

**ALASKA STATE LEGISLATURE
LEGISLATIVE BUDGET AND AUDIT COMMITTEE**

January 29, 2008

9:07 a.m.

MEMBERS PRESENT

Representative Ralph Samuels, Chair
Representative Mike Chenault
Representative Mike Hawker
Representative Mike Kelly
Representative Mike Doogan
Representative Reggie Joule (alternate)
Representative Kevin Meyer (alternate)

Senator Lyman Hoffman, Vice Chair
Senator Johnny Ellis
Senator Lyda Green
Senator Bert Stedman
Senator Gene Therriault
Senator Charlie Huggins (alternate)

OTHER LEGISLATORS PRESENT

Representative Joe Thomas
Representative Sharon Cissna
Representative Berta Gardner
Representative Mary Nelson

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

DENALI COMMISSION PRESENTATION
MAT-MAID AUDIT SCOPE REVISION
EXECUTIVE SESSION
CONSIDERATION OF PRELIMINARY AND FINAL AUDITS
AUDIT SOFTWARE

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

GEORGE CANNELOS, Federal Co-Chair
Denali Commission
Anchorage, Alaska

POSITION STATEMENT: Provided an overview of the Denali Commission and answered questions during discussions.

TESSA RINNER, Director of Programs
Denali Commission
Anchorage, Alaska

POSITION STATEMENT: Testified and answered questions during the Denali Commission presentation.

PAT DAVIDSON, Legislative Auditor
Division of Legislative Audit
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Requested approval of the Division of Legislative Audit's request for procurement of an automated audit software package.

ACTION NARRATIVE

CHAIR RALPH SAMUELS called the Legislative Budget and Audit Committee meeting to order at [9:07:13 AM](#). Representatives Doogan, Hawker, and Samuels, and Senators, Ellis, Green, Hoffman, Huggins (alternate), Stedman, and Therriault were present at the call to order. Representatives Chenault, Joule (alternate), Kelly, and Meyer (alternate) arrived as the meeting was in progress. Also in attendance were Representatives Thomas, Cissna, Gardner, and Nelson.

CHAIR SAMUELS asked to postpone the motion to approve the minutes dated December 10, 2007, until the next meeting. There being no objection, it was so ordered.

DENALI COMMISSION PRESENTATION

[9:07:44 AM](#)

CHAIR SAMUELS announced that the first order of business would be a presentation by George Canelos, Federal Co-Chair, Denali Commission. Chair Samuels offered that he had held several discussions about the Denali Commission with Mr. George Canelos during the legislative interim. He said he thought that it might be helpful to have Mr. Canelos address the legislature [to dispel] some myths about the Denali Commission, give an

overview of the commission, and discuss its reauthorization before Congress.

[9:09:17 AM](#)

GEORGE CANNELOS, Federal Co-Chair, Denali Commission, thanked the committee for the opportunity to speak, and said that he thought it was a great time to compare notes because of the opportunity for the legislature and the commission to work more closely together than [it has] in the past. He related instances in two rural communities, Stevens Village and Rampart to illustrate problems and differences between rural Alaska and urban communities and how programs can be adapted. He related that he traveled by boat to Stevens Village and Rampart where he talked to village leaders who have made two important decisions which he felt reflect the desperate times that rural Alaska faces.

MR. CANNELOS related an instance in Stevens Village, a community that lacks running water or a sewer system, in which village leaders decided to perform a \$3 million upgrade to the washeteria and installation of limited lines to the school and clinic rather than the \$10.5 million project proposed by the Village Safe Water Program (VSW), Department of Environmental Conservation (DEC) due to the cost to the village residents. He opined, "An outhouse at 20 below zero is not convenient, but it's affordable." Mr. Canelos related his belief that Stevens Village did the right thing in this situation. Another extraordinary thing Stevens Village did was to evaluate why people were leaving the village to relocate to Fairbanks. Village leaders approached the Denali Commission to assess the feasibility of connecting its village to the state highway system. The Denali Commission is undertaking the study through the commission's rural transportation program. He said the commission and the village believes that a 25-mile road connecting Stevens Village to the Dalton Highway would cause enough people to return to the village to sustain a critical mass. Furthermore, a road to Stevens Village would lower freight costs and allow [people to] commute for one-week on, one-week off employment opportunities. He then related his experience visiting Rampart. Mr. Canelos said that in rural Alaska energy costs are unaffordable and cash opportunities are lacking such that rural residents are beginning to move to regional centers, where opportunities are perceived to be.

[9:13:58 AM](#)

MR. CANNELOS emphasized that rural Alaska is a special place, but also a precarious one with an uncertain future. He offered his belief that the Denali Commission matters to the state as a whole, not just to [rural] communities. He offered his view that Alaska is an American treasure with many of its 300 villages, primarily Alaska Native communities, not connected by road or to a power grid. Furthermore, rural residents have lived in the region for hundreds, if not thousands of years, without a wholesale removal of its indigenous people, and therefore their connection to the land is much stronger than it is in the Lower 48, which is difficult for policy makers in Washington to understand. He opined that despite [Alaska's] wealth much of rural Alaska rivals Third World conditions. He introduced two of the Denali Commission's commissioners, co-chair Karen Rehfield, Director, Office of Management and Budget; and Kathie Wasserman, Executive Director, Alaska Municipal League. He noted that other commission members are Karen Perdue, University of Alaska; Julie Kitka, Alaska Federation of Natives; Richard Cattnach, Associated General Contractors of Alaska; and Vince Beltrami, Executive President, American Federation of Labor and Congress of Industrial Organizations (AFL-CIO).

[9:16:48 AM](#)

MR. CANNELOS, in response to a question by Chair Samuels, noted that the seven commissioner positions are identified in statute, appointed by the federal Secretary of Commerce, and are heads of their respective agencies. He offered his belief that no other state is compelled by statute to put together seven policy makers who would not normally sit at the table together to find comprehensive answers to systemic problems.

MR. CANNELOS thanked members for their support, and noted that since 1999 the legislature has provided the Denali Commission with a legislative liaison, formerly Krag Johnsen, who is now the Denali Commission's deputy commissioner. He noted the current legislative liaison, Mike Marsh, serves as the Denali Commission's inspector general. He offered that the commission is one of 30 small agencies required to have an inspector general, which, he opined, has worked well with respect to accountability and performance. He reported that Mr. Marsh is currently moving into federal status, as inspector general. Mr. Canelos informed the committee that he has lived in Alaska for 33 years, in Juneau, Anchorage, Bethel, and again in Anchorage, and has had an eclectic mix of public, military, and private

sector experience that has given him a perspective on rural Alaska.

[9:20:23 AM](#)

MR. CANNELOS offered 10 myths about the Denali Commission. One myth is the misconception that the Denali Commission is a federal organization and does not need state involvement or financial contributions. The aforementioned is false. Congress established the commission as a federal and state partnership, modeled after the Appalachian Regional Commission. He noted that over the past nine years, the Denali Commission has invested \$1 billion of federal funding, much more when leveraged, in about 600 infrastructure projects throughout Alaska. The aforementioned touches almost every community. He related that recently the McDowell Group conducted an independent performance evaluation of the commission, and it concluded, for the most part, that rural leaders view the commission as an essential part of the infrastructure and their future. He noted that the commission relies extensively on partners to carry out its programs while it maintains a small federal staff. He expressed gratitude that last year's capital budget included a \$7 million appropriation for the commission and its projects. Last year the commission received \$4 million to match its rural transportation program, \$2 million for its energy program, and \$2 million for a state earmark [for] the Yuut [Elitnaurviat] Peoples Learning Center in Bethel, which is a project the commission supported, as did the Rasmussen Foundation and the federal Economic Development Administration. He offered to return to [provide a final status report] regarding how the money is spent.

MR. CANNELOS stated that another myth is that the state is not a significant partner of the Denali Commission, which he noted is false. He opined that partnering requires a blend of time, talent, and treasure. During 2006 the commission funded \$55 million to state agencies such as the Alaska Energy Authority, Department of Labor & Workforce Development, Department of Transportation & Public Facilities, and Department of Health and Social Services. The funding was primarily to implement and execute projects. He opined that most of those dollars "float outward into the field and the ground" with small portions kept for administrative purposes. He related that Bill Hogan, Deputy Commissioner, Department of Health and Social Services, chairs the commission's health steering committee, which has been very successful in setting the strategic direction of the commission, specifically with regard to efficiently providing health care

delivery in the Bush. He highlighted that an early paradigm shift of the department was to form alliances with regional health care associations to try to place clinics in most communities and to man those clinics with qualified local residents through training provided by the University of Alaska's allied health care program. Mr. Cannelos informed the committee that the Denali Commission's teacher housing program, which is an example of a partnership with the Alaska Housing Finance Corporation (AHFC), won a national award. He explained that under the program, the commission would grant AHFC \$5 million and AHFC would match it [to provide funding] to build teacher housing. He offered that to date 75 units have been built and, anecdotally, teachers are staying in [rural] districts longer. He opined that the lack of housing has been one of the biggest impediments in retaining quality teachers in the villages. The hope is that retaining teachers will ultimately result in increases in student performance.

[9:24:35 AM](#)

MR. CANNELOS moved on to the third myth, which is that the Denali Commission only invests in small frontier communities. That's not the case as the commission invests throughout the state. He outlined projects throughout the state, noting that the Denali Commission has been [involved in] about 20 projects in the Anchorage area, including the Girdwood Community Center library, design of the Anchorage neighborhood health center, the residential center near Eklutna, and a feasibility study for a wind farm on Fire Island. He related that Fairbanks projects include the geo-thermal power project at Chena Hot Springs, co-funding of the Morris Thompson Cultural visitor center, and partnering with the University of Alaska-Fairbanks on projects, including the Allied Health program [at the UAF Tanana Valley Campus] and the Alaska Works Partnership, Inc. to provide pipeline training. Mr. Cannelos commended the unions because they recruit statewide, do not compel union membership, and use an overall holistic approach. He outlined commission projects in Wasilla such as the elder housing development, and projects that provide solid waste equipment. He said in Palmer and Talkeetna, the commission co-funded Alaska Services, and the Sunshine Community [Health Center]. He informed the committee that the commission supports Agrium's Blue Sky project in Kenai for a coal gasification plant because of the potential benefits to the community. Although, he opined, he could spend a long time discussing projects in Southeast Alaska, he mentioned only a few co-funded projects such as hydroelectric projects, laying cable to Haines, and Walden Point Road [on Annette Island]. He

also mentioned the commission's port and harbor projects, which include the Thomson Harbor reconstruction in Sitka, Sawmill Dock redevelopment, and Indian River Road rehabilitation. He opined that the Alaska Energy Authority (AEA) and Alaska Village Electric Cooperative, Incorporated (AVEC) are great partners. He noted that the commission's legacy program is to replace all bulk fuel storage tanks. Although the program has been very successful, the decline in federal funding may delay [implementation] for another decade. Other commission projects with AVEC include wind projects. For example, for the first time, wind generated 100 percent of the energy needs in Toksook Bay, [on Nelson Island in southwestern Alaska]. He noted successful partnerships, all across western Alaska and in the Arctic Yukon Kuskokwim (AYK) delta, and with health corporations. He said the commission is upgrading about 70 primary care clinics, with 33 under construction, and another 62 in the planning and design phase, to address the difficult problem of sustaining [health care] in very small communities.

9:30:29 AM

MR. CANNELOS highlighted the commission's rural transportation program as its newest program, which stems from the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). He said that the commission was authorized an appropriation of \$100 million over four years to focus on rural transportation needs, including circulation patterns, dust control, and boardwalks in villages. He said that the commission works with a citizen advisory group and the U.S. Army Corps of Engineers (USACE) on river and coastal barge mooring systems.

MR. CANNELOS continued with the fourth myth, which is that the Denali Commission is only for Alaskan Natives. That is not true, he opined. He acknowledged that while the commission works with many Native corporations [and groups], its services are open to the public, and, in fact, the commission has developed an open door policy that all its clinics must be open to the public.

MR. CANNELOS offered myth five, which is that the commission spends money in rural Alaska without regard to consequences. However, the commission is sometimes criticized by applicants for not moving quickly enough and for having too rigorous of an approval process. He applauded the commission because it does say no [to projects], which is not easy to do. Since the commission is concerned about the specter of projects that might

prove unsustainable, it has adopted a number mechanisms [to evaluate projects] such as investment guidelines that require proposed projects be vetted through a public process, as part of an adopted community plan. He said in many cases the community must pass muster on a rigorous business plan in order to assure who will own, operate, and maintain the project.

[9:33:37 AM](#)

CHAIR SAMUELS related one criticism of the Denali Commission he has heard is regarding the commission's requirement for a business plan. He inquired as to whether it is the state, federal government, or the Denali Commission's responsibility to ensure that the business plan is actually being followed and that any reserve fund is established.

MR. CANNELOS confirmed that this is a key issue. He acknowledged that in its early years, the commission moved so fast to get some of the critical projects built that it did not give a lot of thought about monitoring or evaluating projects. He offered his belief that the Denali Commission needs to do this, and therefore this year the commission is developing a [process] to evaluate and monitor projects. He then expressed concern over the absence of funds for operations and maintenance and the dramatic rise of energy costs, which will likely result in the closure of some facilities and ultimate demise of some communities.

[9:36:10 AM](#)

REPRESENTATIVE HAWKER inquired as to whether the Denali Commission has an inventory of communities who are not following through on their commitments.

MR. CANNELOS responded no.

REPRESENTATIVE HAWKER expressed his concern about the absence of such a list and inquired as to whether such problems exist on existing projects, or is this a prospective issue.

MR. CANNELOS offered his understanding that the issue is whether it is reasonable to have a community build a fund so that over a 20-30 year period [enough funding accrues] for replacement. He said he was not sure if the aforementioned is reasonable. Although many communities have good intentions, he suspected that when budget constraints occur communities tend to prioritize funding for current or immediate needs. He restated

that to his knowledge neither the commission nor its partners, AVEC or AEA, have a list of communities that don't follow through with a reserve fund.

[9:37:52 AM](#)

MR. CANNELOS expressed concern about overbuilding, specifically with regard to the scale and size of projects, and the disconnect in the process. He noted that the commission is working hard to adapt to climate changes and is adopting a prime directive to "do no harm". He noted that the commission has been approached to provide permanent infrastructure in communities that are on the U.S. Army Corps of Engineers' threatened list. Some communities, he opined, may need to relocate. He offered the commission's current position is that when a community is on the list, the commission should consider modular units, which are smaller, more affordable, and that meet the current need. Moreover, when a community needs to relocate, the investment [is portable]. He related that the commission will not build permanent infrastructure in communities that are in imminent danger.

[9:39:23 AM](#)

CHAIR SAMUELS inquired as to who the commission works with [to coordinate projects] because some committee members have suggested that there seems to be a lack of communication primarily between USACE and the local community. He posed a scenario in which the commission plans to put in a bulk storage tank in a village that plans to relocate. He inquired as to what the coordination would be [between the commission and other agencies and the community] and more specifically, whether the Denali Commission communicates with the USACE when it plans to build infrastructure in a community to be certain "something doesn't fall through the cracks."

MR. CANNELOS specified that the commission coordinates with all agencies regularly. In fact, the commission was well into the process [toward building] a bulk fuel facility and a clinic in Shaktoolik when, after recent meetings with the community and the USACE, the commission discovered that the projects are not the best course to take, and thus the commission is now ready to change course.

[9:40:41 AM](#)

REPRESENTATIVE DOOGAN inquired as to whether operating and maintenance costs have to be estimated. If so, would the community need to specify its funding sources prior to project approval, he asked.

MR. CANNELOS answered yes to both questions.

[9:41:23 AM](#)

MR. CANNELOS continued with the sixth myth that the Denali Commission is a pass-through agency for Congressional earmarks. He clarified that the commission is not a pass-through agency and is funded through six broad Congressional appropriations. The Denali Commission, he related, does not receive federal earmarks. He highlighted that this [funding process] allows the commission to make project decisions in Alaska through a collaborative process, which varies by program. Nearly all meetings and deliberations are open to public, he noted.

[9:42:22 AM](#)

CHAIR SAMUELS inquired as to whether Congress specifies the commission designate specific funding for sewer and water, health care, and transportation, or if the commission allocates between the broad categories.

MR. CANNELOS reiterated that the commission is funded through six broad Congressional appropriations. Although one category is specified for health facilities, it is up to the commission to allocate [between its programs]. He explained that [the appropriation for] workforce is [allocated] to workforce development with little guidance. Transportation funding is [limited] to such items as rural roads, docks, trails, and boardwalks. While the commission's base funding has typically funded energy, that funding is not specifically [allocated]. Therefore, the commission has the flexibility to fund items such as teacher housing and economic development programs because the commission has the most flexibility. He noted that Congress cut the aforementioned base funding from \$50 million to \$21 million, therefore, the commission faces some tough choices.

MR. CANNELOS described the funding process. He explained that each year the commission publishes its annual work plan in the Congressional record, which is followed by a 30-day public comment period. The comment period for fiscal year (FY) 08 is currently open, he noted. After the commissioners review the responses and make recommendations to the commission's federal

co-chair, and then, by statute, the plan is then forwarded to the Secretary of Commerce. He noted that the Secretary of Commerce has never done anything other than approve the plan. There are six advisory committees, mostly at the grassroots level, except for the financial management advisory committee in Washington D.C. The advisory committees provide the commission guidance on transportation, economic development, training, energy, and health issues. The Denali Commission has one of the best government web sites, he opined. He noted that all of the commission's projects are on its web site by Congressional district, except for the urban areas of Anchorage and Fairbanks. The next Denali Commission meeting is scheduled in Juneau on February 28-29, 2008. He invited legislators to attend.

MR. CANNELOS returned to the myths and related that the seventh myth is that the Denali Commission adds bureaucracy and duplicates other efforts. Rather, he opined, the commission adds value to the process because its staff are experts in selecting and accelerating project delivery. The business model calls for a small interdisciplinary staff, augmented by professionals from other agencies, and regular interaction with others. He said the commission looks for synergy. For example, in Unalakleet the Denali Commission, Department of Transportation & Public Facilities (DOT&PF) and the USACE, are working together to upgrade airport, streets, and shoreline protection. The coordination resulted in logistical cost savings that allowed the community to also afford batch plants and asphalt streets. The Denali Commission holds funder forums statewide with other agencies, such as the Southeast Conference or Alaska Municipal League. During these forums the commission listens to proposals and discusses the process, including business plans. He noted that the Denali Commission, the Alaska Mental Health Trust Authority (AMHTA), and the Rasmussen Foundation have an agreement such that they [contract with] the Foraker Group to either work with applicants in preparing funding proposals or identify the project is not ready [to move forward]. The aforementioned, he opined, is a good process with many benefits. He related that Denali Commission funding provides a critical mass to projects that might not otherwise take place, which is illustrated with the commission's coordination efforts for water and sewer projects in Buckland.

[9:48:22 AM](#)

MR. CANNELOS continued with myth eight, which is that the Denali Commission owes its existence to U.S. Senator Ted Stevens. The aforementioned is true and stemmed from U.S. Senator Stevens

frustration with agency overhead costs and lack of coordination and community [participation]. He offered his understanding that the genesis of the Denali Commission came from Native leaders in the Kuskokwim region, who pointed to the Appalachian Regional Commission as a model.

9:49:12 AM

MR. CANNELOS offered that myth nine is that Alaska has little to offer the developing world. However, Alaska has always been a laboratory for Uncle Sam, which was realized by the military and lead to the promotion of very high level graduate school exercises promoting new tactics and doctrine [being held in the state]. Furthermore, rural Alaska is filled with entrepreneurial, self-reliant Alaskans, such as the man in Gustavus who [provided start up funds] to establish the town's utility. He opined that [ideas] can be shared between Alaska and other countries such as Scandinavia, Canada, and Russia for rural sanitation and health [conditions]. He related that this past year the commission briefed the president of Mongolia and his senior staff as well as officials from Russia, Canada, and Iceland. The Denali Commission has attracted the attention of the United Nations Development organization, whose [philosophy] is that the best way to advance rural society is on a regional basis. The United Nations Development organization, from its global view, considers Alaska a region.

9:50:38 AM

MR. CANNELOS offered myth 10 that federal funding will continue at high levels, which he opined is false. He related that funding for FY 08 is at \$110 million, [which helps to ensure] that programs for health, transportation, and workforce development are intact. He noted, however, that the energy and water appropriation fell from \$50 to \$21 million, which means reductions in areas such as teacher housing. Teacher housing was funded at \$5 million last year and is currently funded at \$1 million this year. The commission, he explained, [strives for a] balancing act between legacy energy projects and renewal energy [projects]. He said the Denali Commission is proposing \$10 million for bulk fuel upgrades and \$9 million for renewable [energy projects], which represents about a 50:50 split in funding. He highlighted the funding trend, which rose from \$20 million in 1999 to \$140 in 2005 and then declined to \$135 million in 2006 and to \$110 million in 2008. He expressed his wish to have exit strategies for programs and have [completion of these projects]. He related that in Kodiak and Northwest

Alaska, the commission is close [to completion] with respect to clinics, however, without state [funding] the decline in federal funding may result in [delayed completion of projects]. He offered that the Denali Commission networks with foundations. In fact, the commission has a new partnership agreement with all six community development quota (CDQs) fisheries organizations under which they compare capital project lists. The commission hopes to co-fund projects in about 60 communities, he noted.

MR. CANNELOS concluded that the legislature faces difficult constitutional responsibilities to meet the needs of constituents, with limited [funding] and resources. He offered three recommendations, the first of which is that the Denali Commission can do a lot more to help coordinate capital projects, planning, and delivery. He opined that the commission has expertise in capital project planning and delivery, with a track record that shows flexibility and speed, with the ability to harness the power of other agencies to bring together packages. He related that early on the Denali Commission felt that DOT&PF would be a major partner. However, although DOT&PF is good at building highways, it is not as good as others in [developing projects] in small places. Therefore, the Denali Commission decided to contract with Western Federal Lands, a Vancouver, Washington, agency that specializes in low-volume rural roads and trails. He then expressed the need to provide better communication with regard to project lists, timing, and logistics. He also expressed the need to better consider the impacts of multiple projects on a single community as well as thinking more regionally.

[9:54:57 AM](#)

SENATOR GREEN recalled the Denali Commission's original appearance before a finance committee many years ago, and its pledge to never come to the legislature and request [funding], whether that be [funding] to match or partner. She expressed concern with regard to any pressure that could be brought to bear on the legislature because the Denali Commission now has a tremendous constituency in its funders groups. She remarked that she wasn't sure what has changed over those nine years.

[9:56:41 AM](#)

MR. CANNELOS recalled vividly meeting Senator Green two years ago and holding this identical conversation. While he did not want to criticize his predecessor, Mr. Canelos said he didn't know what he was thinking. Mr. Canelos opined that the Denali

Commission was always intended to be a partnership [with the state], in terms of time, talent, and treasury. He acknowledged that even if his predecessor was right, times have changed in ways that no one would have predicted a decade ago. He said that although he respects Senator's Green's viewpoint, he is requesting much more state participation.

[9:57:39 AM](#)

REPRESENTATIVE MARY NELSON, Alaska State Legislature, said she recalls the conversations when the Denali Commission was established very differently from Senator Green. Representative Nelson said that although she was not a member of the finance committee, she did not recall the former Denali Commission co-chair as ever saying that the state wouldn't need to partner. In fact, she said she distinctly recalls U.S. Senator Ted Stevens' remarking to the legislature that the state needs to partner and make investments in rural Alaska because the infrastructure is aging, yet its needs are expanding. The aforementioned has been the message of U.S. Senator Stevens every year, she said. Furthermore, there have been years in which U.S. Senator Stevens has implored urban legislators to visit and view conditions in rural villages. Further illustration that there needed to be a partnership is that the legislature provides staff to the commission because the legislature wants to coordinate and review the [commission's projects], she said.

[9:59:12 AM](#)

REPRESENTATIVE JOULE recalled that the initial scope of the Denali Commission was much smaller, in terms of bulk fuel storage and clinics and thus initially there may [not have been a need for state participation]. However, over time [projects] were added and as the scope of the commission grew, that changed, he opined.

[10:00:23 AM](#)

SENATOR GREEN highlighted that [funding decisions] are to be made by the legislature and not [by the Denali Commission]. She noted that the legislature needs to be informed [of the commission's community projects]. She reiterated her discomfort with the influence and power over the [legislative process] and the difficulty [for the legislature to] to say no to projects. She offered her belief that it is the legislature's job to formulate and [make decisions] on capital projects using its

[statewide] perspective. She welcomed participation [in the process] and said that the commission hasn't done anything with which she is unhappy. However, she stressed the need for independence to be maintained.

[10:01:39 AM](#)

CHAIR SAMUELS inquired as to Mr. Canelos' view of the process used by the legislature, the executive branch, and the federal government when it selects which projects should be funded. He asked if the Denali Commission uses a process similar to DOT&PF's State Transportation Improvement Plan (STIP). If so, he inquired as to how the list was developed. He then posed a scenario in which the state did agree to participate with matching funds on a project, and inquired as to which projects would be funded. He acknowledged the importance of the legislature's liaison to the commission, and commends his performance, but voiced concern that [with limited participation] the legislative branch still does not have the ability to provide much input on Denali Commission projects.

[10:03:45 AM](#)

MR. CANNELOS offered to return to committee members' questions later, and continue with the recommendations. He moved on to the commission's third recommendation, which is that the state and federal government should equally fund the commission. He opined the aforementioned was the original vision for the commission, and that equally funding the commission offers the state the best chance to [maintain] a relatively high level of federal funding. He said he believes that Congress looks askance at any state that requests federal funding without making meaningful state contributions. He opined that state matching funds would gain the more credibility that it has now. Furthermore, when everyone has "skin in the game", there is more [focus] and a less likelihood for inefficiencies to occur. He highlighted that [with combined funding] the commission [and state] can reach a critical funding mass quickly enough to make a difference. He noted the Denali Commission celebrates its 10th anniversary this year, and then expressed his desire for there to be a long-term funding plan [for the commission].

[10:05:22 AM](#)

MR. CANNELOS reverted back to the commission's second recommendation, which is to offer to work with the legislature to [formulate] an energy policy. He opined that every state and

federal energy plan he has ever reviewed is weak, and Alaska has the opportunity to lead in this area. He related that although a generation ago Iceland was totally dependent on oil and coal imports, it is now 98 percent self-sufficient due to [its development of] hydroelectric and geothermal power. He opined that Iceland is currently one of the most prosperous places to live and that Alaska could be, too. He opined that as an independent agency, the commission is able to take risks. For example, the commission's investment in the state's first in-river turbine in the Yukon River at Eagle, [a project the commission selected] instead of funding a diesel onshore generator. Another example is the commission's investment in the state's first high-voltage direct current transmission line between Mt. Village and St. Mary's, which has the potential to lower the cost of transmission lines and help connect communities more efficiently, he opined.

[10:07:20 AM](#)

REPRESENTATIVE KELLY said although he is encouraged by Mr. Cannelos testimony, he believes caution is advised in some areas. He prefaced his comments by noting his background in utilities, transportation, and as a commuter Bush pilot. He further noted that he has visited many of the rural communities mentioned. He commended Stevens Village for making the difficult choice it did. However, he expressed concern that the project [had ever been considered] and that "someone wasn't hard-nosed enough to say, that's insane". He related examples of rural communities that once were thriving communities, but now have reduced populations. For example, Rampart now has a population of about a dozen or less permanent residents. He recalled a study completed at the time Arctic National Wildlife Refuge (ANWR) was [developed] in which Tanana's population was predicted to be 700 [today], although its population is roughly 200. He opined that in order to provide a quality education, that student populations must be much higher than 10 students. He offered his concern about the sustainability of some areas, and related that it is not unusual that some villages have disappeared. He offered examples that in many other states, such as Montana or Texas, people relocate because they need to do so. He offered his concern that federal funding is declining. Furthermore, the decline in oil production through-put to 6 percent doesn't provide a good prognosis for replacing lost federal funds with state funds. He offered his belief that the state would soon reach deficit spending.

REPRESENTATIVE KELLY said he offers his points as encouragement. With regard to high fuel costs, he highlighted the community of Shageluk where residents are using wood for fuel. He opined that Shageluk's decision to use wood was the appropriate decision and illustrates that it's not a choice between food or freezing. He cautioned the commission against [building] costly projects anywhere in Alaska [without considering sustainability] because some villages, such as Rampart, don't have the critical mass to sustain schools or water systems. He acknowledged the importance of discussions and considerations regarding whether to build a road to a village, but he opined it is equally important for the same residents to support the economic [development] that can provide the funding. He the highlighted the need for the commission to address the high unemployment rate of areas [in which projects are sought] because [measures must be taken] to reduce unemployment or the youth will need to move and the community's population will decline. He concluded by applauding the "hard-nose part" of what the commission does, but cautioned that the commission against building [infrastructure] in a community that can never afford it.

[10:16:07 AM](#)

REPRESENTATIVE DOOGAN acknowledged that the state might be invited to participate in some areas, such as building replacement costs. He related his assumption that once a building is built, its presence creates the expectation that the facility will be replaced when it wears out. He recalled that when there's a proposal for a capital project, they identify the operation and maintenance costs and identify the source of funds. In a situation in which all or part of the operation and maintenance costs are identified as state funding, he asked if the Denali Commission evaluates the state funding source to ensure that it is available. He further asked if the state is made [aware] that it is the funding source for all or part of the operation and maintenance of that facility.

[10:18:24 AM](#)

TESSA RINNER, Director of Programs, Denali Commission, confirmed that state funding is identified as a component of the operations and maintenance of facilities. She explained that the commission [identifies the source] during its business planning process and evaluation of the project, and that the commission follows-up with the specific department affected. For projects in which the funding is related to clinical services, the Denali Commission follows-up with the Department

of Health and Social Services (DHSS) on each element to confirm that the funding exists and that the funding [source] has been identified for the specific project. She acknowledged that in the past the Denali Commission has received proposed projects that identify various funding sources, but the funding source was not aware of the project. Follow-up is a critical component and [all funding sources are checked] including federal and state funding, she stressed. In many infrastructure programs, operating and maintenance funds that support the project are typically provided by other federal funding sources, such as the Indian Health Services village built clinic lease [funding]. She said the commission has a process to communicate on a program level with departments and regional offices to confirm that the funding exists for the project. The aforementioned, she explained, is a component of the Denali Commission's conceptual planning process and of the business planning process for each of its projects.

[10:20:02 AM](#)

REPRESENTATIVE DOOGAN inquired as to whether the commission could identify the level of state-funded operation and maintenance costs on existing projects.

MS. RINNER offered to provide Representative Doogan [a report] that identifies state funding of operating and maintenance costs by program, and also by department.

[10:21:07 AM](#)

SENATOR HOFFMAN thanked the commission for its efforts, and inquired as to whether there has been any input from the state Office of Management & Budget (OMB) with respect to the state's participation [for funding the Denali Commission's projects].

MR. CANNELOS said that he appreciates director of OMB, Karen Rehfield's, perspective. He related that as a commissioner of the Denali Commission she acknowledges that the state needs to do more, but she would probably recommend an incremental approach.

[10:22:34 AM](#)

CHAIR SAMUELS, with respect to projecting matching funds [required] 10 years from now, inquired as to how the legislature can better provide input on Denali Commission projects. He highlighted that as more state input occurs, more legislative

input will occur. He opined that he does not wish for the commission to create a "total bureaucracy" or to slow down projects, but rather he wants to create an efficient process to do so.

MS. RINNER offered her belief that the process begins with coordination. In many of the commission's programs, such as health care, energy, or transportation, the Denali Commission can share with the [legislature] its lists of projects that have been identified and prioritized. She noted that the process by which the commission leverages other ongoing capital projects in a community [in a manner that results in] cost savings [could also be shared with the legislature]. She opined that the Denali Commission can better communicate with the legislature on projects proposed by communities and how that impacts large scale investment by the Denali Commission across regions. She stressed the importance of reviewing projects regionally, not just by community. She said she thinks the process could start with the state and commission comparing each other's lists to assess statewide projects planned for schools, transportation projects, and health clinics, and she emphasized the need to leverage training and other opportunities. She said the aforementioned is something the Denali Commission actively pursues now with state departments, however, that process could also be done more effectively with legislators.

[10:25:47 AM](#)

MR. CANNELOS, responding to a question by Representative Kelly, said that first direct matching funds were \$7 million in last year's capital budget. In further response to a request by Representative Kelly, offered to share the operating and maintenance costs' list requested by Representative Doogan with the group, which will be helpful in answering questions related to the match for operating costs.

[10:26:28 AM](#)

REPRESENTATIVE DOOGAN noted that currently the state has a system to deliver goods and services statewide. While Representative Doogan said he did not want to debate the merits of that system as compared to the commission's system, he opined that to the extent that the Denali Commission [requests additional] funding from the state, the commission competes with the state's system. Therefore, he inquired as to why the legislature would fund the commission instead of [funding] a state agency that would perform essentially the same work.

MR. CANNELOS responded that the Denali Commission is faster, more nimble, and better. Furthermore, the Denali Commission has greater [flexibility and] freedom to craft an even better process than [a state agency].

[10:28:11 AM](#)

CHAIR SAMUELS requested for feedback from the committee as to whether this process has been worthwhile. He asked if members want the Denali Commission to come back before the Legislative Budget and Audit Committee or the House and Senate Finance Committees to discuss the list of projects.

REPRESENTATIVE JOULE offered that the [Denali Commission's presentation] opens important dialogue. He questioned whether it would take a change in federal law [for the legislature to select] members of the commission. If greater state financial support is expected by the commission, this is necessary dialogue. He said that if this is the forum in which that can occur, he offered his support for more meetings, [particularly] if the legislature will not have "a seat at the table".

MR. CANNELOS, responding to an earlier question by Chair Samuels, noted that the Denali Commission expires in October 2008 and is currently up for reauthorization. But, unlike some agencies, the Denali Commission does not legally sunset and it is common practice for agencies not to be reauthorized but to continue to operate for years in that status so long as Congress makes the appropriation. He reported that U.S. Senator Stevens introduced a reauthorization bill that is before a [Congressional] committee.

[10:30:42 AM](#)

CHAIR SAMUELS offered that there are three other regional commissions, including the Denali Commission, and his understanding is that Congress is currently considering creating more regional commissions.

MR. CANNELOS noted his agreement that Congress is considering creating more regional commissions. In fact, there is a proposal for four new regional commissions, which lends support to the value of the regional commission model. However, the current federal administration does not support the regional model. He related that in the past, Congress has seen the value of these regional commissions and [provided funding].

[10:31:52 AM](#)

The committee took an at-ease from 10:32 a.m. to 10:37 a.m.

Mat Maid Audit Scope Revision

[10:37:02 AM](#)

CHAIR SAMUELS announced that the next order of business would be the Mat Maid Audit Scope Revision.

SENATOR GREEN made a motion to amend the current [Mat Maid audit]. She explained that the disposition and sale of Mat Maid did not occur and there are ongoing issues with regard to the value and location of equipment.

[10:38:00 AM](#)

REPRESENTATIVE HAWKER objected, and offered clarification that the motion is to adopt a scope and work plan consistent with the letter from Senator Green to Representative Samuels dated January 24, 2008.

SENATOR GREEN noted her agreement with Representative Hawker.

[10:38:21 AM](#)

REPRESENTATIVE HAWKER removed his objection. There being no further objection, the motion to adopt a scope and work plan consistent with the letter from Senator Green to Representative Samuels dated January 24, 2008 was adopted.

EXECUTIVE SESSION

[10:38:30 AM](#)

REPRESENTATIVE HAWKER made a motion that the Legislative Budget and Audit Committee go into executive session, for the purpose of discussing confidential audit reports under AS 24.20.301 and Uniform Rule 22(b). There being no objection, the committee went into executive session from 10:38 a.m.

CHAIR SAMUELS reconvened the committee at 11:53 a.m.

CONSIDERATION OF PRELIMINARY AND FINAL AUDITS

[11:53:53 AM](#)

CHAIR SAMUELS announced that next order of business would be consideration of preliminary and final audits.

REPRESENTATIVE HAWKER moved to release the Preliminary Audit report for the Department of Administration - Information System Controls over Data Enterprise Reporting (ALDER) control 02-10005-08 to the agency for response. There being no objection, audit 02-10005-08 was released to the agency.

REPRESENTATIVE HAWKER moved to release the final audit report for the DEC - Division of Water, Village Safe Water Program, audit control 1830042-08 to the public. There being no objection, the motion passed, and the audit control 1830042-08 was released to the public.

AUDIT SOFTWARE

[11:54:22 AM](#)

CHAIR SAMUELS announced that next order of business would be audit software.

PAT DAVIDSON, Legislative Auditor, Division of Legislative Audit, Alaska State Legislature, requested that the committee approve the procurement of an automated software package for the Division of Legislative Audit. She reminded the committee that in May 2007 she was authorized to offer a solicitation, which resulted in two responses. She informed the committee that both packages are Windows-based programs that will integrate well with the existing network. Therefore, at this point the division would like to complete the process, send out the notice of intent to award, and purchase the software and associated hardware for installation. Ms. Davidson explained that in order to move forward, the committee would need to make a motion to authorize the division to spend an amount not exceed \$125,000 for the aforementioned purpose.

[11:55:26 AM](#)

REPRESENTATIVE HAWKER commented that while it may seem as though the committee is moving rapidly, the committee has previously held in-depth discussions on the audit software.

REPRESENTATIVE CHENAULT recalled that the report indicated that it would cost about \$13,000 per year to license the software.

MS. DAVIDSON answered that that there will be ongoing licenses for, particularly the servers, but the division expects to absorb the cost in its existing budget.

[11:56:09 AM](#)

REPRESENTATIVE HAWKER made a motion that the Legislative Budget and Audit Committee authorize the legislative auditor to spend up to \$125,000 for the purchase of the automated Workpaper software and associated hardware system, its implementation and backup in accordance with the division's procurement process.

[11:56:26 AM](#)

MS. DAVIDSON, in response to Representative Kelly, explained that the division is buying off the shelf software and the implementation will be [similar to] loading Windows on a home computer.

There being no objection, the motion passed.

[11:57:20 AM](#)

ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 11:57 a.m.