

MINUTES
SENATE FINANCE COMMITTEE
March 10, 2006
9:05 a.m.

CALL TO ORDER

Co-Chair Gary Wilken convened the meeting at approximately [9:05:31 AM](#).

PRESENT

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

Also Attending: SENATOR CHARLIE HUGGINS; JAMES ARMSTRONG, Staff to Senator Gary Wilken; JOHN MACKINNON, Deputy Commissioner of Highways & Public Facilities, Department of Transportation and Public Facilities; EDDY JEANS, Director, School Finance, Department of Education and Early Development

Attending via Teleconference: There were no teleconference participants.

SUMMARY INFORMATION

SB 232-APPROPS: ENERGY-RELATED, PIPELINE & MISC.

The Committee adopted a new committee substitute and considered but failed to adopt two amendments. The bill reported from Committee.

#sb232

SENATE BILL NO. 232

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

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

Co-Chair Wilken stated that the purpose of today's meeting was to address the FY 2006 Energy and Fast Track Supplemental bill.

Co-Chair Green moved to adopt committee substitute Version 24-GS2068\L as the working document.

Without objection, Version "L" was ADOPTED as the working document.

Co-Chair Wilken informed the Committee that the explanation of the changes contained in the Senate Finance committee substitute would be identified by line and section number as depicted on the spreadsheet titled "FY 2006 Energy and Fast Track Supplemental" [copy on file] dated March 10, 2006.

Line 6

Section 1

Department of Corrections

Results Delivery Unit (RDU): Inmate Health Care

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

\$755,000 Senate Finance Committee (SFC) General Funds

Co-Chair Wilken noted that this technical change would clarify language pertaining to the FY 05 needs of the Department of Corrections.

Line 15

Section 1

Department of Transportation and Public Facilities

RDU: Marine Vessel Operations

Supplemental Need: Fuel Price and Usage Increase

\$12,774,800 SFC General Funds

Co-Chair Wilken stated that after continuing discussion with the Alaska Marine Highway System (AMHS), the Senate Finance Committee increased their previous allocation by \$500,000. The

needs of the AMHS would continue to be addressed during the consideration of the AMHS FY 07 budget request. Each time the AMHS is discussed, "we get a little more comfortable and a little more uncomfortable." The budget of the AMHS is "a work in progress." He also voiced appreciation of the work conducted by Senator Stedman on this issue.

[9:08:22 AM](#)

Senator Stedman remarked that the AMHS "is virtually out of cash." The Marine Highway Fund, which historically provided "back-up funds" to the AMHS, has been depleted. While the \$12,774,800 allocation recommended by the Senate Finance Committee is lower than the amount desired by the AMHS, it would be sufficient to fund the AMHS through the third week of May 2006. Additional assistance would be provided by separate legislation.

Senator Stedman, noting how "vital" AMHS is to the State's coastal communities, requested that the AMHS keep Committee members apprised of its situation by providing "cash flow updates" every two weeks.

Co-Chair Wilken asked John MacKinnon of the Department of Transportation and Public Facilities to communicate Senator Stedman's requests to AMHS officials.

[9:10:17 AM](#)

Senator Stedman communicated that the AMHS energy supplemental request for FY 06 fuel expenses was understandable considering the increase in fuel costs that have been experienced. Continuing, however, he shared that he had been unaware that the AMHS cash flow position was so "tight", and as a result, he had requested AMHS to provide him with weekly cash flow projections. The request now is that the cash flow positions be updated on a biweekly basis.

Senator Stedman stated that additional FY 06 AMHS requests would be considered in "the Slow Track supplemental". The fact that AMHS could now provide an independent balance sheet would be beneficial in addressing their FY 07 budget. Continuing, he asked that these documents also be provided to Committee members.

Senator Stedman suggested that the financial balance sheet provide line item detail by boat. He also requested that "up-land" expenses be included. The Committee should be able "to look at the AMHS as an enterprise fund", such as a local water utility, for example. Otherwise, there is danger that the Committee might not anticipate "the full impact of changes within the system" as efforts are undertaken "to decrease" rather than increase the general fund subsidy.

Senator Stedman stressed that no one should expect the AMHS "to run at a profit". A balance sheet, an income statement, and a cash flow statement should be provided. He also requested that the "Department produce a monthly cash flow analysis for FY 07". This would address the concern that "the budget that's presented, modified, and then adopted, is capable of whatever level of service that the Legislature decides is adequate, is capable of being delivered." Such things as footnotes on fuel consumption and fuel prices would be expected. Last year the budget initially reflected fuel prices of \$1.17 or \$1.18 per gallon; the finalized FY 06 budget was based on a price of \$1.46 per gallon. Nonetheless, a substantial funding shortfall occurred. While acknowledging that projecting fuel prices is not an easy task, efforts must be made to adopt a budget that would allow AMHS to deliver throughout its fiscal year.

Senator Stedman stated that the cash position of the AMHS is an area of concern.

[9:14:19 AM](#)

Senator Stedman continued that the level of AMHS cash operating funds at the end of a fiscal year might be a subject of a Committee policy discussion. He suggested that "as a general rule" the goal should be for AMHS and other departments to submit "substantially smaller" supplemental budgets than the "huge" supplementals that have been the experience.

Senator Stedman appreciated the Legislature's efforts to assist the AMHS with fuel costs, specifically the Senate Finance Committee's decision to increase its recommended allocation by \$500,000. The AMHS is "a transportation system that affects the interior, Anchorage and Fairbanks, ... along with the coastal communities". Were the aforementioned information routinely provided to members, the Committee could address the fast ferries and other AMHS issues early in next year's Legislative

session. The discussion at that time should include the seascape capabilities of the two fast ferries, particularly in respect to "what was promised to be delivered" and the schedules of the two vessels.

9:16:39 AM

Co-Chair Wilken appreciated Senator Stedman's "guidance" in this endeavor.

Co-Chair Wilken related that after the AMHS presentation to the Committee on March second, his "sense" was that the system "is at a turning point. We need to decide what to do with seven different variables, most of which are not very good." While he had originally thought that a subcommittee should be assigned to address the AMHS issue, it was decided that, due to the widespread interest in the issue, the full Senate Finance Committee should be involved in the discussion. Senator Stedman has, to date, led the effort to monitor the AMHS. The hope is that federal funds, State funds, and user's money would result in "a better ferry system" in the future.

Co-Chair Wilken asked Mr. MacKinnon to communicate to the Department of Transportation and Public Facilities that the Senate Finance Committee would "expect to know what's happening, why, and how we're doing business to make it better." This issue is "that important."

JOHN MACKINNON, Deputy Commissioner of Highways & Public Facilities, Department of Transportation and Public Facilities, communicated that the message would be delivered to Department management.

9:19:12 AM

Line 16

Section 4
Department of Administration
RDU: Capital
Supplemental Need: Voice-over Internet
\$4,000,000 SFC Other Funds

Co-Chair Wilken stated that this item was originally allocated \$5,000,000. That allocation was subsequently reduced to

\$1,000,000, and is now specified at \$4,000,000. The determination was that "either you pay it now or you pay it later." The total investment in this three-year project "to converge our technologies" into a unified system is expected to be \$22,000,000. This funding would allow investments to be made to support FY 07 budget activities. This language is located in the bill on page 7, lines 1 through 3.

Senator Stedman asked for further information regarding the purchase of a vacant building in the Matanuska-Susitna valley as specified in Sec. 4(b) page 7 lines 4 through 7 of the bill. This section reads as follows.

(b) It is the intent of the legislature that the Department of Administration begin to investigate the purchase of the vacant Valley Hospital building to provide a centralized facility for justice-related offices and to reduce overall rent costs for state agencies in the Matanuska-Susitna Valley.

Co-Chair Wilken requested that the discussion follow the Section order presented in the aforementioned spreadsheet. Thus, discussion on the hospital building would be forthcoming.

Line 17

Sec. 5

Department of Commerce, Community and Economic Development
RDU: Capital - Grant to "2006 Arctic Winter Games Host Society"

Supplemental Needs: Funding for the Arctic Winter Games that take place March 5-12, 2006
\$250,000 SFC General Funds

Co-Chair Wilken stated this change involved the removal of the June 30, 2006 effective date.

[9:20:52 AM](#)

Senator Bunde pointed out that this money would be going to an area of the State to which he "most frequently hears that there is too much State spending and too much government. Ed Martin Senior and company would be really unhappy with this."

Conceptual Amendment #4: This amendment changes the funding source for the Arctic Winter Games from General Funds to the Earnings Reserve Account of the Permanent Fund. The language is located in Sec. 5 page 7 lines 8 through 11 of the bill.

[NOTE: Even though this amendment was referred to as Conceptual Amendment #1 by the Committee, a separate amendment had been previously submitted and logged as Amendment #1. Therefore this amendment should be correctly identified as Conceptual Amendment #4.]

Senator Bunde moved for the adoption of the conceptual amendment.

Co-Chair Wilken objected.

Senator Bunde communicated that many people support saving the \$1.2 billion revenue surplus the State has experienced this year. This amendment would further that endeavor. Therefore, were there serious support for the Arctic Winter Games, this funding source change would be considered acceptable.

A roll call vote was taken on the motion.

In Favor: Senator Bunde

Opposed: Senator Stedman, Co-Chair Green, and Co-Chair Wilken

Absent: Senator Dyson, Senator Hoffman, and Senator Olson.

The Motion FAILED (1-3-3)

Conceptual Amendment #4 FAILED to be adopted.

Conceptual Amendment #5: This amendment deletes, in its entirety, the language pertaining to the Arctic Winter Games, as depicted in Sec. 5 page 7 lines 8 through 11 of the bill.

Senator Bunde moved to adopt the amendment.

[NOTE: Even though this amendment was referred to as Conceptual Amendment #2 by the Committee, a separate amendment had been previously submitted and logged as Amendment #2. Therefore this conceptual amendment should be correctly identified as Conceptual Amendment #5.]

A roll call vote was taken on the motion.

In Favor: Senator Bunde and Senator Green.

Opposed: Senator Stedman and Co-Chair Wilken

Absent: Senator Dyson, Senator Hoffman, and Senator Olson.

The Motion FAILED (2-2-3)

Conceptual Amendment #5 FAILED to be adopted.

[9:23:46 AM](#)

Senator Stedman stated that "the point" of the two amendments proposed by Senator Bunde is important: the fact is that many people in the State support saving the budget surplus as long as doing so would not "affect them". He supported Senator Bunde's "philosophical opinion" that efforts to save rather than to spend the surplus must be made.

Co-Chair Wilken agreed that such an effort should occur.

Senator Bunde remarked that he had not expected his amendments to be adopted; he had offered them to demonstrate, for the record, that there are "a great many wants, there are some needs that we need to fund, and the general public has to be ... willing to accept the notion that if they want reductions in State spending, they have to be part of the solution instead of part of the problem." Some legislators have been frustrated at "the inconsistency" of the public's message. Rather than presenting the stance of "Cut the other fellow and pass the savings on to me", the fact is that unless people become "part of the solution ... we are indeed part of the problem".

Co-Chair Wilken commented, "Well put, Senator Bunde."

[9:24:53 AM](#)

Line 19

Section 7

Department of Education and Early Development

RDU: Capital

Supplemental Need: Add White Mountain K-12 School Replacement project. It had originally been requested as an FY07 capital budget amendment.
\$10,117,800 SFC General Funds

Co-Chair Wilken noted that this component would address two separate Department of Education and Early Development school items; the first being the construction of a replacement school at White Mountain as designated in Sec. 7(a) page 7, lines 15 through 17 of the bill. He noted that additional information about this project is provided in the handout titled "Alaska Department of Education and Early Development White Mountain Briefing Paper" [copy on file] dated March 9, 2006.

[9:25:27 AM](#)

EDDY JEANS, Director, School Finance, Department of Education and Early Development informed the Committee that on February 15, 2006 the building that served as the community of White Mountain's middle/high school was destroyed by fire. That building served 30 students. The remaining school facilities include a 70-plus-year-old elementary school that serves 24 students and a separate gymnasium. The building that burned was insured for \$1,800,000. Due to the fact that the banks of river near the current school site are eroding, the proposal would be to construct a new facility in a location one and a half miles from the current location. This single building would house the elementary, middle, and high school education programs.

Mr. Jeans stated that, even though a \$1,800,000 insurance payment is expected, the Department has requested that the entire \$10,117,800 construction cost be allocated. The concern is that a delay in the receipt of the insurance payment would postpone the construction of the school. The grant agreement would assure that, once collected, the insurance payment would be returned to the State.

[9:27:31 AM](#)

Senator Bunde asked how much interest the State would receive on the insurance money, were it collected today rather than in a few years.

Mr. Jeans voiced being uncertain as to the time it would take to collect the insurance money. "It's strictly a timing issue" of when the school construction project must begin."

Senator Bunde understood that the balance of the project beyond that provided by the insurance would be approximately \$9,000,000.

Mr. Jeans affirmed.

Senator Bunde asked whether the community of White Mountain would provide a local contribution.

Mr. Jeans communicated that White Mountain is part of the Bering Strait Regional Education Attendance Area and is required to contribute two percent toward their capital projects.

[9:28:48 AM](#)

Co-Chair Green asked whether the insurance policy on the school was replacement value coverage.

Mr. Jeans responded that school facilities should have replacement value insurance coverage. The \$1,800,000 insurance return is based upon the fact that the school was a 70-year-old wooden structure.

Co-Chair Green understood that replacement value coverage would "replace a building at today's price for a comparable size building, not the value of the wooden structure."

Mr. Jeans stated that rather than simply replacing the structure that burned, the plan is to construct a brand new K-12 facility.

Co-Chair Wilken stated that his office would ask the Division of Risk Management, Department of Administration, to clarify the definition and terms of replacement value coverage.

JAMES ARMSTRONG, Staff to Co-Chair Wilken, acknowledged Co-Chair Wilken's request.

[9:30:30 AM](#)

Senator Stedman asked for a capacity comparison between the structure that burned down and the replacement building.

Mr. Jeans stated that the facility that burned served 30 students. The replacement school would serve between 54 and 60 students.

Co-Chair Wilken understood that the new facility would consolidate the elementary, middle, and high school into one building.

Mr. Jeans affirmed.

Co-Chair Wilken continued that the new facility would be 17,000 square feet rather than the other buildings' combined space of 15,000 square feet.

Mr. Jeans stated that the new facility's size would meet the Department's current space guidelines.

[9:31:17 AM](#)

Co-Chair Wilken surmised that this project had undergone the "vetting process" since it was number 11 on the Department's list of capital improvement projects (CIP) school construction grant fund list.

Mr. Jeans affirmed and noted that the school had received planning and design funds from the State's 2002 General Obligation Bonds. Thus, the replacement school has been designed and, were the construction appropriation approved, the project could move forward immediately.

Senator Stedman understood that due to consolidating the elementary, middle, and high school into one facility, the proposed student capacity would be filled.

In response to a question from Co-Chair Wilken, Mr. Jeans noted that the community had operated an elementary school and a combined middle and high school. The freestanding gymnasium had been built in 1982. The proposal would be to consolidate all of these entities into one structure at a location further from the river.

[9:32:32 AM](#)

Co-Chair Wilken understood that, were the State to reduce the requested amount to \$9,300,000 and allow the insurance payment to pay the difference, the project would be unable "to march forward".

Mr. Jeans stated that the total cost of the project would be \$10,100,000. "The District is ready to go to bid with that." It would not be "very prudent" on the part of the District to "move forward with a bid when they only have \$9,500,000 or \$8,500,000." He assured the Committee that the Department would "aggressively" pursue the insurance money. That money would be written into the contract, and "would be part of the grant agreement when the appropriation is made."

Co-Chair Wilken understood therefore that the Department would be "motivated to chase the insurance money", as it would be part of the agreement.

Mr. Jeans affirmed.

Co-Chair Wilken asked the process through which the insurance money would be reimbursed to the State.

Mr. Jeans explained that when the money was received by the State, it would be appropriated to the general fund or whatever funding source had been specified.

Line 19

Section 7

Department of Education and Early Development

RDU: Capital

Supplemental Need: Add Susitna Valley High School Roof replacement and structural and safety repairs.

\$3,850,000 SFC General Funds

Co-Chair Wilken noted that the second portion of this Section would be the addition of funds to repair the Susitna Valley High School roof. The amount allocated by the Committee would provide 70 percent of the cost. The allocation is depicted in Sec. 7(b) page 7, lines 18 through 20 of the bill.

[9:34:34 AM](#)

SENATOR CHARLIE HUGGINS, Senate District H Mat-Su Valley, explained that this junior/senior high school serves approximately 200 students. Due to the fact that the school roof "doesn't even meet 50 percent" of the required 120 pound per square foot load bearing capacity, the school is currently operating "under a waiver from the State Fire Marshall".

Senator Huggins noted that since the school is located in a high snow area, one condition of the waiver is that people must be stationed on the roof to remove snow when it snows. The total roof replacement cost would be \$5,500,000. He understood "the spirit in which this body" is operating and voiced acceptance for the 70 percent State, 30 percent local funding model.

Senator Huggins stated that the inclusion of this project in this bill would allow the construction to be "accelerated". It would act as "a major cost-savings mechanism," as further delay would require the school district to spend in excess of one million dollars for portable classrooms. This allocation would allow construction to begin in May and conclude by December 2006, thereby reducing portable classroom expenses and student displacement.

Senator Huggins shared that the discovery of this roof condition had traumatic impact on the community, as such things as closing the school had been considered prior to the operating waiver being issued. Insurance coverage on the school has also been an issue. This funding should be viewed as "emergency" funding as it would be unlikely that the Fire Marshall would grant a waiver for the following year. The new roof would extend the life of the school by 30 years.

Senator Bunde commented that the fact that the community has recognized the State's contribution and is willing to provide a local contribution "weighs" favorably with him.

Senator Stedman believed that "there are times" when the State must provide these types of appropriations. He also appreciated the community's decision to provide a 30 percent local contribution to the project.

Senator Stedman asked the Department to investigate the status of the Schoenbar Middle School in Ketchikan, which is more than one year behind its construction schedule. Classes are currently being held in a local mall.

Co-Chair Wilken noted that his office would follow-up with the Department.

Co-Chair Wilken thanked Senator Huggins for the information about the Susitna Valley High School. The fact that the community is willing to provide a local contribution and the needs of the school substantiate the project's inclusion in this bill.

[9:40:52 AM](#)

Line 21

Section 8
Office of the Governor
RDU: Branch wide
Supplemental Need: Fuel and Utility costs to be distributed to agencies (non-AMHS)
\$6,736,800 SFC General Funds

Co-Chair Wilken stated that the Department of Environmental Conservation was added to the Sec. 8 language on page 7, lines 21 through 27 of the bill. In addition, a technical change was made that would allow the Office of the Governor to distribute the funds at their discretion.

[9:41:46 AM](#)

Line 22

Section 9
Department of Law
RDU: Civil Division, Deputy Attorney General's Office
Supplemental Need: Judgments and Claims - actual amount is \$2,621,985.48 (Amendment increased total to \$3,269,100)
\$3,269,100 SFC General Funds

Senator Bunde "pointed out again that in this line, we are funding a quarter of a million dollars to give to a person who killed his own father and sued the State over it. I just continue to understand why there's some people who think the State is not to be trusted."

Line 32

Section 11(b)
Department of Administration
RDU: Information Services Fund
Supplemental Need: Capitalize Information Services Fund for
FY 06 implementation of the telephone system replacement
and stabilization phase 1 capital project.
\$4,000,000 SFC General Funds

[9:42:12 AM](#)

Co-Chair Wilken remarked that this item would appropriate money from the general fund to the Information Services Fund to support the Department of Administration Voice-over Internet System addressed in Sec. 4(a) page 7, lines 1 through 3 of the bill.

Line 36

Section 13(a & b)
Lapse Section
RDU: Information Services Fund
\$0.0 SFC General Funds

Co-Chair Wilken stated that technical changes were made to this section.

Sec. 4(b) It is the intent of the legislature that the Department of Administration begin to investigate the purchase of the vacant Valley Hospital building to provide a centralized facility for justice-related offices and to reduce overall rent costs for state agencies in the Matanuska-Susitna Valley.

Co-Chair Wilken noted that the Valley Hospital building study, as specified in Sec. 4(b) page 7 lines 4 through 7 of the bill, was inadvertently omitted from the spreadsheet. Due to the completion of a new regional medical center in Palmer, the State has been presented "the opportunity" to purchase "at a very good price", the former hospital facility, which is located adjacent to the Palmer Courthouse. A "placeholder" is required in order to allow the hospital's owner to "say the State is investigating purchase".

Co-Chair Green stressed that rather than appropriating or approving the purchase, the language in the bill would provide legislative authorization "to investigate" such a purchase. Any further action in this regard would require legislative approval.

Co-Chair Wilken stated that were the determination made to further this issue, the project would be "a good match" as it would allow "the courthouse and all the people who support the courthouse" to share a common parking lot. The facilities would be connected by a sky-bridge.

Senator Stedman recalled that an expansion of the Palmer Courthouse had been addressed in separate legislation. Therefore this project would appear "to be a fit within the goals" of addressing the needs of "the cramped courthouse".

[9:44:16 AM](#)

Co-Chair Green agreed that it would be a good fit. She noted that the recent approval to construct two new courtrooms in the courthouse maximized the allowable square footage of the facility. No further additions could be accommodated. Furthermore, the parking lot demands have exceeded capacity. Were the investigation to determine that the adjacent hospital building could not be retrofitted to accommodate court needs, the process would not proceed.

[9:45:52 AM](#)

There being no further topics of discussion or amendments to come before the Committee in regards to the bill, Co-Chair Wilken concluded the discussion in regards to the Version "L" committee substitute.

Co-Chair Green moved to report the bill from Committee with individual recommendations.

There being no objection, CS SB 232(FIN) was REPORTED from Committee.

Co-Chair Wilken thanked everyone for the hard work conducted on the bill.

[9:46:56 AM](#)

Senator Stedman announced the schedule for an upcoming University of Alaska Committee of the Whole subcommittee meeting.

AT EASE [9:47:24 AM](#) / [9:50:13 AM](#)

Co-Chair Green announced that the Joint Meeting with Senate Transportation Committee scheduled for Monday March 13, 2006 is cancelled until further notice.

#

ADJOURNMENT

Co-Chair Gary Wilken adjourned the meeting at [9:50:36 AM](#).