

**MINUTES**  
**SENATE FINANCE COMMITTEE**  
**April 07, 2004**  
**9:06 AM**

**TAPES**

SFC-04 # 74, Side A  
SFC 04 # 74, Side B  
SFC 04 # 75, Side A

**CALL TO ORDER**

Co-Chair Lyda Green convened the meeting at approximately 9:06 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  
Senator Donny Olson

**Also Attending:** LYNN SMITH, Staff to Senator Con Bunde; LUCKY SCHULTZ, Staff to Senator Fred Dyson; SUSAN TAYLOR, Director, Administrative Services, Department of Revenue; JERRY BURNETT, Director, Division of Administrative Services, Department of Corrections; JANET CLARKE, Director, Division of Administrative Services, Department of Health and Social Services; LINDA PEREZ, Administrative Director, Division of Administrative Services, Office of the Governor; ROB CARPENTER, Fiscal Analyst, Legislative Finance Division; HENRY WEBB, Staff to Representative Ralph Samuels and Aide, Legislative Budget & Audit Committee; PAT DAVIDSON, Legislative Auditor, Division of Legislative Audit, WAYNE REGELIN, Deputy Commissioner, Department of Fish and Game;

**Attending via Teleconference:** There were no teleconference participants.

**SUMMARY INFORMATION**

SB 256-APPROP: OPERATING BUDGET/LOANS/FUNDS  
SB 258-APPROP: MENTAL HEALTH BUDGET

The Committee heard subcommittee reports for the Department of Administration, the Department of Labor and Workforce Development, Department of Law, Department of Natural Resources, University of Alaska, Department of Commerce and Economic Development, Department of Education and Early Development, Department of Transportation and Public Facilities, Department of Environmental Conservation, Department of Military and Veterans Affairs, Department of Revenue, Department of Corrections, Department of Health and Social Services, the Alaska Court System, the Alaska State Legislature, and the Office of the Governor. The bills were held in Committee.

#### SB 374-PERMANENT FUND INCOME DISTRIBUTION

The Committee heard from the sponsor and the Legislative Finance Division. The bill was held in Committee.

#### SB 303-BIG GAME GUIDE BOARD & SERVICES

The Committee heard from the sponsor, the Department of Fish and Game, and the Division of Legislative Audit. The bill was held in Committee.

#### SB 337-ENERGY PROGRAMS & FUNDS

This bill was scheduled but was not heard.

#sb256

#sb258

#### SENATE BILL NO. 256

"An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska; and providing for an effective date."

#### SENATE BILL NO. 258

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

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

Co-Chair Green stated that due to the fact that the House of Representatives operating budget companion bills have not been

transmitted to the Senate, today's meeting would be limited to reviewing the differences between the Senate Finance Committee subcommittee FY 05 operating budget report recommendations and Governor Frank Murkowski's proposed FY 05 budget. She reviewed the proposed timeline for developing a committee substitute, hearing public testimony, and the deadline for the receipt of Members' amendments to the Committee's proposed operating budget.

#### Department of Administration

Senator Con Bunde, Chair  
Senator John Cowdery  
Senator Bert Stedman  
Senator Georgianna Lincoln

Senator Bunde commented that in the development of this Department's budget recommendations, the subcommittee had closely adhered, "where practical" to the Governor's proposed FY 05 budget. He noted that minor changes were necessary in a few areas.

LYNN SMITH, Staff to Senator Con Bunde, informed the Committee that the lone change to the Governor's proposed FY 05 Department operating budget was a funding source change from General Funds to receipt-supported services in the Division of Motor Vehicles.

Senator Dyson asked whether the subcommittee reviewed the Department's Missions and Measures statement.

Senator Bunde responded that he had requested each of the departments whose budgets he oversaw to provide a Mission and Measures report. He noted that the Department of Administration's report was quite extensive and when asked regarding its corresponding volume of paperwork, the Department saved a significant amount of money by making its report available on-line rather than by printing the report to paper. He shared that this dialogue between the Subcommittee and the Department resulted in a small, but cost-saving, change in the process.

Senator Dyson asked whether the subcommittee chair agreed with the Department's Missions and Measures report.

Senator Bunde replied yes. He noted that the Department's Missions have not changed and that its attempt to measure efforts, "while not perfect", is an ongoing process.

#### Department of Labor and Workforce Development

Senator Con Bunde, Chair

Senator Ralph Seekins  
Senator Bert Stedman  
Senator Bettye Davis

Ms. Smith informed that in contrast to the Governor's single appropriation to this Department, the Committee separated the appropriation into four components: the Commissioner; Administrative Services; Workers Compensation and Safety; and Workforce Development and Vocational Rehabilitation.

Senator Bunde noted that considerable time was spent reviewing the Department's Missions and Measures report. The report presented no area of discomfort.

Senator Dyson expressed pleasure and surprise at Senator Bunde's comment, as he had found that the Department reports he reviewed were measuring activity rather than the results and benefits being provided to State residents.

Co-Chair Green asked for confirmation that the appropriation structure being recommended by the subcommittee would divide the appropriation into four rather than one allotment.

Senator Bunde concurred.

Department of Law

Senator Con Bunde, Chair  
Senator Ralph Seekins  
Senator Tom Wagoner  
Senator Kim Elton

Ms. Smith commented that the subcommittee recommends only one change to that proposed by the Governor. This change would reduce the Department's overall General Fund budget by \$100,000 and transfer those funds to the Alaska Court System as it is anticipated that the Court System, whose budget was held to its prior year's level in the Governor's budget, would need this money as both the Department of Law's and Department of Public Safety's budgets have increased and might impact the Court System.

Senator Bunde explained that the Department of Law would be able to identify the area from whence this funding reduction would occur. He also informed Senator Dyson that limited review of this Department's Missions and Measures was undertaken as time was devoted to addressing the Department's budget issues. However, he noted that the Department was made aware of the importance and interest allocated to its Missions and Measures report.

Department of Natural Resources

Senator Con Bunde, Chair  
Senator Gary Stevens  
Senator Tom Wagoner  
Senator Lyman Hoffman

Ms. Smith expressed that the lone change in this budget as compared to that proposed by the Governor was, at the request of the Department, the addition of receipt authority in the Agricultural Revolving Loan Fund. As a result of this change, \$150,000 would be made available for the Alaska Grown Marketing Program and \$60,000 would be made available for the organic program. She stated that Representative Bill Stoltze had furthered this request in order to better market the State's organic grown program. She noted that other Legislators have voiced support for the marketing program increase.

Co-Chair Green understood that there would be no change to the overall General Fund request level.

Ms. Smith affirmed.

Department of Fish and Game

Senator Ben Stevens, Chair  
Senator Scott Ogan  
Senator Tom Wagoner  
Senator Kim Elton

Senator B. Stevens shared that the three differences between the Senate subcommittee budget recommendation and that proposed by the Governor include: "an improved fund source change" that "swaps" \$830,000 of General Funds designated for the Division of Commercial Fisheries with an identical amount of funding by the Revolving Loan Fund designated for the Division of Subsistence; an increase in the Commercial Fisheries Limited Entry Commission Receipt Supported Services to provide funding for the Public Employees Retirement System (PERS) increase; and a \$1.25 million General Fund increase to provide funding to the Department's PERS expenses.

Senator Hoffman asked how these changes would affect the Department's overall budget.

Senator B. Stevens responded that the changes would result in less than an overall \$1.025 million increase.

Senator Hoffman understood that the increase would primarily address PERS expenses.

Senator B. Stevens concurred.

Department of Public Safety

Senator Ben Stevens, Chair  
Senator Gene Therriault  
Senator Ralph Seekins  
Senator Gretchen Guess

Senator B. Stevens informed the Committee that the subcommittee, as compared to the Governor's FY 05 budget proposal, has recommended a General Fund reduction of \$50,000 in the Division of Alaska State Troopers and a General Fund reduction of \$50,000 in the Alaska Bureau of Investigation's budget. In addition, he continued, the subcommittee allowed for a \$200,000 General Fund increase to the Council on Domestic Violence & Sexual Assault grants category to provide funding for Shelters. A \$200,000 transfer from the Permanent Fund Felon Account in the Division of Personnel Services Contracts would further supplement the shelter increment.

Co-Chair Green understood therefore that the proposal would provide an additional \$400,000 for shelters.

Senator B. Stevens concurred, but clarified that the net increase would only amount to \$200,000, as \$200,000 of the total \$400,000 would be supported by a funding transfer.

Senator B. Stevens noted that the subcommittee also accepted an increase of \$9,900 in General Funds as the result of a transfer of funds from the Department of Administration to the State facilities Rentals Category in the Department of Public Safety.

Senator B. Stevens characterized the subcommittee changes to this budget as "minor."

University of Alaska

Senator Ben Stevens, Chair  
Senator Lyda Green  
Senator Gary Wilken  
Senator Con Bunde  
Senator Fred Dyson  
Senator Lyman Hoffman  
Senator Donny Olson

Senator B. Stevens explained that due to the fact that the University of Alaska FY 05 funding has been included in other legislation, specifically SB 35 and HB 283, no subcommittee report would be presented.

Senator Dyson asked whether Senator B. Stevens's subcommittees addressed any of their departments' Missions and Measures reports.

Senator B. Stevens responded that the majority of the subcommittees' efforts focused on the budgetary process and that limited time was available to address Missions and Missions.

#### Department of Community and Economic Development

Senator Gary Wilken, Chair  
Senator Bert Stedman  
Senator Gary Stevens  
Senator Donny Olson

Co-Chair Wilken pointed out that the changes recommended by the subcommittee as compared to the Governor's proposed budget included replacing all General Fund support for the Office of Economic Development and the Commercial Fisheries Revolving Loan Funding with business licensing receipts. He stated that the subcommittee "accepted the Governor's amendments to transfer trade positions between" the Department and the Governor's Office due to the fact that the entirety of the Division's general funds had been eliminated and replaced with business license receipts.

Co-Chair Wilken continued that the subcommittee showed support for the Local Boundary Commission in the Division of Community Advocacy by allowing for an increase of one position as well as an additional \$50,000 in General Funds. Furthermore, he noted that the Qualified Trade Association's (QTA) \$1.125 million of General Funds was replaced with business license receipts. He stated therefore that the total budget for the QTA would remain at both the contracted amount and the \$4.005 million amount specified in the Governor's budget.

Co-Chair Wilken furthered noted that the subcommittee added language to allow lapsed FY 04 business license receipts to support the FY 05 budget.

Co-Chair Wilken also stated that the subcommittee supported the Governor's proposal to transfer six positions from the Regulatory Commission of Alaska (RCA) to the Department of Law.

Co-Chair Wilken noted that other than the aforementioned changes

regarding the QTA, no other language changes were made to the Governor's proposed budget.

Department of Education and Early Development

Senator Gary Wilkin, Chair  
Senator Bert Stedman  
Senator Bettye Davis

Co-Chair Wilken thanked the Department of Education and Early Development and the Subcommittee members for the assistance in developing the subcommittee budget recommendations. He noted that the K-12 Public Education Foundation Funding Formula budget is embodied in other separate budgetary legislation, and therefore, while it was included in the FY 04 budget, its associated \$8,400,000 expense is not reflected in the FY 05 proposed operating budget.

Co-Chair Wilken stated that the subcommittee approved the authorization for the State to receive an additional six million dollars in federal funding for various [indiscernible due to coughing] programs. He pointed out that due to organizational changes, \$4,088,000 has been eliminated from the Department's budget due to this being the first year that the Yukon/Koyukuk School District would be operating the State's distant education correspondence program, Alyeska Central School (ACS), as a charter school. This structural change also allowed for the elimination of 26 permanent full-time, 27 permanent part-time, and one temporary employee in addition to the elimination of two positions in the Pupil Transportation category.

Co-Chair Wilken noted that an Education Specialist II position was added to oversee "at least for one budget cycle" of the newly structured correspondence program and its 11,000 student enrollees. He noted that this position would assist in furthering the development of this program, which has experienced tremendous growth in recent years.

Co-Chair Wilken also noted that \$75,000 was restored to the Division of Libraries archives section and intent language was added to address concerns regarding the increasing usage of interagency receipt funding for executive administration, administrative services, and information services. The goal of the intent language would be to recognize these expenses as "true" budget expenditures.

Senator Hoffman asked the funding source for the Education Specialist II position.

Co-Chair Wilken replied that the position would be funded by \$119,500 of General Funds.

Senator Olson asked how the oversight of the previous correspondence program was managed.

Co-Chair Wilken replied that other than Department, there was no specific person responsible for the oversight of the program. In the year 2000, a position was established to oversee charter schools; however, it was deemed necessary to authorize one specific person to be responsible for overseeing all alternative education programs being offered by the State as concerns have been raised in regards to how the programs, and specifically correspondence programs, were being managed. He noted that this position would be able to provide assistance to the programs, especially as the growth of alternative programs has been significant and has resulted in fragmentation within the Department.

Senator Olson asked whether the \$119,500 designated for this position would provide sufficient funds for the Education Specialist II to travel to various program locales.

Co-Chair Wilken responded that a business plan that includes travel has been developed for this position.

Senator Dyson, while voicing appreciation in regards to adding a position to monitor correspondence programs, noted that the charter school overseer position had not reached its full potential. He therefore, asked whether the Specialist II position would be a one-year position and whether the original charter school monitor position would assume the responsibility for monitoring all alternative school programs thereafter.

Co-Chair Wilken responded that the position would "probably be" a two-year position as the individual would travel and gather data during the first year, and then implement Legislative and regulatory recommendations the second year. He suggested that continuance of these positions should be re-evaluated at that time.

Senator Dyson voiced the hope that these "two positions could work together."

Co-Chair Wilken stated that the Department understands the intent of establishing the position and would be developing a job description.

Senator Hoffman noted that the FY 05 management plan, as compared

to the FY 04 management plan, reflects a reduction of 25 full-time positions.

Co-Chair Wilken explained that the reductions result from the change with the ACS correspondence school program.

Senator Dyson asked regarding the Department's Missions and Measures.

Co-Chair Wilken stated that the Department was asked to evaluate its Missions and Measures and provide any change requests to the subcommittee. Minimal discussion in this regard ensued.

Co-Chair Green interjected that she had not requested a Missions and Measures report from the departments whose budgets she oversees due to the fact that all Legislators had received a letter requesting "a one-year delay" pertaining to the Missions and Measures process. The intent of this delay was to allow time for Departments to re-evaluate their goals and missions.

Senator Dyson understood that the request had originated from, at that time, the newly seated Governor Frank Murkowski Administration. The one-year time frame has expired and therefore, he understood, as discussed at this table, that this should be the year that the subcommittees would review the revised Missions and Measures reports.

Co-Chair Wilken remarked that during the Legislative Interim, "an arduous process" was conducted between the Administration and each Department to further their Missions and Measures goals. He stated that rather than being ignored, the results of that process are embodied in the FY 05 budget, and that a subcommittee's review of the Missions and Missions relating to the Department's budget would be a repeat of what had already occurred and would be shallow in comparison.

Senator Dyson voiced therefore that there might be a fundamental difference between how the Missions and Measures process is viewed, as he understood it to be a method through which the Legislature could measure "performance against agreed upon missions" in the budgetary process. Therefore, a subcommittee's acceptance of a department's FY 05 budget, as presented, without conducting a Missions and Measures review, could be likened to accepting, without examination, that budget. This would be contrary to what should be a Legislator's responsibility. He stressed that a Legislator "has a very keen responsibility" in determining the validity of how taxpayers dollars are spent and to adjust budgets in order to support the missions of a department in an economical

manner. He opined that what he is hearing today is contrary to that charge.

Co-Chair Wilken clarified that the Missions and Measures responsibility for the FY 05 budget has been assumed by the Administration, and that, while a subcommittee could also conduct its own Missions and Measures review, it would be a duplication of effort. Those who participated in the Department/Administration Missions and Measures review process characterized it as being exactly what the process should have been and even a step further. In conclusion, he stated that while he considers Missions and Measures to be an important and necessary process, his subcommittees did not conduct such a review, as it would have repeated efforts already conducted.

Senator Dyson opined therefore, that the subcommittee had not utilized the process to determine how the department was performing. Continuing, he asked why the tools provided by the Missions and Measures process were not being utilized.

Co-Chair Wilken reiterated that his subcommittee had not conducted a review due to the fact that the Administration had already conducted the process during the months of May through September 15, 2003.

Senator Dyson suggested that the Legislature should either continue or modify the measures regarding the results of a department's efforts. The intended result should be positive for people of Alaska. Things that do not work should not be funded.

Co-Chair Green pointed out that the current Director of the Office of Management and Budget had participated in the Administration's Missions and Measures department review, and had in years past, participated in a similar process. This is "a particular passion" of hers. "There is a point at which Missions and Measures is an Administrative tool, probably more so than it is a Legislative tool." Therefore, at this time, the Administration's participation in the process should be allowed.

#### Department of Transportation and Public Facilities

Senator Gary Wilken, Chair  
Senator Scott Ogan  
Senator Tom Wagoner  
Senator Georgianna Lincoln

Co-Chair Wilken acknowledged the efforts of Department staff and the subcommittee members in addressing this budget. He noted that

other than expanding the Department's appropriation structure into five rather than one appropriation as requested by the Department and as reflected in the Governor's FY 05 Amended budget, no other changes were made. The five appropriation components are Administration and Support; Design, Engineering and Construction; Highways, Aviation, and Facilities; International Airport System; and the Marine Highway System.

Senator Hoffman noted that the FY 05 budget, as compared to the FY 04 management plan, indicates that there would be a reduction of 126 fulltime and 34 part-time staffing positions. This is reflected on page two of the "Agency Totals - FY 2005 Operating Budget - Senate Structure" spreadsheet in the subcommittee report. He asked how this would affect public service delivery. In addition, given that there would be a decrease in staffing, why would there be a \$3 million increase in the Administration and Support Services appropriation.

Co-Chair Wilken responded that the majority of the 126 full-time positions are vacant and therefore, their elimination would not affect the service area. He was unsure as to the reason for the increase in Administration and Support services.

Senator Hoffman agreed that, as reflected in the FY 04 management plan's \$267 million budget, those positions must have been vacant. However, noting that the FY 05 budget is proposed to be \$282 million, he voiced concern that, as the State continues efforts "to tighten its belt" a portion of the "substantial" \$15 million increase would be designated to increase Administration and Support funding rather than to support direct services.

Co-Chair Green stated that this concerns would be addressed as the budgetary numbers are further reviewed.

#### Department of Environmental Conservation

Senator Fred Dyson, Chair  
Senator Scott Ogan  
Senator Lyman Hoffman

Senator Dyson stated that the Governor's Amended Budget reduced the Department's FY 05 budget by \$219,000 and that the House of Representatives further reduced it by \$270,200. The Senate Subcommittee, however, recommended that \$201,400 be added back in. The Senate agreed with the House's \$19,000 reduction in Department travel and \$50,000 reduction to the Department's new integrated water quality program called "Raindrops to Oceans." However, while the House did not support the Governor's inclusion of an \$80,500

Homeland Security position, the Subcommittee retained that position in its budget. While, the House had eliminated \$46,000 for Class C Drinking Water Program, the Senate Subcommittee reinstated it in addition to providing \$75,000 for the initial phase-out of the Class 3 Solid Waste Program.

Senator Dyson stated that the Department agrees with the Senate Subcommittee's recommendations.

Senator Dyson noted that the previous year, legislation was adopted that required departments to submit their budgetary requests in a prioritized format and that any reductions to a budget should be made respectful of that process. However, this Department's budget was not prioritized.

Senator Dyson noted that the Subcommittee held "considerable discussions" with the Department in regards to its Missions and Measures, and in conclusion, agreed with the Department that public health and the environment are high priorities. However, he allowed that it is difficult to determine a manner through which to measure how goals are being met.

LUCKY SCHULTZ, Staff to Senator Fred Dyson, explained that the Subcommittee's budget proposal is \$288,300 lower than the reduction proposed in the Governor's budget. He also noted that while the Department had requested a single appropriation, the Subcommittee divided the appropriations into four components: Administration; Environmental Health; Spill Prevention and Response; and Water.

Senator Hoffman, a Subcommittee Member, stated that when the Department was asked how it would manage its Public Employees Retirement System (PERS) obligation of approximately one million dollars, its response was that, while there was no definitive plan, they were planning on absorbing the obligation via such things as staffing vacancies. However, he argued that vacancies are already a factor in most budgets and that absorbing a one million dollar obligation within an eleven million dollar budget would be difficult and might negatively affect the Department's ability to meet its Mission and Measures goals.

Senator Dyson noted that the Department has projected that, as the result of efforts to consolidate its information and administrative divisions, approximately one million dollar savings would be realized. The understanding is that these funds would be used to address the PERS obligation.

Department of Military and Veterans Affairs

Senator Fred Dyson, Chair  
Senator Scott Ogan  
Senator Bert Stedman  
Senator Johnny Ellis

Senator Dyson stated that the proposed FY 05 budget is a \$377,000 increase over the FY 04 budget. The Subcommittee concurred with the House of Representative's Finance Committee's recommendations. He noted that the majority of the increase is in response to the Department's PERS obligation combined with the need to expand the military academy in Fairbanks. He noted that the consolidation of homeland security and emergency services resulted in savings of approximately \$500,000. Other changes offset each other in terms of personnel expenses and the House/Senate budget aligned with that proposed by the Governor.

Senator Dyson described the Department's Missions and Measures report as "healthy." It was agreed that two manners with which to test the effectiveness of the Missions were: how much of the equipment allotted to the Department is functionally operational and how many of the authorized positions are filled and how many of those people "are trained and ready to go to work" were an emergency to arise. A new mission has been developed through which, when feasible, local and rural facilities' maintenance would be conducted by local people. Another proposal being developed through which to measure the ability of the Department's readiness to protect against such things as terrorist attacks would be to allow a committee of Legislators to attend briefings and other discussions regarding the Department's readiness.

Senator Olson understood that, in addition to a three-quarter of a million dollars PERS debt in FY 04, this amount would also be anticipated in FY 05. He asked how a 1.1 percent increase in the FY 05 budget could provide that for that obligation.

Senator Dyson responded that he did not have that information.

Co-Chair Green asked that an answer be provided at the next hearing on this bill.

#### Department of Revenue

Senator Fred Dyson, Chair  
Senator John Cowdery  
Senator Donny Olson

Senator Dyson noted that the Department originally requested an FY 05 budget increase of \$369,000. The Governor decreased that amount

by \$315,000; the House eliminated an additional \$19,000; and the Senate subcommittee is recommending \$125,000 more than the House. Of that amount, \$106,000 is result of the Department's request to fund the Alaska Natural Gas Authority. An additional funding request for a Wood McKinzie subscription to the North America Gas Insight Service/Multi-Client Study might be forthcoming.

Senator Dyson noted that a significant portion of the Department's budget increase was to support the PERS impact as a result of salary increases. The overall \$2.5 million PERS impact would be offset by internal budgetary reductions.

SFC 04 # 74, Side B 09:53 AM

Senator Dyson urged the Committee to designate that the State employee retirement accounts should be viable and not subject to the continuance of the "unpleasant surprise" experienced this year. When he suggested to the Department of Revenue that their missions should include having a healthy retirement system, their response was that they only control the investment portion of it, and another group has the mission of making "it actuarially viable." He declared that this Committee should require the Administration to have a mission of a healthy retirement system and to require the people involved in that mission to develop good standards with which to further it. "This is very, very important."

Senator Dyson stated that a great deal of discussion ensued regarding the performance of the Department of Revenue's Child Support Enforcement Division (CSED). While that Division must adhere to federal standards, it was urged that on the local level, they should respond in a quicker fashion to the needs of those in the CSED system. A better coordination of efforts between the Department of Revenue, the Department of Law, and the Alaska Court System is required to better serve the public.

Co-Chair Green noted that to mandate to the Court System a timeframe in which something should be handled would be difficult, particularly in regards to Court Orders.

Senator Dyson agreed, but stated that this is valuable information for us, for if the Court System "is lacking the people and resources" with which to address things in a reasonable timeframe, there are impacts on other departments and citizens. He stated that Missions and Measures ought to direct Legislators' attention to "the chokepoints" in the process.

Co-Chair Green agreed.

Senator Hoffman inquired regarding the increase in the Department of Revenue's FY 05 retirement budget as compared to its FY 04 budget.

Senator Dyson responded that it would amount to \$2.5 million.

Senator Hoffman asked whether the FY 05 retirement system expenses are fully funded in the Department's Personal Services expenses. In addition, he asked whether the Personal Services funding amount would fund salary increases.

Mr. Schultz stated that it is difficult to identify whether the retirement system expenses are fully funded in the Personal Services category as the expenses could have been offset by reductions in other budget components.

SUSAN TAYLOR, Director, Administrative Services, Department of Revenue, clarified that the majority of the Department's PERS commitment would be funded within this budget. She noted that some PERS expenses would be offset by such things as a small reduction in the Tax Division. However, the required salary adjustments in larger Department components such as the Alaska Housing Finance Corporation (AHFC) served to significantly increase the Personal Services budget.

#### Department of Corrections

Senator Lyda Green, Chair  
Senator Scott Ogan  
Senator Gary Stevens  
Senator Gretchen Guess

Co-Chair Green stated that the subcommittee has recommended a one million dollar reduction to the Governor's Amended FY 05 budget, as the net result of increasing inmate health care costs by one million general fund dollars and reducing the Correctional Industries fund by two million dollars. The increase in inmate health care funding would align funding with recent costs. "Greater savings" in inmate health care costs are anticipated as a new health care program is implemented. She reminded that recently enacted legislation required the Correctional Industries program to be self-sustaining.

Co-Chair Green also noted that, while the Department requested a single appropriation, the Subcommittee designated five separate appropriations: Administration and Operations; Inmate Health Care;

Institutions; Probation and Parole; and Parole Board.

Co-Chair Green stated that dividing the appropriations in this manner would allow for an accurate portrayal of each component's expenses, specifically in the field of inmate health care costs.

Senator Hoffman noted that while there would be a five percent reduction in staffing positions, there would be an increase in Personal Services expenses. He asked whether the increase is the result of PERS expenses.

Co-Chair Green responded that the Department's PERS expenses were included in the Governor's PERS/TRS Budget request because of the fact that its 365 day a year, 24 hour a day operations would "skew" its overall budget.

Senator Hoffman asked whether the Department's five-percent reduction in full time positions was comprised of existing vacant positions.

JERRY BURNETT, Director, Division of Administrative Services, Department of Corrections explained that the majority of the 72 positions being eliminated were vacant. The identical number of security facility positions would continue in FY 05 as FY 04, and that due to business practice changes in the administration of the Department, 18 administrative positions were eliminated. The savings from the elimination of the administrative positions served to support the security staff expenses.

Co-Chair Green understood that the end result would be an increase in the number of security facilities staffers.

Mr. Burnett stated that the goal is "to not decrease" the number of employees in the facilities.

Senator Olson noted that there is a decrease projected for inmate transportation expenses.

Mr. Burnett responded that most of decrease is the result of changes in how inmates are transported, specifically that more ground transportation and fewer charter flights would be utilized as well as a reduction in the frequency of moving inmates between facilities.

Senator Olson asked whether transportation expenses have increased as a result of the closure of the jail in Kotzebue.

Mr. Burnett explained that while the Department does fund community

jail expenses, specifically the jails in Kotzebue and Nome, they are funded via a reimbursable services agreement (RSA) between the Department of Corrections and the Department of Public Safety. This expenditure is reflected in the community jails component of the Department of Public Safety budget. He noted that the FY 04 \$67,000 expenses associated with this RSA component are projected to continue at the same level in FY 05.

#### Department of Health and Social Services

Senator Lyda Green, Chair  
Senator Ralph Seekins  
Senator Ben Stevens  
Senator Hollis French

Co-Chair Green stated that upon "review of some anticipated savings that the Department had brought forth," the Subcommittee increased the Governor's Amended Budget proposal by \$500,000 General Funds in order to provide substitute funds for the Pioneer Home, as projected receipt services were over-projected. In addition, the Safety Action Program budget was increased by utilizing \$845,000 in federal and other funds with the instruction that the entire program should be evaluated to determine what system would best serve all entities involved in the process, including counselors, the Court System, and others. The Office of Children's Services, Residential Child Care budget was increased \$375,100; a new federal grant of \$600,000 was earmarked for and provided to the Children's Trust Programs; and \$900,000 in federal receipts was added to the Alaska Temporary Assistance Program in the Public Assistance Division.

Co-Chair Green expressed that due to projected revenue decreases in both the Tobacco Prevention and Control Program and the Alcohol and Drug Abuse Prevention and Treatment fund, appropriations were adjusted to reflect this downturn. In addition, the funding for the Human Services Community Matching Grant Program, which is being phased out, reflects the first of the next three-year equal reductions slated to occur.

Senator Hoffman asked regarding the funding of the Department's PERS obligation.

JANET CLARKE, Director, Division of Administrative Services, Department of Health and Social Services, responded that the Department's four million dollar PERS and Teachers Retirement System (TRS) General Fund increase was absorbed by reductions that would occur throughout the Department. Staffing for 24-hour facilities was, however, sustained.

Co-Chair Green understood that these facilities would include the Alaska Psychiatric Institute (API), the Pioneer Homes, and juvenile corrections facilities.

Ms. Clarke stated that it would also include front line social workers and other direct field staff.

Senator Hoffman understood that the Department has absorbed the funding for the "around the clock" staffing positions.

Ms. Clarke clarified that the PERS and TRS expenses were absorbed throughout the Department. Even though the Governor's Amended Budget reflected a one million dollar detriment in the Department's budget, the PERS and TRS expenses were funded by a variety of Department reductions, refinancing, or other budgetary elements.

Senator Hoffman requested that detailed information about the reductions be provided.

Co-Chair Green asked the Department for a breakout of the four million dollar PERS and TRS expenses, specific to both the 24-hour facilities employees and others.

#### Alaska Court System

Senator Lyda Green, Chair  
Senator John Cowdery  
Senator Tom Wagoner  
Senator Hollis French

Co-Chair Green stated that the Subcommittee's FY 05 budget recommendation is \$400,000 higher than that proposed in the Governor's Amended Budget proposal as the net result of: increasing the Trial Court funding by \$300,000 to allow for the anticipated case load increase resulting the addition of more troopers, public defenders, criminal prosecutors and CINA attorneys and the denial of pay increases for jurors; the denial of the request to increase Court salaries, Court House leases and security, juror pay, and to increase Court-Appointed Attorney hourly pay; approving two Mental Health Trust projects; and a minimal reduction in the Judicial Council budget.

#### Alaska State Legislature

Senator Lyda Green, Chair  
Senator Gary Wilken  
Senator Gene Therriault

Senator John Cowdery  
Senator Lyman Hoffman

Co-Chair Green stated that the Subcommittee recommended a budget that is \$2.1 million less than that approved by the Legislative Council and the Legislative Budget and Audit Committee. The reduction was the net result of: the elimination of seven one-time items that were included in the FY 04 budget; the lowering of the funds specified to support anticipated re-districting lawsuits; a reduction in the Permanent Fund Dividend (PFD) felon fund amount to more accurately reflect the amount of those funds that would be available; a fund source change provided to the Office of Victim Rights to replace the amount lost by the reduction in the PFD felon funds; and other miscellaneous adjustments being made within Personal Services

Office of the Governor

Senator Lyda Green, Chair  
Senator Gary Wilken  
Senator Gene Therriault  
Senator John Cowdery  
Senator Donny Olson

Co-Chair Green communicated that although it recommends slightly different allocations, the Subcommittee has recommended the same funding level as the Governor's Amended Budget. The net result of these changes would include the replacement of \$651,000 General Funds in the Executive Office with business license receipts for the support of overseas trade development functions; the transfer of \$340,000 from the Executive Office to the Contingency Fund; and the denial of two small increments totaling \$80,000 General Funds.

Senator Hoffman commented that while the Subcommittee's FY 05 budget recommendation in total matches that proposed by the Governor, there has been a 21-percent increase over the FY 04 Management Plan budget.

Co-Chair Green responded that the increase is the result of the transfer of business license receipt funds from the Department of Community and Economic Development to support trade functions.

LINDA PEREZ, Administrative Director, Division of Administrative Services, Office of the Governor, explained that the increase in the Governor's budget is the result of the transfer of funds to support the International Trade operations from the Department of Community and Economic Development to the Governor's office. In addition, the budget reflects the funding required in support of

the PERS increase.

Senator Hoffman asked whether these two items accounted for the majority of the funding increase.

Ms. Perez affirmed.

Co-Chair Green stated that this concludes the subcommittee operating budget reports. Upon the collection of the information and the receipt of the House of Representatives Operating Budget legislation, a committee substitute would be developed and presented to the Committee.

Senator Hoffman asked whether any departments anticipate the need to present a supplemental budget request for FY 05.

Co-Chair Green responded that there has been no indication that any supplemental budget requests would be forthcoming.

AT EASE 10:16 AM / 10:17 AM

Co-Chair Green stressed that no budget has been short-funded with the expectation that a supplemental request might be necessary. However, whether or not any supplemental budget requests might be forthcoming is unknown.

The bills were HELD in Committee.

[NOTE: Co-Chair Wilken chaired the remainder of the meeting.]

#sb374

SENATE BILL NO. 374

"An Act relating to calculation of the amount to offset the effect of inflation on the principal of the Alaska permanent fund, and to transfers of money from the earnings reserve account; and providing for an effective date."

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

Co-Chair Wilken explained that after Permanent Fund Dividends (PFDs) were paid, the Alaska Permanent Fund was inflation-proofed, and a \$250 million balance was maintained in the Earnings Reserve Account (ERA), any excess monies would be transferred to the Constitutional Budget Reserve (CBR) fund.

Senator B. Stevens, the bill's sponsor, explained to Members that the Permanent Fund Corporation's financial market activity analysis titled "Alaska Permanent Fund Updated Financial Projections 2004-2014, as of February 29, 2004" [copy on file] is the most recent projection.

ROB CARPENTER, Fiscal Analyst, Legislative Finance Division, stated that the primary change reflected in the February 29, 2004 market analysis is the amount of realized earnings that occurred as the result of new asset allocations. This portfolio re-balancing resulted in additional realized gains as depicted by the substantially larger payout in fiscal year 2005 in the FY 05 column, on page three, line 30 of the Legislative Finance Division spreadsheet titled "SB 374 Model" [copy on file], dated April 6, 2004. The \$2,103,000,000 figure reflected on the April sixth spreadsheet is "considerably higher" than the previous projection of \$1,100,000,000 as reflected on the Division's spreadsheet dated March 22, 2004 [copy on file] which was based on the Permanent Fund Corporations' Financial Projections 2004 - 2014 as of December 31, 2004 [copy on file]. A two-year extension on the sustainability of the CBR would result from this increase.

Senator B. Stevens affirmed that, in comparison with the previous financial model for this legislation, this is the major change resulting from the Permanent Fund market analysis input. The impact on the CBR balance is reflected on line 13 of the spreadsheet. The assumption is that "when the CBR runs out, the only place left to get money to balance the gap in spending verses revenues is from the ERA, because under the current status, that's the only place left with additional funds."

Senator B. Stevens stated that the Legislative Finance Division spreadsheet titled "Status Quo" [copy on file] has been developed to reflect the status quo, and the affects on it after the dividend transfer and inflation proofing obligations are fulfilled. The end result would be that the CBR funds would terminate in FY 08 and the ERA fund would terminate in FY 13. The proposed legislation "would stretch" the CBR out five more years to FY 13.

Senator Hoffman noted that another significant point in the model is that, as reflected in the FY 14 column, the ending Market Value Balance of both models would decrease by approximately \$1.2 billion.

Senator B. Stevens responded that change is a function of the realized/unrealized earnings in the formula, or input, rather than being a function of the structure. He further explained that when comparing the February Permanent Fund Market Analysis to the

previous one, a large amount of money was left in unrealized earnings rather than, as exercised at the discretion of the Permanent Fund Board of Trustees, being moved to the realized earnings category.

Senator Hoffman noted that, in addition, the life of the CBR would be extended.

Senator B. Stevens affirmed.

Co-Chair Wilken ordered the bill HELD in Committee.

#sb303

CS FOR SENATE BILL NO. 303(RES)

"An Act relating to the Big Game Commercial Services Board and to the regulation of big game hunting services and transportation services; and providing for an effective date."

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

Co-Chair Wilken explained that the Senate Rules Committee, at the request of the Legislative Budget & Audit Committee, sponsors this legislation. The bill would re-establish a Big Game Guide Board system for the guiding industry in a fashion similar to one that had previously been established.

HENRY WEBB, Staff to Representative Ralph Samuels, and Aide, Legislative Budget & Audit Committee (LB&A) stated that this bill would reestablish the Big Game Commercial Services Board, in response to "oversight of the industry" concerns raised in a Division of Legislative Audit [copy on file], dated October 16, 2003, that have developed since the Board was terminated in the mid 1990s. The concerns identified include the inability of various State departments, including the Department of Community and Economic Development, the Department of Fish and Game, the Department of Public Safety, the Department of Environmental Conservation, and the Department of Natural Resources as well as various federal agencies such as the Bureau of Land Management, the Forest Service, the Federal Aviation Authority (FAA) and the Federal Communication Commission (FCC) to coordinate with each other. Another problem identified in the Audit was a lessening of ethical standards, as no code of ethics currently exists in State statute. Furthermore, there is a lack of detailed business and operating standards; there is an inadequate hunter safety standard; and there is "a diminished disciplinary climate for unethical

conduct." The Department of Community and Economic Development is unable to adequately address consumer complaints, and therefore, "their [the consumer] only recourse is litigation." There are currently no sanctions for multiple consumer complaints or game violations.

Mr. Webb continued that following the termination of the Board, "fines for infractions were significantly reduced," and registration qualifications are only applicable to registered guides. While it has been suggested that the Department of Community and Economic Development could address concerns without the establishment of a Board, the consensus is that were this feasible, the concerns would not have elevated to their current level. There is no ability to bring all the affected parties together to address solutions.

Mr. Webb stated that the re-establishment of a Board would provide a venue through which problems facing the hunting industry could be addressed, including improving communication, having expertise with which to oversee the industry, and having the ability to "act proactively rather than reactively." A Board is deemed to be a necessary oversight tool. This legislation was developed after discussions with various interested departments. He stressed that the Board would be self-supporting.

Senator Hoffman inquired to the composition and appointment of Board members.

Mr. Webb stated that the members of the Board are identified in Section 3, subsection (b) page two, beginning on line four as follows.

(b) The board consists of seven members as follows:

(1) two members who are current, licensed registered guide-outfitters;

(2) one member who is a licensed transporter;

(3) one member of the Board of Game who is chosen by the Board of Game and who does not hold a guide or transport license;

(4) two members who represent private landholders affected by guided hunting activities or transportation services and who do not hold a license issued under this chapter; and

(5) one public member.

Senator Hoffman observed there to be a lack of regional representation.

Mr. Webb responded that the private landowner member could provide the regional consideration.

Senator Olson pointed out that the Division of Occupation licensing, Fiscal Note #1, specifies the regional representation composition of the Board.

Mr. Webb understood that the fiscal note's analysis was developed in an effort to determine expenses.

Senator Olson voiced that the representation specified in fiscal note #1 would not adequately represent big game hunting activity in the State, specifically that the areas west of Fairbanks should have higher representation.

Mr. Webb could not adequately respond, as he was not involved in the development of the Department's fiscal note.

Senator Olson asked for further information, specifically the negative affects that have resulted, by the termination of the original Board.

Mr. Webb responded that, while he was not involved in the process at the time, "there was a perception that the Board was captured by special interest" groups. He deferred to the Legislative Audit Division to further answer the question.

PAT DAVIDSON, Legislative Auditor, Legislative Audit Division, explained to the Committee that one of biggest factors in terminating the Board was a 1988 Alaska Supreme Court decision, the Owsichuk Decision, which outlawed Exclusive Guide Areas (EGA), which were established in 1976 by the original Board. At that point, a lack of consensus as to the direction of the Board, rather than a particular action, seemed to occur that furthered its dissolutionment. She noted that all Boards operate under the auspice of a termination date.

Senator Olson asked for examples of the negative affects that have caused reconsideration of this Board.

Ms. Davidson responded that the Audit found that no Best Business practices have been established in Statute or regulations in this regard. In addition the Division of Occupational Licensing was unable to provide sufficient criteria in which to provide an environment in which "hunters felt economically comfortable." While the Audit did conclude that some statutory changes would be necessary to enhance the industry, it had not concluded that the establishment of a Board was essential. However, it should be noted

that when a Board exists there is a more active regulatory regime because it actively pursues regulation changes and enhancements in order to follow "the direction of where the industry is going." The audit left the re-establishment of a Board decision up to the Legislature.

Senator Olson asked whether outfitters and guides support the legislation.

Ms. Davidson responded that the focus of an audit is to review State agency action. While the Department of Community and Economic Development does not support the re-establishment of a Board, the Department of Fish and Game does.

Senator Olson asked whether the guide industry would support this legislation.

Ms. Davidson stated that while she was confident that the industry would support the re-establishment of a Board, she could not officially speak on their behalf.

Senator Hoffman asked whether the "best business practices" are represented in this bill.

Ms. Davidson responded that that the bill addresses many of the issues raised in the audit.

Senator Hoffman, referencing language in Section 9, subsection (C)(ii) on page eight, lines 16 through 19, questioned whether the language in that section promotes best business practices as it might be difficult for an individual, in the military for example, to obtain the required experience.

(ii) has at least 10 years' hunting experience in the state; military service outside of the state for not more than three years shall be accepted as part of the required 10 years' hunting experience; and

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Ms. Davidson deferred to other entities to answer the question, as the audit does not address that issue.

Mr. Webb understood that the language in question is in existing statute.

Senator Hoffman asked whether this bill would comply with decision of the aforementioned lawsuit.

Ms. Davidson understood that the bill would not establish Exclusive Guide Areas. EGA were determined to be unconstitutional as a result of that decision.

Senator Hoffman contended, therefore, that guides would compete for the best hunting areas. This would make it harder to manage the resources in those areas.

Co-Chair Wilken asked whether this concern is addressed in Section 28. Use area registration. on page 17, beginning on line 20.

WAYNE REGELIN, Deputy Commissioner, Department of Fish and Game, informed the Committee that the Alaska Professional Hunters Association helped draft this legislation, requested that the Audit be conducted, and "are in full support" of its enactment. Continuing, he stated that the bill would not have any effect on the Owsichek decision that outlawed exclusive guide areas.

Senator Hoffman understood therefore that the bill would continue to be in compliance in that regard.

Mr. Regelin affirmed that this legislation would have no affect on exclusive guide areas. EGAs would not be permitted under this bill.

Senator Hoffman asked how a desirable area's resources would be protected.

Mr. Regelin stated that this legislation would "go a long way toward" resolving existing problems. Big Game Guides would continue to have three areas in which to hunt and conflicts could be addressed. This legislation would provide the Board of Game, who strongly support this bill, another Board to work with to try to resolve such things as user conflicts and the regulation of the number of guides and transporters operating in a certain area.

Mr. Regelin noted that while federal agencies are currently regulating and limiting hunting activity on federal land, the State is currently unable to do so. The establishment of this Board would further coordinate activities on State land.

Senator Hoffman referenced the section in the bill that could essentially provide military personnel living outside the State, a preference in that their military time would be recognized as qualifying time for the guide hunting experience requirement. He asked whether those who are familiar with an area could be provided

some sort of preference.

Mr. Regelin responded that while he is not thoroughly knowledgeable with all the intricacies of the bill, he understood that while guides must be familiar with an area and could register for up to three permits, no local user preference is provided.

Mr. Webb stated that during discussions with Ron Summerville, a member of the Board of Game, it was suggested that a course be developed through which local knowledge could be shared within the industry.

Senator Hoffman questioned how this would benefit the local individuals, as they are already familiar with local resources.

Senator Bunde noted that in existing statute, there is language that would encourage locals to become assistant guides. This would provide a step toward becoming a registered guide.

Senator Bunde expressed being aware that, on occasion, transporters exceed the definition of being a transporter and conduct guide type work. Therefore, he noted that conflict might arise due to having both guides and transporters on the Board.

Mr. Webb agreed that the transporter issue is of concern. This bill would attempt to further define the line between being a transporter and a guide/outfitter. The guide/outfitter reference is made repeatedly in the bill to clarify that in order to be an outfitter, a person must be a licensed guide.

Co-Chair Wilken asked for further discussion in this regard as this is an important issue.

Mr. Regelin commented that this bill would authorize the Board to address issues such as the regulation of transporters. The Board's broad membership representation would enable it to appropriately further the issue. This is a sensitive issue that would take small steps over a series of year to address.

Mr. Regelin also noted that the Board of Game has no authority regarding conflicts that could arise when transporters take large numbers of hunters to the same area. It is also important that this Board be re-authorized, as this industry "desperately" needs an effective mechanism with which to discipline guides who are not following the law.

Senator Bunde agreed that there is a need for an oversight body. He asked whether current State statute clearly defines of what

constitutes an outfitter, guide, or transporter.

Mr. Webb stated that definitions are included in Section 32. Sec. 08.54.790. Definitions. beginning on page 20 and continuing through page 22 of the bill.

Senator Olson asked whether this legislation would affect air taxi operators who provide transportation throughout the State.

Mr. Webb clarified that this legislation would not affect air taxi service operators.

Co-Chair Wilken announced that the bill would be HELD in Committee.  
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**ADJOURNMENT**

Co-Chair Gary Wilken adjourned the meeting at 10:58 AM.