is not.

Senator Olson informed that in 2003 Kotzebue Technical Center lost \$300,000 in the sweep of funds out of the TVEP fund. He asked if this request would consider Kotzebue Technical Center's loss of funds.

Ms. Pitney affirmed that the Kotzebue Technical Center would receive their portion of the funds made available for an additional FY 04 appropriation.

Senator Olson asked if Kotzebue Technical Center would be receiving approximately \$110,000 of the funds if this supplemental amendment were adopted.

Ms. Pitney affirmed that the Kotzebue Technical Center would receive that amount if they are allocated 11 percent of the overall appropriation.

Mr. Bell clarified that if a reverse sweep occurs and this request is adopted the Kotzebue Technical Center would receive \$110,000.

Department of Community and Economic Development

Section: 3(d)

BRU: Regulatory Commission of Alaska

Supplemental Need: Mar 22 Amd: Legal counsel costs  
\$180,000 Unrestricted Federal Receipts

DAWN BISHOP-KLEWENO, Special Assistant to the Commissioner and Chair, Regulatory Commission of Alaska, Department of Community and Economic Development, testified via teleconference from Anchorage that this request would assist the Commission with legal costs resulting from the appeal of legal cases involving tax rate changes effective from 1996-2000.

Co-Chair Green noted that several departments' supplemental requests involve telecommunications costs.

ERIC SWANSON, Director, Division of Administrative Services, Department of Administration, testified that the supplemental requests relating to telecommunications costs reflect the amounts that the State agencies are unable to pay. These amounts also reflect increases in telecommunications costs from FY 03 to FY 04. In FY 03 the Department of Administration was able to forgive portions of the telecommunications costs in order that certain State agencies did not have to submit supplemental budget requests. The Department anticipated that cost savings would be achieved through the Telecom partnering agreement. However, the agreement did not meet the expectations of the Department, and cost savings were not achieved. The Department would be in a "cash flow crunch" if the various State agencies were unable to fund the telecommunications costs.

Co-Chair Green asked the time frame for finding a solution to this situation.

Mr. Swanson responded that the Department is considering revising the methodology used to determine the enterprise productivity rate (EPR), which is the rate charged for telecommunication services. Currently the EPR is based on the number of jobs, which causes certain State agencies to be more heavily impacted.

Co-Chair Green asked how these high telecommunication costs would impact the FY 05 budget.

Mr. Swanson replied that the Department does not have a reliable forecast for FY 05 telecommunication costs. These costs would be determined by methodology changes the Department might implement in FY 05.

Co-Chair Green asked if the Department was committed to correct the methodology that has contributed to these high telecommunication costs.

Mr. Swanson affirmed the Department's willingness to make changes.

Co-Chair Green noted that nearly every department has been affected by these high telecommunication costs.

Mr. Swanson clarified that the Department of Health and Social Services, the Department of Transportation and Public Facilities, and the Department of Corrections are the State agencies requesting FY 04 supplemental budget amendments related to this issue.

Co-Chair Green mentioned that the Department of Health and Social Services has requested several amendments related to this issue.

Mr. Swanson affirmed.

Co-Chair Green asked if the impact of not adopting the related requests to the FY 04 supplemental budget would be severe.

Mr. Swanson explained that the State could have problems with the federal government if these costs are not paid. In addition, without a supplemental appropriation the Department of Administration could experience a cash flow shortage.

#### Department of Health and Social Services

Section: 10(x)

BRU: Probation Services

Supplemental Need: Mar 22 Amd: Court ordered costs for  
Division of Juvenile Justice

\$295,900 general funds

JANET CLARKE, Director, Division of Administrative Services, Department of Health and Social Services, testified that a component of the Department's budget was deleted relating to court ordered costs for juvenile justice cases. The Department has submitted this request because the legislature determined that the Department should include the court ordered costs in a supplemental request after the actual costs are realized.

Section: 10(y)

BRU: Alaska Psychiatric Institute

Supplemental Need: Mar 22 Amd: Telecommunication costs

\$98,400 Unrestricted Federal Receipts

Section: 10(z)

BRU: Children's Services Management

Supplemental Need: Mar 22 Amd: telecommunications costs

\$49,500 Unrestricted Federal Receipts

Section: 10(aa)

BRU: McLaughlin Youth Center

Supplemental Need: Mar 22 Amd: Telecommunications costs  
\$135,300 Unrestricted Federal Receipts

Section: 10(bb)

BRU: Public Assistance Field Services

Supplemental Need: Mar 22 Amd: Telecommunications costs  
\$110,700 Unrestricted Federal Receipts

Section: 10(cc)

BRU: Pioneer Homes

Supplemental Need: Mar 22 Amd: Telecommunications costs  
\$159,900 Unrestricted Federal Receipts

Ms. Clarke informed that the Department's telecommunication cost supplemental requests total \$553,800. She informed that the Alaska Communication Systems (ACS) contract changed the methodology of accounting and allocating costs from a device count to a position count. The ACS contract was supposed to offer savings in long distance toll charges to offset costs; however, the Department of Health and Social Services has not yet realized savings from this change.

Ms. Clarke explained that the Pioneers' Homes budgeted \$66,000 for telecommunications costs; however, based on the ACS methodology the rates would be \$600,000. The Department has attempted to minimize the impact of these costs, but it could not afford to pay the increased rates.

#### Department of Law

Section: 12(c)

BRU: Environmental Law

Supplemental Need: Mar 22 Amd: Studies and analyses related to oil remaining in the environment from the Exxon Valdez oil spill

\$1,500,000 EVOSS

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

The Department has requested an appropriation of \$1.5 million in receipts from the Exxon Valdez oil spill Trustee Council.

This amount has been approved by the Trustee Council at its most recent meeting. Many of the natural resources injured by the Exxon Valdez oil spill have recovered or are well along in the process of recovering. One area that remains a particular concern stems from the discovery in the year 2001 that there was significantly more oil remaining in a toxic state in the environment than was anticipated. Fuel studies have indicated that this lingering oil is bio-available to species that feed in the inter-tidal and near shore environment. Preliminary studies indicate that certain species with access to this oil, in particular harlequin ducks and sea otters, continue to ingest or otherwise contact the oil and may be adversely affected by it. In addition, there are other species such as herring where studies indicate that injury persists but the connection to the oil spill remains clouded.

This appropriation was directed by the Trustee Council to allow the State to retain independent outside experts to analyze results of these studies, to develop potential further studies to further clarify the issue, and to fund those studies, and finally, if warranted, to develop a strategy for dealing with any problems. All of these moneys are restricted program receipts and are limited in their use to the restoration activities requested by the joint federal/State Exxon Valdez oil spill Trustee Council.

Co-Chair Wilken asked if this effort is mandated or voluntary.

Mr. Tillery replied that the effort is mandated because of the responsibility of the State in its role within the EVOS Trustee Council. However, the State could not be forced to undergo this additional study. Much of this appropriation would not be expended by State employees, but by outside experts and the federal government.

Co-Chair Wilken questioned the consequences of disallowing this study.

Mr. Tillery answered that if this study were not undertaken, "questions are unanswered". These unknowns could negatively affect the State, industry, and private citizens.

Co-Chair Wilken expressed that studies conducted through the EVOS settlement have become "a jobs program". He requested a list of projects that this appropriation would fund, and the specific project costs. He asserted that he is not in favor of this request.

Mr. Tillery agreed to provide the requested information.

Senator Bunde commented that areas of Prince William Sound had been left un-restored after the oil spill so that the natural recovery rate of the environment could be studied. He asked if the oil in the intentionally un-restored areas was affecting the wildlife the witness referenced.

Mr. Tillery responded that the majority of the studies have been conducted on beaches that have been cleaned. Experts had anticipated that any remaining oil would have been "weathered out", but more oil, and oil with high toxicity was actually found present on some of these beaches. Through testing it has been determined that the oil is "leaching out" of these beach areas, and is affecting harlequin ducks and sea otters.

Senator B. Stevens referenced a document he received from the EVOS Trustee Council requesting \$900,000 to conduct an eco-system study in the Prince William Sound area.

Mr. Tillery replied that though all of the EVOS programs coordinate with one another, the request Senator B. Stevens received is different than this supplemental request. He reiterated the origins of this supplemental request, and emphasized its specificity.

Senator B. Stevens cited the memo dated March 23, 2004 requesting federal receipt authority for approximately \$745,000 to conduct an "eco-system ocean integrated observing system". He again asked if the request he received is related to this supplemental request.

Mr. Tillery answered that the request Senator B. Stevens received reflects a grant offered by the National Oceanic and Atmospheric Administration (NOAA). He again clarified that the two studies are not related.

Senator B. Stevens read some excerpts of the EVOS document he had received. He asked how much funding would be used for studies on the continuing impact of the Exxon Valdez oil spill.

Mr. Tillery replied that the studies funded by this supplemental request should "cap" studies on the lingering affects of the oil spill. He qualified that the studies referenced by Senator B. Stevens would not examine the lingering affects of oil, but would focus on the currents of the Prince William Sound.

Co-Chair Green referenced another EVOS request, and asked if that request was the same as this supplemental request.

Mr. Tillery answered that the two requests were related, but not

the same and have different funding sources. The request Co-Chair Green referenced is related to a "re-opener provision" in the EVOS settlement decree.

Co-Chair Green asked if more EVOS settlement funds might be awarded.

Mr. Tillery responded that the potential existed if a study determines that unanticipated injury related to EVOS has occurred. If any additional funding were received it would be directed at very specific, pre-determined projects.

Co-Chair Green asked how the State would benefit from this supplemental request.

Mr. Tillery explained that the State's resources would be restored. The public would benefit because the EVOS would finally be "put to rest". The studies to be funded by this request would eliminate the unknowns and speculation regarding the lingering affects of the EVOS.

Co-Chair Green asked why this appropriation would be directed to the Department of Law. She asked if the Department would be contracting with outside agencies or other State agencies.

Mr. Tillery replied that the Department of Law is one of three State members of the EVOS Trustee Council. The Trustee Council determined that the funding should go to the Department of Law because certain outside experts have already been contracted through the Department; therefore continuity, efficiency and cost savings could be achieved through allowing the Department of Law to distribute the funds. He qualified that the Department would be merely a "conduit" for this appropriation.

Co-Chair Green asked about the consequences if this request is not included in the FY 04 supplemental budget.

Mr. Tillery explained that this request must be included the supplemental budget because certain aspects of the studies must begin this field season. The studies might not be completed if the funding is not granted until FY 05.

Co-Chair Green asked the witness to document his explanation.

Senator Dyson informed that he had been involved with numerous marine science projects some of which were funded by the EVOS settlement funds. He continued that he could potentially bid on EVOS projects in the future, and explained that his family operates

a charter sightseeing boat on Prince William Sound. He summarized that he has a "tenuous" conflict of interest regarding this supplemental request.

Senator B. Stevens questioned when the EVOS FY 03 annual report would be distributed.

Mr. Tillery answered that he was unsure, but that he would find out.

Co-Chair Green noted that she had passed over certain supplemental requests that involve direct transfers.

Department of Natural Resources

Section: 14(d)

BRU: Agricultural Division

Supplemental Need: For the marketing and continued implementation of the State Organic Certification Program  
\$90,000 ARLF

NICO BUS, Administrative Services Manager, Division of Support Services, Department of Natural Resources, testified that approximately \$30,000 of this appropriation would be applied directly to the State Organic Certification Program, and \$60,000 to the marketing of this program.

Co-Chair Green noted the legislation authorizing this appropriation had been passed, but not implemented.

Mr. Bus responded that the Department does not have the necessary regulations to use program receipts to fund the State Organic Certification Program as the legislature had directed. This request would use Agricultural Revolving Loan Funds to fund the authorship of the needed regulations.

Section: 14(k)

BRU: Capital

Supplemental Need: Mar 22 Amd: The balance of the Diamond Creek Parcel Purchase, reviewed by the Legislature as RPL 10-4-5002 on July 9, 2003, needs to be moved from operating to capital as the project will not be completed by end of FY 04.  
\$0.0

Section: 14(l)

BRU: Development Special Projects

Supplemental Need: Mar 22 Amd: Sec. 47(b), ch. 1, SSSLA 2002 for appraisal of public school lands needs lapse date

extension from June 30, 2004 to June 30, 2006 due to on-going litigation.

\$

Mr. Bus outlined these requests. He noted that both of these amendments are simply requesting the extension of specific projects.

Department of Transportation and Public Facilities

Section: 19(l)&(j)

BRU: Capital

Supplemental Need: Mar 22 Amd: Ekwok Airport project-adds \$2 million and changes the project title from "rehabilitation" to "improvements."

\$2,000,000 federal funds

NANCY SLAGLE, Director, Division of Administrative Services, Department of Transportation and Public Facilities, testified that originally this project was intended to rehabilitate the existing airport facilities due to weather damage, but the Department has determined that relocating the airport is a better option.

Co-Chair Green asked if the decision to relocate the facility was due to the cost inefficiency of remodeling the existing airport.

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Ms. Slagle answered that relocating the facility is the better option, and with this appropriation the Department could afford to relocate the facility.

Co-Chair Green asked if this supplemental request impacts federal funds in the FY 05 capital budget.

Ms. Slagle replied that no, this appropriation would utilize Federal Aviation Administration (FAA) Airport Improvement Program funds.

SB 313

Section: 20(1)

BRU: Capital

Supplemental Need: Mar 22 Amd: FY04 Earmark for Akutan alternative plan to use ferry access to airport. No match required.

\$1,000,000 federal funds

Ms. Slagle reminded that the federal omnibus appropriation bill has several earmarks relating to airports. The Department did not initially realize that legislative authority was needed to authorize this earmark. This request would allow the Department to consider alternatives for the location of the airport in Akutan, and related ferry alternatives.

Department of Education and Early Development

Co-Chair Green referenced a packet containing a memorandum to the Senate Finance Committee from the Office of Management and Budget dated March 31, 2004, which contained an amendment to SB 313 proposed by the Department of Education and Early Development [copy on file]. The packet contained another memorandum from Karen Rehfeld of the Department of Education and Early Development to the Office of Management and Budget dated March 30, 2004, which provided information about the amendment [copy on file].

KAREN REHFELD, Deputy Commissioner, Department of Education and Early Development, testified that the legislature has approved an expansion project of the Mount Edgecumbe dormitory and classrooms. The Department is hoping to serve an additional 65 to 80 students following the completion of the expansion. The Governor is very supportive of this expansion project, and has requested that it be accelerated so that additional students could be accommodated beginning in August 2004. Additional funding is needed in order to carry out this request.

Ms. Rehfeld explained that this supplemental request contains two parts. One part involves a capital project that would expedite the renovation project in order that the facilities could be used in December 2004. The other part involves operating funds that would enable Mount Edgecumbe to house students while the dormitory renovation is being completed. The Department is considering utilizing a vacant floor of the Sitka Pioneers' Home to temporarily house the students. The dormitory management and food services contracts would need to be amended to allow for the additional students and the temporary use of the Sitka Pioneers' Home.

Ms. Rehfeld referenced the memorandum dated March 30, 2004 and clarified that the names used to reference certain rooms within the Mount Edgecumbe High School were no longer relevant, specifically, the names "Dance Studio" and "Home Economics Room".

Ms. Rehfeld continued that the Department of Transportation and Public Facilities (DOTPF) would serve as the project manager for the renovation project. The DOTPF would be visiting the Mount

Edgecumbe High School to ensure that the renovations are "appropriate" and "realistic" given the target timeline.

Senator Olson asked if the intention of the renovation project is to allow Mount Edgecumbe's student population to increase.

Ms. Rehfeld responded yes, that Mount Edgecumbe currently serves approximately 320 students, and the renovation would allow approximately an additional 80 students.

Co-Chair Wilken informed that the Legislative Budget and Audit Committee had discussed the Mount Edgecumbe renovation project in October 2003. At that time the Committee approved a \$1.65 million Revised Program - Legislative (RPL) for the planning and design of the Mount Edgecumbe renovation expected to be completed by the fall of 2004. In a December Committee meeting a second RPL of six million dollars was approved for renovation expected to be completed by the fall of 2005. During the December meeting the Department assured the Committee that no additional funding would be needed, and that the date of expected completion would be the fall of 2005.

Co-Chair Wilken asked if this request would actually enable the completion of the renovation project by the fall of 2004, and whether the State is paying a financial "penalty" by rushing this project. He expressed concern regarding the new project timeline.

Ms. Rehfeld responded that there would be increased costs associated with expediting the renovation project. From the beginning of this project the Governor expressed interest in having it completed by the fall of 2004. The Department did not realize, upon originally approaching the Legislative Budget and Audit Committee to request project funding, that it had the ability to request the entire project appropriation at one time. The Department requested funding for the planning and design work not knowing what other funding might be available. The Department was "delighted" when the Committee approved the construction funding.

Ms. Rehfeld continued that it would be difficult to accommodate additional students in the 2004 school year without this supplemental request. The Deputy Commissioner of DOTPF is confident that the expansion project could be completed within the current timeline, but additional costs would be incurred.

Co-Chair Wilken asked the status of the renovation project.

EDDIE JEANS, Manger, School Finance and Facilities Section, Education Support Services, Department of Education and Early

Development, testified that the preliminary designs for the renovations of the dormitory facility are completed. The Department of Education and Early Development is working with the DOTPF to finalize the preliminary designs.

Mr. Jeans qualified that \$7.5 million is sufficient to complete the Mount Edgecumbe renovation project. This supplemental request is addressing the need for temporary facilities to provide for 30 additional students in the 2004 school year until the renovations are completed. Two additional renovations would be needed to convert spaces into temporary classrooms. In summary, this request is not an attempt to acquire more funding for the original renovation project, but rather an attempt to fund renovations that would allow 30 additional students to attend Mount Edgecumbe beginning in the fall of 2004.

Co-Chair Wilken encouraged the Committee to consider whether a better renovation project would be produced if the original 2005 project completion date were maintained. He asked why this renovation project must be completed in 2004.

Senator B. Stevens recalled that the funding source for the original Mount Edgecumbe renovation project was the Tax Credit Relief Act, which was a one time funding source granted to the State over a two-year period. He asked if any Tax Credit Relief Act funds remain, and whether they could be used to fund this supplemental request in place of general funds.

Co-Chair Green confirmed that an answer to that question would be obtained.

Co-Chair Green asked if Mount Edgecumbe's enrollment is consistently about 330 students. She also asked if the school has a waiting list.

Ms. Rehfeld responded that Mount Edgecumbe's average enrollment has been approximately 330 students, which is the maximum capacity of the school. In addition, Mount Edgecumbe annually receives approximately 300 student applications though it typically only has 100 to 140 openings.

Co-Chair Green asked for more information about the demand for Mount Edgecumbe services. She asked if this request must be a FY 04 supplemental request.

Ms. Rehfeld explained that the Department needs the ability to move forward with the proposed renovations and operational issues in this fiscal year. She emphasized that it would be "extremely

difficult" for the Department to delay this funding request until FY 05 considering that Mount Edgecumbe would be open to students in August 2004.

Co-Chair Green referred to a chart titled "FY04 Supplemental Amendment - Operating 30 Additional Students" in the memorandum dated March 30, 2004 and asked about the passenger van request. She assumed the van is needed to transport students between the Pioneers' Home to the high school. She also asked if the line item "Bus" listing a \$10,600 cost represented the cost of hiring a bus driver.

Ms. Rehfeld affirmed.

Co-Chair Green asked why air transportation costs were included in the supplemental request.

Ms. Rehfeld replied that the Department provides Mount Edgecumbe students one round trip airline ticket. The Department budgets for the airline costs by estimating the number of students who would be allotted tickets.

Co-Chair Green restated her question.

Ms. Rehfeld responded that the air transportation costs would not be incurred until FY 05. She explained that the Department is requesting operating funds in this supplemental to provide for an additional 30 students to attend Mount Edgecumbe. These funds are being requested in the FY 04 supplemental budget so the Department could begin making plans regarding the acceptance of the additional students.

Senator B. Stevens clarified that the operating costs in this supplemental would be for the additional students, and not existing students.

Ms. Rehfeld affirmed, and added that the operating costs for Mount Edgecumbe's existing students are in the FY 05 operating budget. She explained that the operating costs for the additional students could have been offered as a FY 05 operating budget amendment, but the Department chose to combine the additional operating costs with the capital request involving the additional students in this FY 04 supplemental request.

Co-Chair Green assumed the contractual costs, except the passenger van, are related to the Sitka Pioneers' Home.

Mr. Jeans replied that the contract costs would be used to amend

the current residential and food service contracts to allow for the temporary use of the Pioneers' Home and for the additional students. He added that this request must be included in the FY 04 supplemental budget because the Department needs to begin amending the residential and food service contracts before July 1, 2004.

Co-Chair Green asked if these operating costs were for half of FY 05.

Ms. Rehfeld responded that the operating costs would be for the full year. The Department's reference to a half year was related to the anticipated completion of the dormitory renovation project in December 2004, which would allow students to begin using the expanded facility in January 2005.

Co-Chair Green understood. She clarified that the contractual costs would allow the students to be housed in the Pioneers' Home until the dormitory renovation is complete.

Ms. Rehfeld corrected that the residential contracts would also have to be amended once the expanded dormitory facility is in use.

Co-Chair Green asked if the "FTE" line items on the "FY04 Supplemental Amendment - Operating 30 Additional Students" were also contract related costs.

Ms. Rehfeld responded that the residential staff and the dorm supervision would occur over the full academic year; however, the dorm supervision would occur at the Pioneers' Home until the dormitory expansion is complete.

Co-Chair Green asked for a further explanation of dormitory supervision.

Ms. Rehfeld answered that the Department contracts a dormitory management service.

Co-Chair Green asked if there are "dorm mothers" at Mount Edgecumbe.

Ms. Rehfeld replied that there are contract employees who serve in the dorm mother capacity.

AT EASE 10:16 AM / 10:19 AM

Department of Revenue and Department of Natural Resources

Co-Chair Green introduced the gas line funding request.

STEVE PORTER, Deputy Commissioner, Department of Revenue, gave a brief overview of stranded gas, and the State's stranded gas goals. He testified as follows.

From a perspective standpoint, I think what you've got to do when you look at stranded gas in general, is to think about four points. One is you have to understand the parties that are required to play, and the other parties that might play and participate in stranded [gas], and bringing the project to fruition. You have to understand all of the risks, secondly, and all of the costs and benefits associated with any project. Thirdly, you have to be able to understand all of the options you have to address those risks, so you really have to understand those elements. And then, fourthly, you kind of combine all of those together and you get a project. That is the context in which we find ourselves.

If you look at the first element, the parties, the parties that play and the parties that participate in any project are basically the producers, because they are the owners of the gas. They are either going to sell the gas or they are going to market it themselves, but they play in almost any project that goes forward because they have some relationship to the gas, and a working interest in the gas. The federal government plays in any project because they are going to take their portion from a taxes standpoint in any project that plays as well. State government is the same way. We have revenue; we have royalty interests and tax interests, and the Canadian government as well. These are all of the parties that must play in any project. And so you have to understand that. The other potential players that come to the table are, you have heard of a whole list, Trans-Canada, Enbridge, Mid-American, the Port Authority, the [Alaska Natural Gas] Development Authority, [and] interestingly, the local distribution companies. You've got Crystal Energy that you have heard about, [and] a number of companies that may actually, from a shipping standpoint, be willing to purchase the gas. All of these are potential players. And the reason that you have to understand each one of their perspectives is because none of those additional players, other than the group at the top that we have talked about [including] the feds [federal government], the State and the producers, all of the rest of these players only play if they bring something to the table that is a tool or an alternative to address some of that risk. In other words, they must take a piece of the risk, and add incremental benefit to an overall project, or they don't participate.

And so what the State is tasked with doing, is looking at all of the different options that the different parties bring to the table and understand those as alternatives or tools, and then try to combine all of those tools into a risk package that works on an overall project. So a lot of the stuff that you see before us here today is trying to understand that risk package: how the players bring value to the table. And we have to understand that value to come to the State's recommendation on how to move forward.

So that gives you the overall context that we find ourselves in as we move forward with the project. What that results in is, as one of these particular participants come to the table, especially under the Stranded Gas Act, we have a responsibility by law to negotiate a contract with any party that can come to the table and meet the requirements of the Act. So that is kind of going on concurrently with our analysis. So you've got to understand that that is happening as well: the negotiations with the producers, with Exxon, BP, and Conoco Phillips, the negotiations that went on with MidAmerican. If the Port Authority also ends up with an application that meets the requirements of law, you have the Port Authority. You have Enbridge as a possibility to come in with an application. There are other parties that have also called us as well. So each one of these parties who comes to the table, what we are trying to do is to flesh out the value of what they bring to the table to understand their participation and their ability to share risk in their overall project. So that is what we are trying to do, and that is where the numbers come from.

Mr. Porter continued by discussing the risk analysis. The Department is predicting costs totaling \$5.8 million to be expended primarily over the next four to six months. He referenced a document provided by the Department of Revenue titled "Risk Analysis Project", and explained that the first phase of the project would involve defining the boundaries, and determining how much risk the State could tolerate. He continued by listing the action taken in the second phase of the project, and qualified that the phases outlined in this document slightly overlap one another. Phase three involves risk sharing between producers, the State government, and the federal government. Each of these parties would benefit in different ways to compensate for the risk assumed. In addition to risk sharing, phase three also includes the creation of a risk assessment model. Lastly, phase four involves producing stranded gas project recommendations. The total cost of this risk analysis project would be \$1,580,000.

Mr. Porter stated that individual producer negotiations would continue to occur during the risk analysis project. These negotiations would "feed" the risk analysis project. The cost of on-going negotiations would total \$4.25 million, for a total cost of \$9.73 million for the State gas line right of way and the risk analysis project.

MARK MYERS, Director, Division of Oil and Gas, Department of Natural Resources, testified via teleconference from an offnet location. He noted that it is an "exciting time" for the Alaska gas line project as evidenced by the number of parties interested in being involved with the project. The State needs to have the expertise available to fully analyze the components of the gas line proposals to ensure that the project provides maximum benefits to the State. The State must consider the following when conducting its analysis: the benefits each of these parties could offer the State, the benefits the State could offer the producers, the appropriate combination of producers, and the appropriate level of risk sharing between the producers and the State. The State could obtain some of this information directly from the producers, those involved with the construction of the pipeline, marketers, and gas users. However, certain data could not be obtained through these direct sources, and other data would require due diligence to eliminate subjectivity. The State must understand the project itself: the intrinsic risks, the range of risks, and outcomes of those risks. Acquiring this information would require sophisticated analysis, and State government does not possess the needed expertise. Because the State would assume added project benefits and added project risks, it must gain an understanding of the financial market by contracting financial institutions. These issues would be addressed in the first phase of the risk analysis project.

Mr. Myers emphasized that the risk assessment is a significant part of the process. The State must contract firms to provide information such the market value of gas, the benefits of a gas line through Alberta, Canada, and tariffs. After the risks are known, quantified, and modeled, the State would need to determine risk sharing and present its findings to the parties in a "coherent fashion".

Mr. Myers continued that this risk analysis should be conducted in the near future because it is a lengthy process, requiring funding in the FY 04 supplemental budget. This request should be encouraging to the legislature because it reflects that the gas line project is making progress.

Mr. Myers explained that the State is better able to establish the gas line right of way than private industry. The State would assume ownership of the right of way, and later transfer it to the corporation chosen to construct the gas pipeline. Certain risks would be assumed in establishing the right of way. For example, after committing significant capital to this project, delays could seriously affect the cost of the project. In addition, social costs associated with the pipeline would be incurred. The State is in the best position to minimize the costs and accelerate the process of establishing a gas pipeline right of way. Furthermore, the State's ownership of the gas line right of way would eliminate much risk for the pipeline construction company.

Co-Chair Green welcomed questions of the witness. She expressed the need for clear understanding of this request. She asked which aspects of this request must be included in the FY 04 supplemental budget, and which aspects could be included in the FY 05 budget.

Senator Olson assumed that general funds would be used to fund this appropriation, and asked if any other fund sources would be utilized.

Mr. Myers replied that possibly Permanent Fund Corporation funds could be used. He deferred to Cheryl Frasca of the Office of Management and Budget or Nico Bus of the Department of Natural Resources.

Co-Chair Green asked that Steve Porter provide the requested information.

Senator Bunde asked if the State's establishment of the gas line right of way with the intention of a future transfer would be comparable to the State's past investment in the Alaska Railroad, which resulted in the railroad becoming a semi-autonomous State entity.

Mr. Myers replied that the situations are similar, but the State would transfer the gas line right of way to an existing state entity rather than creating a new State entity. In addition, the State would not actively manage the project once it was transferred.

Senator Bunde expressed that the legislature should have more control over the gas line right of way than has been allowed over the Alaska Railroad.

Senator Olson recommended an additional supplemental budget request that would appropriate funds to the Army Corps of Engineers for a

project in Shishmaref.

Co-Chair Green noted that Senator Olson has discussed the Shishmaref project with the other members of the Committee. The Committee is interested in assisting Senator Olson in obtaining the funding for that project.

Co-Chair Green ordered the bill HELD in Committee.

Co-Chair Wilken chaired the remainder of the meeting.

#sjr3

CS FOR SENATE JOINT RESOLUTION NO. 3(JUD)

Proposing an amendment to the Constitution of the State of Alaska relating to an appropriation limit and a spending limit.

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

Amendment #11: This amendment deletes Section 16 (c)(4) from Section 1 on page 2, lines 17 and 18 of committee substitute Version "C" and inserts new language to read as follows:

(4) of State general obligation bond and revenue bond proceeds;

Senator Dyson moved for adoption.

Co-Chair Wilken objected for an explanation.

Senator Dyson explained that this amendment would remove certificates of participation (COP) proceeds as an exclusion from the calculation of an appropriation limit.

Co-Chair Wilken clarified that the amendment would remove the exemption of COP proceeds.

Senator Dyson affirmed.

Without objection the amendment was ADOPTED.

Amendment #12: This amendment deletes Section 16(c)(7) from Section 1 on page 2, line 21 and inserts new language to read as follows.

(7) of money received by the University of Alaska as tuition, fees, or contract receipts, or from other non-general

fund sources

Senator Dyson moved for adoption.

Co-Chair Wilken objected for an explanation.

Senator Dyson explained this amendment would allow the University to receive an exemption for these funds from the calculation of the appropriation limit. The University operates much like an enterprise and exemplified locker fees and bookstore income as exempted revenues under this provision.

Co-Chair Wilken noted that Pat Pitney of the University of Alaska provided information titled, "Examples of Revenue included in University Receipts and the unintended impact on a Spending Limit" [copy on file.]

JOE BEEDLE, Vice President of Finance, University of Alaska, testified via teleconference from an offnet location in support of the amendment.

Senator Dyson wanted confirmation that Ms. Frasca did not oppose this amendment.

CHERYL FRASCA, Director, Office of Management and Budget, Office of the Governor, implored that the Committee consider the impact of this amendment. All State agencies would compete for the finite amount of funding available under a spending limit system. This amendment would address the University at a "higher standard" than other State agencies because other agencies operate somewhat like a corporation and generate revenue, yet their revenues are not exempted from the spending limit. She stated that adoption of this amendment would be a policy decision.

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Ms. Frasca continued that the University currently has "significant excess authority" for expending University receipts without further legislative authorization. She explained that because of this, University appropriations would reach the appropriation limit at a slower rate than other agencies. This exemption is an "accounting issue" for the University, but it is a "significant policy decision" for the Executive Branch.

Co-Chair Wilken removed his objection to the adoption of the amendment.

Co-Chair Green objected.

A roll call was taken on the motion.

IN FAVOR: Senator Olson, Senator Bunde, Senator Dyson and Co-Chair Wilken

OPPOSED: Senator B. Stevens and Co-Chair Green

ABSENT: Senator Hoffman

The motion PASSED (4-2-1)

The amendment was ADOPTED.

Co-Chair Wilken ordered the bill HELD in Committee.

**ADJOURNMENT**

Co-Chair Wilken adjourned the meeting at 10:46 AM