

HOUSE FINANCE COMMITTEE
February 27, 2007
1:38 p.m.

CALL TO ORDER

Co-Chair Chenault called the House Finance Committee meeting to order at [1:38:11 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Harry Crawford
Representative Les Gara
Representative Mike Hawker
Representative Reggie Joule
Representative Mike Kelly
Representative Bill Thomas, Jr.

MEMBERS ABSENT

Representative Mary Nelson
Representative Richard Foster

ALSO PRESENT

Larry Ostrovsky, Chief Assistant Attorney General, Oil, Gas, and Mining Section, Civil Division, Department of Law; Kevin Banks, Director, Division of Oil & Gas, Department of Natural Resources; Karen Rehfeld, Director, Office of Management and Budget; Nico Bus, Acting Director, Division of Administrative Services, Department of Natural Resources; Jerry Burnett, Director, Division of Administrative Services, Department of Revenue; Eric Swanson, Director, Division of Administrative Services, Department of Administration; Janet Clarke, Assistant Commissioner, Division of Finance and Management Services, Department of Health and Social Services; Samuel Thomas, Director, Division of Administrative Services, Department of Commerce, Community and Economic Development; Laura Flemming, Communications Director, Alaska Seafood Marketing Institute, Department of Commerce, Community and Economic Development; Sharleen Griffin, Director, Division of Administrative Services, Department of Corrections

PRESENT VIA TELECONFERENCE

John Norman Chair, Alaska Oil and Gas Conservation Commission (AOGCC); Lynn Kent, Director, Division of Water, Department of Environmental Conservation; Dwayne Peeples, Deputy Commissioner, Department of Corrections

SUMMARY

HB 138 "An Act making supplemental appropriations and other appropriations; amending the lapse dates of certain appropriations; and providing for an effective date."

HB 138 was heard and HELD in Committee for further consideration.

HB 139 "An Act making supplemental appropriations, capital appropriations, and other appropriations; amending certain appropriations; ratifying certain expenditures; making appropriations to capitalize funds; and providing for an effective date."

HB 139 was heard and HELD in Committee for further consideration.

HB 49 "An Act relating to credit memos, gift certificates, and gift cards, and to unclaimed property; and making a violation of certain gift card prohibitions an unlawful trade practice."

CSHB 49(L&C) was scheduled but not heard.

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HOUSE BILL NO. 138

"An Act making supplemental appropriations and other appropriations; amending the lapse dates of certain appropriations; and providing for an effective date."

KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, introduced Larry Ostrovsky, Chief Assistant Attorney General, Oil, Gas, and Mining Section, Civil Division, Department of Law; Nico Bus, Acting Director, Division of Administrative Services, Department of Natural Resources; and Jerry Burnett, Director, Division of Administrative Services, Department of Revenue.

Section 1 Law

Capital - Oil, Gas & Mining

Work related to the state gas pipeline and bringing North Slope natural gas to market, and other oil and gas projects. The Department of Law's Oil, Gas & Mining section continues to play a major role in the State's top priority project related to the construction of a gas pipeline and bringing natural gas to market. A number of contracts with outside counsel and experts are underway and will continue to be needed

as negotiations continue. In addition the Department of Law anticipates the Exxon Royalty Reopener will go to trial in either FY 07 or FY 08 and continues to prepare for a four to five week hearing before the Federal Energy Regulation Committee (FERC) considering (in part) the state's and Anadarko's challenges to the TransAlaska Pipeline Service (TAPS) 2005 FERC tariff.
\$21,500.0

LARRY OSTROVSKY, CHIEF ASSISTANT ATTORNEY GENERAL, OIL, GAS, AND MINING SECTION, CIVIL DIVISION, DEPARTMENT OF LAW, noted the large size of the supplemental bill. He related that the bill is broken down into FY 07 and FY 08. He spoke of the history of expenditures for litigation and gas pipeline matters. The return to the state on a \$9 million investment into litigation is about \$90 million. The majority of the supplemental request deals with litigation. The reason for such a large supplemental is due to gas pipeline expenditures this past year and the numerous special sessions.

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Representative Stoltze announced that the Department of Law subcommittee has invited Mr. Ostrovsky to speak on this issue later this week and questions could be addressed at that time.

Representative Hawker wondered to which counsel the \$21 million would go. Mr. Ostrovsky replied that some of the money would go to the firm of Morrison and Foerster, LLP, which has provided litigation services to the state for TAPS tariff work for over three decades. The firm of Kirkpatrick, Lockhart, and Gates, LLP, is dealing with income tax issues. For royalty matters, Spencer Hosie and other counsel out of Anchorage have been engaged. Greenberg Traurig, LLP, out of Washington, D.C., is dealing with gas pipeline issues.

Representative Hawker requested an explanation as to how the \$21.5 million would be split between the gas pipeline and other projects. Mr. Ostrovsky offered to provide that information in writing. He explained the factors that went into determining the cost of cases. About \$2.5 million went to tax tariff cases this year and about \$1.3 million will be spent in FY 08. For income tax cases, \$2.8 million was spent this year and \$4.45 million will be spent next year. About \$300,000 was spent this year on royalty cases; about \$1 million will be spent next year. Mr. Ostrovsky opined that there are royalty matters at stake worth over \$50 million. Point Thomson litigation costs were about \$1 million this year and will be about \$500,000 next year, due to its status in administrative appeal, which is less costly.

Mr. Ostrovsky addressed gas pipeline expenditures, which were estimated at \$3 million for this year and \$6 million for next year. That estimate has since been reduced due to no expenditures during December and January. Current estimates are at about \$500,000 per month.

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Representative Hawker asked about the effective dates of the request. He wondered if there were outstanding bills or just prospective costs. Mr. Ostrovsky reported that the request was mostly due to outstanding bills: \$2.5 million on TAPS tariff work, which could be worth as much as \$100 million a year over five years. Representative Hawker inquired if it was an administrative decision to continue the TAPS tariff work. Mr. Ostrovsky said it was. Representative Hawker asked if that work was satisfactory. Mr. Ostrovsky replied that it was. Representative Hawker wondered if the work was not adequate on gas pipeline negotiations and questioned why new attorneys were solicited. Mr. Ostrovsky explained why fresh lawyers were engaged.

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Representative Hawker inquired whether, now that the Department of Law has hired the legislature's attorneys, if the legislature has the availability of unbiased legal counsel. Mr. Ostrovsky replied that was a concern of the Legislative Budget and Audit Committee. There is a waiver with Greenberg Traurig which states that they can help the administration formulate legislation, but once it is introduced, they are free to comment in any way they see fit. The legislature is also free to review any documents produced. If there is an irreconcilable conflict, the state would have to withdraw and find other counsel.

Representative Hawker thought it would be problematic for an attorney to be working on both sides of an issue. He questioned the reasoning behind letting Morris and Forester go. Mr. Ostrovsky thought it was a unique situation and made sense to get a second perspective. The governor wants to move in a different direction and sees a common interest between the administration and the legislature. It is also a matter of efficiency.

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Representative Gara inquired about the TAPS litigation. Mr. Ostrovsky explained that in 2003 RCA made the determination of intrastate rates through TAPS at \$1.96 per barrel. Most of the oil that goes through TAPS, about 90 percent, is interstate and is about \$4.60 per barrel. The state and the carriers had a TAPS settlement agreement for many years,

which could expire as soon as 2009. That agreement states that there will be no undue discrimination in rates. The state believes that it is discriminatory to intrastate rates and has asked FERC to change to the RCA rates. The carriers believe the opposite to be true.

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Section 2(a) Natural Resources Capital

Gas Pipeline Analysis

Outside experts and consultants will be retained for work related to the gas pipeline, including outside legal counsel and experts on federal pipeline law and FERC procedures. A consultant to advise the state on crafting an RFP consistent with the Alaska Gasline Inducement Act (AGIA) for gasline proposals and with analyzing those proposals under AGIA will also be retained.

\$6,550.0

NICO BUS, ACTING DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF NATURAL RESOURCES, explained the request for gas pipeline analysis, which is intended to cover the retention of outside experts and consultants on a number of aspects relating to the gas pipeline analysis, specifically outside experts on FERC, tariff cost overrun, and royalty evaluation methodology.

Mr. Bus related the two aspects of the request, one for an RFP consultant to help the state solicit bids on gasline applicants, and monitor it through the process from a legal and commercial framework. The other aspect is for FERC experts and outside counsel for \$1.25 million. The total of \$6.550 million can be split between two fiscal years, FY 07 - \$4.135 million, and FY 08 - \$2.450 million, for continuity and to treat it as a capital appropriation.

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Representative Hawker asked why there is a "new funding request" without first having a briefing on AGIA. Mr. Bus explained the reasoning behind the appropriation. Representative Hawker requested a fiscal note.

Representative Chenault asked if \$4.1 million is expected to be expended the remainder of FY 07 and \$2.4 million in FY 08. Mr. Bus said yes.

Section 2(b) Natural Resources Capital

Oil and Gas Lease Litigation

This project will help offset the costs of litigation arising out of the DNR's exercise of the state's rights

under its leases and the unit agreement (Point Thomson appeal). This request will help fund the costs of outside experts and legal counsel.
\$1,500.0

Mr. Bus explained that the amount of \$1.500 million is requested as an appropriation to DNR to support any oil and gas lease litigation. It may be dealt with by DOL and DNR cooperatively. Representative Chenault asked if any duplication would be refunded. Mr. Bus stated that DNR would work closely with DOL.

Representative Hawker asked for a breakdown between FY 07 and FY 08 spending. Mr. Bus explained that \$600,000 would be spent in FY 07 and about \$700,000 in FY 08.

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Section 3(a) Revenue Capital

Commercialization of North Slope Gas \$419.5 - two internal economists to work on gasline issues \$1,360.0 for two contractual economists and/or commercial analysts' firms to assist in modeling and analyzing tax incentives and impacts, marketing options and criteria to evaluate applicants and proposed projects \$1,169.6 for specialized legal counsel \$50.9 for other costs, including financial and legal research
\$3,000.0

JERRY BURNETT, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF REVENUE, explained that the request is for commercialization of North Slope gas. He broke the request down into \$419,000 for two state economists for 17 months, \$1.3 million for external economists, and about \$1.2 million for attorneys and law firms, and about \$50,000 for travel and meeting expense. That is about \$874,000 in FY 07 and about \$2 million in FY 08.

Representative Chenault asked if the two state economists are currently on staff. Mr. Burnett related how current staff would be reorganized. He thought that Roger Marks and Dr. Michael Williams would be working on this issue.

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Representative Hawker inquired if there would be incentives regarding this sort of development. He also questioned the meaning of creating new tax structures. Mr. Burnett replied that he could not answer those questions yet.

Representative Gara asked how long outside legal help would be needed. Mr. Ostrovsky replied that it depends on the

case. He gave an example of a TAPS tariff case. Representative Gara suggested a cheaper way to add staff to the Department of Law. Mr. Ostrovsky observed two problems: low paying salaries and difficulty in finding qualified expertise due to poor salaries.

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Section 3(b) Revenue

Tax Division Petroleum Production Tax (PPT) implementation costs: \$521.7 for three positions and contracts for developing regulations, expenses for public hearings and legal advice on regulations.
\$521.7

Mr. Burnett noted that the fiscal note identifies almost \$1.4 million for a full year's implementation of the Petroleum Production Tax (PPT).

Section 3(c) Revenue

Tax Division Language to allow the department to make refunds for capital expenditures and lease bids as provided in the PPT, AS 43.55.023(f).
\$0.0

Mr. Burnett explained that this language appropriates the funding for the transferable tax credit refunds in FY 07.

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Section 4(a) Natural Resources Gas Pipeline

Extend lapse date from June 30, 2007, to June 30, 2008, for the Bullen Pt. Road right-of-way permitting multi-year allocation in sec. 7(d)(1), ch. 6, SLA 2005, pg. 11, as amended by sec. 34(c), ch. 82, SLA 2006, pg. 151. The amount expected to be available is \$100.0.

The lapse extension also applies to sec. 7(d)(2) Division of Oil and Gas Increased Workload, which expects \$150.0 to be available.

The lapse extension also applies to sec. 7(d)(3) Commissioner's office increased workload. This allocation is expected to be fully expended by June 30, 2007.
\$0.0

Mr. Bus explained the three elements in the section affected by extending the lapse date from June 30, 2007, to June 30, 2008. He shared the logic for extending the Bullen Point Road project, the Division of Oil and Gas Increased Workload

appropriation, and a Workload appropriation in the Commissioner's Office.

Representative Chenault asked about the Bullen Point Road right-of-way permitting. Mr. Bus related the details about that project. He presented a map of the project.

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4(b) Administration - Alaska Oil and Gas Conservation Commission
Extend the lapse date from June 30, 2007, to June 30, 2008, for the gas pipeline development multi-year appropriation made in sec. 20(a), ch. 3, FSSLA 2005, pg. 106, line 21. The amount expected to be available is \$250.0.
\$0.0

ERIC SWANSON, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF ADMINISTRATION, addressed the section which extends the lapse date for the gas pipeline development.

Representative Chenault asked about gas off take rates in Point Thomson. He also wondered about the ramifications due to the Exxon litigation.

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JOHN NORMAN CHAIR, ALASKA OIL AND GAS CONSERVATION COMMISSION (AOGCC), responded to second question first. He reported that the Exxon study of the Point Thomson reservoir is back on track. It was interrupted or suspended because Exxon was hit with default notices on the unit and on the leases. He anticipates the outcome of the dispute will derive useful information to resolve the gas off take rate at Point Thomson reservoir. He emphasized that he has not received any applications regarding off take rates. AOGCC initiated proceedings to update the field rules for the Prudhoe Bay reservoir and to initiate the Point Thomson study. He reiterated that the operators have not been cooperative in working out the off take rate regarding the reservoirs.

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Mr. Norman explained that the Point Thomson reservoir has no gas off take and is unique because of extremely high pressures. It is called a retrograde reservoir, a complicated reservoir that requires a great deal of study. The potential to waste liquid hydrocarbon exists.

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Mr. Norman related that the total amount to be dispersed from FY 06 to FY 10 remains at \$4.7 million. He spoke of receiving \$1.2 million to update Prudhoe Bay off take rate. He anticipates ending FY 06 with about \$250,000, not spent or encumbered, of the \$4.7 million. The request is that \$250,000 be carried forward in order to insure that the project is done correctly.

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4(b) Natural Resources - Gas Pipeline

Extend lapse date from June 30, 2007, to June 30, 2008, for the gas pipeline risk analysis and royalty issues multi-year allocation in sec. 20(c)(1), ch. 3, FSSLA 2005, pg. 107, line 2. The amount expected to be available is \$1,500.0. The lapse extension also applies to sec. 20(c)(2) gas pipeline corridor geologic hazards and resource evaluation. This allocation is expected to be fully expended by June 30, 2007.
\$0.0

Mr. Bus explained the two parts: extending the lapse date for gas pipeline risk analysis and evaluating the Gas Pipeline Corridor Geologic Hazards & Resource Evaluation appropriation.

Representative Hawker asked why the old process should continue to receive funding. Mr. Bus deferred to Mr. Banks to answer.

KEVIN BANKS, DIRECTOR, DIVISION OF OIL & GAS, DEPARTMENT OF NATURAL RESOURCES, explained what the risk assessment money has done so far. That concept continues in the AGIA bill, which comes out on Friday.

4(b) Revenue Commissioner's Office

Extend lapse date from June 30, 2007, to June 30, 2008, for the gas pipeline development multi-year appropriation made in sec. 20(e), ch. 3 FSSLA 2005, pg. 107, line 13. The amount expected to be available is \$100.0.
\$0.0

4(b) Revenue Alaska Natural Gas Development Authority

Extend lapse date from June 30, 2007, to June 30, 2008, for the gas pipeline development multi-year appropriation made in sec 20(f), ch. 3, FSSLA 2005, pg 107, line 16. The amount expected to be available is \$500.0.
\$0.0

Mr. Burnett explained that this section contains two lapse date extensions used for work on commercialization of natural gas. The amount of money expected to be available will be carried forward to FY 08.

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4(c) Natural Resources - Gas Pipeline

Extend lapse date from June 30, 2007, to June 30, 2008, for the Bullen Pt. Road right-of-way permitting multi-year allocation in sec. 20(d)(1), ch. 3, FSSLA 2005, pg. 107, line 10, as amended by sec. 34(d), ch. 82, SLA 2006, pg. 151. The amount expected to be available is \$800.0.

The lapse extension also applies to sec. 20(d)(2) Division of Oil and Gas Increased Workload. This allocation is expected to be full expended by June 30, 2007.

The lapse extension also applies to sec. 20(d)(3) Commissioner's office increased workload, which expects \$10.0 to be available.
\$0.0

Mr. Bus related that this section extends a lapse date which affects Bullen Point Road Right-of-Way Permitting appropriation.

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Representative Kelly asked if LB&A agreed with the Greenberg Traurig waiver of conflict. Mr. Ostrovsky said the waiver was from the administration. Representative Kelly asked if both sides agreed. Mr. Ostrovsky said yes.

Representative Gara repeated his suggestion to cut expenses by not contracting out services and, instead, using in-house attorneys.

HB 138 was heard and HELD in Committee for further consideration.

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HOUSE BILL NO. 139

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

Ms. Rehfeld explained the organization of HB 139, which includes a "time sensitive" section of appropriations.

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1(c) Corrections Inmate Health Care

The funding is needed to meet the medical obligations for the aging and increased offender population. The driving factors are the sharp increase in the number of offenders needing treatment, the cost of dialysis and cancer treatments and the growing number of life-threatening cases. The department will potentially run out of funds as early as March 2007 and not be able to pay vendors for services provided. \$439.0 of this request is related to nurses' market-based pay increase.
\$3,903.4

SHARLEEN GRIFFIN, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF CORRECTIONS, explained the time sensitive request for inmate health care. She reported that \$439,000 is for market-based pay increases for nurses. The remaining \$3,464,000 is for increased health care costs for an aging inmate population.

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Representative Gara wondered why this request is not in a fast track supplemental. He questioned the large under budgeting of the nurses' salary request. Ms. Griffin noted that this piece is in the time-sensitive section of the bill, similar to the fast track supplemental. Much of the expense is due to unexpected catastrophic illness.

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Representative Hawker stated that in FY 06 there was an adjusted base for inmate health care of \$22.6 million and a supplemental request for \$2.6 million. Now in FY 07 there is a \$4.9 million supplemental request. He opined that the Department of Corrections is a year behind in budgeting, in spite of assurances last year that it was not behind. He recalled last year's discussion about "truth in budgeting".

1(d) Corrections Anchorage Correctional Complex

The Anchorage Correctional complex is housing 50 offenders in crisis overflow beds in the gym due to overcrowding in the facility. This request is for required overtime for an additional security post which translates into four positions. The projected expenditures indicate that the component will run out of funds by the middle of April.

\$1,082.7

Ms. Griffin addressed the time sensitive request regarding overcrowding of the Anchorage Correctional Complex. She emphasized the risk to security that overcrowding poses.

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Representative Gara wondered why the continuous under budgeting and if the budget proposal will be greater this year. Ms. Griffin replied that work is being done with OMB on several issues. Ill inmates are sent to Arizona to save funds. The hope is to reduce expenses.

Representative Gara maintained that health care costs have been under funded and questioned if the budget would reflect true costs.

DWAYNE PEEPLES, DEPUTY COMMISSIONER, DEPARTMENT OF CORRECTIONS, noted that the department is in the process of evaluating health care costs. He noted that an amendment would be presented in a couple of days, but did not think the department would have an accurate estimate for two months.

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3(a) Corrections Out-of-State Contractual

FY07 budget was based on 900 prisoners to be sent to Arizona. The current number of prisoners in Arizona is 1060 and the department anticipates the need for a total of 1,250 beds to assist in meeting the growing prisoner population.
\$1,338.5

Ms. Griffin explained that there are currently 1,060 offenders in Arizona and a plan to increase the number to 1,250. The Administration is looking at population management strategies and may change the request.

Representative Hawker observed that a 1,000 bed request was approved in the prior year. The extra beds were taken out in Conference Committee, which resulted in the supplemental.

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3(b) Corrections Institution Director's Office

1) Correctional officer overtime is taking place due to vacant correctional officer positions and facilities overcrowding. When the offender population exceeds the emergency capacity in the facility, it becomes

necessary to employ additional security staff for public safety and protection.

\$2,096.5

2) The facilities are also dealing with costs resulting directly from prisoner overcrowding and the increased costs of goods and services. This is attributable to setting up crisis overflow beds.

\$2,000.0

3) Electrical costs have also increased in all institutions.

\$300.0

4) Funding transfer from Statewide Probation and Parole to offset increased costs in the institutions.

\$4,496.5

Ms. Griffin noted that the request is for correctional overtime due to overcrowding and to vacant positions. The year began with 90 correctional officer vacancies, which rose to 95 before dropping back to 60. There are also increased costs due to higher offender populations and rising costs for goods and services.

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Representative Kelly questioned if privatization of the entire system had been considered. Mr. Peeples responded that the current administration has not considered privatization and did not anticipate consideration of privatization. Representative Hawker noted that privatization had been considered during the 24th Legislature.

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3(c) Corrections Institution Director's Office

Unpaid invoices from vendors from FY2006, including an unpaid RSA with the Department of Transportation for State Equipment Fleet charges of \$42.6 and an unpaid RSA with the Department of Administration for training charges of \$2.5.

\$63.1

Ms. Griffin noted that section 3(c) pertained to interagency transfers to other state agencies for unpaid invoices.

3(d) Corrections Inmate Transportation

More prisoner transports between Alaska and Arizona due to management of the increased inmate population in the state.

\$90.0

Ms. Griffin explained that section 3(d) would cover prisoner transportation between Alaska and Arizona. Representative Chenault questioned if the funds would be sufficient. Mr. Peeples noted that the U.S. Marshals and jets are used to move up to 110 prisoners at one time. Smaller numbers are moved with Alaska correctional officers and the use of Alaska Airlines fares.

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3(e) Corrections Anchorage Correctional Complex

Revenue shortfall in federal manday billings is due to the reduction in federal detainees and the number of days these prisoners are held in this facility.
\$1,000.0

Ms. Griffin related that the request is for \$1 million for federal revenue collection shortfalls.

3(f) Corrections Anchorage Correctional Complex

If manday billings are greater than anticipated, the appropriation in 4(j) is reduced by an equivalent amount.
\$0.0

Ms. Griffin reported that if federal funds received exceed \$2,508.2 million, the appropriation in 3(e) would be reduced accordingly.

3(g) Corrections Hiland Mountain Correctional Center

The facility's well water system did not meet the EPA and DEC standards and therefore was decommissioned and demolished. The new system was connected to the Anchorage Water and Wastewater Utility system. Funding is needed for the increased costs of the new water system.
\$84.1

Ms. Griffin observed that the well water system did not meet EPA standards and has been hooked into the Anchorage waste water utility system.

In response to a question by Representative Chenault, Ms. Griffin estimated that the costs would be greater than \$84,100. Representative Chenault questioned when the well was decommissioned. Ms. Griffin could not respond. Discussion ensued as to the possible decommission date.

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3(h) Corrections Fairbanks Correctional Center

The 50% increase in the prisoner population in Fairbanks created the need to expand staffing at the facility to maintain public safety. Funding is requested for the 19 new permanent full-time positions that have been established in FY2007.
\$729.9

Ms. Griffin noted that the facility ran 50 percent over emergency capacity. Nineteen staff were added at the end of FY 06. There have been major incidents, which threaten public safety. The supplemental is partial-year funding for the additional 19 positions.

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In response to a question by Representative Stoltze, Ms. Griffin noted that a large number of the positions have been filled. The facility filled some vacant positions prior, resulting in six vacant correctional officer positions.

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3(i) Corrections Fairbanks Correctional Center

Unpaid FY2006 water and sewer bills.
\$18.7

Ms. Griffin reported that the request would pay an invoice that was lapsed.

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3(j) Corrections Existing Community Residential Centers

Funding is needed to pay contractors for housing offenders at the Community Residential Centers (CRCs) for the remainder of the fiscal year. The department has professional service contracts with CRC providers to help meet the security and residential needs of adult offenders. Part of the increase is based on the CPI rate for the community in which the CRC is located and due to two re-negotiated contracts.
\$553.5

Ms. Griffin noted the increase would partially cover CPI increases for contracts. It would assist in recovery of costs.

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3(k) Corrections Statewide Probation and Parole

Transfer to Institution Director's Office to assist in meeting the institutions' increased costs. Funding is available due to lag time in creating and filling probation officer positions in FY2007.

\$(100)

Ms. Griffin said the request would provide authorization for transfer of probation officer positions.

14(c) Ratification Corrections

Internal department RSA from Administration and Support (AR50560-06) to Institutional Facilities (AR50580-06) to cover inmate costs.
\$600,807.0

Ms. Griffin explained that this section would provide ratification for beds that were not available and were provided in state.

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Representative Gara asked for a cost estimation of the time-sensitive and non time-sensitive items.

Representative Hawker observed that section 14(c) would be a zero net. Ms. Griffin agreed.

Ms. Griffin noted that the total amount of the department's request is about \$13.2 million, with \$5 million time sensitive.

Co-Chair Chenault explained how the fast track items would be determined.

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DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT

1(a) Commerce ASMI

Increase the Alaska Seafood Marketing Institute's National Consumer Campaign promoting Alaskan seafood, as more than anticipated was received from industry assessment.
\$2,000.0

LAURA FLEMMING, COMMUNICATIONS DIRECTOR, ALASKA SEAFOOD MARKETING INSTITUTE, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, spoke to section 1a. She noted that the supplemental request would allow expenditure of funds already remitted. She explained that of the \$2 million requested for legislative authorization, \$1.4 million is an adjustment passed through, following a revenue audit showing

the additional amount owed to ASMI. The rest are receipts from the past year.

In response to a question by Representative Gara, Ms. Flemming explained that the Board recently met and learned that the seafood industry tax revenue had been available. The desire is to utilize the funds for marketing in order to increase sales.

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Representative Gara receipt reported service funds from the industry, or taxes in FY 01 was \$6.9 million, FY 02 - \$5.4; FY 03 - \$4.6; FY 04 - \$5.3; FY 05 - \$4.3; FY 06 - \$6.1; and FY 07, without the supplemental, \$5.8. With the supplemental, it would be \$7.8 in FY 07. She stressed that the expectation is for funding to go up.

Representative Crawford wondered if surpluses for products are currently being stockpiled. Ms. Flemming responded that the market for products is very strong right now.

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Representative Kelly explained that the Community and Economic Development Subcommittee is working with ASMI to prevent a perception that they should be punished for the additional money. He added that the additional funds demonstrate success. He noted that there are discussions regarding impact to the FY 08 general funds contribution, so that the funds could be increased.

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Representative Joule questioned if domestic markets or foreign markets would be targeted and what the results would be. Ms. Flemming stated that the funds being discussed would match federal funds domestically and internationally. The export market value of Alaska Seafood in ASMI program countries grew to \$1.73 billion in 2005, a 44 percent rate of growth. The U.S. market value grew 42 percent in four years to reach \$1.74 billion in 2005. She felt that marketing efforts were successful.

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Representative Thomas asked if the market concentrates on any particular product. He also wondered if there has been a change in the trend from salmon, which is owned by the fisherman, to processors. Ms. Flemming did not see a major difference. She felt that there was a greater alignment with the industry than previously seen. Marketing follows the direction of the members and currently is targeting Russian king crab.

In response to a question by Representative Thomas, Ms. Flemming explained that most marketing is directed to "salmon", in general, without specific mention of species. She spoke to the Cook It Frozen campaign, which applies to all seafood, and the canned salmon promotion.

Representative Stoltze spoke in support of the marketing efforts of ASMI and its Board.

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1(b) Commerce Regulatory Commission of Alaska

Outside council for litigation at the Federal Energy Regulatory Commission (FERC) to defend RCA's jurisdiction over intrastate rates on the Trans-Alaska Pipeline (TAPS); and for other TAPS-related litigation at the Supreme Court of Alaska involving RCA.
\$750.0

SAMUEL THOMAS, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, noted the \$750,000 increase for RCA to defend jurisdiction over intrastate rates on the Trans-Alaska Pipeline and other TAPS-related litigation at the Supreme Court. He estimated that it could exceed \$1 million. Outside legal counsel is needed. There are insufficient funds to cover the costs without the supplemental.

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1(e) Environmental Conservation, Division of Water Quality

The cruise ship head tax ballot initiative was adopted by voters during the August 2006 primary election. Passage of the initiative, however, did not result in an appropriation for the program. DEC needs a current year appropriation to cover costs that are being incurred in order to make a good faith effort to implement the program within the initiative's timeline. FY2007 expenditures are occurring to establish the program.
\$811.3

LYNN KENT, DIRECTOR, DIVISION OF WATER, DEPARTMENT OF ENVIRONMENTAL CONSERVATION, noted that the request would allow implementation of the Ocean Ranger Program as a result of the ballot initiative. Fees would be collected during the current fiscal year and deposited into the existing commercial passenger vessel environmental compliance fund. DEC is in the process of developing a plan for the upcoming year, with the intent to have some rangers trained and on board.

[3:26:08 PM](#)

Representative Hawker questioned if there is any way to implement the initiative without an additional appropriation. Ms. Kent noted that the ballot initiative was subject to legislative appropriation, and could not be implemented without additional funding.

[3:27:23 PM](#)

Representative Thomas questioned how rangers would board ships. Ms. Kent noted that a contractor is addressing this and other issues. There are a number of issues that were not addressed by the ballot initiative. Representative Thomas noted that cruise ships could lose as much as three beds per ships and questioned if the state would need to reimburse companies. Ms. Kent summarized that two rangers would be needed and that the state would be responsible for expenses. She noted that staff would be in a regulated facility on a full-time basis and that conduct and duties would have to be sorted out.

Representative Stoltze asked if the architects of the initiative have offered advice. Ms. Kent noted that they are discussing intent, but most of the focus is on the language in the initiative.

[3:30:40 PM](#)

Representative Hawker asked for an estimate of costs for a fully operational program. Ms. Kent observed that for 24/7 coverage it would cost \$5.6 million. Representative Hawker argued that the initiative mandated \$5.6 million and that there is a reason that legislative appropriations are not set by initiative.

[3:32:20 PM](#)

Representative Kelly asked what the penalty would be if the appropriation is not made. Ms. Kent noted that other current cruise ship monitoring programs would remain in place if the initiative was not funded. She felt that current programs were affective.

In response to a question by Representative Chenault, Ms. Kent observed that there are over a million cruise ship passengers per year. Representative Chenault noted that the initiative would cost the state \$5.6 million while only \$3.6 million would be collected by the Ocean Ranger program.

Representative Gara questioned if 24-hour coverage is needed. Ms. Kent replied that the initiative does not state the number of hours that coverage is needed.

[3:35:58 PM](#)

Representative Crawford said he does not understand why there are Ocean Rangers needed outside Alaskan waters. Ms. Kent said the contractor is looking at the costs of putting an Ocean Ranger on board in outside waters.

Representative Joule wondered if the state is liable if the initiative is not funded. Ms. Kent replied that a citizen could sue the department for failure to perform any act or duty in the statute that is non-discretionary. Representative Joule requested a legal response. Ms. Kent agreed to obtain one.

[3:37:56 PM](#)

Representative Chenault asked what other requirements the initiative contained. Ms. Kent replied that the initiative states that the Ocean Rangers be Coast Guard licensed marine engineers, which requires training at a maritime academy and sea time. The training requirements are different for Ocean Rangers than for current consultants on board. The current program looks at wastewater discharges and vessel emissions. The Ocean Ranger program requires dealing with health and safety issues such as food service and protection of residents in ports. Representative Chenault requested further information.

[3:40:16 PM](#)

1(f) Health & Social Services Capital

Fairbanks Virology Laboratory Completion.
Costs have risen over what was originally determined, particularly the costs of steel, transportation, and petroleum based products. The miscellaneous receipts come from interest earnings on the Certificate of Participation (COP) which is being used to fund the majority of the project. The original appropriation was \$24.2 million in FY06.
\$6,500.0

JANET CLARKE, ASSISTANT COMMISSIONER, DIVISION OF FINANCE AND MANAGEMENT SERVICES, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, described the request. In 2005 the legislature passed authorization to build the Fairbanks Virology Lab. Since then there has been an increase in construction costs above the projected budget. She described a variety of additional costs and the steps taken to manage them. This request is time sensitive.

[3:44:55 PM](#)

Co-Chair Meyer asked if the \$3 million of other funds is from interest earnings. Ms. Clarke said it was. Co-Chair Meyer asked why the project was not started last summer. Ms. Clarke referred to a feasibility study and the time needed to work on the design.

Representative Hawker asked about the miscellaneous receipts from the interest earnings on the Certificate of Participation (COP). Ms. Clarke said the COP's were issued at a good rate. She offered to get more information.

[3:46:27 PM](#)

1(g) Health & Social Services Capital

Title change: "Juneau Pioneer Home Roof Replacement" to "Pioneer Homes Roof Repair and Replacement". The department would like to

Use excess funds from the original project to repair Sitka Pioneer Home roof.
\$0.0

Ms. Clarke reported a language change to enable the appropriation to be used for all Pioneer Homes. She provided pictures of some of the changes needed (copy on file.) She described the possible use of excess funds to repair the Sitka Pioneer Home roof.

Co-Chair Meyer reported that he has toured the Pioneer Home in Ketchikan which has a flat roof. He questioned the design. Ms. Clarke said the Sitka roof is not flat and is a historical building. The Juneau Pioneer Home roof is flat. Ms. Clarke informed the committee that new techniques will ensure adequate repair to these roofs.

[3:49:29 PM](#)

6(a) Health & Social Services Pioneer Homes

Receipt supported services authority to cover
1) nurses' salaries \$86.9;
2) funds to offset uncollectible federal revenues \$231.0; and
3) safety, sanitation and operating costs \$482.1
\$800.0

Ms. Clarke explained the request for Pioneer Home costs. Past attempts to budget for these receipts have not been successful.

Representative Hawker summarized that items 1, 2, and 3 are non-discretionary and items 3 and 4 are discretionary.

Money could be used to offset existing expenses. Ms. Clarke agreed.

[3:52:54 PM](#)

6(b) Health & Social Services Behavior Health Medicaid Services

Cost recovery of overpayments to comply with provisions of SB 41 (CH 66, SLA 03) related to audits.
\$600.0

Ms. Clarke noted that this is the first of four requests related to annual audits.

Representative Chenault asked why authorization is needed for further expenditure. Ms. Clarke reported that the federal government expects to receive a share. Some of the money will go to offset this expense.

Representative Hawker explained that in SB 41 there is a provision which mandates an accounting procedure that results in authorizing these funds the first time, to make payments, and to appropriate the money a second time.

[3:55:29 PM](#)

6(c) Health & Social Services Children's Medicaid Services

Cost recovery of overpayments to comply with provisions of SB 41 (CH 66, SLA 03) related to audits.
\$100.0

Ms. Clarke reported that 6(c) is for children's Medicaid Services and has the same purpose as 6(b).

6(d) Health & Social Services Medicaid Services

Alaska Regional Hospital Medicaid Rate Settlement for 1991 through 2000. Settlement agreement has been signed.
\$8,000.0

Ms. Clarke explained the request for the Alaska Regional Hospital Medicaid Rate Settlement issues for 1991 through 2000. Representative Chenault asked if there will be more cases. Ms. Clarke thought there should not be any more.

[3:57:38 PM](#)

6(e) Health & Social Services Medicaid Services

Cost recovery of overpayments to comply with

provisions of SB 41 (CH 66, SLA 03) related to audits.
\$1,000.0

Ms. Clarke pointed to the relationship to 6 (b).

6(f) Health & Social Services Probation Services

Court ordered costs. The legislature has directed the department to bring the costs forward in a supplemental each year.
\$206.5

Ms. Clarke explained the court ordered costs for the juvenile justice program.

Representative Hawker pointed out that the House has sought truth in budgeting and the change was a result of a Conference Committee.

[3:59:14 PM](#)

6(g) Health & Social Services Adult Public Assistance

Formula program reduction. Savings are from a combination of continued savings in Interim Assistance from nurse reviews and payment size per client decreases as clients have more pension income.
\$(750.0)

Ms. Clarke shared that the savings are from the public assistance program.

6(h) Health & Social Services Senior Care

Caseload reduction; people are not applying for the pharmacy benefit as much as anticipated.
\$(1,500.0)

Ms. Clarke reported a reduction in the Senior Care program, especially the prescription drug portion.

Representative Gara asked what percent of the poverty line qualifies for Senior Care. Ms. Clarke said the cash benefit is at 135 percent; the prescription drug benefit is at 175 percent.

[4:01:02 PM](#)

Representative Thomas wondered how expensive the pharmacy benefit was to the state. Ms. Clarke reported that seniors were not interested in the program.

Representative Gara wondered what would happen if the Senior Care program qualification was increased to 175 percent of the poverty level. He asked if it would come out even to transfer the \$1.5 million savings to the program. Ms. Clarke said the Senior Care program requires reauthorization by the legislature this year and that question could be pursued. Representative Gara requested more information.

[4:03:04 PM](#)

6(i) Health & Social Services Senior and Disabilities Services Appropriation

The Senior and Disabilities Services appropriation decreases by \$5,000.0 from \$334,174.2 to \$329,174.2 because of the allocation change below:
\$0.0

Ms. Clarke reported less spending than budgeted for on the Senior and Disabilities Services Appropriation.

6(j) Health & Social Services Senior and Disabilities Medicaid Services Allocation

Savings in the personal care attendant program due to implementation of regulations which did such things as requiring medical determinations by department staff or designee (had been done by the provider), limiting hours of service, limiting to one attendant a household with more than one person qualifying for PCA, and other cost savings.
\$(5,000.0)

6(k) Health & Social Services Senior and Disabilities Medicaid Services

Cost recovery of overpayments to comply with provisions of SB 41 (CH 66, SLA 03) related to audits.
\$800.0

Ms. Clarke related the savings from this program.

[4:04:24 PM](#)

14(b)(3) Ratification Health and Social Services

AR23020-05 Behavioral Health Medicaid
\$3,051,744.30

14(b)(4) Ratification Health and Social Services

AR23301-05 Medicaid Services
\$2,606,666.14

14(b)(5) Ratification Health and Social Services

AR23551-05 Senior and Disabilities Medicaid
\$349,170.66

Ms. Clarke explained that the ratifications resulted from under collection of federal revenue.

HB 139 was heard and HELD in Committee for further consideration.

ADJOURNMENT

The meeting was adjourned at 4:05 PM.