

MINUTES
SENATE FINANCE COMMITTEE
February 23, 2005
9:02 a.m.

CALL TO ORDER

Co-Chair Green convened the meeting at approximately [9:02:49 AM](#).

PRESENT

Senator Lyda Green, Co-Chair
Senator Con Bunde, Vice-Chair
Senator Fred Dyson
Senator Bert Stedman
Senator Lyman Hoffman
Senator Donny Olson

Also Attending: JANET CLARKE, Director, Division of Administrative Services, Department of Health and Social Services; STEVE ASHMAN, Director, Division of Senior and Disabilities Services, Department of Health and Social Services; ERIC SWANSON, Director, Division of Administrative Services, Department of Administration; DUANE BANNOCK, Director, Division of Motor Vehicles, Department of Administration; JOSH FINK, Public Advocate, Office of Public Advocacy, Department of Administration; BARBARA BRINK, Director, Public Defender Agency, Department of Administration; STAN HERRERA, Director, Enterprise Technology Services, Department of Administration;

Attending via Teleconference: From Anchorage: DWAYNE PEEPLES, Director, Division of Health Care Services, Department of Health and Social Services;

SUMMARY INFORMATION

SB 98-SUPPLEMENTAL APPROPRIATIONS: FAST TRACK

The Committee heard from the Department of Health and Social Services. The bill was held in Committee.

SB 97-SUPPLEMENTAL APPROPRIATIONS/CBR

The Committee heard from the Department of Health and Social Services and the Department of Administration. The bill was held in Committee.

#SB98

SENATE BILL NO. 98

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

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

The Committee concluded hearing presentations from State agencies outlining the appropriation requests.

Department of Health and Social Services

Item: 34

Section: 9(a)

RDU: Alaskan Pioneer Homes: Pioneer Homes

Supplemental Need: replacing unrealizable federal Medicaid funds with receipt supported services. Lower receipts is due to the voluntary nature of residents signing up for Medicaid.

-\$1,200,000 federal funds

\$1,200,000 receipt supported services

\$0 Total Funds

JANET CLARKE, Director, Division of Administrative Services, Department of Health and Social Services, noted this item was addressed at the previous hearing. This request would allow services to be continued to residents of the Pioneers' Homes. The residents have paid these monies and the legislature has continually reappropriated the funds to the Homes.

Item: 35

Section: 9(b)

RDU: Behavioral Health: Behavioral Health Medicaid Svc

Supplemental Need: Medicaid caseload growth above FY 05 budget projections. At current expenditure rate, the existing appropriation will be gone in April or May.

\$2,653,700 general funds

\$3,517,700 federal funds

\$6,171,400 Total Funds

Ms. Clarke explained this increased need is the result of expenditure growth of the behavioral health program, particularly the out of state placements of children. This program is the fastest growing segment of the Department's budget. This request is

for those costs over the amount projected would be required.

Co-Chair Green asked if the increased costs of the out of state placement program are the result of additional patients served or longer stays by patients.

Ms. Clarke replied that the Department is reviewing all causes of the increases, which includes the number of children in out of state placement and the longer stays.

Co-Chair Green asked if the daily rate has stayed consistent.

Ms. Clarke answered that the rates have changed some, but the amount is insignificant and not the cause of the large cost increases to operate the program.

Item: 36

Section: 9(c)

RDU: Health Care Services: Women's and Adolescents Services
Supplemental Need: Feds reduced FFY05 funding in the Breast and Cervical Cancer screening program. The fund source change will allow services to 1600 enrolled women that otherwise would not be served due to federal funding reductions. Funds will be required by late March or early April to continue the program.

\$500,000 general funds

-500,000 federal funds

\$0 Total Funds

Ms. Clarke informed that when the FY 05 operating budget was adopted, the Department was not aware that the federal funding for this program would be reduced. Reducing the program would have resulted in fewer women being screened for the cancers. A chart included in the back-up material for this request [copy on file] shows the increased number of women served through this program. This request would restore funds to the program to prevent any women from being eliminated from the program.

Co-Chair Green asked what services besides cancer screening are paid through this program.

Ms. Clarke indicated she would provide this information, noting that mammograms and the diagnostic analysis of those mammograms are included.

Co-Chair Green was unaware that the screening program was separate from the free health care program.

Ms. Clarke affirmed it is a separate program and has been fully funded by the federal government for many years. This program serves as the "gate" to receive Medicaid-paid treatment for those eligible to receive it.

Co-Chair Green asked where the shortfall is listed in this legislation.

Ms. Clarke replied the next item reflects the growth in health care services.

Ms. Clarke reported that the program includes a clinical breast examination, a mammogram and a pap smear. If abnormalities in a patient's screening appear, that patient is provided care within that Medicaid enrollment year.

Co-Chair Green asked why the federal funding was reduced.

Ms. Clarke replied that the federal grant award was reduced, but did not know the reason.

Senator Olson asked the plan for the following fiscal year if the federal funding were not reinstated.

Ms. Clarke replied that the Governor's proposed FY 06 budget has requested reinstatement of federal funds. Otherwise, the program would restrict the screening procedures to women over the age of 55, the mandatory age. Currently, any qualified woman over the age of 18 is eligible for the screening.

Senator Olson asked about women under the age of 55 with signs of potential cancer, such as a suspicious breast lump.

Ms. Clarke was unsure how the program would address these women. She would research the matter.

Item: 37

Section: 9(d)

RDU: Health Care Services: Medicaid Services

Supplemental Need: Unable to implement cost containment measures as quickly or to the extent planned: e.g., Prescription Drug List delay, Transportation, Rate Setting, Cost Avoidance of Medicare Covered Drugs. At current expenditure rate, the existing appropriation will be gone in April or May.

\$13,821,400 general funds

\$16,888,300 federal funds

\$30,709,700 Total Funds

Ms. Clarke stated this funding request is due to the Department's inability to accomplish its budget goals of the previous year. In FY 05, the Department proposed a total of approximately \$45 million of cost containment items, but has been able to implement only approximately \$11 million. The backup documentation details those areas where the reductions were unrealized [copy on file].

Ms. Clarke highlighted two components, which demonstrate the majority of the unrealized savings. The first involves anticipated reduced transportation costs of the Medicaid program through the use of the newly created State travel office. The Medicaid program did not get enrolled in the travel office to enable the Department to purchase bulk tickets until later in the fiscal year and thus the Department was unable to realize the full amount of anticipated cost reductions. The Department had also projected changes to the preferred drug list would save \$20 million; however the adjusted projection is \$8.4 million. This is due to the decision to exempt behavior drugs from the preferred drug list restrictions. Inclusion of the behavior drugs proved to be controversial.

Ms. Clarke noted savings for several other components were less than the amounts projected.

Senator Hoffman recalled that during discussions on the FY 05 budget during the previous session he asserted the cost containments were aggressive and recommended revising the amounts. Of the projected \$45 million, \$30 million was not achieved. This is less than 25 percent and reflects a "Far cry from good management."

Senator Hoffman asked the current status of the Medicaid travel component in securing cost containment.

Ms. Clarke replied that the Department joined the State travel office as of January 1, 2005, although the savings of this collaboration were less than anticipated.

Senator Hoffman asked if savings from the travel office over the next four months would reduce the \$30 million of unrealized cost containment.

Ms. Clarke answered it would. She noted that at the time the Governor's supplemental appropriation request was drafted, the Department had realized no savings from participation with the travel office. This supplemental request would be updated to reflect savings realized since participation began as well as anticipated savings through the end of the fiscal year.

Senator Hoffman had expected the Department would achieve at least 50 percent of the projected cost containment efforts proposed to the legislature. He reminded that he sponsored amendments to reduce the funding reductions, as he had predicted they were unrealistic

Senator Olson asked the percentage of Medicaid funds spent for behavioral drugs.

Ms. Clarke estimated the cost of behavioral drugs comprise one-third of the Medicaid funds expended for prescription medication.

DWAYNE PEEPLES, Director, Division of Health Care Services, Department of Health and Social Services, testified via teleconference from Anchorage that the expense of behavioral drugs is between 25 and 30 percent of the total prescription drug cost.

Item: 38

Section: 9(e)

RDU: Senior/Disabilities Svcs: Senior/Disabilities Medicaid Svc

Supplemental Need: Unable to implement cost containment measures as quickly or to the extent planned: e.g., Contract Waiver Assessments, Medicaid Waivers, Reducing Respite Utilization, Nursing Homes Preadmission Care Plans, \$7,084,400 general funds and \$7,606,300 federal = \$16,690,700. Formula growth over budgeted amount will cost \$15,487,800 general funds and \$20,930,200 federal = \$36,418,100. Primary growth is in Personal Care Attendant Services. At current expenditure rate, the existing appropriation will be gone in March.

\$22,572,200 general funds

\$30,536,600 federal funds

\$53,108,800 Total Funds

Ms. Clarke stated this request includes two items. She noted cost containment efforts were more successful for these. The Department had projected \$48.5 million of cost containment and refinancing savings for the Senior and Disability Services Medicaid program and expects would realize approximately two-thirds, or \$32 million of the initial projected savings.

Ms. Clarke informed that the second portion of this request is for funding to cover continued formula growth above projections, particularly for the Personal Care Attendant program. This program continues to expand above the Department's estimate, despite the audits conducted. January incurred the highest costs to date of \$7.4 million. She anticipated extensive discussions would be held in the budget subcommittee to reevaluate policy choices for this program. Other states have addressed the issue in various ways,

which would be reviewed.

Senator Dyson recalled that Commissioner Gilbertson expressed concerns a year ago about the growth of this program. Those discussions established the significant advantage for senior citizens to remain in their homes rather than be institutionalized. Senator Dyson understood that criteria was implemented to require that patients must be qualified to enter a care facility in order to qualify for this program.

Ms. Clarke learned that one section of the Department's regulations stipulate that clients must require an institutional level of care to qualify for this program. However, other regulations stipulate that patients demonstrate one deficiency.

STEVE ASHMAN, Director, Division of Senior and Disabilities Services, Department of Health and Social Services, reiterated that two regulations apply. One requires that an eligible recipient have one or more deficiencies in an activity required for daily living, such as meal preparation.

Senator Dyson pointed out that regulations could be changed without legislative approval, and asked why the Department had not taken steps to control the costs of this program.

Mr. Ashman replied that regulations adopted the previous year resulted in substantial outcry from patients, their families and service providers. The Department has also conducted audits of the program to determine what changes should be implemented to contain costs.

Senator Dyson clarified the Department is gathering information necessary to make decisions regarding the program, but requires additional data before decisions could be made.

Mr. Ashman answered this was correct.

Senator Dyson remarked that this program should not be abused. Families have a duty to provide some services; however, some subsidy is necessary in situations where family members must take time away from paying jobs to provide care. He asked the timeframe for making decisions regarding the future guidelines of the program.

Mr. Ashman replied that the audits should be completed by mid-March and that some preliminary data is already available.

Ms. Clarke stressed the Department's intent that changes made to

the program are acceptable to the legislature. This should be determined before any changes are implemented to avoid complaints. Therefore, the matter would be discussed in the budget subcommittee meetings.

Senator Dyson commented that the chair of that budget subcommittee is experienced on this issue. He requested that a copy of the audit be forwarded to the chair of the Senate Health, Education and Social Services Committee upon completion to allow a hearing on the topic to be scheduled in that committee. The only manner to specify legislative intent is through statutory changes, resolutions or direction given through appropriations. He asked the Department to relay direction to the legislature on how the legislature should proceed.

Co-Chair Green asked if a change of statute would be appropriate.

Mr. Ashman responded that the language in statute only provides that the service is an option.

Co-Chair Green surmised that the qualification requirements could be changed without legislation.

Senator Bunde sympathized that complaints are made when difficult decisions are made.

Senator Hoffman reiterated that the appropriations requested for items #36 and #37 total almost \$95 million, which demonstrate that the Department "missed its target" for cost containment. The documentation for these requests indicates the reductions were not achieved because changes were not implemented in a timely manner. He asked if the proposed enabling changes would be implemented by the start of FY 06 and subsequently reflected in the FY 06 operating budget.

Ms. Clarke replied that some of the enabling changes would be implemented before the start of FY 06 although others would not. She exemplified that the projected \$4 million savings through a nursing homes preadmission care plan would not be realized. This plan was envisioned to prevent Medicaid expenditure related to patients entering expensive nursing home facilities unnecessarily. However, the plan failed to consider that other Medicaid eligible patients would be admitted to those beds and that the only way to eliminate that expense would be to eliminate those bed spaces.

Senator Hoffman asked the percentage of the targeted cost containment would be realized for FY 06.

Ms. Clarke responded that the Department has achieved approximately \$41 million in savings.

Senator Hoffman remarked that the total projected cost containment was \$93 million.

Ms. Clarke clarified that a significant portion of the funding requested for the Senior/Disabilities Services BRU is not related to anticipated cost containment, but rather reflects the rate of growth in the cost of the program.

Co-Chair Green ordered the bill HELD in Committee.

AT EASE [9:34:01 AM](#) / [9:35:45 AM](#)

Co-Chair Wilken chaired the remainder of the meeting.

#SB97

SENATE BILL NO. 97

"An Act making supplemental, capital, and other appropriations, and reappropriations; amending appropriations; making appropriations to capitalize funds; making an appropriation under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

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

The Committee heard presentations from the State agencies outlining the appropriation requests.

[9:36:29 AM](#)

Department of Health and Social Services

Item: 85

Section: 8(a)

RDU: Behavioral Health: Behavioral Health Grants

Supplemental Need: Substance abuse prevention initiative so Alaska's kids are safe and healthy - Leadership initiatives to Keep Children Alcohol-Free, Reach Out Now, Building Healthy Futures, Statewide Multimedia Campaign; FY 06 lapse date \$4,000,000 general funds

Item: 86

Section: 8(b)

RDU: Behavioral Health: Behavioral Health Administration
Supplemental Need: Substance abuse prevention initiative so
Alaska's kids are safe and healthy - Alaska Local Options
Campaign Project Coordinator; FY 06 lapse date
\$75,000 general funds

Item: 87

Section: 8(c)

RDU: Behavioral Health: Community Action Prevention and
Intervention Grants
Supplemental Need: Substance abuse prevention initiative so
Alaska's kids are safe and healthy - Alaska Local Options
Campaign; FY 06 lapse date
\$425,000 general funds

Ms. Clarke explained these items are interrelated and pertain to substance abuse prevention. The Governor is "expecting" to utilize a portion of the "windfall", revenues in excess of amounts projected for FY 05, for these new programs intended to promote substance abuse prevention by children. In Alaska, appropriate action has not been taken to address substance abuse in the age group of 12 to 13 year-olds. The intent is to "get ahead of the problem" rather than react to the "downstream costs" of substance abuse. These prevention programs are supported by the federal government and by other states.

DIANE CASTO, Section Manager, Prevention and Early Intervention Section, Division of Behavioral Health, Department of Health and Social Services, testified that substance abuse is a "huge problem" for the State and impacts other social services. She listed child abuse, domestic violence, and school dropout as examples. The intent is to review substance abuse issues in a comprehensive and holistic way to determine how to help children and families and communities to earlier address substance abuse in those communities. Substances abused include alcohol, drugs, tobacco, and prescription drugs. The goal is to build self-esteem and resiliency in children to assist them in resisting abusive behavior.

Ms. Casto informed that the age in which children first try these substances is continually younger, and reportedly ages 12 and 13 for some. Therefore prevention must be addressed at an earlier age. Research demonstrates that the earlier first time use occurs, the more likely the youth is to have addiction problems later in life. The target ages for the proposed programs are 10 to 12 years.

Ms. Casto explained the plan to utilize adolescents, high school and college students, as mentors to speak to the children. Youths

listens to their peers more than they listen to adults and it is important that adults do not make all the decisions in administering these prevention initiatives.

Ms. Casto spoke to the identification of high-risk populations. Most abusers in treatment programs are parents. Research shows that drug and alcohol abuse is often generational. The program must work with children to "break that cycle."

Ms. Casto furthered that the proposed program would also undertake a comprehensive, multi-strategy media approach to change perceptions about alcohol and drug use. It is important to change the "norm" about alcohol. Some parents of teens express relief that their children are "only drinking alcohol" and not using drugs. The perception that alcohol is better than other substances must be altered.

Ms. Casto stated these proposals would fund local Alaskan programs. The Murkowski Administration is determining how to better support communities and their choices for local options regarding the use and sale of alcohol. The legislature has provided assistance for communities to become dry or damp or to implement other restrictions. The intent is to assist communities to determine the best choice for that community. The Department of Public Safety, the Department of Commerce, Community and Economic Development, the Department of Law and the Department of Health and Social Services are involved in the process to develop a more comprehensive approach to the local option issue.

Senator Bunde thanked the witness for her efforts in the prevention of substance abuse. He noted the reference to the safety and health of Alaska's children. With the reported age of substance abusers becoming younger, he asked how the success of the proposed programs would be assessed. He also questioned the inclusion of this request in the supplemental appropriation.

Ms. Casto replied that the programs would be based on a number of other programs that have undergone thorough evaluation and that meet certain criterion to demonstrate their effectiveness. These programs have been certified by the federal Department of Education and other federal programs. The State Department of Health and Social Services would provide assistance to grantees to ensure all programs include evaluation components.

Ms. Casto cited a survey on youth risk behavior, which indicates a decrease in the use of various drugs and alcohol. This is not a large increase, but represents a trend. Efforts should be made to ensure this continues.

Senator Bunde remarked that missions and measures of programs would continue to be addressed in budget subcommittees.

Co-Chair Wilken noted the funding for these proposed programs for FY 05 would be "windfall" money that otherwise would be included in the FY 06 budget. He asked if this would be a one-time expenditure, or if the expectation would be that funding would continue to be appropriated.

Ms. Clarke expected the appropriations would be ongoing.

Senator Olson indicated support for the proposed programs, but asked why the program could not wait until FY 06.

Senator Stedman agreed, noting the testimony did not address a need for this funding immediately rather than July 1, 2005. The previous items were of significant amounts and any new programs should be considered as a part of the FY 06 budgetary process.

Co-Chair Wilken anticipated this "funding mechanism" of the windfall revenues would be reflected in many items included in this supplemental appropriation request.

Co-Chair Green asked if any funds had been expended on these proposed programs to date.

Ms. Clarke answered no.

Co-Chair Green clarified the proposal to implement three new programs.

Ms. Clarke affirmed.

Senator Bunde remarked upon the reference to the additional as windfalls at a time when the State has a \$5.5 billion debt to the Constitutional Budget Reserve fund.

Co-Chair Wilken expressed concerns with this request and the practice of instituting new programs in years of higher revenues. He asked how the proposed programs differ from current programs. He also asked the amount of funding expended in FY 05 for alcohol-related programs. He questioned whether funding for this program could be sustained in the future and the anticipated impact of the programs.

Ms. Clarke stated she would provide the requested information. She estimated the FY 05 expenditures for substance abuse prevention is

less than \$1 million.

Co-Chair Wilken questioned the accuracy of that estimate.

Senator Stedman pointed out the descriptions for the items indicate a FY 06 lapse date. The expenditures should correctly be reported as ongoing.

Item: 88
Section: 8(d)
RDU: Juvenile Justice: Probation Services
Supplemental Need: Court-ordered special needs services for children in juvenile facilities. Last session the Legislature asked that these costs be brought forward as supplementals.
\$194,100 general funds

Ms. Clarke stated this request is for costs expected would be incurred in FY 05. At the time the FY 05 budget was adopted, the legislature requested that actual costs be addressed as supplemental appropriation requests.

Co-Chair Wilken noted this process is similar to ratification.

Item: 89
Section: 8(e)
RDU: Public Assistance: Adult Public Assistance
Supplemental Need: Savings due to caseload reduction and programmatic changes, particularly last year's changes to interim assistance
-\$2,038,800 general funds

Item: 90
Section: 8(e)
RDU: Public Assistance: General Relief Assistance
Supplemental Need: Projected FY 05 lapse. Approximately 80% of funds are used to pay for funeral and burial expenses of indigent deceased persons; the remainder is used to assist low-income individuals and families who are facing eviction.
-\$185,000 general funds

Ms. Clarke explained these items propose reappropriating general funds to offset other supplemental appropriations. Both items were "over budgeted" in the initial FY 05 appropriation.

Item: 91
Section: 8(f)
RDU: Departmental Support Services: BASIC Grants
Supplemental Need: Provides vital social service program

support to entities directly serving needy Alaskans across the state. Funding will be used on collaborative, community-based activities addressing basic needs such as food, shelter and health care. With FY 06 lapse date.

\$1,000,000 general funds

Ms. Clarke stated this request would fund a new program utilizing FY 05 windfall revenues. This is not a normal supplemental item, but rather would implement a new grant program. BASIC is an acronym of: Building Alaska through Successful Initiatives in Communities. The grants would be awarded to community organizations for special needs. She told of the shortage experienced by the Anchorage food bank of turkeys for Thanksgiving. These grants would be available for these types of expenditures.

Co-Chair Wilken asked if this grant program would be expected to continue to FY 06.

Ms. Clarke affirmed.

Senator Bunde commented that Alaska currently has a substantial welfare system. He opined that these additional revenues should be allocated to the existing programs and subsequently avoid the administrative expenses related to a separate program.

Ms. Clarke responded that the need for additional funding for local food banks has been identified. The Adult Temporary Assistance program benefits are distributed to recipients for a limited time and are then discontinued; however, the need for some assistance continues.

Item: 92

Section: 8(g)

RDU: Boards and Commissions: Governor's Advisory Council on Faith-Based and Community Initiatives

Supplemental Need: FY 05 costs for Office established by Administrative Order 221.

\$122,100 general funds

Ms. Clarke informed that Governor Murkowski established this advisory council to facilitate the start of the faith-based program. The Department of Military and Veterans Affairs, the Department of Corrections and the Department of Labor and Workforce Development are participating in the Council. The funds requested in this item would repay those departments for expenses already incurred. The Department of Health and Social Services would not be reimbursed for its contributions.

Co-Chair Green understood the administrative order had a zero fiscal note.

Ms. Clarke was unsure.

Co-Chair Green asked the number of positions created for this council.

Ms. Clarke answered that three new positions have been added.

Co-Chair Green asked the amount that would be requested for this program in FY 06.

Ms. Clarke replied that the Governor is proposing \$400,000 for this item.

Co-Chair Green asked the cost of this program the previous year.

Ms. Clarke clarified the Council is newly created and therefore no funding was allocated to it in the past.

Co-Chair Green recalled people in her community working for over year on these efforts.

Ms. Clarke surmised this must be a different organization.

Co-Chair Green asked the provisions of the administrative order.

Ms. Clarke would provide a copy of the order to the Committee.

Co-Chair Wilken noted the Governor's FY 06 request for this program is over \$300,000.

Senator Bunde compared this to item #91 and questioned at what point these activities become State-funding rather than community and organization funded.

Co-Chair Wilken asked the consequences if this item were not funded.

Ms. Clarke replied that the aforementioned departments would be required to absorb the expenses.

Co-Chair Wilken noted the Department of Health and Social Services has utilized federal Temporary Assistance for Needy Families (TANF) funds for its portion of the expenses.

Co-Chair Green asked if a direct appropriation could be made to the

other departments for reimbursement.

Co-Chair Wilken answered this could be done.

Senator Dyson asked if any federal funding is available for these efforts.

Ms. Clarke affirmed the Department has been expending TANF funds, but was unaware of any other federal funds available to subsidize these activities.

Co-Chair Wilken asked if any of the three new positions have been filled.

Ms. Clarke informed that the lead position of the Council has been filled.

Co-Chair Wilken clarified that two additional staff would be hired if this funding were provided.

Ms. Clarke affirmed.

Item: 39
Section: 8(h)
RDU: Public Health: Vital Statistics
Supplemental Need: Full funding for lease costs for Juneau office.
\$150,000 Receipt Supported Services funds

Ms. Clarke informed that these lease costs have been subsidized within the Department's budget for several years, but the Department is not longer able to absorb the expense. The Bureau of Vital Statistics has generated more revenue than anticipated in the current year. She noted a similar appropriation would be requested in FY 06.

Item: 151
Section: 19(a)
RDU: Ratifications - Health and Social Services
Supplemental Need: AR22520-03 Medical Assistance
\$13,390,029.73 general funds

Ms. Clarke stated this item is ratification for FY 03. She noted no ratification would be required for FY 04, demonstrating progress.

[10:07:03 AM](#)

Department of Administration

Item: 68

Section: 1(a)

RDU: Finance

Supplemental Need: First National Bank of Alaska credit card rebates - These funds are received from the bank based on state credit card purchases. Growth of the credit card program, combined with more favorable rebate terms has resulted in rebates in excess of budgeted authority. Allowing receipt and expenditure of these funds will allow the department to meet the vacancy factor in this component where health insurance and retirement cost increases were not funded.

\$76,100 Statutory Designated Program Receipts funds

ERIC SWANSON, Director, Division of Administrative Services, Department of Administration, reported that receipt authority is currently budgeted at \$112,500, but because of growth in the credit card program and more favorable rebate terms, the State has realized a larger rebate. The intent is to utilize these funds for staffing the credit card program.

Co-Chair Green asked if any understanding exists dictating that rebates must be returned to the original funding source, particularly federal receipts.

Mr. Swanson replied that the rebates are generated from all funding sources. The Department has been notified that the federal government could impose a penalty if rebates generated from the expenditure of federal funds were not utilized to offset the costs of operating the credit card program.

Co-Chair Green wanted to ensure that no consequences would result from this practice identified in future audits.

Mr. Swanson reminded that a similar appropriation of these rebates occurred in the FY 04 supplemental budget.

Co-Chair Green pointed out that statutory designated program receipt monies are actually general funds.

Mr. Swanson affirmed that if these rebates were not appropriated for this item, the funds would revert to the general fund. However, he reiterated that penalties could result if the rebates generated from the use of federal funds were not allocated to the credit card program.

Co-Chair Wilken asked what the rebate funds would be expended for.

Mr. Swanson replied the monies would fund a portion of the salaries for credit card services' staff.

Co-Chair Wilken asked if the funds could be expended for the State travel office.

Mr. Swanson responded that these funds were expended for the purchase of software for the travel office in the previous year. Similar appropriations to the travel office are not proposed for FY 06.

Co-Chair Wilken commented to the amount expended for the travel office.

Item: 69

Section: 1(b)

RDU: Motor Vehicles

Supplemental Need: Digital drivers license supplies - Funding is needed to cover the additional costs of deploying the digital drivers license system and increased demand for the new licenses. Consumable costs are higher due to volume of first-year purchases and underestimating cost of consumables. \$125,000 Receipt Supported Services

Mr. Swanson explained that the costs of deploying the new digital driver's license system and the cost of the consumables necessary to produce these driver's licenses were higher than anticipated. The demand for the new licenses was higher than expected.

Senator Bunde noted the intention that many new programs should be self-supportive. He asked if the new digital system is self-supportive.

Mr. Swanson qualified that the first year costs were higher than average. However, the program would operate in future years with no additional funding required.

DUANE BANNOCK, Director, Division of Motor Vehicles, Department of Administration, testified to the production costs of the new driver's license system. At the time the project was proposed, several security deficiencies were discovered. The additional security features added cost to the implementation of the system. Also, inventory costs increased as a result of the need to stock all offices and warehouses. Allowing supply stocks to be depleted before ordering replacement supplies is not an option.

Co-Chair Green asked if the Division has the ability to increase

the fees for driver's licenses without legislative action

Mr. Bannock replied that statutory changes would be required.

Co-Chair Wilken noted the Division generates \$40 million more than the operating costs.

Mr. Bannock affirmed the Division generates revenue.

Mr. Swanson corrected the net amount is \$30 million.

Item: 70

Section: 1(c)

RDU: Office of Public Advocacy

Supplemental Need: Projected annual caseload increase -
Because of the difficulty in projecting case types and costs 18 months in advance, OPA has historically funded the workload and caseload increases through supplemental appropriations. Funding of \$25,000 in general fund/program receipts is from the Department of Law from collections under Criminal Rule 39 and Appellate Rule 209.

\$600,000 general funds

Mr. Swanson stated the requested amount is the projected difference between the initial FY 05 appropriation and the amount necessary to fund the Office for the remainder of the fiscal year. Including this supplemental appropriation, the Office would expend approximately the same as was expended in FY 04, despite an increased caseload.

Co-Chair Green asked if funds appropriated in FY 04 had lapsed.

Mr. Swanson explained that the total FY 05 appropriation would be approximately \$100,000 more than the previous year.

Co-Chair Wilken recalled the legislature appropriated 100 percent of the requested amount for FY 05.

Mr. Swanson agreed the entire request was granted, but pointed out the amount that was requested was less than the actual expenditures of FY 04.

Co-Chair Green asked consequences if this appropriation were not approved.

JOSH FINK, Public Advocate, Office of Public Advocacy, Department of Administration, testified that if the request were not funded, the Office would be required to cease operations for the month of

July.

Item: 71

Section: 1(d)

RDU: Public Defender Agency

Supplemental Need: Projected annual caseload increase - Ms. Davidson was reappointed to several hundred old cases associated with the Blakely decision, which rendered some aspects of the State of Alaska's sentencing framework unconstitutional. Also, increases in travel to remote courts, expert witness, discovery and file storage costs. Funding of \$24,900 in general fund/program receipts is from the Department of Law from collections under Criminal Rule 39 and Appellate Rule 209. Also includes Therapeutic court funding coming from federal funds received by the National Council on Alcohol and Drug Dependency and allocated to State agencies. \$887,200 general funds

Mr. Swanson noted this request is similar to the Office of Public Advocacy request. The amount requested for this item represents the difference between the initial FY 05 appropriation and the amount required to fund the Agency for the remainder of the fiscal year. He spoke to significant caseload growth.

Co-Chair Wilken pointed out that the Agency was also fully funded for FY 05 in the amount requested.

BARBARA BRINK, Director, Public Defender Agency, Department of Administration, affirmed the appropriation was the full amount requested. She indicated a chart showing consistent caseload growth for the Agency [copy not provided.] It is expected that caseload would increase nine percent, partially due to the finding that Alaska sentencing statutes were unconstitutional. This impacted an unknown number of cases involving defendant sentencing. The Agency has already been assigned multiple new cases as a result of the appellate court finding. In addition, felony filings have increased. This is a reasonable consequence of the funding of nine additional prosecutor positions, additional State Trooper positions and the appointment of two new judges.

Item: 72

Section: 1(e)

RDU: Risk Management

Supplemental Need: Two major claims against the State's self-insurance deductible (\$1 million per loss) for catastrophic losses have been incurred: Fairbanks Correctional Center (total cost is just over \$1 million) and Fairweather hull damage \$350,000.

\$1,350,000 general funds

Mr. Swanson outlined this item.

Senator Bunde asked if the Fairbanks Correctional Center damage was the result of the incident involving heavy equipment used in an attempted escape.

Mr. Swanson affirmed.

Senator Bunde asked about potential opportunities to recover this expense

Mr. Swanson would follow up on the matter.

Co-Chair Green had understood the purpose of risk management was to amass funds to provide for costs in the event of such losses when the costs are less than the amount of the deductible.

Mr. Swanson replied the amounts of these claims are higher than the amount the risk management has available.

Co-Chair Green asked if the deductible should be lowered.

Mr. Swanson deferred the matter to the Division of Risk Management.

Senator Stedman understood the M/V Fairweather was running in sea conditions that were calmer than the worst conditions the ship was rated as able to withstand. He asked if the manufacturer would provide for at least a portion of the repair costs.

Mr. Swanson replied that remedies were pursued and this item reflects the outcome of those efforts.

Co-Chair Wilken requested further information.

Senator Olson asked why the repairs are not covered through the Department of Transportation and Public Facilities budget.

Mr. Swanson explained that the Department of Administration manages the insurance program.

Item: 73

Section: 1(f)

RDU: Satellite Infrastructure

Supplemental Need: The department has realized decreased rental costs for satellite equipment.

-\$500,000 general funds

Mr. Swanson stated this item represents a reduction in the amount necessary to pay rental costs for public broadcasting. The Department was able to negotiate more favorable terms.

Co-Chair Wilken asked why the funds were not transferred for information services activities rather than deposited to the general fund.

Mr. Swanson replied that the information services program operates from a separate fund source.

Item: 84

Section: 7(c)

RDU: Fund Capitalization - Information Services Fund

Supplemental Need: Telecommunications Partnering Agreement (TPA) disentanglement remediation \$3,200,000, State of Alaska Telecommunications System (SATS) and 2-Way Radio removed from statewide rate allocation and funded separately \$3,043,400 \$6,243,400 general funds

Mr. Swanson stated the first portion of this request is to provide for costs relating to telecommunications operations.

Mr. Swanson informed that the Department separated the SATS and 2-way radio programs from the TPA chargeback system. The costs had exceeded what the Department could reasonably collect from participating agencies.

Co-Chair Wilken noted the amount of the total request.

STAN HERRERA, Director, Enterprise Technology Services, Department of Administration, detailed the purpose of the division. The first portion of the request relates to the cancelled contract with Alaska Communications System to provide telecommunication services to the State. Upon the failure of that contract, the previous provider resumed oversight and responsibility for the network. This resulted in increased network costs as well as unrealized savings anticipated from the ACS contract. One anticipated reduction was the elimination of certain toll charges.

Mr. Herrera continued that the second portion of this item relates to the transfer of the costs of the SATS microwave system and the two-way radio system from the telecommunications chargeback costs assessed to agencies. It was determined that the \$2.8 million operating costs of the two systems should be isolated, although the amount was deemed to onerous to the departments.

Co-Chair Wilken asked if federal funds could be utilized to replace any general funds expended for this project.

Mr. Herrera answered that this would not likely be possible, as a portion of the costs were related to infrastructure. He detailed the expenses incurred in canceling the telecommunications contract relating to ownership of circuits and bandwidth. Efforts have been made to reduce costs, including software to enhance bandwidth capacity.

Co-Chair Wilken asked if by funding this project with general funds the option to receive federal funding for a portion of the costs is eliminated.

Mr. Swanson responded that it is possible that State agencies could be charged for some expenses, regardless of the use of general funds. Those charges might be eligible to "leverage" federal funding.

Co-Chair Wilken requested the Department identify those instances where this could be possible.

Mr. Swanson was unsure of other agencies' ability to "backfill" this expense.

Co-Chair Wilken indicated that further review of this item would be made.

Co-Chair Wilken ordered the bill HELD in Committee.

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ADJOURNMENT

Co-Chair Wilken adjourned the meeting at 10:38 AM