

HOUSE FINANCE COMMITTEE
February 15, 2006
1:42 P.M.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [1:42:16 PM](#).

MEMBERS PRESENT

Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Mike Hawker
Representative Reggie Joule
Representative Mike Kelly
Representative Beth Kerttula
Representative Carl Moses
Representative Bruce Weyhrauch

MEMBERS ABSENT

Representative Mike Chenault, Co-Chair
Representative Richard Foster
Representative Jim Holm

ALSO PRESENT

Christopher Poag, Assistant Attorney General, Department of Law; Sharon Barton, Director, Alaska Permanent Fund Dividend Division, Department of Revenue; Sue Stancliff, Staff, Representative Mike Kelly; Cheryl Frasca, Director, Division of Management & Budget, Office of the Governor; Craig Tillery, Deputy Attorney General, Department of Law; Kathryn Daughhete, Director, Administrative Services Division, Department of Law; Eric Swanson, Director, Division of Administrative Services, Department of Administration; Stan Herrera, Director, Enterprise Technology Services, Department of Administration; Sam Thomas, Director, Division of Administrative Services, Department of Commerce, Community and Economic Development; Laura Flemming, Communications Director, Alaska Seafood Marketing Institute, Department of Commerce, Community and Economic Development; Sharleen Griffin, Acting Director, Division of Administrative Services, Department of Corrections; John Cramer, Director, Administration Services Division, Military and Veterans Affairs; Nico Bus, Acting Director, Division of Administrative Services, Department of Natural Resources; Dan Spencer, Director, Division of Administrative Services, Department of Public Safety; Bob Bartholomew, Chief Operating Officer, Alaska Permanent Fund Corporation, Department of Revenue.

SUMMARY

HB 273 An Act relating to the dividends of individuals claiming allowable absences; and providing for an effective date.

CS HB 273 (FIN) was reported out of Committee with a "no recommendation" and with a new fiscal note by the Department of Revenue.

HB 421 "An Act making supplemental appropriations, capital appropriations, and other appropriations; amending appropriations; making appropriations to capitalize funds; and providing for an effective date."

HB 421 was HEARD and HELD in Committee.

#HB273
[1:42:59 PM](#)

HOUSE BILL NO. 273

An Act relating to the dividends of individuals claiming allowable absences; and providing for an effective date.

Representative Joule WITHDREW Amendment #1, #24-LS0871\F.4, Cook, 2/6/06.

Representative Joule MOVED to ADOPT Amendment #2, #24-LS0871\F.5, Cook, 2/7/06. Co-Chair Meyer OBJECTED.

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Representative Joule explained that Amendment #2 would add a new subsection, which would read:

"(f) The dividend for a current year shall be paid under AS 43.23.055(2) during the current year to an otherwise qualified individual claiming an allowable absence under AS 43.23.008(a)(1) or (2) if the individual was present in the state for at least 90 days during the qualifying year."

Representative Joule stated the amendment would allow a student attending college out-of-state to collect the dividend if in that qualifying year, the student returns back to State at least 90 days. He submitted that benefit could encourage the student to come back to Alaska. He requested a positive vote on the amendment.

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Representative Weyhrauch mentioned legal concerns with Amendment #2. He requested that the Department of Law testify regarding the amendment.

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Representative Weyhrauch pointed out that there are already a number of allowable absences. He believed that the amendment would now "carve out" a student category. Presently, HB 273 holds the Permanent Fund Dividend (PFD) check for that student for when they do return and establish their residency; that could be a nice "nest egg" for them.

Representative Weyhrauch pointed out that some students opt to give up Alaska State residency in order not to pay out-of-State tuition. He added that the University of Alaska has a tremendous program to educate students and that staying in State guarantees a dividend.

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CHRISTOPHER POAG, ASSISTANT ATTORNEY GENERAL, DEPARTMENT OF LAW, provided background on the allowable differences for the PFD check. Persons who receive the PFD are Alaskan residents. The Supreme Court has allowed the State to go broader than the legislative provisions and indicate that they are permanent Alaskan residents. Alaska Statute (AS) defines what is a permanent resident. The person must be present in State and must intend to remain indefinitely. Allowable absences are for when a person is not present but intend to return & remain. If a person is a permanent resident, they receive the PFD check. The State has adopted statutory and regulatory provisions that allow for objective criteria as to who are current residents.

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Mr. Poag continued, the thirteen allowable exceptions are essentially legislative findings that affect those people likely to return to the State. The Supreme Court has looked at that issue on a number of occasions, as it is an area that gets challenged quite often. The challenges are usually upheld for equal protection. In the thirteen categories, the Courts have said that the legislative objective had a fair and substantial relationship within the means used. Those are the guidelines that the proposed provision would be held too if the provision was challenged before the Supreme Court. The Supreme Court has said that the PFD is designed to encourage residents that are in Alaska to stay and/or return.

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Mr. Poag advised that the provisions in the allowable categories have to be consistent with that purpose. There have been amendments offered to the provision based on need. He believed that the need-based exceptions could not survive that scrutiny. The exception must show that there are legislative findings to support a position that they are likely to return.

Mr. Poag discussed Amendment #2, "common sense" that if the student returns to the State every year on the allowable absence for college for those 90-days, that would be a pretty good estimate that student intends to return.

Mr. Poag pointed out that statistical evidence that the Permanent Fund Division has put together does not support the amendment. That evidence indicates that college students, if they were likely to return, it would be within the first two years. The statistics don't match the common sense being applied to the amendment. Another concern is by accepting one category, it would be carving out another "class". He noted criticism for an "elite" class of people allowed to leave the State. The amendment would be creating a third class for students. Creation of classes makes the provision less defensible to the Department of Law. He encouraged that if the amendment were passed, it should be applied across the board to all thirteen allowable categories.

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Mr. Poag believed that the provision was defensible because the "common sense" approach supports it. When the Legislature indicated support for the 13 categories, it was based on common sense. That same common sense is not borne out of statistics and it would be more defensible if applied across the board.

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Representative Kerttula referenced a "separate class" and asked if it would receive the same scrutiny if a Court looked at it. Mr. Poag said it would; the Supreme Court has said that the Permanent Fund Dividend is an economic interest and as a result of that interest, it receives minimal scrutiny. Representative Kerttula thought that could help a little.

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Representative Kerttula agreed with the "common sense" approach, and that returning every year for 90-days indicates a likelihood of coming back to the State. She pointed out that the statistical evidence quoted was based

on one year - 1996. That was the year that the dot.com bubble was going wild; she believed a one-year snap shot was not relevant to the current scenario and was not sufficient evidence.

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Mr. Poag agreed that it had only been a one-year survey - a statistically valid one-year survey. The assumption showed that those students were not returning at the rate thought in that period and those findings have been supported.

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Representative Kerttula proposed that it would be better to do an across the board exemption.

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Vice Chair Stoltze mentioned that the Courts should be responsible for making those "common sense" rules. He noted support for the amendment.

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Representative Weyhrauch requested clarification on the data provided by the Division.

SHARON BARTON, DIRECTOR, ALASKA PERMANENT FUND DIVIDEND DIVISION, DEPARTMENT OF REVENUE, explained that the study was statistically valid. Last year, a sample was taken from 1995 and tracked through 2004. This year's study was from 1996, and those students were tracked through 2005. The Division chooses a 10-year period as current statutes allow people to be out of State ten years. Ms. Barton did not sense that anything had changed since that time.

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Representative Kerttula said that she did not mean to suggest that anything inappropriate was done; however, she believed that much had changed since the 90's. She inquired if it would be possible for the Division to go back and track what has happened since those years.

Ms. Barton responded that the data was there, however, it would be a manual effort for the Division with the current computer systems used and would take a lot of time.

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Representative Kerttula reiterated, all that is presently known are the two years in the '90's, which have been

tracked; there is no way to know what applies to later years.

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Representative Joule commented on the challenges facing the State to develop a necessary workforce and that the concern is a "huge issue". He maintained that it warrants passage of the amendment.

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A roll call vote was taken on the motion.

IN FAVOR: Joule, Kerttula, Moses, Stoltze
OPPOSED: Hawker, Wehyrauch, Meyer

Representative Foster, Representative Holm, Representative Kelly, and Co-Chair Chenault were not present for the vote.

The MOTION FAILED (4-3).

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Co-Chair Meyer MOVED to ADOPT Amendment #3, #24-LS0871\F.10, Cook, 2/14/06. Representative Weyhrauch OBJECTED.

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SUE STANCLIFF, STAFF, REPRESENTATIVE MIKE KELLY, explained Amendment #3, would change the qualifying period from 10-years to 5-years. Questions that came up regarding that change were from people already beyond the five years such as military, education, post secondary students and those caring for or have terminal illness. Because of that, the legislative drafter added an application section that would allow anyone currently in the system, past those five years but under the ten years, to stay in and term out.

Ms. Stancliff noted that the Division concurs with the proposed option.

Representative Weyhrauch WITHDREW his OBJECTION. There being NO further OBJECTION, Amendment #3 was adopted.

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Representative Kerttula MOVED to ADOPT Amendment #4, #24-LS0871\F.6, Cook, 2/9/06. Vice Chair Stoltze OBJECTED.

Representative Kerttula explained that Amendment #4 would adjust language on Page 4, Line 19:

Delete: "the year"

Insert: "the two years"

Representative Weyhrauch added that he objected to the amendment, referencing previous testimony provided by Mr. Poag, Department of Law and Ms. Barton, Permanent Fund Dividend Division.

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Representative Kerttula claimed that the language was too narrow and that the amendment was justifiable.

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Vice Chair Stoltze WITHDREW his OBJECTION. Representative Weyhrauch OBJECTED.

A roll call vote was taken on the motion.

IN FAVOR: Joule, Kerttula, Moses, Stoltze

OPPOSED: Hawker, Wehyrauch, Meyer

Representative Foster, Representative Holm, Representative Kelly, and Co-Chair Chenault were not present for the vote.

The MOTION FAILED (4-3).

[2:07:16 PM](#)

AT EASE: [2:07:26 PM](#)

RECONVENE: [2:08:35 PM](#)

Vice Chair Stoltze MOVED to REPORT CS HB 273 (FIN) out of Committee with individual recommendations and with the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CS HB 273 (FIN) was reported out of Committee with a "no recommendation" and with a new fiscal note by the Department of Revenue.

AT EASE: 2:09 P.M.

RECONVENE: [2:17:38 PM.](#)

#hb421

HOUSE BILL NO. 421

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

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CHERYL FRASCA, DIRECTOR, DIVISION OF MANAGEMENT & BUDGET, OFFICE OF THE GOVERNOR, presented a brief overview of the supplemental budget. She reminded members that the total was \$13.5 million. She stated that there were two types of requests: one pertaining to available funding for unanticipated requests, and the other projects that the Administration would like to start early. She noted that larger requests pertained to disasters, which were funded after their occurrence; she noted that the second largest area was for judgments and claims. The Administration provided the Committee with an amendment, which would bring the total for judgment and claims to \$2.6 million. Judgment and claims are not normally placed in the supplemental, but were included in an attempt to save on interest payments. Corrections health care is the second largest expenditure at \$2.7 million and is tied to an aging population in the prisons. She added that \$1.0 million would be appropriated for the State phone system; the appropriation was included as a FY 07 capital expenditure. She explained that there has been an increase in phone failures, especially in Anchorage.

Ms. Frasca pointed out that two amendments have been submitted since introduction: \$1.5 million in federal funds for a Kotzebue sand storage building and the Department of Law's amendment to judgments and claims.

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DEPARTMENT OF LAW

Section 5 Law Civil Division,
 Deputy Attorney General's Office

Judgments and Claims - actual amount is \$2,621,985.48

KATHRYN DAUGHHETEE, DIRECTOR, ADMINISTRATIVE SERVICES DIVISION, DEPARTMENT OF LAW, noted that with the new interest rates of 8.25 percent a great deal of money would be saved by appropriating funds for judgments and claims in a timely fashion. The amendment would add \$647 thousand for a total of \$3.269 million.

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Representative Kerttula asked for clarification on the amendments.

CRIAG TILLERY, DEPUTY ATTORNEY GENERAL, DEPARTMENT OF LAW, referred to a spreadsheet and noted that some cases were more costly than others (copy on file.) The Sponaugle case (\$215 million) involved medical malpractice on an inmate. Several cases relate to personal injury related to criminal

sexual assault and kidnapping charges brought against Trooper Daniel L. Scott. There were settlements with a number of women who were assaulted.

Mr. Tillery also referred to the Noon case (\$284.5 thousand) pertaining to a failure to assist those with disabilities with the high school exit exam. He stated that the plaintiff was awarded a substantial amount, and that the State felt it was not prudent to pursue further consideration.

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Mr. Tillery reviewed the Bacolas case (\$427 thousand) relating to wrongful discharge of a whistle blower. The jury found against the State resulting. The damages were reduced: first by the court and subsequently through settlement.

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Mr. Tillery referred to the Bush vs. Kromer case (\$350 thousand) as a difficult case involving a 5 year old child in foster care who was bitten by a dog, resulting in severe physical and emotional damage. He stated that there had been evidence that the Agency had previous knowledge of the situation, and the Department determined it would settle the claim.

Representative Hawker referred to a trend analysis over the past few years in terms of claims paid and questioned if the current level was consistent with previous years.

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Mr. Tillery stated that he believed that the claims were consistent over time, on an individual case level. The total amount is higher than last year, but lower than other years. Ms. Daughhete added that a ten year analysis revealed that the current year's claims were within the range of the long term trend, despite a number of larger claims. Mr. Tillery observed that there a number workers' compensation claims in the supplemental request. Recent changes in workers' compensation laws will make a difference in the future.

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In response to a question by Vice-Chair Meyer, Ms. Daughhete explained that the interest rate paid by the State on judgments and claims is set out in statute as three points above the Ninth Federal Reserve level. It is recalculated by the Court every year. The interest rate increased from 6.25 percent to 8.25 percent in the current calendar year. She observed that the State could save 5 percent if the claims are paid (cost of the interest rate

over the average interest earning rate of the Permanent Fund).

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DEPARTMENT OF ADMINISTRATION

Section 1 Admin Capital

Begin telephone system replacement and stabilization phase 1 project in FY2006. The FY2007 capital project request of \$15 million for this project will be reduced by \$1 million. The State is facing serious issues on the existing nearly 13-year-old Private Branch Exchange (PBX) telephone switches in Juneau, Anchorage and Fairbanks that support approximately 15,000 telephones in those locations. The current provider will not support the system after April 1, 2006.

Section 4(b) Fund Transfer
Information Services Fund

Capitalize Information Services Fund for FY06 implementation of the telephone system replacement and stabilization phase 1 capital project.

ERIC SWANSON, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF ADMINISTRATION, observed that the request was initially included in the FY 07 capital request. The Administration believes that the telephone system is not as stable as it needs to be and should be addressed in the supplemental budget.

STAN HERRARA, DIRECTOR, ENTERPRISE TECHNOLOGY SERVICES, DEPARTMENT OF ADMINISTRATION, explained that Nortel Systems informed the State that it would no longer be supporting its phone systems in Juneau, Anchorage and Fairbanks, on April 1, 2006. There are 14,000 phones in these three communities.

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There have been recent outages in Anchorage. Due to the age of the systems regaining service involved reassessments of the phone systems themselves. The department would like to migrate to a new system.

Representative Hawker asked whether spending the amount at this time would obligate completion of the rest of the funding in the capital budget request. Mr. Herrera could not respond to the commitment of funds, but emphasized the need for an immediate assessment to determine a course of action.

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Representative Hawker asked what specific process would be followed.

In response to a question by Representative Hawker, Mr. Herrera explained that current contracts were in place with some agencies to establish building site assessments, to substantiate the level of need and assist in a decision. Representative Hawker summarized that the funds would be used to define need.

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Co-Chair Meyer questioned if there were money in the Information Fund. Mr. Swanson observed that the project would use general funds. There is some funding from an FY 06 appropriation that would be added to the \$1 million request. There are no funds in the Information Services Fund (ISF) to capitalize the appropriation. Vice-Chair Meyer questioned if there were plans for a recovery fund to cover future costs. Mr. Swanson observed that there were preliminary discussions with the Legislative Finance Division regarding the issue.

Co-Chair Meyer asked if the type of system had been decided upon. Mr. Herrera explained that the intent was to move to a converged technology: combining the phone, data, and video systems, which are currently maintained separately. Converging the systems into one platform would result in costs savings. Voice-over-Internet protocol technology would be implemented. One of the components of the 2000 failed contract with ACS was to deploy a voice over Internet protocol system. The failure was not due to the technology, but to the manner it was deployed. Large entities, all over the world, use Voice-over-Internet technology. Mr. Swanson noted that the costs would be spread among various departments through charge backs.

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DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT

Sections 2(a) Commerce Office of Economic Development
\$75 Statutory Designated Program Receipts

The Office of Economic Development is hosting an event at the Boston International Seafood Show that promotes the uniqueness of wild Alaska seafood on March 13, 2006.

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SAMUEL THOMAS, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, COMMUNITY AND ECONOMIC DEVELOPMENT, discussed trends in visitors to Alaska and its impact on the economy. Mr. Thomas noted that the seafood industry brought in a

substantial amount of income to the State. He discussed the effect of farmed salmon, and the number of Alaskan fisheries.

Co-Chair Meyer noted that the request for the seafood show was in the previous year's supplemental budget, and asked if it would be a recurring expense. Mr. Thomas stated that another source would need to be identified if it were not included in the supplemental budget.

Section 2(b) Alaska Seafood Marketing Institute
\$395 thousand receipt support services

Increase RSS match for the Alaska Seafood Marketing Institute's export marketing program, which received a federal increase in January 2006. Advance notification to public relations contractors is required, therefore March approval is requested.

Mr. Thomas observed that the request is for \$395 thousand receipt support services and would match \$1.2 million USDA federal funds, which have already been promised.

LAURA FLEMMING, COMMUNICATIONS DIRECTOR, ALASKA SEAFOOD MARKETING INSTITUTE, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, explained that the request is for authorization to spend money that has already been collected. Seafood processors pay a seafood marketing assessment for ASMI's operations. Authorization of these funds would allow ASMI to expend federal dollars that have also been allocated for the current fiscal year. Without the authorization, ASMI would not be able to expend the anticipated \$800 - \$900 thousand in federal funds.

Representative Hawker summarized that there was an additional federal appropriation that was not anticipated in the budget and asked why the expenditure needed to be included in the fast track and not in the 2007 budget.

Ms. Flemming observed that additional authorization was also being sought in the FY 07 budget. She explained that the industry would benefit from immediate marketing efforts to support sales efforts and to keep the momentum in the international marketplace.

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DEPARTMENT OF CORRECTIONS

Section 3(a) Corrections Out-of-State Contractual

Timely payments are essential in complying with contractual requirements agreed upon for housing Alaska inmates. The increased prison population has mandated

the department obtain additional beds out-of-state, up to a total of 1,000 prisoners by year-end. The current contract is written for 760 beds while the department estimates a need for 850 beds by March and 1,000 beds by June 30.

SHARLEEN GRIFFIN, ACTING DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF CORRECTIONS, observed that the Department is currently over their emergency capacity of 3,206; there are currently 3,476 inmates. She noted that the increment would increase the number of out of state beds from 760 to 1,000 by June 1 and would be phased in.

Responding to a question by Representative Hawker, Ms. Griffin stated that the daily cost for beds was \$58.90. She explained that this did not include the medical services, probation officers or transportation costs.

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Ms. Griffin thought that the in-state bed cost was \$110.67. Offenders with at least two years of service are generally targeted and are sent out of state in large groups of up to 100 prisoners on U.S. Marshall Jets, or in some cases on a Department of Public Safety jet and occasionally on commercial airlines.

Responding to a question by Co-Chair Meyer, Ms. Griffin stated that she did not know the frequency and timing of transfer dates.

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Section 3(b) Corrections Inmate Health Care

The department is estimating that they will potentially run out of funds available to pay contract and medical providers as early as March, 2006. The additional funding is needed to meet the medical obligations for the aging and increased prison population and for the sharp increase in the number of inmates needing dialysis, cancer treatment, and treatment for other life-threatening conditions, along with the increased cost for providing those medical services.

Ms. Griffin referred to Section 3 (b), which would appropriate \$2.6 million for inmate health care. There has been \$1.9 million in catastrophic cases to date; the Department anticipates that the number will be \$2.6 million, including general increased health care costs.

Representative Hawker observed that increased health care costs affected many aspects of state government.

Responding to a question by Co-Chair Meyer, Ms. Griffin explained the inmate co-pay system. Inmates are charged \$4 per visit to the Department of Corrections' medical practitioner. Co-pay is charged if they visit an outside doctor. Altercations result in a disciplinary hearing, which can result in the inmate reimbursing the State of Alaska. Approximately \$80 thousand a year is collected in inmate co-pay.

Co-Chair Meyer asked how much was spent in 2006, and budgeted in 2007.

Ms. Griffin noted that the catastrophic cases changed each year, with this year's cases totaling \$2.6 million. She noted that the FY 07 budget contains an increment for \$1.3 million for rising health care costs; this amount does not account for future catastrophic cases.

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Section 3(c) Corrections Inmate Health Care

Funding is needed to pay three contractors and several fee-for-service providers for services rendered prior to 6/30/2005. These providers have not been paid and are charging interest for non-payment. Prompt payment would avoid further interest charges.

The appropriation would provide \$755 thousand for Inmate Health Care. Ms. Griffin acknowledged that the Department received a FY 05 supplemental of \$500 thousand, but explained that remaining costs were not covered. There were more catastrophic cases. The State of Alaska currently owes the Alaska Regional Hospital \$255 thousand. Other out-of-state providers are owed \$300 thousand and \$120 thousand. Other fees for service vendors are owed \$80 thousand.

Co-Chair Meyer asked why these amounts were not included the previous year's supplemental. Ms. Griffin stated that they occurred after the appropriation. The State of Alaska is paying \$85 thousand in interest on the amount owed.

Representative Hawker questioned how a FY 05 supplemental could be included in the FY 06 supplemental. Ms. Griffin clarified that the requests had not yet been paid and could not be included as a ratification.

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DEPARTMENT OF MILITARY & VETERANS AFFAIRS

Section 4(a) Fund Transfer Disaster
Relief Fund

Funding needed for:

- 1) 2002 Kenai Peninsula Flood shortfall \$160.3
- 2) 2004 Bering Strait Sea Storm - additional federal project funding was approved Jan. 2006, 25% match is required \$839.6
- 3) 2005 Spring Flood Funding (Emmonak, Alakanuk and McGrath) shortfall \$553.7
- 4) 2005 West Coast Storm (Nome area) \$1,599.5
- 5) 2005 Southeast Storm \$1,084.6
- 6) Less the unobligated balance of \$93.9 in the fund

The department will be unable to continue meeting disaster related expenditures until the supplemental is approved.

JOHN CRAMER, DIRECTOR, ADMINISTRATION SERVICES DIVISION, MILITARY AND VETERANS AFFAIRS, noted that the appropriation of \$4,143 million would be a fund transfer from the Disaster Relief Fund. The request would cover disasters which had taken place from 2002 to 2005. He observed that individuals are eligible for up to \$5 thousand from the Individual Assistance Program if they can demonstrate damage through an application to the Department. Some of the appropriations are matched by the federal government. The Bering Strait sea storm was declared a federal disaster relief site. Items allocated under FEMA are funded at 75/25 percent federal/state.

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DEPARTMENT OF NATURAL RESOURCES

Section 6(a) - (c) Natural Resources

Parks Management

Parks revenue collection shortfall. Need by March 31, 2006 to maintain the planned service levels.

6(a) - (c) Natural Resources
State Historic Preservation Program

Change structure to put Parks components into Resource RDU to help maintain the planned service levels in State Parks. Need by March 31, 2006.

6(a) - (c) Natural Resources
Parks Management

Change structure to put Parks components into Resource RDU to help maintain the planned service levels in State Parks. Need by March 31, 2006.

6(a) - (c)

Natural Resources
Parks and Recreation Access

Change structure to put Parks components into Resource RDU to help maintain the planned service levels in State Parks. Need by March 31, 2006.

NICO BUS, ACTING DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF NATURAL RESOURCES, explained that the Division of Parks has a revenue shortfall. Their budget required them to collect \$2.3 million in parks receipts; they are projected to collect \$1.7 million. The Department has worked to keep all the parks open. The request would switch \$350 thousand in receipts supported services to general funds. The agency has implemented efficiency measures. He observed that the request would allow them to utilize any lapsed funds by changing appropriation lines.

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Representative Hawker asked which services would be reduced if the supplemental was not approved. Mr. Bus responded that the aim would be to keep all parks open, but to reduce service periods. Impacts would be spread throughout the State. He spoke further of deferred financial losses and reorganization. Service would be reduced in 26 parks and limited in another 36 park units. Representative Hawker requested a detailed description and accounting of specific consequences. Mr. Bus noted that union requirements affected their decisions.

Representative Hawker referred to the restructuring of the RDU components. He questioned if it would be more appropriate to request increments and decrements to shift funds rather than restructuring the RDU component levels of the budget. Mr. Bus observed that the issue would be discussed in Subcommittee and explained the reasoning behind the request. He observed that additional money could be available in June. The Division of Parks was asked to implement all the austerity measures possible without reducing services. Representative Hawker said he would await the subcommittee's opinion.

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DEPARTMENT OF PUBLIC SAFETY

Section Public Safety

Council on Domestic Violence and Sexual Assault

This request would provide funding to maintain the operation of the Kotzebue domestic violence shelter.

Program previously funded by a HSS grant that has since been determined to be an unallowable use of federal funds.

DAN SPENCER, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF PUBLIC SAFETY, explained that Section 7 would appropriate \$350 thousand in general funds to the Council on Domestic Council on Domestic Violence and Sexual Assault for the Kotzebue shelter. He explained that the Kotzebue shelter was not eligible for pass through funding from Department of Health and Social Services. This is a request for FY 06. Funding is requested in the FY 07 budget. In FY 08, it would roll into the competitive grants process.

In response to a question by Representative Stoltze, Mr. Spencer responded that the figure may have been revised, but that the figure is the estimated cost of running the shelter.

Co-Chair Meyer asked if federal money is involved. Mr. Spencer responded that this does not affect federal funding.

Representative Hawker questioned why the shelter fell outside of the Health and Social Services grant. He questioned the original intent for funding and asked if it were a federal shift to general funds. Mr. Spencer was unable to respond.

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Representative Joule observed that the intent is to prevent a break in service.

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DEPARTMENT OF REVENUE

Section Revenue APFC Operations

Gas line Investment Determination Costs

BOB BARTHOLOMEW, CHIEF OPERATING OFFICER, ALASKA PERMANENT FUND CORPORATION, DEPARTMENT OF REVENUE, spoke to the request for \$550 thousand in Permanent Fund Corporation receipts for review and analysis of the gas line investment. The Corporation has requested the funds, which would be paid by income from the investments in the form of corporate receipts. He acknowledged the difficulty in estimating the cost of a complete analysis of a potential investment, since no agreement has been reached between the State and the producers. The estimate is based on two phases. Phase one would provide education for the Board on infrastructure investment. The Permanent Fund has not yet invested in this asset class. The Department would like to hire an investment

advisor. This cost would be considerably less than \$550 thousand, but additional funds would be required if an agreement is reached, for cost estimates from contractors. Part of this work would carry over into FY 07. Anything that is not expended would remain in the Permanent Fund. The item is in the fast track supplemental because in FY 06 there is \$300 thousand for pre-investment fiduciary work (to look at the facts behind the investment). The Corporation has made an offer on a large real estate operating company, which has already expended the money in pre-investment analysis. The \$300,000 would be added to the cost of the investment and freed up if the project goes through. It would then be available for another due diligence project. However, the Corporation wants the funds to be available before the end of March so that the Board can begin its education.

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Representative Stoltze referred to legislation enacted in the previous year, which removed limits on investment opportunities. He questioned if the legislation was related to the gas line investments. Mr. Bartholomew concluded that the Corporation had sufficient authority to invest in the gas pipeline prior to the enactment of the legislation, which expanded their alternative investment authority. [The gas pipe line project would falls into the alternative investments category.] He explained that prior to the legislation; the Corporation could invest up to 10 percent in alternative investments, or \$3 billion. At the time the legislation was enacted 2 percent was invested. The legislation regarding the gas pipeline provides for up to a 20 percent state investment, half of which would come from the Permanent Fund, resulting in a \$2.0 to \$2.5 billion investment. The cash portion of the Permanent Fund investment would be \$500 million or 1.5 - 2 percent of the Fund, which falls within the previous authorization. The Board felt it would be prudent to expand this authorization. Expansion of the alternative investment authorization does not have a direct effect on whether there is an investment in a gas pipeline; it only determines the percentage that can be invested. The current allocation, excluding the pipeline, is 8 percent [in alternative investments]. The gas pipeline would bring the total investment close to 10 percent. He estimated that the limit would not be reached for several years.

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Representative Stoltze asked where the initiative came from. Mr. Bartholomew replied that, while the Board has remained neutral, there has been a general interest in owning infrastructure. The Commissioner of Department of Revenue's designee approached the Board with the issue of State ownership of the gas pipe line.

Representative Weyhrauch noted that nothing will happen on the gas pipeline negotiation unless the legislature makes a change to the oil tax structure, which would not occur until later in the session. He questioned why the item was placed in the supplemental. Mr. Bartholomew responded that without the supplemental an advisor to the Board would not be in place and education of the Board would not begin.

Representative Hawker questioned if the Corporation is looking for a courtesy legislative endorsement. Mr. Bartholomew acknowledged that the Corporation does not historically come to the legislature regarding investments, but added that they would not want to take on an investment if the budgetary resources to cover them did not exist. The Board wants to mitigate the risk of entering into too many contracts and is sensitive to the legislature's view on the matter. Representative Hawker summarized that the Department has the authority [to make the investment].

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Representative Hawker asked if the investment would be a direct equity holding or be held in debt securities of the entities that own the pipeline. Mr. Bartholomew responded that there are many scenarios possible. He discussed a LLC scenario. The ownership would be in a holding company, which would own the pipeline. The Corporation could invest in the entity or own a percentage of the company. It would probably be a regulated investment and return. Representative Hawker pointed out that there is a huge difference between an equity investment and an investment in the debt of an entity that has an equity investment. He inquired about the downside risks. Mr. Bartholomew explained that debt is more secure and more set; equity ownership would contain greater risks, while the return would be higher. He stressed the desire to have an independent and experienced advisor look at the risks.

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Representative Hawker questioned if all the components of risk would be contemplated.

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Mr. Bartholomew affirmed and noted that the scope would be indicated by the proposal. The advisor could provide support in negotiation and drafting terms, but he assumed that the investors would provide a proposal and the proposal would be evaluated to see if it is an appropriate investment. The bulk of the analysis would be the deal brought forward to the legislature and evaluated by the Corporation.

Representative Hawker asked if the funding would be used to evaluate a particular structure versus the Permanent Fund, or strictly to evaluate one proposal.

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Mr. Bartholomew understood that there would be one proposal put together, which the Corporation would evaluate from an institutional fund perspective. The Corporation does not intend to take a broader look.

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Representative Hawker thought the authorization would be premature because the State does not know if there will be a gas line proposal anytime in the near future.

Mr. Bartholomew agreed that they did not want to expend the funds prematurely, but emphasized that they wanted to be prepared for the education piece. The remaining funds would not be spent until there was an agreement.

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Representative Weyhrauch commented that it does not take a lot of money for a consultant to provide the information. He thought the request was premature. He asked if there was pressure from the Executive Branch.

Mr. Bartholomew replied that it is a "catch 22". If they do not go forward with education on the asset class, they will be under greater pressure when a proposal comes forth. He emphasized that the education would be valuable regardless of investment in a gas pipeline.

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ADJOURNMENT

The meeting was adjourned at 3:44 PM