

MINUTES
SENATE FINANCE COMMITTEE
February 24, 2005
9:04 a.m.

CALL TO ORDER

Co-Chair Wilken convened the meeting at approximately [9:04:41 AM](#).

PRESENT

Senator Lyda Green, Co-Chair
Senator Gary Wilken, Co-Chair
Senator Con Bunde, Vice Chair
Senator Fred Dyson
Senator Bert Stedman

Also Attending: JOELLEN HANRAHAN, Director, Division of Administrative Services, Department of Commerce, Community and Economic Development; MARC ANTRIM, Commissioner, Department of Corrections; CHARLINE GRIFFIN, Acting Director, Division of Administrative Services, Department of Corrections; EDDY JEANS, Director, School Finance, Department of Education and Early Development; TOM LAWSON, Director, Division of Administrative Services, Department of Fish and Game; DAN SPENCER, Director, Division of Administrative Services, Department of Public Safety; DAVID MARCUS, Acting Deputy Attorney General, Civil Division, Department of Law; GUY BELL, Director, Division of Administrative Services, Department of Labor and Workforce Development; JOHN CRAMER, Director, Administrative Services Division, Department of Military and Veterans Affairs; NICO BUS, Acting Director, Division of Support Services, Department of Natural Resources; SUSAN TAYLOR, Director, Administrative Services Division, Department of Revenue; BOB BARTHOLOMEW, Chief Operating Officer, Alaska Permanent Fund Corporation, Department of Revenue; NANCY SLAGLE, Director, Division of Administrative Services, Department of Transportation and Public Facilities

Attending via Teleconference: From Offnet Sites: CRAIG TILLERY, Chief Assistant Attorney, General-Statewide Section Supervisor, Environmental Section, Department of Law; WILLIAM HERMAN, Program Officer, Alaska Mental Health Trust Authority, Department of Revenue; From Anchorage: DEAN BROWN, Deputy Director, Division of Forestry, Department of Natural Resources

SUMMARY INFORMATION

SB 97-SUPPLEMENTAL APPROPRIATIONS/CBR

The Committee heard supplemental request overviews from the Department of Commerce, Community and Economic Development; the Department of Education and Early Development; the Department of Labor and Workforce Development; the Department of Fish and Game, the Department of Law; the Department of Military and Veterans Affairs; the Department of Revenue, the Department of Natural Resources, Department of Public Safety; and the Department of Transportation and Public Facilities. The bill was held in Committee.

SB 98-SUPPLEMENTAL APPROPRIATIONS: FAST TRACK

This bill was scheduled but not heard.

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

Co-Chair Wilken announced that the purpose of today's hearing is to continue Department overviews on the regular supplemental bill.

Department of Commerce, Community and Economic Development

Item: 74

Section: 2

RDU: Qualified Trade Association Contract

Supplemental Need: The difference between the estimated amount and the actual amount paid to the Alaska Travel Industry Association that was due.

\$158,200 General Funds

JOELLEN HANRAHAN, Director, Division of Administrative Services, Department of Commerce, Community and Economic Development, read the Supplemental Need of Item 74 and expressed that "this correction is to FY 05 legislation which adjusted FY 04

appropriation amounts". At that time, the State had a contractual arrangement with the Alaska Travel Industry Association (ATIA) in which the State provided a 60/40 funding match. In FY 04, ATIA had anticipated being unable to meet their match obligation, and their appropriation was reduced. Subsequent action allowed ATIA to exceed their anticipated match by \$158,000. Therefore, this item "would correct that reduced appropriation".

Co-Chair Green asked how this request, "would differ from a ratification".

Ms. Hanrahan replied that this has been a topic of discussion between the Department and the Legislative Finance Division. The reason the request is included in the supplemental bill is because it is an adjustment to FY 05 legislation that adjusted FY 04 appropriation funding. In summary, the request could be classified as a ratification and not be included in the supplemental.

Department of Corrections

Item: 75

Section: 3(a)

RDU: Institutional Facilities

Supplemental Need: The department took a 7% savings in commodity purchases in anticipation of savings from deploying technology. Deployment has been delayed and the savings has not been realized.

\$350,000 General Fund

MARC ANTRIM, Commissioner, Department of Corrections, read the Supplemental Need and stated that the implementation of the Department's procurement system has been slow and therefore, the anticipated seven-percent savings, or \$507,600, has not transpired. \$490,000 of that amount was anticipated in the Division of Institutions. The Department would absorb \$157,600 of the expense.

Co-Chair Wilken understood therefore that this request would "backfill the decrement in the supply line for the FY 05 budget" and some of the decrement would be absorbed within the Department.

Commissioner Antrim stated that the FY 05 budget was short-funded by approximately \$500,000, as it was developed with the understanding that the new procurement system would be online. However, due to the delay in the program's implementation, the savings have not materialized.

Co-Chair Wilken asked whether this request pertains to the e-commerce system.

Commissioner Antrim affirmed.

Co-Chair Wilken asked whether the funding appropriated to the e-commerce system has been expended.

Commissioner Antrim responded no. The funding request pertaining to the purchase of the e-commerce system is included in the SB 98-FAST TRACK SUPPLEMENTAL APPROPS/CBRF bill. This request would serve to fund the Department's commodities.

Item: 76
Section: 3(b)
RDU: Institutional Facilities
Supplemental Need: Fuel cost increases
\$75,000 General Funds

Commissioner Antrim stated that this request would fund fuel cost increases for facilities throughout the State.

Co-Chair Green asked whether this request would provide for the entire fuel cost increase or whether the Department would be absorbing some of the FY 05 expenses.

Commissioner Antrim responded that this request would not provide the full amount. The Department would absorb approximately \$25,000 to \$30,000 in expenses above the requested amount.

Senator Stedman asked whether the Department's FY 06 budget would be adjusted to reflect future fuel price projections.

Commissioner Antrim affirmed.

Item: 153
Section: 19(c)
RDU: Corrections Ratifications
Supplemental Need: AR50566-02 Parole Board
\$62,129.00 General Funds

CHARLINE GRIFFIN, Acting Director, Division of Administrative Services, Department of Corrections, stated that this request "is a ratification for the Parole Board for FY 2002". This amount was adjusted "from the Parole Board to the out-of-state contracts component. The Parole Board was never funded to hold hearings in Arizona when that contract began and was unable in that year to absorb those costs". A legislative audit recommended that this request be presented.

Department of Education and Early Development

Item: 77

Section: 4(a)

RDU: ACPE

Supplemental Need: Unanticipated increase in mainframe charges from Department of Administration's Enterprise Technology Services

\$265,000 ACPE Rcpts

EDDY JEANS, Director, School Finance, Department of Education and Early Development, stated that this request would allow postsecondary receipts to address mainframe computer chargebacks.

Co-Chair Wilken, noting that 30-percent of this increase was due to loan volume, asked regarding the cause of the remaining 70-percent.

Mr. Jeans voiced the understanding that in addition to the activity from the increased loan volume, an increase in overall mainframe usage attributed to the chargeback.

Co-Chair Green asked for confirmation that payment would be to the Department of Administration.

Mr. Jeans affirmed.

Item: 78

Section: 4(b)

RDU: Foundation Program

Supplemental Need: Reduce the FY 05 entitlement for public school funding due to a decrease in projected enrollment; an increase in the amount of federal impact aid that reduces the amount of state aid; and the actual cost of the supplemental funding floor.

(\$14,145,500) General Funds

Mr. Jeans stated that this request is the result of a reduction in the student foundation funding formula program. Fewer students than anticipated, an increase in federal impact aid receipts, and an adjustment to the supplemental funding floor attributed to this decrement.

Co-Chair Wilken asked increasing local contributions was a factor.

Mr. Jeans responded in the negative; local contribution increases would have been a factor in developing the FY 05 budget.

Item: 79

Section: 4(c)

RDU: Library Operations

Supplemental Need: Costs associated with implementation of librarian job class study resulting in a one-range increase effective January 15, 2005.

\$30,000 General Funds

Mr. Jeans read the supplemental need and stated that this would provide salary increases for fourteen librarian positions.

Item: 82

Section: 7(a)

RDU: Fund Capitalization Debt Retirement Fund

Supplemental Need: Increased capitalization of the Debt Retirement Fund to supplant a shortfall in cigarette tax revenue into the School Fund - the estimate for cigarette tax revenue is reduced by \$800.0 from \$30.2 million to \$29.4 million. This fully funds the School Construction Debt Reimbursement program in FY 05.

\$551,100 General Funds

\$ 3,500 Federal Funds

\$245,400 DEED CIP Equity

Total Funds: \$800,000

Mr. Jeans stated that this request would infuse "additional money into the debt fund to offset a reduction in actual tobacco tax collected". While \$30,200,000 in tobacco tax was anticipated in the FY 05 budget, the actual amount collected would be \$29,400,000. This item reflects the fund sources identified by the Office of Management and Budget.

Item: 114

Section: 16(a)

RDU: School Debt Reimbursement

Supplemental Need: Fund Source change due to a shortfall in cigarette tax revenue deposits into the School Fund. The School Fund is reduced from \$30.2 million to \$29.4 million and the Debt Retirement Fund is increased from \$51,670,084 to \$52,470,000.

Total Funds: \$0.0 Debt Ret Fund and School Fund

Mr. Jeans noted that this item reflects fund changes in the fund source and the reduction in the tobacco tax from \$30.2 million to \$29.4 million and an increase in the Debt Fund to \$52,470,000.

Co-Chair Wilken expressed that Item 82 reflected the fact that the State collected \$800,000 less money as a result of a decline in smoking. The resulting \$800,000 shortfall in debt reimbursement

would be replaced with general funds, federal funds and other funds to include CIP equity.

Mr. Jeans shared that in FY 04, the Department had a CIP equity account that was funded by overhead charges relating to capital projects. The Department had incorrectly understood that that fund was liquidated; however, a \$245,000 balance remained.

Co-Chair Wilken asked whether any balance currently exists.

Mr. Jeans replied in the negative.

Co-Chair Green asked for confirmation that this amount was required to backfill the account due to a shortfall.

Mr. Jeans concurred that this amount is needed "for the debt reimbursement program for the current year".

In response to a comment from Co-Chair Wilken, Mr. Jeans clarified that the total amount is \$82 million: \$30 million from the tobacco tax and the \$52 million.

Co-Chair Wilken acknowledged.

Co-Chair Green asked for confirmation that these figures are firm and no additional amount would be anticipated.

Mr. Jeans replied that this is the amount needed for "the debt reimbursement program to fully reimburse all school districts in the current year". The amount of revenue that would be received from the tobacco tax was overestimated and that shortfall must be backfilled.

Department of Fish and Game

Item 80

Section: 5

RDU: Commercial Fisheries

Supplemental Need: Language in sec. 1, ch. 158, SLA 2004, page 14 for the Southeast Region Fisheries Management component should have been for the entire Commercial fisheries appropriation.

Total Funds: zero

TOM LAWSON, Director, Division of Administrative Services, Department of Fish and Game, explained that this item would correct an error in the FY 05 operating budget by allowing FY 04 year-end balances of test fish receipts for all Commercial Fisheries to roll

forward rather than limiting the rollover only to the Southeast Region. The amount in question is \$421,000. The roll forward language has been in effect since FY 03. Absent this correction, Commercial Fisheries would be required "to harvest additional resources" to achieve the revenue required to cover the costs of the programs funded by test fish receipts.

Co-Chair Wilken asked regarding the item's reference to zero funds.

Mr. Lawson replied that the \$421,000 has lapsed into the general fund.

Co-Chair Wilken, noting that this could be viewed as "a ratification for FY 04 expenditures", asked for further information regarding the effect of this request.

Mr. Lawson explained that, in the FY 05 operating budget, the rollover language was mistakenly placed under the Southeast Commercial Fisheries component. As a result, only the test fish revenue from that component was specified to rollover. This item would allow the rollover language to apply to all pertinent Commercial components.

Co-Chair Wilken understood therefore that this is a lapse issue.

Mr. Lawson concurred.

Department of Public Safety

Item 81

Section: 6

RDU: Fund Capitalization Fish and Game Fund

Supplemental Need: Fish and Game Fund interest can't be spend by the Department of Public Safety or the Department of Law per Legislative Audit, December 2004. A language change is necessary to specifically appropriate the interest earnings. \$108,400 General Funds

[NOTE: The following testifier's audio is garbled and difficult to understand.]

DAN SPENCER, Director, Division of Administrative Services, Department of Public Safety, expressed that this item would allow the interest earned in the Fish and Game Fund since 1998 to be utilized by the Department of Public Safety for enforcement purposes and by the Department of Law for prosecution purposes. While the funds have historically been utilized in this manner, a recent Legislative Budget & Audit report [copy not provided]

recommended that the language be clarified to explicitly allow for the interest to be appropriated.

Co-Chair Wilken asked for confirmation that use of the interest in this manner is supported for all interested parties.

Mr. Spencer concurred and noted that language should be adjusted in the FY 06 appropriation budget to reflect this clarification.

Co-Chair Wilken asked whether that language has been provided.

Mr. Spencer expressed that it would be forthcoming.

Co-Chair Green asked for confirmation that the historical use of these funds would not be altered as a result of this language change.

Mr. Spencer replied that the funds would be utilized in "the exact same way" they have been used since 1998.

Senator Bunde understood that the funds would be used to enhance enforcement efforts relating to Fish and Game issues.

In response to a question from Senator Bunde, Mr. Spencer expressed that the funds would be used to support Fish and Wildlife enforcement issues.

Item: 109

Section: 14(a)

RDU: Capital

Supplemental Need: Additional National Marine Fisheries Service funding for the existing FY 05 capital project: Marine Fisheries Patrol Improvements. This increases the amount from \$1,080.3 to \$1,250.0.

\$169,700 Federal Funds

Mr. Spencer stated that this request would allow for an increase in the amount of federal funds received in FY 05 for "joint open water" enforcement patrols with the National Marine Fisheries Service. Overall federal funding support of this ongoing program in FY 05 would exceed \$2.25 million. Additional funds might be forthcoming.

Co-Chair Green asked whether this funding could be included in the FY 06 budget.

Mr. Spencer replied that while the joint operation would continue in FY 06, the timing of the receipt of this funding would be "the

only issue" as the authority to expend it must align with the fiscal year in which it was received.

Co-Chair Green asked, therefore, whether "an expiration date" is attached to the funding.

Mr. Spencer communicated that the funding relates to a specific set of services the State has agreed to provide.

Item 110
Section: 14(b)
RDU: Capital
Supplemental Need: New Crime Scene Examination Enhancement project
\$225,000 Federal Funds

Mr. Spencer stated that this Congressional appropriation would be used to improve the handling of crime scenes.

Co-Chair Wilken understood this would be a one-time project.

Co-Chair Green asked for confirmation that this was a new project.

Mr. Spencer responded yes; this would be one of a variety of improvements relating to how crime scenes are processed.

Co-Chair Wilken understood that the project would continue until its funding was exhausted.

Co-Chair Green asked whether the inclusion of a new project in the supplemental bill was "appropriate".

Co-Chair Wilken asked whether this funding could be included in the FY 06 budget rather than in the supplemental bill.

Mr. Spencer responded that were this federal funding received in FY 05, expenditures relating to such things as training programs should be made.

Item: 83
Section: 7(b)
RDU: Fund Capitalization Debt Retirement Fund
Supplemental Need: This section appropriates any lapsing balances as of June 30, 2005 of federal unrestricted receipts to the Debt Retirement Fund. (The amount is unknown at this time.)
Total Funds: Zero

Co-Chair Wilken commented that this request would allow lapsing federal funds to be deposited into the Debt Retirement Fund.

Department of Law

Item 94

Section: 9

RDU: Civil Division, Deputy Attorney General's Office

Supplemental Need: Judgments and Claims as of 2/27/05.

\$1,108,900 General Funds

DAVID MARCUS, Acting Deputy Attorney General, Civil Division, Department of Law, stated that this request would address 13 judgments and claims: four to address attorney fees; three to address challenges pertaining to the November 2004 general election; and the balance to address personal injury settlements.

Senator Dyson asked whether this request would address an [unspecified] improper termination lawsuit against the State.

Mr. Marcus responded that were that issue's judgment to have occurred after February 7, 2005, it would not be included in this request. He would investigate this further.

Item 97

Section: 11(a)

RDU: Opinions, Appeals and Ethics

Supplemental Need: Outside counsel costs to complete the appeal through the oral argument in the Planned Parenthood case: FY 06 lapse date.

\$19,100 General Funds

Mr. Marcus read the Supplemental Need and stated that the State would continue its efforts to defend the Constitutionality of the Parental Consent Act, which prohibits doctors from performing elective, non-medically necessary abortions "on girls age 16 and younger who are both un-married and un-emancipated unless the girl has first obtained the consent from her parents or a Superior Court Judge". 40 other states have similar laws. This is a very important issue to the Governor Frank Murkowski Administration as well as to many Legislators. The Act is currently undergoing its second appeal before the Supreme Court with an upcoming oral argument Court date scheduled for April 13. Extensive briefings and Court records have been incurred. To date, the Department of Law has expended \$667,000 and all appropriations for this purpose have been spent, in addition to monies spent by the Legislation Judicial Council. A private lawyer, Mr. Clarkson, has been retained to forward the Legislature's interest and assist Department of Law attorneys'

efforts. Mr. Clarkson estimated that an additional \$19,100 would be necessary to complete work on the appeal through the oral argument phase.

Item: 98
Section: 11(b)
RDU: Statehood Defense
Supplemental Need: Extend lapse date to June 30, 2006 for Navigable Waters, RS 2477 Rights-of-Way, Statehood Defense - Sec. 62(b), ch. 82, SLA 2003.
Total Funds: zero

Mr. Marcus stated that this request would allow the use of funds appropriated in 2003 to be extended through June 30, 2006 in order to address safety defense issues.

Item: 99
Section: 11(c)
RDU: Environmental Law
Supplemental Need: Extend lapse date to June 30, 2006 for continued analysis of the continuing injury from the Exxon Valdez oil spill and development of restoration option - Sec. 16, ch 159, SLA 2004.
Total Funds: zero

Item 100
Section: 11(d)
RDU: Environmental Law
Supplemental Need: Expend lapse date to June 30, 2006 for Exxon Valdez Oil Spill Trustee Council - Senator Elton. 22(c), ch. 159, SLA 2004.
Total Funds: zero

CRAIG TILLERY, Chief Assistant Attorney, General-Statewide Section Supervisor, Environmental Section, Department of Law, testified via teleconference from an offnet site in Anchorage stated that these two requests would allow the appropriations to be extended through June 30, 2006. Section 11(d) was a \$1.5 million appropriation from the Exxon Valdez Oil Spill Trustee Council to support studies that have either not yet been completed or would require review of restoration activities. The studies and reviews should be completed by the fall of 2005. In addition, a \$100,000 appropriation from the Exxon Valdez Criminal restitution money, a restricted account, is also being requested to have an extension date.

Co-Chair Wilken recalled that a similar request had come before the Committee the prior year. At that time, a concern was raised regarding whether the continuance of Prince William Sound studies

was a necessary monetary expenditure.

Mr. Tillery confirmed that this issue had been raised the prior year. The response is that studies would fully evaluate whether the Sound's cleanup was complete or which components must be further addressed. This would be the final review and should be completed by this fall.

Co-Chair Wilken understood last year's \$1.5 million appropriation was to support some new and some existing efforts. To the point, he asked whether any new projects would be undertaken with this money were it not to lapse.

Mr. Tillery responded that, "the only new projects that could be started with this money" are those that would be considered as providing a follow-up or an extension of an existing project. One example might be an activity that might address "lingering oil in the Sound ... or a general look around to see if there are any activities that can be undertaken to resolve or deal with lingering oil remaining on some beaches".

Co-Chair Wilken asked a list to be provided that would include "projects that are currently underway, a list of projects new or in addition to the current projects that will get underway" to include start/finish dates. "That list should total \$1.5 million".

Mr. Tillery responded that the amount would be less than \$1.5 million as some of the money would fund federal agency endeavors and, as such, would not funnel through the Department of Law.

Co-Chair Wilken stressed that once this list is developed, it would provide a way to gauge, one year from now, the status of all the projects funded by this appropriation.

Mr. Tillery concurred.

Department of Labor and Workforce Development

Item: 95
Section: 10(a)
RDU: Management Services
Supplemental Need: Language for carryforward of revenues due to audit findings.
Total Funds: zero

Item: 96
Section: 10(b)
RDU: Vocational Rehabilitation Administration

Supplemental Need: Language for carryforward of revenues due to audit findings.
Total Funds: zero

GUY BELL, Director, Division of Administrative Services, Department of Labor and Workforce Development informed the Committee that these requests would address a Division of Legislative Audit finding regarding the Department's indirect cost allocation plan, in that the Department must receive Legislative approval to rollover excess revenue it collects from one year to the next. These monies are used to offset future administrative cost rates. These requests seek that authorization.

Co-Chair Wilken asked the amount of the "unexpended, unobligated" revenue.

Mr. Bell responded that the net for both divisions from FY 04 to FY 05 is approximately \$150,000.

Department of Military and Veterans Affairs

Item 101
Section: 12(a)
RDU: Capital
Supplemental Need: Transfer RPL 09-5-0001, authorized on July 8, 2004, for the Alaska Aviation Safety project from operating to capital (\$2,803.0 federal funds).
Total Funds: zero

JOHN CRAMER, Director, Administrative Services Division, Department of Military and Veterans Affairs, stated that this request would allow this funding to move from the Department's operating budget to its capital budget, as the funding would be utilized over multiple years.

Item: 102
Section: 12(b)
RDU: Capital
Supplemental Need: Reappropriation of the estimated balance of \$48.5 from the Tudor Road Combined Support Maintenance Site Clean-up project (Sec. 1, ch. 135, SLA 2000) for statewide emergency communications.
Total Funds: zero

Mr. Cramer stated that the Department has concluded its clean up of the Tudor Road maintenance shop area. This request would allow the remaining balance of that project's appropriation to be dedicated to the Alaska Statewide Emergency Communications Program.

Item: 103
Section: 12(c)
RDU: National Guard Military Headquarters
Supplemental Need: Anchorage Armory basic telecommunications service; increased basic telephone service costs provided by the National Guard Bureau for Department of Military and Veterans Affairs offices located in the Anchorage Armory.
\$57,200 General Funds

Mr. Cramer stated that this request relates to an increase in the cost of providing basic telephone service expenses at Fort Richardson.

Item: 104
Section: 12(d)
RDU: Air Guard Facilities Maintenance
Supplemental Need: Network Services Costs for Kulis and Eielson; network service provided by the Air National Guard
\$30,900 General Funds

Mr. Cramer expressed that this request would provide for expenses associated with the Statewide network services for the Air National Guard facilities at Kulis and Eielson.

Co-Chair Wilken inquired to the reason that network expenses have increased so dramatically.

Mr. Cramer informed that contrary to previous years, the federal government is no longer allowing the Department to chargeback such expenses. The Department of Administration charges Departments for such services; however, these facilities do not receive "the benefit of those services".

Co-Chair Wilken understood therefore that due to the chargeback component being disallowed by the federal government, general fund dollars are being requested to fund this request.

Department of Natural Resources

Item 106
Section: 13(a)
RDU: Fire Suppression Activity
Supplemental Need: Costs to fight worst fire season in history.
\$36,902,700 General Funds

NICO BUS, Acting Director, Division of Support Services, Department

of Natural Resources, expressed that this request would address the State's "highest" fire suppression efforts to date, even though the season started out slower than usual. To place the amount in perspective, the entire Department budget is similar to the cost of the FY 05 fire suppression efforts.

Co-Chair Wilken asked the State's participation in the North Slope Borough's task force efforts to analyze last summer's fire season in an attempt to prevent similar events from re-occurring.

Mr. Bus deferred to the Division of Forestry.

DEAN BROWN, Deputy Director, Division of Forestry, Department of Natural Resources, testified via teleconference from Anchorage, and stated that a Departmental Regional Forester and other staff, as needed, have been attending the North Star Borough's task force weekly meetings. The Department has been "completely involved" and has provided information in order for the task force to have the most complete information available.

Co-Chair Wilken asked whether progress is being made.

Ms. Brown affirmed that progress is being made. The task force's findings, combined with the Division of Forestry and the Bureau of Land Management reports, and public meeting comments should provide "a fairly good picture of the concerns and issues" that would allow fire suppression policies to be re-evaluated for coordination purposes across all levels: State, local, federal, and public.

Co-Chair Wilken hoped that the results of this effort would be beneficial.

Senator Bunde asked for an estimation of last summer's property loss, as well as a projection for the upcoming summer fire season.

Co-Chair Wilken commented that while there was fire damage to property, no lives were lost.

Ms. Brown asked for a definition of property; specifically whether it would include such things as residences, personal property, State forest loss values, Native Corporation losses, and more.

Senator Bunde expressed that he was seeking the total loss of all entities.

Ms. Brown expressed that the economic value of the forest resources lost in the fire is difficult to calculate, as the value of those forests is questionable as they are not accessible by road. The

number of actual structural losses and fire suppression expenses could be provided; however, due to "the magnitude of the fire season", total losses are still being determined by the affected entities.

Senator Bunde agreed that there was little high-timber value in the fire areas. Continuing, he voiced hope that the State's fire suppression plans for remote areas would not be affected by pressures exerted from property owners, as it would be interesting to compare the actual property loss expense to the \$37 million expense of the fire suppression.

Ms. Brown agreed that this past fire season was "a real test" of fire suppression policies in remote areas; however, the interagency community considers that it successfully demonstrated "that limited resources can be focused towards protection of life and property in the areas where it needs to be" while recognizing the historic role of fire in the regeneration of growth in areas where it does not threaten life and property.

Co-Chair Wilken commented that due to the close proximity of the fire, many communities could have been in harm's way had the wind shifted. He appreciated the jobs conducted by the fire suppression crews.

Item: 152
Section: 19(b)
RDU: Ratifications Natural Resources
Supplemental Need: AR37313-04 Fire Suppression Activity
\$2,010,200.00 General Funds

Mr. Bus stated that this request is a ratification of the expenses associated with June 2004 fire suppression activities. Total FY 04 fire suppression expenses amounted to approximately ten million dollars. As the average fire season costs approximately \$15 million, FY 04 was considered a good year.

Item 107
Section: 13(b)
RDU: Capital
Supplemental Need: Reappropriation of the Grants to Named Recipient: Ketchikan Area State Parks Advisory Board - \$25,000 for Areawide Health, Safety and Maintenance Upgrades project to DNR for same purpose. As originally appropriated, the Board has no staff or the capability to receive and expend the funds.
Total Funds: zero

Mr. Bus stated that due to the fact that the Ketchikan Area State Parks Advisory Board has no mechanism through which to receive or expend money, this request would allow this grant to be processed through the State Division of Parks.

Co-Chair Green asked whether the Grants to Named Recipients program was a specific program in the Department of Natural Resources.

Mr. Bus replied that it is not a Department of Natural Resources program. He explained that this grant was a legislative designation to the Ketchikan Area State Parks Advisory Board.

Item: 108
Section: 13(c)
RDU: Water Development
Supplemental Need: Replace non-realizable receipts.
\$100,000 General Funds
(\$100,000) Receipt Supported Services
Total Funds: zero

Mr. Bus explained that this request would allow for the re-appropriation of \$100,000 in receipt-supported services to the general fund in order to support the Department's Water Development program. This is necessary due to FY 05 Legislative action that switched \$300,000 from general fund support for this program to receipt supported services funding. Unfortunately, the Department "is prohibited from increasing fees beyond what is reasonably necessary to cover the expenses"; and as a result, the Department has been unable to fill water adjudication positions, and has fallen behind in processing water right applications. Only half of the applications could be processed. This has negatively affected economic development in all areas. While the Department has re-allocated other funding to address this issue, there remains an approximate \$100,000 shortfall.

Co-Chair Wilken deducted therefore that, since there is a \$300,000 request for this program in the FY 06 budget, the annual expense relating to this program is \$300,000.

Mr. Bus concurred. The Department attempted to control FY 05 expenses by leaving positions vacant and transferring money from other divisions to it.

Senator Stedman asked for further information regarding the source of the added workload, specifically whether it pertains to large river or stream water right applications.

Mr. Bus exemplified the types of water right applications from

Southeast Alaska: one from the City of Sitka, two seafood processing applications, and one from the Kennicott Greens Creek Mine. Those from the Northern region include various city, industry, and mining applications. Application delays result in significant negative economic impact. Applicants are unable to apply for bank loans without an approved application.

Senator Bunde asked whether the application fee is based on the size of the project and whether the current fee structure sufficiently covers program expenses.

Mr. Bus communicated that the fees cover the costs of operating the program. Processing private citizen water right applications is currently secondary to the processing of economic development-related applications.

Senator Bunde understood therefore that this is a receipt-supported program.

Mr. Bus responded that the charges to the program have reached the funding limit. Fees could not be increased, as the charges could not exceed the cost of operating the program.

Senator Bunde therefore questioned the need for more funding.

Mr. Bus explained that the Statute recognizes \$75 as being the reasonable amount to charge for the processing service; however, the program cost might be \$150. The difference is due to administrative expenses.

Senator Bunde inquired as to whether the Statute could not be changed to reflect actual costs.

Mr. Bus responded that "various functions" within the program could not be included in the overall cost assessment.

Senator Bunde ascertained therefore that program expenses exceed the allowable fee level.

Mr. Bus voiced that while this observation is valid, costs not directly related to the application are not considered.

Senator Bunde expressed that the water rights program is a component of a larger program.

Co-Chair Green noted that the request's detailed explanation states that, "the law provides that fees may not exceed the estimated average reasonable direct costs of providing the program". Mr. Bus

might be including direct and indirect costs in his comments.

Mr. Bus acknowledged that he is referring to total costs. The fees could be altered were the law changed to specify total costs.

Co-Chair Green commented that changing the regulation could be considered.

Co-Chair Wilken surmised that including the word total in the language could address this issue. This issue should be further discussed.

Senator Bunde voiced support of such action, specifically as it would assist in furthering economic development in the State.

Senator Stedman asked for further information regarding the program's workload. While he understood that processing large projects is primary due to their economic importance, he asked regarding the number of smaller applicants being processed.

Mr. Bus recalled that a few year prior, the program received a funding boost in order to address the backlog of small applications. However, the current funding situation has mandated that priorities be established. The Department would address individual permit applications were, for example, the potential for a conflict to arise between two parties. Were a request filed for a change to an existing residential water use, the water could continue to be utilized while the permit is pending.

Department of Revenue

Item: 111

Section: 15(a)

RDU: Alaska State Pension Investment Board

Supplemental Need: Increased managers fees

\$1,100,000 various Retirement Funds

SUSAN TAYLOR, Director, Administrative Services Division, Department of Revenue, explained that, "investment management fees are a percentage of the market value invested" and the Alaska State Pension Investment Board (ASPIB) is requesting \$1,100,000 relating to various retirement funds. During the past several years, ASPIB decreased this authorization as a result of declining markets. Markets have since rebounded. The calculation is based on the estimated rate of returns as determined by the State's consultant, Callan & Associates. The rate of return is a median rate with a five percent increase that acts, as a "cushion" were the markets to perform better than expected. This would serve to avoid the need

for additional authorization requests. These funds could not be used for general operating expenses.

Co-Chair Wilken noted that the detailed language specifies these expenses to pertain to FY 04 fees payable in FY 05.

Ms. Taylor corrected that this request pertains to FY 05 fees. There must be a typographical error in the explanation. The increased fees associated with the market rebound in FY 04 were absorbed in the FY 04 authorization. This would not be the case in FY 05.

Co-Chair Wilken asked whether the \$1.1 million increase is solely due to the increasing value of the State's assets.

Ms. Taylor replied that a portion of the amount is the result of other investment vehicles. For example, 70-percent of the increase is the result of "agricultural managers being added".

Senator Stedman asked whether the State experienced "a substantial reduction in management fees" when the value of its portfolio declined, and whether the State is now experiencing growth in these fees once again due to market rebounds.

Ms. Taylor understood this to be correct, but noted that this would be confirmed.

BOB BARTHOLOMEW, Chief Operating Officer, Alaska Permanent Fund Corporation, Department of Revenue, expressed that the Permanent Fund Corporation (PFC) experienced the same cycle as the retirement systems. The PFC authorization for management fees in FY 01 was \$45.5 million; the current management fee authorization is \$39 million. Decrements have been experienced, "and now we are in the process of going back up". He noted that the PFC would be requesting a \$1.5 million increase for management fees for FY 05. Even with this increase, the PFC authorization would still be below the amount required three years prior.

Senator Stedman asked that a chart be developed to reflect the various management fee authorizations from year to year.

Ms. Taylor affirmed that a chart would be developed.

Senator Bunde understood that the Fund's management fees would be included in the "Other Funds" component.

Ms. Taylor affirmed.

Co-Chair Green asked regarding the types of entities to which management fees are paid.

Ms. Taylor deferred to Mr. Bartholomew.

Mr. Bartholomew shared, for example, that the PFC employs approximately 16 different management firms for its equity investments.

Senator Bunde asked whether those who provide actuarial advice to the retirement systems "also manage the funds".

Mr. Bartholomew responded no; the retirement system employs a separate consultant to perform actuarial duties.

Item: 146
Section: 20
RDU: Treasury Division
Supplemental Need: Increased managers fees.
\$25,000 Constitutional Budget Reserve

Ms. Taylor stated that a sub-fund of the Constitutional Budget Reserve (CBR) Fund was invested in domestic and international equity in an endeavor to garner higher rates of return. However, financial markets declined after it was established and managers fee levels decreased accordingly. Recent market upswings have resulted in increased managers fees and thus, the need for this request. Additional funds would also be required in FY 06.

Co-Chair Wilken recalled that the sub-fund was allocated \$400 million in FY 99.

Ms. Taylor affirmed.

Co-Chair Wilken understood that the fund had been abolished.

Ms. Taylor clarified that while legislation to this effect had been proposed, it had not advanced.

Senator Stedman understood that the retirement system establishes a target rate with a specified margin; that percentage would be the basis for budgeting manager fees. To that point, a five percent margin on a target rate of 8.25 percent would establish the base for calculating managers fees at approximately 13.5 percent. Were "extraordinary returns" to be experienced, the Department would be required to seek supplemental funding.

Ms. Taylor concurred.

Senator Stedman summarized therefore that a target rate of eight-percent, with a five-percent margin, would establish a calculation rate of 13-percent to provide for manager fees. He understood that the rate could be adjusted throughout the year depending on market performance.

Ms. Taylor responded that the calculation is not adjusted throughout the year. The process is to budget for more than the target rate. Were fees lower than the authorization, the balance would not be expended.

Mr. Bartholomew informed that the Permanent Fund's manager fee calculations solely utilize the median rate of return and do not include a "buffer".

Mr. Bartholomew clarified that the retirement system calculates its managers fees based on a projected market return, and then increases that amount by five-percent. For example, managers fees based on an eight-percent return, might amount to \$30 million; an additional five-percent, or \$1.5 million, would be added to the \$30 million. It would be "a five-percent buffer of their total budget request".

Ms. Taylor affirmed that the amount would be based on the gross budget.

Senator Stedman acknowledged the clarification.

Item: 113
Section: 15(c)
RDU: APFC Custody and Management Fees
Supplemental Need: Increased Managers Fees
\$1,500,000 Permanent Fund Receipts

Mr. Bartholomew stated that a strong equity market has occurred since the FY 05 budget was calculated 18 months prior. This has had a direct effect on the fees. In addition, the funds "are moving into asset classes that have higher costs than the standard bond and stock investments that we've been doing". "A certain amount of the fee increase is related" to that change. The funds should produce a higher level of returns to compensate for the higher manager fees.

Senator Stedman noted that the words "with a lower level of risk" should be added to Mr. Bartholomew's last statement.

Mr. Bartholomew replied the goal of changing to these different

asset classes, is to either obtain a higher return or to diversify in order to lower risks. "There are increased costs, regardless".

Item: 112
Section: 15(b)
RDU: Capital
Supplemental Need: Alaska Mental Health Trust Authority:
Mobility Coalition grant funds from the U.S Department of
Transportation
\$500,000 Federal Funds

Ms. Taylor informed that this request is included in the supplemental bill due to the fact that historically this funding had been appropriated to the Department of Transportation and Public Facilities (DOT), but this year it was appropriated to the Alaska Mental Health Trust Authority. This request would allow DOT to manage the funds as they have in the past.

In response to a question from Co-Chair Wilken, Ms. Taylor clarified that this request pertains to federal funds. The State has already appropriated its \$500,000 match.

Co-Chair Wilken asked whether this request could be included in the FY 06 budget.

WILLIAM HERMAN, Program Officer, Alaska Mental Health Trust Authority, Department of Revenue, testified via teleconference from an offnet site and stated that the Trust's intent is to utilize this money in FY 05. It is anticipated that federal funds would also be appropriated in FY 06.

Co-Chair Wilken understood therefore that a \$500,000 Mental Health request would be included in the State's FY 06 Mental Health budget with the anticipation that \$500,000 in federal matching funds would again be provided.

Mr. Herman concurred, but clarified that the FY 06 federal appropriation has not been finalized.

Department of Transportation and Public Facilities

Item 116
Section: 17(a)
RDU: Capital
Supplemental Need: Bids came in higher for Chandalar
maintenance station construction.
\$930,000 General Funds

NANCY SLAGLE, Director, Division of Administrative Services, Department of Transportation and Public Facilities stated that this request would assist the Department in replacing the Chandalar maintenance station on the Dalton Highway. The station was demolished due to structural inadequacy and operations are being conducted in a tent. The original structure replacement estimate was \$5.2 million; \$2.6 million was allocated in FY 04. However, the estimate must be revised due to recent steel price increases. This funding request would allow the contract to be awarded for the shell of the building. A completion-funding request would be included as an amendment to the FY 06 capital budget.

Co-Chair Wilken commented that this project must get done.

Ms. Slagle agreed that this project has been an issue for many years.

Co-Chair Wilken communicated that the Committee strongly supports completing this station.

Item 117

Section: 17(b)

RDU: Capital

Supplemental Need: Adak contract - new federal authority for capital improvements.

\$3,400,000 Federal Funds

Ms. Slagle shared that the Department of Defense is providing funding to bring the Adak airport facility and runway up to required operation standards; including construction of an airport rescue and fire fighting building, runway replacement, and water and lighting system upgrades. No State match is required.

Senator Bunde understood this to be a private airport facility.

Ms. Slagle replied that the State is operating the facility under an agreement with the United States Navy.

Senator Bunde asked whether the airport facility had been included in the federal military base transfer to a Native corporation.

Ms. Slagle replied in the negative, and stated that forthcoming Item 121 would provide further information. The State received \$10 million in federal funds in FY 04 in addition to this funding. The agreement authorizing the State to operate the airport is effective for another five years.

Item: 118

Section: 17(c)

RDU: Capital

Supplemental Need: Emergency and Non-routine Maintenance:
Failed railroad crossings, \$305.0; Winter ice storm and
avalanche damage, \$50.0; Johnson River bridge damage, \$218.4
\$573,400 General Funds

Ms. Slagle stated that the Department did not receive any appropriation for this item in the FY 05 budget with the understanding that, were any situation to arise, it would be addressed through a supplemental request. This request includes: the repair of three failed railroad crossings; overtime and equipment usages associated with responses to winter weather conditions, and repair work to the Johnson River Bridge. "An over-height vehicle hit the cross members of the bridge and caused extensive damage".

Co-Chair Wilken asked whether the person responsible for the Johnson Creek Bridge damage has been identified.

Ms. Slagle replied in the negative.

Senator Stedman inquired whether a person responsible for damaging State property, such as this bridge, would be held responsible for the repairs.

Ms. Slagle responded that compensation for damages to State infrastructures would be pursued either through the individual or through their insurance carrier. Any recovered funds would be used toward the repairs. Due to increased efforts in this regard, the Department has been increasingly successful.

Senator Bunde asked regarding the efforts that have been exerted in locating the person responsible for the bridge damage.

Ms. Slagle voiced being unfamiliar with the specific efforts exerted in this regard, but noted that this information could be provided.

Senator Bunde asked whether the Alaska State Troopers are involved in the investigation.

Ms. Slagle responded that, "they typically are".

Co-Chair Wilken informed that the State Troopers are continuing their search for the backhoe that was involved in the incident.

Co-Chair Wilken voiced concern regarding the long-standing

agreement with the Alaska Railroad that the State be responsible for railroad crossing repairs. Continuing, he noted that were the Railroad to provide a franchise fee to the State, that funding could be used toward this expense. A fee of one dollar per passenger would provide sufficient funding for this endeavor.

Item: 119
Section: 17(d)
RDU: Anchorage Airport Facilities
Supplemental Need: Utility cost increases.
\$1,001,400 Internat'l Airport Rev Fund

Ms. Slagle expressed that this request would address increased utility fees associated with the Anchorage international Airport. In addition to increased electricity and natural gas expenses, the airport's expansion is also a factor.

Item: 120
Section: 17(e)
RDU: Anchorage Airport Field and Equipment Maintenance
Supplemental Need: Utility cost increases.
\$274,800 Internat'l Airport Rev Fund

Ms. Slagle informed that this request would address the airport's equipment maintenance needs.

Item: 121
Section: 17(f)
RDU: Capital
Supplemental Need: Reappropriate the June 30, 2005 balance of the \$10 million appropriation made in sec. 29(c), ch. 159, SLA 2004 for the Adak air field, estimated to be \$9 million, to DOT for capital improvements.
Total Funds: zero

Ms. Slagle stated that request would allow for the reappropriation of the FY 04 \$10 million federal fund appropriation for the aforementioned Adak Airport. The original appropriation was intended as an operating item, however, "to correct an accounting issue" within the Department, this is a request to place the funds in the capital budget.

Senator Stedman inquired as to whether this airport would eventually become self-supporting rather than being funded by the State.

Ms. Slagle understood that the State originally agreed to manage the airport with the provision that its operation be federally

funded. There was no intent to impact the general fund.

Senator Dyson commented that the infrastructure at the Adak military base "was grossly overbuilt". He described the base as once being "the center" for United States naval intelligence for the North Pacific. After the demise of the Cold War, that mission dissipated; however, things such as increasing terrorist activities might require its reactivation in the future. In the meantime, the airport is available as an emergency landing facility for aircraft in the North Pacific. "Lots of things" support the need to continue this airport's "viability".

Item: 122

Section: 17(g)

RDU: Central Region Facilities

Supplemental Need: Heating fuel and risk management cost increases.

\$249,900 General Funds

Item: 123

Section: 17(h)

RDU: Northern Region Facilities

Supplemental Need: Heating fuel and utility cost increases.

\$465,500 General Funds

Ms. Slagle stated that these requests represent the increased utility costs associated with maintaining Department facilities.

Senator Bunde remarked that there is public concern about the Department's purchasing of large road construction equipment, such as asphalt recycling machines. Justification for such purchases should be reviewed, as the State should not compete with private enterprise.

Co-Chair Wilken commented that the concern might apply to both purchase or lease scenarios.

Senator Bunde agreed.

Senator Stedman also reported hearing similar concerns in this regard. He echoed that the justification for either leasing or purchasing of large equipment should be provided.

Co-Chair Wilken noted that the Finance Committee's DOT subcommittee would address this issue.

Co-Chair Wilken noted that the Department's supplemental request overviews would continue at the next hearing on this bill.

The bill was HELD in Committee.

#

ADJOURNMENT

Co-Chair Wilken adjourned the meeting at 10:41 AM.