

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

Anchorage, Alaska

August 14, 2009

8:37 a.m.

**MEMBERS PRESENT**

Senator Kevin Meyer, Chair  
Representative Nancy Dahlstrom, Vice Chair  
Senator Lyman Hoffman  
Senator Charlie Huggins  
Senator Linda Menard  
Senator Bert Stedman  
Senator Donald Olson (Alternate)  
Representative Mike Hawker  
Representative Bill Thomas  
Representative Mike Doogan  
Representative Chris Tuck (Alternate)

**MEMBERS ABSENT**

Representative Mark Neuman  
Representative Bill Stoltze (Alternate)

**COMMITTEE CALENDAR**

APPROVAL OF MINUTES  
PRESENTATIONS  
EXECUTIVE SESSION  
RELEASE OF AUDITS  
REVISED PROGRAM - LEGISLATIVE (RPLS)  
REIMBURSABLE SERVICE AGREEMENT (RSA)  
OTHER COMMITTEE BUSINESS

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

STEVE HAAGENSON, AEA Executive Director  
Alaska Industrial Development & Export Authority (AIDEA) and  
Alaska Energy Authority (AEA)  
Department of Commerce, Community, & Economic Development  
(DCCED)  
Anchorage, Alaska

**POSITION STATEMENT:** Gave a presentation to the Legislative Budget and Audit Committee.

PETER CRIMP, Program Manager  
Alternative Energy & Energy Efficiency (AEEE)  
Alaska Industrial Development and Export Authority (AIDEA) and  
Alaska Energy Authority (AEA)  
Department of Commerce, Community, & Economic Development  
(DCCED)  
Anchorage, Alaska

**POSITION STATEMENT:** Offered a presentation regarding the present status of AEA in its efforts related to Renewable Energy Funds, grants, and projects.

MICHAEL J. BURNS, Executive Director  
Alaska Permanent Fund Corporation (APFC)  
Juneau, Alaska

**POSITION STATEMENT:** Introduced Steve Frank during the presentation of the corporation.

STEVE FRANK, Chair  
Board of Trustees  
Alaska Permanent Fund Corporation (APFC)  
Juneau, Alaska

**POSITION STATEMENT:** Offered comments and answered questions during the presentation by the Alaska Permanent Fund Corporation.

JEFFREY SCOTT, Chief Investment Officer  
Alaska Permanent Fund Corporation (APFC)  
Juneau, Alaska

**POSITION STATEMENT:** Spoke to the committee regarding his new position with APFC, and answered questions.

MICHAEL J. O'LEARY, JR., Executive Vice President/Manager  
Fund Sponsor Consulting  
Callan Associates  
Denver, Colorado

**POSITION STATEMENT:** Answered questions during the presentation from the Alaska Permanent Fund Corporation.

DAVID TEAL, Legislative Fiscal Analyst  
Legislative Finance Division  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Asked for the committee's approval of numerous RPLs.

MICHELLE RIZK, Associate Vice President  
Budget  
Statewide Planning & Budget  
University of Alaska  
Fairbanks, Alaska

**POSITION STATEMENT:** Answered questions regarding the University of Alaska's RPLs.

LENA SIMONS, Director  
Division of Support Services  
Department of Natural Resources (DNR)  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions regarding RPL 10-0-5003.

RANDY BATES, Director  
Division of Coastal and Ocean Management  
Department of Natural Resources (DNR)  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions regarding RPL 10-0-5003.

WILLIAM LUCK  
Recreational Trails Program  
Division of Parks & Outdoor Recreation  
Department of Natural Resources (DNR)  
Anchorage, Alaska

**POSITION STATEMENT:** Answered questions regarding RPL 10-0-5006.

TINA CUNNING, Special Assistant  
Office of the Commissioner  
Alaska Department of Fish & Game  
Anchorage, Alaska

**POSITION STATEMENT:** Explained the \$33,000 ADF&G RSA.

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

**POSITION STATEMENT:** Explained the audit response and report timelines.

#### **ACTION NARRATIVE**

[8:37:12 AM](#)

**CHAIR KEVIN MEYER** called the Legislative Budget and Audit Committee meeting to order at 8:37 a.m. Senators Hoffman, Huggins, Menard, and Meyer, and Representatives Hawker, Thomas, Doogan, and Dahlstrom were present at the call to order. Senators Stedman and Olson (alternate), and Representative Tuck (alternate) arrived as the meeting was in progress.

#### **APPROVAL OF MINUTES**

[8:37:39 AM](#)

CHAIR MEYER announced that the first order of business would be the approval of the minutes.

REPRESENTATIVE DAHLSTROM made a motion to approve the minutes of June 5, 2009, and June 9, 2009. There being no objection, the minutes from the meetings of June 5 and June 9, 2009, were approved.

#### **PRESENTATIONS**

[8:38:39 AM](#)

CHAIR MEYER announced that the next order of business would be the presentations of the Alaska Energy Authority and the Alaska Permanent Fund Dividend Corporation.

[8:39:17 AM](#)

STEVE HAAGENSON, AEA Executive Director, Alaska Industrial Development & Export Authority (AIDEA) and Alaska Energy Authority (AEA), Department of Commerce, Community, & Economic Development (DCCED), said last year House Bill 152 was passed, which established the Renewable Energy Fund. Since then, AEA has been developing a program to receive and evaluate applications and develop regulations. He reviewed that in February, the Legislative Budget and Audit Committee accepted a recommendation made jointly by AEA and the Renewable Energy Advisory Committee, and he said he is here today at the request of the committee to give a status update presentation.

[8:41:00 AM](#)

PETER CRIMP, Program Manager, Alternative Energy & Energy Efficiency (AEEE), Alaska Industrial Development and Export Authority (AIDEA) and Alaska Energy Authority (AEA), Department of Commerce, Community, & Economic Development (DCCED), said he

would talk about the present status of AEA in its efforts related to Renewable Energy Funds, grants, and projects. He directed attention to a slide showing grant status by numbers of projects and by the amount of the Renewable Energy Fund. He explained the four colors shown: orange depicts those grants in initial draft status; yellow depicts grants that are drafted but still need more work done on them; light green depicts grants that are waiting to be signed by the grantees; and dark green depicts grants that are in place.

[8:44:31 AM](#)

MR. CRIMP turned to a slide showing a photo of the intake at Falls Creek Hydro project in Gustavus, Alaska. He said Bob Havemeister helps Gustavus Electric "dial in for assistance."

The committee took an at-ease from [8:44:56 AM](#) to [8:48:43 AM](#) to address technical problems.

[8:48:58 AM](#)

MR. CRIMP continued, noting that Falls Creek is an 800 kilowatt hydroelectric ("hydro") project that was just brought on line last month. Mr. Crimp said Mr. Havemeister reported that the diesel engines were shut off in the power house, resulting in quiet. The grant is for \$750,000; the project was happening prior to the grant, with the help of AEA and the Valley Commission, but needed more funding to "get over the hump." Falls Creek Hydro will displace approximately 117,000 gallons of diesel per year. In response to Senator Hoffman, he explained that the savings analysis is done based on the amount of diesel that is displaced, not by kilowatt usage; however, he said the savings is significant. He agreed to get back to the committee with that calculation.

[8:50:55 AM](#)

MR. CRIMP directed attention to a slide showing a photograph of Pillar Mountain Wind Project in Kodiak, Alaska, which commenced this summer. He said the project has an estimated fuel displacement of \$1.2 million per year, uses three, 1.5 megawatt General Electric Company (GE) wind turbines with a total capacity of 4.5 megawatts, and has doubled the capacity of wind energy in Alaska. The grant project was capped at \$4 million; the rest of the cost was financed by Kodiak Electric with clean renewable energy bonds (CREB) from the government. The turbines measure about 450 feet in height.

[8:52:44 AM](#)

MR. CRIMP moved on to a slide which shows the Denali Solar Thermal Project near Mt. McKinley Village. The photo on the left shows the solar thermal panels, which create heat that is stored in a tank. Estimated fuel displacement is approximately 5,700 gallons per year. The project was wholly funded by the Renewable Energy Fund.

[8:53:42 AM](#)

MR. CRIMP displayed a slide of the Juneau Airport Ground Source Heat Pump. The photo on the bottom-left of the slide shows over 100 wells that are 175 feet deep, spaced about 10 feet apart, which bring groundwater up through pipes, which then brings heat into the airport. He said this project is similar to one that heats the local utilities facility. The cost of the project was split between the airport and a Renewable Energy Fund grant. The project displaces approximately 30,000 gallons of diesel per year, making it economical.

[8:54:54 AM](#)

MR. CRIMP advanced to the next slide, which relates to the North Prince of Wales Intertie project, connecting the "hydros" in the southern part of Prince of Wales Island - Black Bear Lake and South Fork Hydro - to Coffman Cove and Naukati. When the project is completed in a year, both Coffman Cove and Naukati will be no longer use diesel, which will amount to a displacement of approximately 111,000 gallons of diesel per year. Mr. Crimp noted that partial funding has also been provided for Reynolds Creek Hydro, which would supplement the amount of hydro power on the Prince of Wales grid.

[8:56:01 AM](#)

SENATOR STEDMAN related that Coffman Cove is on the Northeast portion of the island, while Naukati is on the Central-Western side; therefore the intertie will connect two totally different areas of the island, resulting in some smaller areas on the island being closer to the hydro hookup.

[8:56:52 AM](#)

MR. CRIMP pointed to the next photo, which depicts the Unalakleet Wind project. The top-right photo shows a foundation

being built for one of six, 100 kilowatt wind turbines manufactured by Northern Power Systems. The bottom-left photo shows the construction of road. The total project is about \$4.2 million, and the rough estimate of fuel displacement is about 90,000 gallons a year.

8:58:19 AM

MR. CRIMP directed attention to a slide showing photos of the North Pole Heat Recovery project. The heat currently rejected to the atmosphere will be captured and used to heat the North Pole turbine facility. The grant for the project is \$840,000, and the total project cost is [\$1,050,000]. The estimated fuel displacement is 99,000 gallons a year. The left-hand photo shows trenching, while the right-hand photo shows the installations of the heat recovery units.

8:59:40 AM

MR. CRIMP showed a slide related to the Tok School wood fire boiler, which is estimated to save over 50,000 gallons of diesel a year. The photo on the left shows a fire break clearing around the school. Wildfires in the Tok area are a substantial concern; the community has had a number of near misses in terms of wild fires. The amount of wood shown in the photo is enough to heat the school for two years; the local foresters are confident that there will be enough wood from fire break clearing to fuel the boiler for decades. The top-right photo shows a legislatively funded chipper that will be used to chip the wood that will then be fed into a clean, automated boiler system at the school. The lower-right photo indicates public interest in the project. Mr. Crimp noted that construction for the facility should be complete by summer 2010. The Renewable Energy Fund grant was [\$3,245,349], and the total project cost is [\$3,805,349].

9:01:11 AM

MR. CRIMP next showed a slide entitled, "North Pole Biomass-Fired Power," which shows the current K&K Recycling facility, in which a "fluidized bed boiler" will burn about 5,000 tons of waste paper diverted from the landfill in Fairbanks and transfer the heat through thermal oil to an organic rank and cycle unit similar to that being used at Chena Hot Springs. He noted that United Technologies Corporation (UTC), which makes carrier air conditioners, is a strong partner in the project and has configured a system along with the boiler that it thinks will be

useful in many Bush communities. Estimated fuel displacement from this 400 kilowatt project is 210,000 gallon a year. A bonus benefit not accounted for in the report is that the project will also generate a lot of heat that could be used in greenhouses, for example, as well as "sequestering CO2."

[9:03:04 AM](#)

MR. CRIMP showed the next slide, regarding hydrokinetic energy. The photo in the upper right of the slide shows a 5 kilowatt system that was put in place last summer and is being expanded to a 25 kilowatt unit. Although the savings are modest, the value of the project is that it shows how it might be used in other capacities. Mr. Crimp stated that the total cost of the project is approximately \$460,000. The photo in the bottom left of the slide shows a photo of work being done from a skiff to assess the river flow on the Kuskokwim River - part of a statewide resource assessment being conducted by Tom Ravens and crew. Mr. Crimp noted that there are a number of other projects well underway, for which he currently does not have photos. He offered some examples.

[9:04:39 AM](#)

MR. CRIMP discussed staffing. He reviewed that 10 AEA technical staff have been assigned, as noted on a spread sheet, and AEA is in the process of interviewing for four additional staff positions. The applicant pool is good. He discussed remaining issues, including capped funding: \$4 million in high energy cost areas and \$2 million in low energy cost areas. Progress has been mixed, he said. The Kodiak Wind Turbine project has moved forward through supplemental financing. Humpback Creek Hydro project in Cordova is moving ahead well, he reported, even though it came in above budget. The large wind farms in Nome and Kotzebue are moving slowly, because they are looking for supplemental financing. He said AEA has given those wind farms a year or two from the time the grants were approved to move ahead on the projects. By the beginning of the next legislation session, he related, AEA will want to make a decision whether or not to put the funds back into the kitty for later redistribution through legislative action.

[9:06:38 AM](#)

MR. CRIMP discussed energy rates for independent power producers. He explained that AEA wants to balance providing incentives for private entrepreneurs with the need to protect

the public interest. Mr. Crimp said in the short-term, AEA is planning to hire contractors to recommend cost-base rates - those based on the actual amount of equity that the Independent Power Producers (IPPs) have put into a project. Eventually, he said, AEA wants to reach an agreement with the Regulatory Commission of Alaska (RCA) for coordinating its responsibilities, because RCA has expertise in determining power purchase or energy agreements. In response to Senator Huggins, he said AEA has been holding discussions with RCA for the last six months and will meet with that entity this afternoon.

SENATOR HUGGINS remarked that RCA has developed the reputation of being "a bottleneck for things that need to happen for the future of the state." He expressed his interest in the legislature supporting that which would reduce those bottlenecks.

[9:08:56 AM](#)

MR. CRIMP, in response to Senator Stedman, noted that a wood fire boiler project in Galena was proposed by the Interior Regional Housing Authority, but "hasn't moved." The AEA was considering whether or not to come before the Legislative Budget and Audit Committee to reallocate those funds; however, AEA wanted to give a chance for another local entity to take over the construction of that facility. The next project on the list to which funds could be allocated is Tackett's hydroelectric project on Baranof Island, near Sitka.

[9:10:10 AM](#)

REPRESENTATIVE HAWKER asked, "Is that the only project with an adjusted scope?"

MR. CRIMP responded that there are a number of projects that have been adjusted. For example, the Unalakleet project's scope was brought down in capacity to address the lowered amount of funding.

REPRESENTATIVE HAWKER directed attention to a letter, dated June 13, from Mr. Haagenson, which addresses funding for several projects having been reduced from the amount requested. He asked Mr. Crimp to identify what those projects were and what the adjustments were. He said he wants to know how much cash is being put out and whether projects are being fronted or whether permits are in place and viability is ensured before the state's capital is put at risk.

[9:11:32 AM](#)

MR. HAAGENSON said AEA can provide such a list. He said, "This is a reimbursement contract, not a funding contract, so, they have to spend the money before we reimburse them." In response to a follow-up question from Representative Hawker, he confirmed that AEA has advanced money for turbines to the Unalakleet Wind project and a wind project in Delta, with the written agreement that "if they don't go forward to the next milestone, they will actually reimburse us for the money that we fronted them." He noted that both those projects have reached that next milestone. He said he thinks AEA protected the public's interest when prefunding the projects by having that agreement. In response to Representative Hawker, he said the aforementioned advances are the only two of which he is aware.

[9:14:14 AM](#)

MR. CRIMP, in response to Representative Doogan, said there are a lot of new projects; however, the report at hand focuses on activities that have been held up. Updates can be supplied for all 78 projects, he said.

REPRESENTATIVE DOOGAN responded that the committee would benefit from seeing a report of those updates.

[9:16:03 AM](#)

REPRESENTATIVE DOOGAN, regarding the Humpback Creek Hydroelectric project, noted that the bids for construction were opened July 15, 2009, a low bid came in at 54 percent above the engineer's assessment, and an award and notice to proceed has been issued. He asked what indication exists that there will be enough money to finish projects if the actual bids are half again as much as the actual estimates.

MR. HAAGENSON explained that there is no road to the Humpback Creek project, which increases the cost of it; however, consideration is being made to get a pioneer road built.

[9:17:14 AM](#)

REPRESENTATIVE DOOGAN opined that putting money into projects that are not completed "probably isn't a good outcome."

MR. HAAGENSON concurred. He explained, "That's why this is set up as a reimbursement contract." Before a project can receive any construction funds, due diligence must be demonstrated and plans must be in place.

REPRESENTATIVE DOOGAN observed that regarding the Ptarmigan Creek [project], a final reconnaissance report was issued, the grant scope was completed, and AEA is not pursuing further scoping at this time. He asked, "What did we get for our 50,000 bucks on this?"

MR. CRIMP replied that Homer Electric - "the joint venture there" - has decided not to go forward with the project; therefore, no further funds should be spent on the project. Currently, [Homer Electric] is pursuing options with hydro power and other areas that "look to be a better bet," such as False Creek.

REPRESENTATIVE DOOGAN said he looks forward to receiving a fuller report.

[9:20:08 AM](#)

MR. CRIMP noted that AEA plans to allow internet access.

[9:20:27 AM](#)

SENATOR MENARD said she has heard that in many cases, part of the cost of installing wind turbines is in having to build a road to access the project. She asked if consideration has been made to use "temporary pads," because "that's half of the cost to get that equipment in."

[9:21:14 AM](#)

MR. HAAGENSON responded that that is a construction determination rather than an AEA project. Notwithstanding that, he said he thinks Senator Menard's idea could be "a good option."

[9:22:35 AM](#)

SENATOR HUGGINS asked about RCA certification, pre-certification versus post-certification, and power purchase agreements - particularly in regard to Fishhook.

MR. HAAGENSON said an issue that AEA has been wrestling with for the last year has to do with (IPPs). He stated, "When you interface with the utility, you have to have a power of sale agreement, and that's really what guarantees you're going to have revenue coming in." Regarding RCA certification, he indicated that AEA has been working closely with RCA regarding IPPs. He talked about hydro projects that are "not quite there yet." He indicated that RCA grants [utilities] a waiver from the RCA certificate, and AEA is now working with RCA to identify how a process can be put in place to ensure a cost-based rate.

MR. HAAGENSON reminded the committee of the discussion at the last committee hearing regarding avoided cost. He reviewed that avoided cost means there is no savings to the utility - "you get paid exactly what the utility would pay had you not been there." He said "South Fork," Matanuska Electric Association, Chugach Electric Association, and Golden Valley Electric Association are currently making agreements regarding avoided average costs, which are the avoided costs across a utility's entire system, which Mr. Haagenson said is a "little bit better." He relayed that AEA is looking one step further to determine the rate of return to the applicant.

MR. HAAGENSON said avoided costs are a good deal for utilities. He said, "They'll make that deal every day." He continued:

But the problem is: Is this applicant being unduly enriched? They're getting a 40-50 percent rate of return because [of] the system nature, and the RCA - as an independent power producer - would not let them normally get that kind of rate of return. So, we're working with the RCA to define the rate of return that would recognize the amount of money they put into it and what they were at risk for, which is totally logical, but not [to] let them get a rate of return on the grant money.

MR. HAAGENSON, regarding consolidated versus unconsolidated, said there should not be any difference, because the agreement will transfer "from one to the other" in a "seamless bounce."

[9:26:36 AM](#)

MR. HAAGENSON, in response to a follow-up question from Senator Huggins regarding the role of AEA in power purchase agreements, said AEA is hoping that RCA would "take over the reins." He anticipated that AEA will be hiring an independent person to

look at the finances of the applicant to get a proper rate of return with some guidance from RCA. He explained that AEA would be "putting that package together" and forwarding it to the RCA for its review and comment. He confirmed that he would report on the status of that effort in the next 60-90 days.

9:27:27 AM

CHAIR MEYER outlined that he would like to receive a status on all 78 projects ahead of that information being available on line. Furthermore, he said he wants to hear about any issues that [AEA] may be having with RCA. He stated that he would like another update in six months, but reserves the right to [request a report from AEA] sooner. Chair Meyer shared that he likes the diversity in the renewable energy projects underway. He asked for an update regarding a landfill project in Anchorage.

9:28:12 AM

MR. CRIMP reported that AEA was able to provide \$2 million, since the project is in a low-energy cost area. As it has for other capped projects, AEA gave the Municipality of Anchorage a year to come up with a plan. That process "got snagged" because of the varying ideas brought forth regarding how the landfill gas might be able to be used. Currently, Solid Waste Services is issuing requests for proposals to find different ways to utilize that gas. If a proposal comes back which is consistent with the grant agreement, AEA will consider allowing the project to move forward. The grant agreement is to provide gas to a reciprocating engine, generate power, and provide heat to the facility, he noted.

CHAIR MEYER said the committee wants to hear reports on any snags that are occurring. He remarked that the report given by the witnesses illustrates that millions of gallons of diesel will be successfully displaced, which is one of the intents of "this whole project." He suggested that when AEA brings forth the previously requested report on all 78 projects, it will include the total displacement.

9:30:34 AM

SENATOR STEDMAN asked if Coffman Cove and Naukati would "drop out" of power cost equalization (PCE) when they are "energized."

MR. HAAGENSON said he does not know the current rate; however, he surmised that there may be a lot of communities on Prince of

Wales Island that are on PCE today, since their costs are fairly high.

MR. CRIMP proffered that the cost of subsidy will decrease for Prince of Wales Island as a result of changing to hydroelectric power, but "whether it will go away is another question."

[9:31:47 AM](#)

REPRESENTATIVE HAWKER said the benchmark measurement is irrelevant; he wants to hear what the effects of these projects will be on the individual consumer. He cited Mr. Haagenson's letter, dated June 13, 2009, which mentions that AEA would be reporting any cancelled projects to the Legislative Budget and Audit Committee. He asked if there are any cancelled projects to report.

MR. HAAGENSON responded that, to date, there are no cancelled projects. He noted that the only project AEA has even contemplated cancelling is the Galena Wood project; however, AEA is waiting to "see if they can find another person" before cancelling it. The projects about which AEA was concerned were the projects that were capped. Those projects are struggling to find funding, but to date have not officially been cancelled, he explained.

[9:33:46 AM](#)

SENATOR MENARD requested photos for each project.

[9:34:34 AM](#)

CHAIR MEYER thanked the representatives from AEA for their testimony.

The committee took an at-ease from 9:35 a.m. to [9:39:41 AM](#).

[9:39:42 AM](#)

CHAIR MEYER announced that the committee would next hear from the Alaska Permanent Fund Corporation.

[9:40:19 AM](#)

MICHAEL J. BURNS, Executive Director, Alaska Permanent Fund Corporation (APFC),

[9:40:41 AM](#)

STEVE FRANK, Chair, Board of Trustees, Alaska Permanent Fund Corporation (APFC), apologized that the board did not keep the Legislative Budget and Audit Committee apprised of the changes being considered. He said he thinks the committee will find that the changes pertain to how the board views its assets rather than to actual changes to asset allocations. He said there are some changes that primarily involve moving to less risky investments. He said the corporation's new chief investment officer would do a good job of explaining the rationale.

[9:42:25 AM](#)

SENATOR HOFFMAN asked why the chief investment officer was replaced.

MR. FRANK explained that the former chief investment officer left, and an extensive search was conducted to find a new one. He expressed pleasure at the result of that search, stating: "We think we've got an extremely well qualified, very articulate gentleman, and I think you're going to be impressed." He stated that he anticipates a top notch performance from this individual.

[9:43:18 AM](#)

MR. BURNS echoed both the apology given by Mr. Frank and the explanation regarding the minimal change to asset allocations.

[9:44:13 AM](#)

JEFFREY SCOTT, Chief Investment Officer, Alaska Permanent Fund Corporation (APFC), thanked Chair Meyer for the opportunity to share some of the changes that the corporation has made over the last nine months.

[9:44:38 AM](#)

SENATOR STEDMAN requested that Mr. Scott share his background with the committee before commencing his presentation.

[9:45:02 AM](#)

MR. SCOTT offered his background, from his work managing all aspects of Dow Chemical's fixed income debt and currency risks

to his responsibility managing Microsoft's near \$20 billion investment portfolio. He said he has managed every asset class imaginable, plus a \$50 billion total rate of return portfolio, as well as running all the capital markets for Microsoft, including foreign exchange, hedging, corporate finance, corporate buy-back, strategic investments, and structured investments. After a brief foray into co-running an investment company called, Tahoma Capital, he moved on to consulting for major corporations, including management of a global investment portfolio.

[9:48:27 AM](#)

MR. SCOTT, in response to a request, offered further details regarding his former company, Tahoma, and the reason for dissolving it. He also explained the reason for the employee exodus from Microsoft, concluding that his team there was changing because of Microsoft's change in direction, which influenced his decision to leave the company.

[9:49:45 AM](#)

MR. SCOTT, in response to Representative Hawker, said his work directly preceding his move to APFC was with a company he started called, JCS Advisors, LLC, an investment consulting firm. One of the corporations he served was QUALCOMM Incorporated, where he managed a \$13 billion investment portfolio. He explained that JCS Advisors did consulting on policy, risk, and asset allocation for multi-billion dollar institutional portfolios.

REPRESENTATIVE HAWKER asked Mr. Scott what prompted him to give up that relatively short, 18-month venture to come to work for APFC.

MR. SCOTT explained that his contracts included limited time horizons, and he met the obligations within them. He stated that he applied for the job in Alaska because he could not think of "a more unique pool of capital and a more interesting place to manage it." He described the permanent fund portfolio as one with a sophisticated approach.

[9:52:11 AM](#)

MR. BURNS interjected that Mr. Scott's prior portfolios were of short duration and had to be contained within the balance sheet of the corporation. He indicated that Mr. Scott's enthusiasm

for the permanent status of Alaska's fund comes through strongly.

9:52:40 AM

REPRESENTATIVE HAWKER requested that Mr. Scott include in his presentation an explanation of the allocation model he has brought to the permanent fund, and what the reaction was if he ever presented that approach to any of his previous clients. He asked Mr. Scott if he is now or has ever been an Alaska resident.

MR. SCOTT expressed pride in his current residency in Alaska, noting that he has had a condominium in the state since December of 2008.

9:54:03 AM

MR. SCOTT, in response to Representative Hawker's request, stated that with his previous employers, the approach was to understand the reason behind investing in an asset class and the risks in a portfolio as they relate to the investment, rather than simply investing in an asset class because it has the name, "fixed income." He indicated that the concept of looking at the risk in a portfolio rather than the risk was applied with most of his clients. He emphasized the importance of implementation.

9:56:42 AM

MR. BURNS noted that two of the large Canadian pension funds, as well as "the two big plans in California," are showing interest in adopting a more risk-managed approach to their asset allocations. He added, "It's getting a lot of talk in the ... financial press."

SENATOR STEDMAN, regarding a risk-managed asset portfolio, differentiated between a strategy that has been adopted by the board, one that has been discussed by the board, one that is still in concept form - not yet before the board, and one that is just "in conversations in the office over a cup of coffee." He questioned which stage each portfolio of the permanent fund is in this regard, and said his impression is that the answer is "discussion" rather than "adoption."

MR. BURNS recommended that the answer to that question be delayed until the conclusion of Mr. Scott's presentation, reiterating the corporation's original premise that the assets

currently in the plan are 95 percent unchanged, with only the method of observing having been changed.

SENATOR STEDMAN said he would also like Mr. Scott to tell the committee how many days a week he is actually in Juneau.

9:58:59 AM

MR. SCOTT responded that currently approximately 50 percent of his time is spent in Juneau, 30 percent of his time is spent traveling throughout the U.S. to contact those who are managing the permanent fund's portfolios, and the remaining 20 percent of his time is spent in Seattle, where he is currently in the process of trying to sell his home in order to afford to buy a home in Alaska.

SENATOR STEDMAN explained he has heard complaints from constituents that Mr. Scott rolls in his office on Monday and leaves by Thursday; therefore, he asked Mr. Scott to confirm that 80 percent of his time is spent either in his office or on the road working as the manager of the fund.

MR. SCOTT clarified that that 80 percent refers to the work week, noting that he tries to see his family on the weekends, either by having them travel to Juneau or by spending that time in Seattle.

SENATOR STEDMAN spoke of splitting time between offices in Juneau and Sitka and indicated that his own productivity increases when he is in an office rather than conducting business via e-mail or on the telephone. He asked Mr. Scott for a more definitive answer.

MR. BURNS asked Senator Stedman to keep in mind the timing of the flights between Juneau and Seattle and the different work hours of the investment market as a result of the four-hour time change between the East Coast and Alaska.

CHAIR MEYER acknowledged Mr. Burns' point and said it sounds like Mr. Scott is in the process of moving his family.

SENATOR STEDMAN specified that he would like Mr. Scott to relate the details of his flight schedule so that he is able to respond to the complaints heard from his constituents. He explained, "I have no idea if he's in there seven days a week or one hour a day."

10:02:52 AM

MR. SCOTT offered specific examples of his flight times and corresponding schedule.

10:05:01 AM

REPRESENTATIVE HAWKER explained that the Legislative Budget and Audit Committee was formed by statute, as was the Alaska Permanent Fund, and, as such, has statutory duties that differ from other legislative committees. The members of the Legislative Budget and Audit Committee are statutorily mandated to remain on the committee for the term of the legislative session. Representative Hawker said the committee annually reviews the long-range operating plans of all agencies of the state that perform lending or investment functions. The committee has a statutory responsibility to prepare a complete report of investment programs, plans, performance, and policies of all agencies of the state that perform lending or investment functions. Furthermore, in conjunction with both the House and Senate Finance Committees, the committee has a statutory responsibility to recommend annually to the legislature the investment policy for the General Fund surplus and for the income from the Permanent Fund. The committee also has a responsibility to provide for an annual post audit, an annual operational performance evaluation of the Alaska Permanent Fund Corporation investments and investment program.

REPRESENTATIVE HAWKER explained that the last responsibility he listed, in particular, is the reason that members were shaken when they read in Pension & Investment: "Alaska blazes a new trail in risk-based investing." He stated, "We're not here in a post-operations review, ... we're really here as part of our proactive statutory responsibility."

10:07:21 AM

SENATOR STEDMAN relayed that the committee has seen substantial change in the financial position of the state, as a result of actions by the previous administration that were not condoned, authorized, or reviewed by the Legislative Budget and Audit Committee, the House Finance Committee, or the Senate Finance Committee. He added, "So, when we get up one morning and find our savings account just blowing out a billion and two, ... we get a little bit cautious - more so than normal."

10:08:40 AM

MR. SCOTT acknowledged the committee's concerns, and offered assurance that the aim of the Alaska Permanent Fund Corporation is not to take more risk, but to control risk and produce the returns that the board has set forth.

CHAIR MEYER remarked that the committee takes the Alaska Permanent Fund seriously, since it is the savings account for the state; therefore, he encouraged greater communication between the Alaska Permanent Fund Corporation and the Legislative Budget and Audit Committee.

[10:09:17 AM](#)

SENATOR MENARD said Mr. Scott is "all about investments," and the committee wants him to invest in Alaska. She opined that Mr. Scott will be a wonderful asset.

[10:10:08 AM](#)

REPRESENTATIVE DOOGAN said the committee has heard that 95 percent of the permanent fund investments have remained unchanged, which means that if the total value of the permanent fund reached \$40 billion, the remaining 5 percent would be worth \$2 billion. Representative Doogan said that is a lot of money, which is why he wants to be told in detail about any changes to the investment strategy for that 5 percent, and the reason for those changes.

[10:10:56 AM](#)

MR. SCOTT commenced his slide presentation. He said he would cover the following topics: that which has and has not changed; the reason for the changes; the landscape of those changes; the impact of the changes; and what the outcome would have been if those changes had not been made.

MR. SCOTT, regarding slide 3, stated that the return objective has not changed. The objective for the permanent fund is a 5 percent real return over the long term. The goal is to protect the principle while maximizing return. Risk tolerance also was not changed, he reported; it is the same as it has been for at least the last five years.

MR. BURNS, regarding the 13 percent annual standard deviation risk measure [shown on slide 3], interjected that a news article quoted [the board] as saying that a 25 percent drawdown is

tolerable. He stated that that amount is not tolerable. However, a 13 percent annual standard deviation, which is historically where the fund has been, is tolerated "if you think of a three-standard deviation event." He continued:

Statistically, the words, "can't," "shouldn't," "wouldn't" ... come to mind, but it did happen; that's what we dealt with. So, that's the risk that has been embedded in our portfolio before - we're carrying it through about the same. So, I think it's important to keep that in mind.

MR. SCOTT said the presentation will show that the corporation is actually reducing the level of risk. He reiterated that 95 percent of the assets held in the portfolio have not changed. He mentioned investments in corporate bonds, equities, and real estate.

[10:13:42 AM](#)

MR. SCOTT moved on to discuss what has changed, as shown on slide 4. He described the assets - fixed income, equities, private equity, and infrastructure - as being held in a basket, and said he is asking the committee to look at the same basket the state owns, but from a different angle. Another change is that the corporation has added cash allocation for liabilities at 2 percent. The state's major short-term liability is the Alaska Permanent Fund Dividend. The next change, he stated, is treasury inflation protected securities (TIPS), to which the corporation has added 3 percent to hedge future inflation. Finally, the corporation is in the process of looking for an external "CIO" [chief investment officer] mandate that would manage against the same basket of assets with the same return target and same risk tolerance, so that the corporation can "learn from some of the best and brightest in the world."

MR. SCOTT turned to slide 5, which outlines the reasons for the change. He said not all bonds are created equal. He stated that according to Resolution 09-08, the board uses fixed-income investments as part of its overall strategy to safeguard the principal of the fund, which is why the PFD Corporation own fixed income securities and not 100 percent equity securities. Mr. Scott posed the question, "Did fixed income meet the objective?" Initially, he said, the answer may appear to be yes, because the [Barclays Aggregate Bond Index] shows a calendar year 2008 (CY 08) return of 5.24 percent, and the [Citigroup Non-U.S. World Government Bond Index] shows a CY 08

return of 9.23 percent. However, slide 6 shows the composition of those assets within the benchmark - within the state's fixed income portfolio - listing the sub-asset class. The sub-asset classes, U.S. Treasury, World Government Bonds, and Mortgage Back Securities, produced positive returns, which is desirable, because "that interest-rate risk protected our portfolio in a down market." However, [HG] Corporate Bonds, Asset Backed Securities, Emerging Market [Bonds], Commercial Mortgage Backed Securities, [and others listed on slide 6], were in the fixed income portfolio. He asked the committee to look at the returns listed there, and observed, "That looks like taking risk to produce a higher return." He stated that he wants to ensure that the committee is aware of the investments being made and any risks that may be taken. He pointed out the last sub-asset class listed on slide 6, which is the [Collateralized Mortgage Obligation], which invested in an AAA bond that lost 100 percent of its value. He stated, "That's not safety of principle."

[10:17:37 AM](#)

REPRESENTATIVE HAWKER said he has heard concerns that the allocations of the permanent fund were not being rebalanced in accordance with established procedure, and that balance is necessary with risk allocations in order to meet the objective of the plan.

MR. SCOTT responded that [the corporation] takes the guidelines handed down by the board very seriously. He noted that in December 2008, and March 2009, the corporation is close to "breaching the lower operating flexibility band," and had to "reallocate out of fixed income and into equity securities." He noted that on a positive note, "the same thing" had to be done in the last month. He explained, "Because of the nice run up in equities, we actually had to sell some equities to be within the operating bands. Those operating bands are there for us that we have to manage within them."

MR. BURNS added, "Several were not within their bands, because you can't ... move real estate around real quickly." He explained, "The targets have bands around them, and that's what we try to manage to is within those bands."

[10:20:04 AM](#)

MR. SCOTT, in response to a request from Senator Stedman, offered explanations of the various sub-asset classes listed on slide 6. He related that U.S. Treasury Bonds are U.S.

government-issued debt, and they range from a one-month to 30-year U.S. Treasury bill (T-bill). Next on the list, World Government, means a "G7" or developed countries government issued debt, and "50 percent hedged" refers to an old benchmark wherein 50 percent of the foreign exchange exposure is hedged. Mortgage backed securities, he said, are residential mortgages that are packaged and sold in tranches. He noted that the corporation typically own, in the internal core portfolio, agency pass-through securities issued by Freddie Mac and Fannie May. High grade corporate bonds are considered investment grade, which means they have a triple-'B'-minus or better rating by the national rating organizations. Essentially, they are loans to corporations. Asset backed securities include loans for automobiles, home equity, and credit cards that are packaged and sold to investors. Emerging market bonds, he said, are bonds of sovereign entities that are not developed countries but are considered by the International Monetary Fund (IMF) as being emerging markets, for example, Brazil. Commercial mortgage backed securities are similar to mortgage backed securities, but relate to mortgages for commercial building. High yield corporate bonds, he said, are loans to corporations that are noninvestment grade that are below triple-"B"-minus. He related that roughly 30 percent of the S&P 500 is either non-investment grade or "not rated corporation." Mr. Scott said distressed corporate bonds are bonds that are either investment or non-investment grade. They are called distressed when a company's equity is falling dramatically in the stock market and the bonds become priced below 70 cents on the dollar. Finally, Mr. Scott explained that a collateralized mortgage obligation is a restructuring of mortgage securities in a much more complicated structure. He said, "I think that this slicing and dicing was half the problem that the U.S. faced in 2008."

[10:23:03 AM](#)

SENATOR STEDMAN suggested that an economy spiraling into recession and economic collapse would have substantial impact on emerging market bonds, commercial mortgage-backed securities, high yield corporate bonds, and distressed corporate bonds. He asked, "Isn't that normal that they're economically sensitive, more so than interest rate sensitive?"

MR. SCOTT responded as follows:

These investments - even though they are fixed income investments - are actually investments that have risk based off the direction of the economy. And what we

want with our "fixed income" is safety of principle, so when the economy goes south and equities fall, we want to make sure that our assets that we believe are safety of principle truly do protect our principle. These securities probably should be viewed as a different security, rather than a protection of principle - but maybe a risk investment.

SENATOR STEDMAN asked that Mr. Scott help the committee differentiate what swings investments, in terms of economy or interest, and to provide information on "what we're doing today, as far as what's new."

MR. SCOTT responded that in a normal market, U.S. Treasury bonds, high-grade corporate bonds, mortgage backed securities, government bonds, asset backed bonds, and commercial mortgage-backed bonds are predominately dominated by interest rate risk, with a small component of credit risk. The other securities have a higher component of credit risk. In down markets, the spread products, such as the investment grade bonds, asset backed bonds, and commercial bonds, become more sensitive to credit than interest rates. He added, "But at the time that we need them, they're more responsive to the gross domestic product (GDP) and falling." He noted that slide 7 shows that.

[10:26:48 AM](#)

MR. SCOTT continued with his presentation, to slide 7, which depicts that corporate bonds exhibit high correlation to equities in down markets. As a company's equity moves towards zero, he explained, those who hold the loans become the new equity holders of the company. He stated, "In down markets, this fixed income does not protect you."

REPRESENTATIVE HAWKER asked, "So, does that mean that all these years of investment management philosophy implemented by the permanent fund -- that we've adopted an inappropriate management approach?"

MR. SCOTT answered no, but emphasized the importance of being aware of the risks that are taken and to categorize them in a different framework, to be aware that some fixed income securities in very down markets dampen the volatility of a portfolio and in "extreme moves" do not protect the principle. He continued as follows:

And what I want to do is not to change the assets that you hold, but for you to understand ... that we have assets that have risks in those negative, drawdown moments.

MR. BURNS added:

The other companion issue is the migration of what actually is the makeup of the Lemman - now the Barclay - [aggregate] over the last number of years. It's become much more corporate asset backed and much less Treasury. So, the aggregate that we manage has changed also.

MR. SCOTT supported Mr. Burns' remark by pointing out that if one were to study the aggregate over the last 20 years, he/she would see "something that goes from government securities to governments and corporate securities to government and corporate securities and a whole lot of mortgage backed [and] asset backed securities."

[10:30:46 AM](#)

SENATOR STEDMAN questioned whether any of the information provided by Mr. Scott is new. He mentioned Black Monday in 1978, the blowup of "dot-com," the "issue" last year, and the 1973-4 meltdown, and he said he thinks it has been readily recognized for decades that the bigger the decline is, the faster and tighter the correlations come together. Furthermore, up-markets make those correlations drift apart a little bit.

MR. SCOTT answered as follows:

... In the down markets our treasury and global government bond correlations ... are actually lower, ... because they actually went up in value and they protect your principle. These securities, on the other hand, go with our exposure to equities - so a higher correlation. So, not all fixed income is equal. Treasury and government securities [mean] lower correlation in a crisis event. Corporate bonds [and] mortgage securities [mean] higher correlation in [a crisis] event. I can't speak for what Callan [Associates] presented in the past. My point is that I want to categorize these as risk assets in down markets, not as safety assets in down markets. So, I'm not looking to change your assets; I'm just

looking to change the way we view those assets....  
When you go to bed at night, I don't want you to believe that the fixed income ..., the way it was categorized before, is protection of principle.

SENATOR STEDMAN recollected that Callan Associates had discussed how correlations come together. He noted that a representative from Callan Associates was present and asked if he would confirm whether or not the committee was being provided with any new information.

[10:33:35 AM](#)

MICHAEL J. O'LEARY, JR., Executive Vice President/Manager, Fund Sponsor Consulting, Callan Associates, stated that Callan Associates has had the honor of working with the Alaska Permanent Fund Corporation for over 20 years. In response to Senator Stedman's question, he offered his belief that the awareness that the correlation of riskier bonds is greater to equities than to government bonds is not new. He said the difference, as referred to by both Mr. Scott and Mr. Burns, is that there is an attempt here to more explicitly decompose the risk element - to determine what portion of the bonds might be inversely correlated to equity during times of stress. The answer to that is: government bonds. High yield and distress bonds can be expected to be highly correlated with equities. With that information it is possible to have a sense of the level of risk.

MR. O'LEARY maintained that there are really only two types of investments in the world: lending money or having some sort of equity exposure. He said there are a lot of investments that are "somewhere in between" - in effect risk-free lending and 100 percent equity. He opined that a major benefit being brought by Mr. Scott is a finer definition of the pieces, in other words, where on the continuum the state's investments are, "so that you don't get lulled into a sense of complacency."

[10:36:17 AM](#)

REPRESENTATIVE HAWKER concurred with Mr. O'Leary. He continued:

What the world conventionally looks at is this fixed income content that performs much more similarly to that of an equity - it uses those higher risks of fixed income issues and ... classic examples right up there on the screen. The more distressed they get,

the more they react like an equity, in ... both their volatility and their market direction.

... The one time Mr. Burns came and we chatted about what they were doing here - this was after the fact of the change - it was really characterized to me - and I'm over simplifying: ... It's basically the same investments, we're just going to put them in different buckets and evaluate those new buckets more on the order of their risk profile than on how they are conventionally viewed and conventionally managed by investment managers in the capital market system today.

And ponder that, and say, okay, if all we're doing is "rebucketing" them, okay, fine, we're going to start asking a more complicated questions to myself, and really I think it does get into you, where you really do give us the valuation of our performance against benchmarks in the rest of the world. When we've blended fixed income activities and equity activities and other activities of a similar risk profile into these new buckets that we're attempting to benchmark, ... how do we benchmark those, ... given that the capital management system in the country is not looking at them in the same way? You know, ... the fixed income guys are the fixed income guys, the equity guys are the equity guys, and as we look for benchmarks to measure and evaluate our performance, how are we going to do that into the future?

[10:38:16 AM](#)

MR. O'LEARY responded:

We haven't lost any history, so, as part of the ongoing measurement process, we'll be able to aggregate the various components and bring them back into more traditional bounds, if you would. And that's particularly important in the fixed income world, because that's the sector that's most affected by this aggregation. And so, to combine corporate bonds with commercial mortgage-backed securities (CMBS) ... [and] government bonds ... will give us a very reasonable approximation of how the overall asset allocation stands in relationship with others. So, we don't lose that ability; it becomes little bit more

challenging to present it and talk about it, but we certainly don't lose that capability.

REPRESENTATIVE HAWKER spoke about the public - traditional investors - understanding the pie chart offered on the Permanent Fund Dividend Corporation's web site, and he indicated that that chart depicted traditional benchmarks of the current capital markets in the world. Now, he remarked, the pie chart is almost irrelevant. He questioned, "What have we really gained here by reallocating our budget?"

[10:41:17 AM](#)

MR. SCOTT responded that the gain is "visibility into the risks." Only a small percentage of the fixed income portfolio is actually safety of principal. He stated the importance of categorizing assets that are not safety of principal as those which are affected by the economy. Mr. Scott listed: There is cash for liabilities of the dividend; there are interest rates - government bonds - for safety of principle; there is company exposure - investments in companies that sell products for a profit, which is what drives the 5 percent real return; there are real assets in real estate; there are infrastructure and TIPS, which should, in theory, produce a return while also protecting the fund against future inflation; and finally, there is an asset class providing special opportunity to take advantage of dislocations that may, in fact, be temporary.

CHAIR MEYER stated his intention for Mr. Scott to finish his presentation, for members to relate their questions to him "on an individual basis," and for Mr. Scott to return before the committee in September to provide further details on investment strategy.

[10:43:17 AM](#)

MR. SCOTT returned to his presentation. He said it is prudent to match up assets with liabilities, and the corporation has set aside 2 percent of the fund's cash, on average over the year. He noted, "It'll be slightly higher than that right before we pay out the dividend, and lower at the beginning of the fiscal year."

MR. SCOTT said a fixed income security directly linked to inflation was added. Real estate can act as a hedge against inflation, but may not react well to an unanticipated spike in inflation. Not all infrastructure investments are linked

directly to CPI; therefore, the corporation has added TIPS of 3 percent to act as an inflation hedge, he said.

MR. SCOTT directed attention to slide 10, and he related that the external CIO program is "designed to hire four external managers that have the same overarching risk guidelines and return objectives as we have as staff." He indicated that the managers may look at risk differently than the corporation do. The goal, he said, is to learn and build a better portfolio for the future of Alaska. Mr. Scott turned to slide 11, which shows the [current] framework versus the new. Changes include disaggregating the fixed income and aligning asset classes based on economic risk factors. He said the asset classes that will do well will be the high yield bonds and the corporate bonds. He stated, "The credit exposure will do well in a positive economy, just like it will when the equities do well."

MR. SCOTT showed slide 12, which lists the following economic drivers of return: cash, interest rates, company exposure, real assets, and special opportunities. He noted that in a cash portfolio, the Federal Reserve drives the return. Interest rates are set at 25 basis points today, while in 2006, the return was approximately 6 percent. With respect to interest rates of government bonds, he said that return is driven by the central banks of the world, inflation, and capital flows. He related that Alan Greenspan, [former chairman of the United States Federal Reserve Board], once made a comment that it was a conundrum that he had raised interest rates, but long rates were falling, because the expectation was that rates should rise as a result of raising interest rates. Mr. Scott explained, "Emerging market countries were saving more and buying our bonds - capital flow, flowing from emerging markets into our capital markets." Company exposure, he said, is driven by GDP and profit margins. Real assets are driven by inflation and GDP. Finally, special opportunities are "a function of dislocations in the market." He noted, "We saw quite a bit of it last fall."

[10:47:01 AM](#)

MR. SCOTT moved on to slide 13, which shows four states of the economy in an inner circle: deflation; inflation; growth and prosperity, which the U.S. experienced in the '80s and '90s; and stagflation, which is high inflation without growth. Mr. Scott outlined which assets are used for which state of the economy: cash and interest rates for deflation, real assets for inflation, equity and corporate bonds for company exposure, and TIPS and infrastructure for stagflation.

MR. SCOTT highlighted a bar chart on slide 14, which lists the components that fall under each of the aforementioned assets. Government money market funds and the Alaska Certificate of Deposit (CD) program fall under the heading of cash. Mr. Scott said, "The next bucket for hedging, ... for that deflation in crisis event, is government bonds." He pointed out that the bar [labeled, "Company Exposure,"] is comprised predominately of equities, with a little bit of high yield and corporate debt. Finally, private real estate, TIPS, and infrastructure fall under real assets, while absolute return, distressed debt, CMBS, and "other" fall under special opportunities. Mr. Scott explained that the "other" refers to "future dislocations that we're not aware of" that will be brought to the attention of the board either by fiduciaries or staff.

MR. SCOTT turned to slides 15 and 16, which show side by side comparisons of old and new allocations for the historical and new framework, respectively. He noted that most of the assets are in equity. He said, "The reason for the drop-down there is, again, we have investments in cash, TIPS, high yield, and distressed debt." The new framework shows that "how well companies do is a function of how well Alaska Permanent Fund will do." Mr. Scott referred to information on slide 17, which shows asset classes, risk benchmarks, and return objectives. For example, interest rates have the benchmark "Barclays Global Treasury Index (Hedged)." The return objective is what can be expected over the long term. In an example of company exposure, Mr. Scott said the expected return is inflation plus 600 basis points (bps), which he noted is in line with the analysis of Callan Associates.

[10:50:59 AM](#)

MR. BURNS reminded the committee that [slide 3] had shown that the return objective is still 5 percent real return over time. He said, "If you do just the arithmetic on the return objective, that's inflation plus 5.22 percent, so we're right in line with where we want to be in the long term."

MR. SCOTT continued to slide 18, which shows the return forecast. First is the old allocation, which is Callan Associate's analysis of the old asset allocation without the cash and TIPS, which is 9.35 percent. The new allocation, which is the staff's quantitative and qualitative analysis of three different scenarios over two different time horizons, shows a base case over the long term of approximately 10.4 percent. He

explained that the analysis was done "pretty much at the bottom of the market," which is why the number is higher. Callan Associate's analysis was done in January and presented in February, while the staff's analysis was done in April and presented in May. He indicated that the magnitude of returns is roughly the same.

[10:52:28 AM](#)

MR. SCOTT stated that slide 19 is important, because the bar chart, with old allocation without cash and TIPS, shows a higher drawdown or loss in the old allocation versus the new allocation. Mr. Scott said, "We refer to this as tail risk - negative risk; we want to avoid that." The new allocation helps avoid tail risk while producing a return, so it is a better, risk-adjusted return. As shown on slide 20, Mr. Scott noted that without change there would be higher risk. With a permanent fund dividend that is distributed once a year, if the liability is not funded there would be a higher liquidity risk. Without TIPS there would be higher economic risk to inflation and stagflation. Finally, there would be greater tail risk, he said. He concluded, "So, by accepting these minor changes, you have reduced risk and produced the same return."

MR. BURNS added that historically, the dividend has been funded during the month of July, but that was in markets that were not nearly as volatile as those dealt with today. He said that in 1971 the Dow Jones Industrial Average went over 1,000 for the very first time; the day the U.S. House voted down the Troubled Assets Relief Program (TARP) legislation the first time, "the intraday difference between the high and the low was 1,000 points." Mr. Burns stated, "A market of that ... volatility is not where we want to be raising a dividend all at one time; so, we're spreading the funding of the dividend risk out over time."

MR. SCOTT said as with a pension, it is prudent to match an asset up against a short-term liability.

[10:54:40 AM](#)

MR. SCOTT turned to slide 21 and summarized his presentation.

[10:56:17 AM](#)

SENATOR STEDMAN referred back to [slide 19], regarding "tail risk." He recollected that the difference was 2 percent cash,

plus TIPS. He asked if the bar chart would show an even more dramatic decline if that percentage was raised.

MR. SCOTT responded that Senator Stedman's analysis is correct; however, by doing that the return objective will not be met.

SENATOR STEDMAN said he understands that, but surmised that building cash positions lowers volatility.

MR. SCOTT confirmed that's correct.

SENATOR STEDMAN asked for more such analyses to be done to show "how this would affect the portfolio in up and down markets."

MR. SCOTT said he would bring historical drawdown information back to the committee in September. He added:

But just for the record, we had five-quarter drawdown of 30 percent in the portfolio from [fourth quarter of 1997] Q497 through March of this year.

SENATOR STEDMAN requested a finer point be drawn on what is going on in the industry regarding "leading edge" versus "trailing."

MR. SCOTT said he will do that.

[11:00:11 AM](#)

REPRESENTATIVE HAWKER indicated that he would like this information presented in a public forum. He said it seems the aggregate of the presentation is that Mr. Scott is saying he can simultaneously lower the risk profile and increase the return. He expressed a need to be convinced how Mr. Scott has been able to do that and, if indeed he has, why the world has not "beat a path" to his door.

MR. SCOTT corrected, "What I have said is that we have maintained our return and reduced tail risk and our operational liquidity risk."

REPRESENTATIVE HAWKER said he would love to delve into the subject further, but recognized that there was no further time to do so.

[11:01:46 AM](#)

REPRESENTATIVE DOOGAN, regarding the calculation of the return objective, asked where constitutionally mandated deposits into the permanent fund principle show up.

MR. BURNS replied that they do not show up in returns at all. He said, "It's the returns that we earn on the mineral deposits that show up in our returns." In response to a follow-up question, he stated, "They're accounted for as new money, but not investment returns - just contributions."

[11:03:22 AM](#)

MR. BURNS emphasized the helpfulness of receiving questions for the future meeting in advance of the meeting.

CHAIR MEYER expressed agreement with Representative Hawker regarding the importance of having public forums. He stated, "Obviously the permanent fund is very important and sensitive to all our constituencies."

#### **EXECUTIVE SESSION**

[11:03:59 AM](#)

REPRESENTATIVE DAHLSTROM moved that the committee, under Uniform Rule 22, go into executive session for the purposes of discussing confidential audit reports under AS 24.20.301. There being no objection, the committee went into executive session at 11:04 p.m.

[12:34:22 PM](#)

CHAIR MEYER brought the committee back to order at 12:34 p.m.

#### **RELEASE OF AUDITS**

[12:34:28 PM](#)

REPRESENTATIVE DAHLSTROM moved to release the preliminary audit sunset review of the Department of Public Safety Alcoholic Beverage Control Board to the agencies for response. There being no objection, the preliminary audit was released.

#### **REVISED PROGRAM - LEGISLATIVE (RPLs)**

[12:34:48 PM](#)

CHAIR MEYER related the procedures the committee would follow in hearing the RPLs.

[12:36:20 PM](#)

DAVID TEAL, Legislative Fiscal Analyst, Legislative Finance Division, Alaska State Legislature, stated that RPL 25-0-3007 is a request from the Department of Transportation & Public Facilities (DOT&PF) for \$3,060,000 of American Recovery and Reinvestment Act (ARRA) funds in order to repair the Hoonah ferry terminal. He said marine structures fall under capital projects overseen by the Office of the Governor. He said, "That catchall contains insufficient authorization to fund this ... \$3 million project, so the RPL is required to proceed." He stated that this is a discretionary grant that falls well within "the authority," so there are no technical problems. Requirements include a 20 percent match, which is available, and a completion date of February 2011. Mr. Teal said this must go to bid soon to meet that deadline.

[12:37:28 PM](#)

SENATOR STEDMAN said he thinks this is a good project. He noted that DOT&PF has briefed "everybody" and worked on related issues; therefore, he anticipates a smooth process.

[12:37:38 PM](#)

CHAIR MEYER announced that there being no objection, RPL 25-0-3007 was accepted.

[12:37:44 PM](#)

MR. TEAL turned next to RPL 04-0-1007, a capital RPL for the Alaska Housing Finance Corporation's (AHFC's) Homeless Assistance Program, which is run in cooperation with the Mental Health Trust (MHT). The requested amount is \$650,000 in mental health trust receipts. This amount was in the original MHT request but was deleted in the governor's budget and overlooked in the budget process. He stated, "I don't see any problems with this RPL."

[12:38:43 PM](#)

REPRESENTATIVE HAWKER noted that he discussed this RPL at length yesterday with representatives from MHT, and although the issue is complicated, he said it is "absolutely fine in my world."

[12:38:57 PM](#)

CHAIR MEYER announced that there being no objection to RPL 04-0-1007, it was accepted.

[12:39:18 PM](#)

MR. TEAL brought before the committee RPL 04-01008, which he said is another Department of Revenue RPL for Child Support Services. The request is for \$555,629 for Child Support Enforcement Federal Incentive Payments. He proffered that this RPL addresses an audit finding. A "paperwork trail" is required by the federal government. The money will be used to "repay in advance [what] the federal government gave us." He explained, "We will repay it, withdraw the money, and the net result is no programmatic changes." He said there are no technical problems associated with this RPL.

[12:40:04 PM](#)

CHAIR MEYER asked if there was any objection to RPL 04-0-1008. There being none, it was approved.

[12:40:15 PM](#)

MR. TEAL moved on to RPL 05-0-0001, which he said would allow the Department of Education of Education and Early Development to accept \$29,200 of federal funds to reflect an increase in grants from the National Endowment of the Arts.

CHAIR MEYER asked if there was any objection to RPL 05-0-0001. There being none, it was approved.

MR. TEAL introduced RPL 05-0-0027, another RPL from the Department of Education & Early Development, which is a request from the Alaska Library and Museums for \$22,000 in federal funds to provide statewide training for preservation of archival record and event writing.

CHAIR MEYER asked if there was any objection to RPL 05-0-0027. There being none, it was approved.

[12:41:16 PM](#)

MR. TEAL highlighted RPL 06-0-0020, an RPL from the Department of Health & Social Services for Behavioral Health and Rural

Services. It is \$100,000 worth of MHT receipts for predevelopment and planning for substance abuse treatment services in rural Alaska, including "Secure Detox." The money was submitted by MHT in its original budget, was overlooked in the legislative process, and was not included in the governor's budget.

[12:41:59 PM](#)

REPRESENTATIVE HAWKER proffered that this is intended to be one-time funding, to be used to continue the research and development of Title 47 "hold systems" in the Nome region. He noted that the next RPL [06-0-0021] coming up for consideration also would not require any sustained investment.

[12:42:39 PM](#)

SENATOR MENARD emphasized her support of this RPL. She related her experience serving on the board of the Salvation Army, and she said detoxification ("detox") centers are expensive to run.

[12:43:03 PM](#)

CHAIR MEYER asked if there was any objection to RPL 06-0-0020. There being none, it was approved.

[12:43:08 PM](#)

MR. TEAL next introduced RPL 06-0-0021, an RPL from the Department of Health & Social Services asking for \$75,000 for the "gatekeeper" program - a suicide prevention and intervention program.

CHAIR MEYER asked if there was any objection to RPL 06-0-0021. There being none, it was approved.

[12:43:51 PM](#)

MR. TEAL moved on to RPL 10-0-5003, which is a capital request from the Department of Natural Resource (DNR) for \$27,481,207. He explained that DNR is requesting additional funding for its Coastal Impact Assistance Program. He said this is a complicated issue, because the money was already appropriated by the legislature, but to three different agencies: DNR, the Alaska Department of Fish & Game (ADF&G), and the Department of Commerce, Community, and Economic Development (DCCED). The amount actually received is \$1.7 million less than what was

appropriated; however, the money comes from Federal Minerals Management Service, which will only deal with DNR. This request, he explained, will give DNR the authority to receive the full amount of the coastal impact funds available - roughly \$27 million of "additional authority." The department would then pass that money on to ADF&G and DCCE. The issue is one of timing, Mr. Teal said, because there is a December 31, 2010, deadline. There is concern that the public process will take awhile. He said the Office of Management & Budget (OMB) and DNR have both stated that the money they are receiving on behalf of ADF&G and DCCED would be "forwarded directly to them in prorated amounts."

[12:46:07 PM](#)

SENATOR HOFFMAN stated that he has no problem with the request, but has questions pertaining to it; therefore, he requested that the RPL be moved to the bottom of the calendar.

CHAIR MEYER announced that RPL 10-0-5003 would be held for later discussion.

[12:46:22 PM](#)

MR. TEAL turned to RPL 10-0-5006, a DNR request for \$2,087,200 of federal funds for the Alaska Trails Initiative Program. He related that the program is a single appropriation; therefore it is difficult to say exactly where the money will be spent. He explained that although \$187.2 million is earmarked for the World War II Causeway Project in Sitka, the other \$1.9 million is for nonspecific trail work. The allocation will be determined by DNR, based on projects that have already been submitted and are on DNR's list - but not restricted to those projects.

[12:47:49 PM](#)

REPRESENTATIVE DOOGAN surmised then that DNR wants to receive the money and decide what to do with it after the fact.

MR. TEAL replied yes. He pointed out that DNR is routinely given that flexibility to determine how much money to allocate to which trail project.

REPRESENTATIVE DOOGAN inquired as to why there's a history of allowing such spending without legislative oversight.

MR. TEAL suggested directing that question to the legislators present who have been in office for a significant amount of time.

CHAIR MEYER announced that RPL 10-0-5006 would be held for later discussion.

[12:49:48 PM](#)

MR. TEAL noted that Chair Meyer had asked him to treat the University of Alaska RPLs as a package of 14, rather than addressing them individually.

CHAIR MEYER suggested that Mr. Teal read the titles of each, in case there may be an objection to any of them.

MR. TEAL read the titles [of RPLs 45-0-1102-1117] as follows: Ice Core Paleoclimate; Obesity and Chronic Disease; Evolutionary Genomics-Threespine Stickleback; Is the Tibetan Plateau Rising?; Human Response to Climate Change at Cape Espenberg; How the Timing of Summer Precipitation Affects the Responses of Boreal Forest to Climate Change; Weddell seals as autonomous sensors of the winter oceanography of the Ross Sea; An Ocean Observing System for the Bering Strait, the Pacific Gateway to the Arctic-an integral part of the Arctic Observing Network; Investigating the Relationship Between Pluton Growth and Volcanism at Two Active Intrusions in the Central Andes; Environmental changes alter the carbon cycle of High Arctic ecosystems-shifts in the ages and sources of CO2 and DOC; Near-inertial wave generation, propagation and shoaling in a seasonally ice-covered ocean; Emergency Analysis and Conservation of Early Holocene Organic Tools from Central Alaska; Nonlinearities in the Arctic climate system during the Holocene; and The Changing Seasonality of Tundra Nutrient Cycling-Implications for ecosystem and Arctic System Functioning.

CHAIR MEYER asked if there was any objection to any of the RPLs of the University of Alaska.

[12:52:44 PM](#)

REPRESENTATIVE HAWKER said he had some questions to ask.

[12:53:03 PM](#)

REPRESENTATIVE DAHLSTROM said she would like clarification regarding 45-0-1104 and 1105.

REPRESENTATIVE DOOGAN said he has questions to ask regarding 45-0-1108 and 1110.

[12:54:44 PM](#)

REPRESENTATIVE HAWKER requested that the committee hold off its discussion regarding University of Alaska's RPLs, and consider them later "in bulk."

REPRESENTATIVE DAHLSTROM said she wants to be able to explain to her constituents the reason money is spent in certain areas, while other programs are being cut. She asked for an explanation regarding RPL 45-0-1104 and 1105.

[12:55:53 PM](#)

MICHELLE RIZK, Associate Vice President, Budget, Statewide Planning & Budget, University of Alaska, asked if the committee would be willing to submit questions regarding the RPLs of the University of Alaska and allow her to return at a later date with the answers. She emphasized the technical nature of the RPLs and explained that the principle investigators would have more information to provide. Ms. Rizk noted that the majority of the funding that the university has been receiving for these grants has been from agencies for which it did not request stimulus funds. She continued as follows:

As you're aware, the agencies are trying to get out the stimulus funds as fast as they can. So, what they've been doing is, ... they have a drawer of proposals that have ... [gone] through the vetting process of the agency, and then they've run out of regular federal funding for it, and so, then they have the stimulus funding available, and then they've awarded stimulus funding for it instead of federal funding. So, these projects are not necessarily ... [being done] because stimulus funding is available; it's something that we, as a university, would have done as ... part of our research mission.

MS. RIZK said she thinks those programs for which stimulus funding has been requested will actually receive that funding.

CHAIR MEYER said regardless of whether the money is stimulus money or other federal money, the committee wants to know how and why it is being used.

MS. RIZK said OMB required the University of Alaska to provide backup documentation when it submitted the RPLs; therefore, she said there is a detailed spreadsheet containing information regarding where funds will be spent in terms of salaries, travel, and contractual services, for example. She remarked, "But it seems that the committee members want more specifics on ... why this is relevant to the state of Alaska."

REPRESENTATIVE DAHLSTROM responded, "I think that's a good summary." She said she just needs to be able to offer an explanation to Alaskans.

[12:59:48 PM](#)

REPRESENTATIVE HAWKER commenced asking his general questions. First, he noted that when the legislature prepared its budgets this year, it gave the University of Alaska a "place holder for \$1 million for ostensibly receiving future ARRA grants." The Legislature did this without knowing if there would be any or be a lot. He said there are many people in Alaska who are concerned about accepting stimulus funds and what strings may be attached to them. In other words, he said: "What are we being required to put up that may not just be seen in order to receive this money." Many of the grants in question may receive stimulus funding. He stated, "So, if we had another federal source it's coming from, and now it's coming out of stimulus, big question: What stimulus are we getting out of this?"

MS. RIZK said she would "refer back to the granting agency that's doing that." She continued:

I think it's because they want to move the money quickly out; they've already done the research on these projects and the vetting, and agreed that these are important projects, and that is why they've awarded them.

REPRESENTATIVE HAWKER responded, "Right, and ... in accepting it this way we are ... forgoing the opportunity to pursue other money." He asked if that other money is still available to pursue or if [the state] are forgoing another fund source by accepting the ARRA money.

MS. RIZK said that is a question she has pondered and plans to "pursue further."

REPRESENTATIVE HAWKER asked if the University of Alaska gets to keep some of the money to cover its administration costs, regardless of the fund source. He clarified that he really wants to know how much money it is costing the people of Alaska to support this grant research in addition to the direct funds. He said he presumes the state provides office space, research equipment, technology support, and other support services at the university.

MS. RIZK explained that within the RPLs there is an indirect charge that is part of the award to cover the administrative cost of the program. The rate varies depending on the campus. She said, "So, that's supposed to cover those administrative costs related to the grant that cannot be charged to the grant directly."

REPRESENTATIVE HAWKER asked, "Is that sufficient to cover the cost to the people of the state of Alaska for pursuing this research?"

MS. RIZK answered that that is the intent of the grant and why that provision is built in.

REPRESENTATIVE HAWKER said he understands that that is the intent, but asked Ms. Rizk again if she thinks it is sufficient.

MS. RIZK answered yes.

[1:04:29 PM](#)

CHAIR MEYER directed the committee's focus back to RPLs of DNR [10-0-5003 and 5006].

[1:05:11 PM](#)

SENATOR HOFFMAN prefaced his remarks by indicating that he has no problem with Mr. Teal's presentation or the requests being made by DNR. He said his office has "worked extensively on these programs during the budget process." He said, "And as was stated, we had allocated them to three departments, and now we have them going through the DNR, they're going to be sub-granting them out." He indicated that shown in the presentation materials under "unidentified note," are administrative costs for fiscal year 2007-2016 (FY 07-16) of \$2.5 million. Of that, personnel services are \$2 million. He said that amount is well below the 14 percent allowed; however, it is still roughly 8 percent of the cost. He said he finds that high, given the fact

that "these dollars are primarily pass-through." He said, "So, for them to be managing funds of ... \$27 million, and having administrative costs above 8 percent for past due grants, I was wondering why it's such a high number?"

SENATOR HOFFMAN said he wants to know if there are going to be additional administrative costs that ADF&G and DCCED are going to incur through administering these dollars. He concluded, "Those are the concerns and the questions that I have, and I wonder if they might respond to them, because, ... as I said, my office worked extensively on these programs, and to see a vast portion of them being eaten up in administrative costs seems quite exorbitant, given the fact that these are past due."

CHAIR MEYER reviewed that RPL 10-0-5003 is the Coastal Impact Assistance Program for [\$27,481,207].

[1:08:22 PM](#)

LENA SIMONS, Director, Division of Support Services, Department of Natural Resources (DNR), explained that originally, there was a plan developed by Division of Coastal & Ocean Management to fund various projects through a public process, and with cooperation from the various agencies that are affected. The intent, she said, was that a portion of the project money would go toward administrative costs for DNR and the division to manage the program with a program coordinator, grants administrator, and various other costs associated with taking in and distributing this amount of money. Ms. Simons said Senate Bill 75 changed the allocation and the plan. She stated, "This RPL exists to give ... DNR the ability to accept all the money and pass it forward as intended in the legislation. But, in doing so, we also wanted to make sure that it was clear that ... the plan still was that these projects would ... help for administration."

MS. SIMONS, regarding DNR's administrative portion, stated:

The \$2.5 million is actually five percent of the total award amount of \$52 million. And, ... as Senator Hoffman pointed out, ... DNR's approved indirect rate is something like 14-15 percent normally, that we're able to charge against a federal grant. However, our intention is to keep these costs as minimal as possible. So, we literally went through and detailed what the cost would be for administering the program

and administering the money. So, we've tried to keep this as low as possible.

1:11:00 PM

SENATOR HOFFMAN responded that the costs are still higher than he anticipated, considering they are past-due grants. He stated his assumption that the grants would only go out once a year, and he pointed out that the coordinator and administrator are hired year round, and they can get the grants out within 60 days; therefore, Senator Hoffman questioned, "What are they going to do the rest of the 10 months?"

SENATOR HOFFMAN noted that DNR also lists "pre-award reimbursement costs" in its application, for FY 07-09, which total \$264,000. He stated, "It seems like it's just a grab by the department to get ... some funds out of this program."

1:12:34 PM

MS. SIMONS answered that before DNR can apply for funds for a program like this, it has to have the people in place. Furthermore, the department incurs costs in applying and in "all the work that goes forward." She explained that this particular grant allows the department to go back and capture those costs and have them paid with federal dollars rather than with the General Fund. She concluded, "So, we have done so in this case and wanted to detail that out as part of the cost that would total our administrative cost over the 10 years that are shown here."

SENATOR HOFFMAN responded that just because the grant may allow that does not necessarily mean the department has to do that. He said he would rather see dollars spent for services yet to be performed that are "the intent of the legislation." He asked, "If you're going to recapture that, are these going to be basically reimbursements to the general fund for expenditures that the State of Alaska incurred?"

MS. SIMONS clarified that these are "CIP" projects; therefore, the general fund has not been charged. The costs have been accumulated and will be charged to the grant when the grant money becomes available.

SENATOR HOFFMAN asked then how the \$264,000 will be expended.

MS. SIMONS replied that the money has gone toward: a portion of the Coastal Impact Assistance Program (CIAP) project coordinator in FY 07-09; to support department overhead, which is basically support services; program travel; supplies and equipment; and some reimbursable services agreements (RSAs) with other agencies for project ranking and review.

SENATOR HOFFMAN reiterated that this feels like "a grab"; however, he stated his belief that "the program is well-intended." Regarding DNR's deadline to submit the plans by December 31, 2010, and need to start that process in 2009, he asked when Ms. Simons anticipates the grants being available as was delineated in the budget - particularly those grants that were associated with ADF&G and DCCED but now are being "called back into DNR."

MS. SIMONS answered that the grants would be disseminated by December 2010.

SENATOR HOFFMAN asked if Ms. Simons envisions that "they would get any money during this fiscal year."

MS. SIMONS deferred to Randy Bates.

[1:16:14 PM](#)

RANDY BATES, Director, Division of Coastal and Ocean Management, Department of Natural Resources (DNR), said as established in Senate Bill 75, the named municipalities and coastal resource service areas (CRSAs) will not flow until DNR goes through the public process in 2010. In response to Senator Hoffman, he stated that it is certainly the desire of DNR to be as expedient as possible with the grant process. He said there is a 60-day opportunity for municipalities to solicit projects. He explained that the department wants to give the public and municipalities enough time to develop fully identified and described projects so that the program can be meaningful and robust. He said the department does not have total control over the speed of the grant process. He explained that the department is struggling with its federal granting agency - Minerals Management Service - which he said is not issuing grants in a timely fashion. He said the department is working with five other states that are recipients of coastal impact assistance to try to effect change at the federal agency's granting level.

[Chair Meyer passed the gavel to Vice Chair Dahlstrom.]

1:19:38 PM

SENATOR OLSON asked if there is a back-up plan if the request for the [\$27,481,207] is denied.

MR. BATES responded that DNR needs the authority to accept the monies being offered by the federal agency so it can distribute that money. He warned that if the Legislative Budget and Audit Committee does not approve RPL 10-0-5003, the department runs the risk of not being able to process the money according to the requirements set out in federal law, thereby denying the public and the named municipalities that money that is set out.

SENATOR OLSON reiterated his question.

MR. BATES offered his understanding that Senate Bill 75 did not include a back-up plan and the department does not have one at this point.

1:21:07 PM

MS. SIMONS, in response to a question from Representative Thomas, said the charges that the department has laid out pertain to DNR and DCCED; it is the understanding of the department that ADF&G does not have a need to apply any administrative costs to the money that will "pass through to the coalition."

MR. BATES added that the named municipalities have the opportunity to apply an administrative cost. He said DNR is in the process of applying for a project on behalf of the four CRSAs in the state - the Bering Straits, Senaliulriit, Bristol Bay, and Aleutians West - attempting to secure \$50,000 for each of them to assist them in the administrative costs used in developing, generating, and soliciting projects within those areas. Mr. Bates stated, "There is expected to be an administrative cost associated with the development of these plans and projects within those municipalities, and that would be, of course, on top of what the administrative costs are, even though minimized with the departments of the state."

1:23:13 PM

REPRESENTATIVE THOMAS offered his understanding that the Borough of Haines charges a 10 percent handling fee, "and so we've been trying to go direct to the recipient." He said that, plus "your

5 percent," plus another 5 percent taken by "somebody" else, means "you lose 20 percent before you even get started."

[1:23:37 PM](#)

VICE CHAIR DAHLSTROM directed the committee to discussion of RPL 10-0-5006, regarding Alaska Trails Initiative Program.

[1:24:44 PM](#)

REPRESENTATIVE DOOGAN observed that RPL 10-0-5006 is "divided in to two, unequal parts." One part, he said is \$187,200 for earmarking. The other part, he noted, is \$1.9 million coming to the state in an unallocated manner for the Alaska Trails Initiative Program.

MS. SIMONS confirmed that is correct.

REPRESENTATIVE DOOGAN asked why DNR is asking for \$1.9 million without a list of projects on which that money would be spent.

MS. SIMONS responded that she thinks this is primarily an issue of timing. She explained that DNR feels it is important to get the approval for this federal funding now, as the applications are coming in and projects are being reviewed and prioritized. She stated, "I think that's our primary reason for not having a list in front of you today."

REPRESENTATIVE DOOGAN asked, "So, this money from the federal government isn't a regular event?"

MS. SIMONS answered that this funding is irregular; it has been received only two times previously. The department does not know from year to year whether or not it will receive more money for this particular initiative.

REPRESENTATIVE DOOGAN asked for clarification as to whether or not there is a list of projects that have been brought forward that the department has not been able to fund, that would then be funded with this money.

MS. SIMONS deferred to Bill Luck.

[Vice Chair Dahlstrom returned the gavel to Chair Meyer.]

[1:27:29 PM](#)

WILLIAM LUCK, Recreational Trails Program, Division of Parks & Outdoor Recreation, Department of Natural Resources (DNR), stated that in previous years, U.S. Senator Ted Stevens acquired two ear-marked funds for the Alaska Trails Initiative in response to a number of nonprofit groups that had approached him to solicit those funds. As part of the process, applications from the public were requested. Mr. Luck said DNR have a 10-member advisory board which reviews and approves the applications and makes recommendations to James King, the director of the division.

MR. LUCK said in the first year, a core group of 14 non-profit groups and other agencies received approximately \$4 million in ear-marked funding. Two years later, an additional \$2 million was secured and application opportunities were opened to the rest of the state. In that process, he noted, 22 new applicants were acquired. "This time around," he said, "the process for obtaining those funds is already set into place through U.S. Senator Ted Stevens, and because of legal matters, and because of a continuing resolution, we are waiting to see whether or not we're going to obtain the funds for this program." Mr. Luck said in the past a list of projects was not required to be submitted prior to receiving the money; the funds were allocated, a public review process would be held, and the then a vote would be taken on the project. He indicated that now, Congressional language requires a list of projects first, and there are time restraints that have to be followed in submitting the list in order to receive the funding. Mr. Luck stated, "So, it's somewhat of a 'Catch 22': we need to have the list; we also need to have the receipt authority; and it somewhat conflicts with what we've had to do in the past, as far as soliciting the public for applications."

MR. LUCK said the division has solicited requests for additional funding from applicants who have previously received funding for these projects, because initially the projects were not completely funded. As of Wednesday, the division had compiled a list of projects from a number of group requests. There is \$1.9 million in funding available upon receiving receipt authority. However, there are approximately \$4 million in requests. Mr. Luck said he brought with him a list of groups that would like to solicit continued funding for their projects.

CHAIR MEYER said he does not think it necessary that the committee see the list.

[1:32:22 PM](#)

REPRESENTATIVE DOOGAN said he does not want to delay the funding; however, when the committee is asked to approve funds, he would like to know where those funds will be spent. He encouraged Mr. Luck to provide such a list to the committee in the future. He concluded, "With that, Mr. Chairman, I'll withdraw my objection ... to this."

[1:33:31 PM](#)

REPRESENTATIVE HAWKER noted that the language in the RPL states that if authorization is not approved, the state will forgo the opportunity to utilize federal funds and improve trails in Alaska. He asked what the specific time constraints are that the division is facing.

MR. LUCK responded that "the continuing resolution" allowed the division to know in May that the funds would be received, but without the committee's approval, those funds cannot be accepted. In response to Representative Hawker, he clarified that the money is currently in place to be received, but the division must provide the aforementioned list and a review process needs to take place.

REPRESENTATIVE HAWKER asked, "Is this a decision that we must make today? I mean, does this turn into a pumpkin at midnight tonight?"

AN UNIDENTIFIED SPEAKER said, "Sort of."

MR. LUCK responded, "It does, in a sense." He explained, "The longer it takes for us to get our receipt authority, the higher risk we stand in getting recessions and government takebacks on our funds." He said there was already a request for the list in May.

REPRESENTATIVE HAWKER asked why the list is only now being offered, when the committee has been meeting monthly since the end of legislative session.

MR. LUCK answered, "It's been an evolving process, and we've had to go to the public and iron some of these issues out." He said there have been "discussions between our offices and Washington, D.C." He said the division was told that May was not a "hard and fast" deadline; however, "the longer that you wait from that date, the better chance you stand at losing the funds."

1:37:07 PM

REPRESENTATIVE HAWKER mentioned the risk of unintended consequences. He emphasized that he is hesitant to expose himself by approving something that his constituents are going to vehemently disapprove of.

CHAIR MEYER questioned how long the aforementioned list is.

MR. LUCK indicated that his list is comprised of currently funded projects that are in progress and most recently approved in 2007. The projects cover numerous agencies, non-profit organizations, and local and state government entities. He listed the following examples: Montana Creek Motor Musers - requesting \$81,900; Tsalteshi Trail, down on the [Kenai] Peninsula - requesting \$74,000; Juneau Nordic Trails - receiving \$79,000; Sitka Trail Works, which is part of the pass-through grant and which has the World War II Causeway Trails and the Sitka Cross Trail. Mr. Luck said one success story is the Iditarod Trail Committee, which is working on adjudication of the Iditarod Trail. There are 2,000 miles of trail that have not been protected over the years, and this money will allow the committee to secure 1,800 miles of protected trail; continued funding would allow the protection of the remaining 200 miles.

REPRESENTATIVE HAWKER remarked that the Iditarod Trail runs through his district, and this issue is "explosive as dynamite." He asked Mr. Luck if he can state with certainty that those constituents approve of the plan for that money.

MR. LUCK said he does not know the specific issues that are occurring in that area. He related that part of the reason securing the last 200 miles of trail is difficult is "because obviously some people don't want the trail going through their back yard."

REPRESENTATIVE HAWKER suggested, "Maybe they don't want me to vote for it."

MR. LUCK answered that perhaps that is so, then suggested there may be a need to reroute the trail to avoid those areas.

MR. LUCK returned to the list, which also includes projects related to: the University of Alaska Southeast; the Chugach National Forest - at least six to eight projects; and Alaska State Parks. There is \$1.9 million in funding; 5 to 6 percent of that would go towards administrative costs. There are

approximately \$4 million in requests. He emphasized the value of this funding source to the trails community. The only alternative program the state provides is the Recreational Trail Grant Program, which offers approximately \$1.5 million a year.

1:41:11 PM

REPRESENTATIVE DAHLSTROM asked if this funding is enough to start and finish all the programs that are on Mr. Luck's list.

MR. LUCK answered that the first two rounds of money received was not enough; projects were only funded from 50-80 percent. This money, he said, would "completely fund a good portion of them." In response to follow-up questions from Representative Dahlstrom, Mr. Luck explained that the division would prioritize which projects to choose based on which ones have the best chance of being completed. Then he confirmed that his office communicates with the community council. He said there is a public process involving the Outdoor Recreational Trails Advisory Board and The Snowmobile Trails Community Council. There are meetings at least twice a year during which applications are reviewed and rated. The public is welcome at these meetings. He offered further details regarding the process of giving the public notice.

REPRESENTATIVE DAHLSTROM asked if Mr. Luck has actually requested being on the agenda at the community council "in the area that would be affected." She said she would like to know specifically what Birchwood Community Council's response was "to trails."

MR. LUCK responded that he is not familiar with the Birchwood Community Council. However, he indicated that the Recreational Trail Program is working with the Willow Trail Committee on snowmobile trail grant funding. Minutes are taken at the meetings. Mr. Luck said there was a trail proposed by the Lake Louise Snow Machine Club, which would have gone from Lake Louise to the McClaren Lodge - but the Recreational Trail Program received approximately one dozen letters in opposition to that trail, and ultimately that project was refused. It was an Alaska Trails Initiative project.

1:46:46 PM

MR. LUCK, in response to Representative Doogan, offered further details regarding why he is just now coming to the Legislative Budget and Audit Committee with his request. He said there is a

lot of planning involved in creating a public process. There has been an evolution of trying to create a grant application, to solicit new applications. There have been conversations with Washington, D.C. and DOT&PF to figure out guidelines and requirements. Mr. Luck stated, "Initially we would have liked to have the receipt authority within 2009; however, it doesn't seem that we would have been able to get that money on the ground." The priority now is to make it happen in 2010. He related that Washington, D.C. takes up to four months to review and approve projects. After that, the division goes through a state agency review and the National Environmental Policy Act of 1969 (NEPA) process to ensure all federal and state guidelines are met for the proposals. He stated, "This abbreviates that whole process by going back to the original trail project, because they've already gone through the NEPA review." One further reason for delay, Mr. Luck noted, is a recent turnover in administrative staff. He mentioned work done through the division's website to figure out the best means by which to make the money available to the public.

REPRESENTATIVE DOOGAN asked Mr. Luck if it would be possible for him to bring the list of the projects to be funded by the \$1.9 million to the committee at its hearing in a month.

MR. LUCK answered yes.

[1:49:41 PM](#)

CHAIR MEYER referred back to RPL 10-0-5003, regarding erosion control, and asked if there was any objection. There being no objection, it was approved.

[1:50:05 PM](#)

CHAIR MEYER returned to RPL 10-0-5006, and said the committee would like the aforementioned list available to ensure that it supports the projects. He said the committee shares the intent expressed by Mr. Luck to use the money to finish projects rather than to start new ones. He announced that RPL 10-0-5006 would be held over until the September meeting.

[1:50:59 PM](#)

SENATOR OLSON said his district, at the end of the Iditarod Trail, is in favor of some of the programs.

SENATOR MENARD expressed her support of trails and all that the Iditarod Trail Committee is attempting to do.

1:52:22 PM

CHAIR MEYER expressed his understanding that there is no danger of losing the money by waiting on a decision.

MR. LUCK responded that there were two people adjudicating the easement to the Iditarod Trail, and one of them has already left because there is no secured funding within the near future. Therefore, if the process is "prolonged to a certain point," there is a potential that another individual will be lost. The same can be said for other projects, he warned. He added that he has made the public aware of this current process of obtaining receipt authority.

REPRESENTATIVE DAHLSTROM asked that the information requested from Mr. Luck be provided to the committee members prior to the next meeting to facilitate the process.

MR. LUCK reiterated that all of the trails have received prior approval, and he stated his belief that they have gone through one receipt authority section in the past. Therefore, he indicated his assumption that the majority of the communities should [have no objection], although he said he understands that there may always be an objection voiced to a trail going through someone's backyard. He said, "But that is part of the process why we've decided to stay with the same core group of trail ... projects."

REPRESENTATIVE DAHLSTROM asked Mr. Luck if he is able to state for the record that there are no trails going through residential neighborhoods.

MR. LUCK responded that the ultimate purpose of the state agency review process is to ensure that there is "legal public access and there's no trespassing or violation on private property."

REPRESENTATIVE DAHLSTROM asked, "Are any of these trails going to go through any residential neighborhood?"

MR. LUCK answered no. However, he added that "it's kind of a double-edged sword." He explained that some residents want trails through these neighborhoods; however, "that's not our goal." He stated, "Our goal is to create recreational trails that are protected, and provide legal access to the public."

All trails approved through the program are legal easements, he noted.

REPRESENTATIVE DAHLSTROM asked if it is possible that some neighbors might have missed seeing the notice.

MR. LUCK replied:

If there were issues with these trails, we would have already heard about them, and we would have received public comments about them. The projects are already in place. We also receive resolutions of support from local community councils and from members of the community. ... There's always going to be the potential that not everybody knows about a trail and it's going to be going through their yard or through the woods or a national park, but we do our best.

[1:56:22 PM](#)

REPRESENTATIVE DOOGAN stated that although he considers the [Recreational] Trail Program "woefully deficient" within his district, it is not his intention to "keep that from going forward." Nevertheless, he said he does not see any reason that the department cannot conform to the normal standards of any other agency that comes before the committee with these kinds of requests by being able to report how the money will be spent. He reiterated his wish that Mr. Luck bring the desired information back to the committee by its next hearing.

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SENATOR MENARD asked if some of the trails might border subdivisions.

MR. LUCK answered that the trails are not as urban as one might think. He said the department has funded special requests for trails in communities, but generally is not involved in municipal trails. The trails on the list, he noted, are remote; however, people do live in remote areas in Alaska.

SENATOR MENARD said she is thinking of "the sports complex," behind which a trail runs.

MR. TEAL suggested that "because this is a live RPL," the committee might want to ask DNR to come back as soon as possible with the aforementioned list, instead of waiting until the next

RPL deadline. Furthermore, he suggested that the list provided include the election districts and whether or not any of the trails go through a residential area or subdivision.

CHAIR MEYER concurred. He said the committee supports trails but is scared by the unknown.

MR. LUCK concluded by reiterating that the trails in questions are in progress, have been previously approved, and there has been significant public support, which is part of the criteria used in making a decision to proceed.

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SENATOR MENARD suggested that the committee could receive this information and use an electronic voting system instead of having to gather together again for this purpose. She said she serves on boards where that method of voting is acceptable, but does not know if it is an allowed manner of voting for this committee.

CHAIR MEYER said he is not sure the rules allow for that, and if another month will not "kill" the projects, the committee probably should just wait until it meets again.

[2:00:56 PM](#)

CHAIR MEYER announced that RPL 10-0-5006 would be held over.

[2:01:17 PM](#)

CHAIR MEYER directed attention back to University of Alaska RPLs. He said the committee may ask questions regarding any of the RPLs, but asked that they save policy questions until last.

[2:02:14 PM](#)

MS. RIZK, with regard to the relevance of the university's research, highlighted the economic impact of the University of Alaska's research. She indicated that the university's research results in 2,400 jobs and a \$92 million payroll. According to Trends magazine in 2008, the university's research program was the fifth largest employer in the state. Moreover, the National Science Foundation reports that the university conducts 58 percent of the research and development in Alaska. With regard to questions about the volcano research in the Andes, Ms. Rizk explained that what scientists learn about volcanoes in other

parts of the world can be brought back to the state. Furthermore, it allows for the forming of international partnerships and teaching opportunities regarding the research. Ms. Rizk mentioned that in 2001 the university worked with the legislature to develop a list of areas of significant impact to Alaska, such as atmospheric science, health, and environmental science. In 2008, the majority of the grant activities focused on the aforementioned areas, which she expected to continue to be the case with the ARRA grants. With regard to the ARRA grants, Ms. Rizk noted that they are competitive grants that the university has been awarded. She attributed the aforementioned to the type of work the university does as well as the quality of the scientists.

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REPRESENTATIVE DOOGAN surmised then that the funds are attached to the specific grant.

MS. RIZK replied yes. Additionally, Ms. Rizk explained that prior to the availability of stimulus funds, the University of Alaska had blanket federal receipt authority, which means that grants didn't have to come before this committee. In further response to Representative Doogan, she specified that the researchers applied for the grants from the funding agency. The reason the grants are before the legislature is either because they are stimulus specific and now the university is receiving the grants because the agency has stimulus funds for it or it was a grant that the agency had reviewed previously and now decided to use stimulus funds because they may have run out of federal funds. She noted that the packet for the \$20 million in blanket authority gives examples of the types of grants pursued. Prior to these grants coming to the committee as being awarded, proposals to the agency were started and then the grants were awarded from the agency.

MR. TEAL clarified that these funds would normally be federal funds and remain classified as such in many states. Alaska, however, created a separate fund code for the stimulus funds and specified that regular federal receipts couldn't be interchanged with stimulus funds. The federal government, on the other hand, doesn't differentiate so much as they've been directed to get stimulus money on the streets, and thus stimulus funds are being handed out rather than regular federal funds. However, the federal government identifies the funds, in the grant, as being attached to the stimulus bill. Therefore, Alaska has created its own problem by classifying the stimulus funds as a separate

fund code from the regular federal funds. As Ms. Rizk explained, if the legislature hadn't created the separate fund code for stimulus funds, the legislature wouldn't have seen this list of grants at all because the university has traditionally included excess federal authority in its budget in anticipation of receiving these unspecified grants.

REPRESENTATIVE DOOGAN inquired why the legislature has never asserted authority over these federal funds.

MR. TEAL offered that the university is a research institution that routinely applies for grants from the federal government as well as other entities. There hasn't been particular interest in what university professors have interest in or passion about, he suggested. In the past, the legislature has taken the stance that if the university applies for grants and receives them, it can spend the funds.

[2:11:11 PM](#)

MS. RIZK, in response to Representative Dahlstrom, specified that grants in this request were awarded to both UAF and UAA. However, she noted that UAF has a stronger research component. In further response to Representative Dahlstrom, Ms. Rizk offered her understanding that UAS may have some grants that are in the proposal phase at this point, and thus aren't on the list before the committee.

CHAIR MEYER said that he didn't have any concern with the university's RPLs.

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REPRESENTATIVE HAWKER remarked that in years past the legislature has given a complete pass to the university's research system. He questioned how the university has managed its money, especially in light of its inability to open a science building in Anchorage last year that had been planned for some time and accuse him of not opening it up. Representative Hawker asked if there may be a higher and better use for the funds being dedicated to the proposed grants. "Is this the highest and best use of the State of Alaska's resources," he further asked.

MS. RIZK answered that she believes it is. She reiterated that the university applies, in a competitive process, for federal dollars that can go to Alaska or to another state. Furthermore,

it reflects well on the university and the state when it's awarded a federal grant. In further response to Representative Hawker, Ms. Rizk related that the university couldn't use the federal funds to open the integrated science building; the federal funds are for specific projects.

REPRESENTATIVE HAWKER clarified, "I didn't suggest that. I was referring to the highest and best uses of all of the unrestricted state funds that are necessary to support these grant operations."

MS. RIZK reminded the committee that the grant operations come in with an administrative cost and overhead that's associated with the grant. The aforementioned covers the administrative cost of the grant.

REPRESENTATIVE HAWKER asked, "And we're keeping the people on the payroll, on a year-round basis?"

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SENATOR HOFFMAN pointed out that the Tibetan Plateau Rising [grant] has an indirect cost of 45.1 percent and asked if that's standard for the grants.

MS. RIZK clarified that it depends upon the type of grant. The university has a negotiation agreement with the Office of Naval Research, which approved those rates. She reiterated her earlier testimony that for organized research at UAF [the indirect cost] is 45 percent whereas a public service activity many only [have an indirect cost] of 36 percent. With the State of Alaska the university has an agreement that it will only charge 12 percent or sometimes waive the overhead rate.

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CHAIR MEYER asked if there are any objections to the University of Alaska's RPLs. None were stated, and thus they were approved.

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CHAIR MEYER then moved on to the Office of Management & Budget's RPL 45-01-116 for \$20 million.

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MR. TEAL explained that this RPL is in response to the memorandum he wrote to the committee on August 6, 2009. The memorandum suggested that if the committee wasn't interested in reviewing specific grants, perhaps a more efficient way for the university to prepare RPLs could be determined. One of the suggestions, Mr. Teal offered, was to add money to the university's generic capital projects group. However, Legal and Research Services has some questions about the aforementioned. The question, he noted, is whether a catch-all project meets the requirements of a stated purpose in an appropriation. These cause legal questions because the stated purpose of the appropriation is to supply money to serve as the base for the Legislative Budget and Audit Committee to come in and provide more funds as the grants are specified. However, there is no specific grant listed in the project. Mr. Teal opined that this goes back to the vagueness of the original appropriation and Legal and Research Services' concern with the catch-all category. The purpose of the committee, he related, is to add specificity rather than continue the lack of it.

MR. TEAL informed the committee that in working with Legislative Legal and Research Services there may be a better solution, assuming that the committee is interested in accepting all the grants rather than reviewing them individually. The solution would be to approve the funds for the grants on the proposed list, the \$32 million for the pending grants. The aforementioned provides a specific RPL. Since the university has submitted these grants to OMB, it has eight additional grants received for \$2.4 million of which only two of the grants are on the list of pending grants. Again, if the committee wants the university to come before it with individual RPLs, it's possible to combine them in a single RPL that has a spread sheet specifying each grant. However, the aforementioned will most assuredly result in the committee facing projects that weren't on the list, which causes a delay in the university's ability to spend money. The entire purpose of ARRA is to get money on the street quickly, he pointed out. Furthermore, the expectation of the grantors is for the grant to start as soon as possible after the receipt of the funds. Mr. Teal suggested that rather than using the \$20 million generic RPL, the committee could use the \$32 million list of pending projects and approve those pending receipt of funds. Therefore, the project goes forward if the funds are awarded, whereas those projects for which the funds aren't awarded don't have the authority to use the funds nor do those funds become generic or are allowed to be used for any other grant. The aforementioned, however, will still be problematic because only two of the projects on

the grant list were on the pending list and thus there would still be a number of grants that the committee wouldn't have approved.

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REPRESENTATIVE HAWKER related his belief that the committee doesn't have the authority to appropriate nonspecific or conditional appropriations, although the legislature does. Representative Hawker said that he is comfortable taking extra time to have extra scrutiny for these projects.

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CHAIR MEYER, in an attempt to allay any concerns, announced that the committee will be meeting monthly between now and the beginning of the next session.

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MS. RIZK surmised then that the committee doesn't want the university to spend any stimulus funds until the committee's approval is obtained, even in situations in which it would risk [losing] stimulus funds from the granting agency.

[2:25:29 PM](#)

REPRESENTATIVE HAWKER pointed out that the \$1 million authority already exists, and the university does have spending authority for that amount right now.

MS. RIZK recalled that at the last Legislative Budget and Audit Committee meeting that \$1 million was committed to another project, and therefore it's not available.

REPRESENTATIVE HAWKER asked if that \$1 million was covered in the list before the committee today.

MR. TEAL replied no. He recalled that there was a suggestion to leave some funds for the catch all, but the committee instead chose to make the RPL for the full \$1.6 million. Therefore, the university was left no authority to spend funds until the committee approves such. However, he did note that the university has and can spend funds prior to the committee approving some of the grants. Mr. Teal related his understanding that the committee is now saying it wants to review the projects individually prior to allowing the

university to spend any funds on a project, which would delay the university's action on the grant.

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SENATOR STEDMAN remarked that the normal process seems to be obtaining approval to spend the funds.

MR. TEAL remarked that he didn't know how being late in receiving the funds of a grant would impact the university's ability to accept the grant. He presumed that it would be determined per grant. "If you want to grant them approval to start spending money on a grant, then you [are] necessarily giving up your review process. So, it is a difficult issue. The only thing you can do is give them the authority in advance to accept and start spending," he stated. In order to do so, the committee could allow the university to spend for grants on a list presented to the committee.

SENATOR STEDMAN expressed interest in understanding the time element.

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MS. RIZK characterized it as a timing issue. In fact, the university has already had eight grants since it had to submit its paperwork to OMB. The OMB requires paperwork be submitted two to three weeks prior to the committee's meeting, which shortens the time period. Ms. Rizk requested that the committee consider approving blanket authority for the university in the amount of \$1 million for now, rather than \$20 million, in order to address the in-between [grants].

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CHAIR MEYER asked if the committee could merely amend the \$20 million to \$1 million.

MR. TEAL said that the better solution would be for the committee to rescind its action on the RPL and reduce the amount. However, the problem of granting additional generic authority remains, whether the amount is \$20 million or \$1 million,

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REPRESENTATIVE DOOGAN interpreted [Ms. Rizk's testimony] to mean that since the administration needs three weeks to review, the legislature shouldn't get any review at all.

MS. RIZK clarified that her testimony was that the administration's review adds to the timeline of grants to be presented to the committee. She recalled that the university's paperwork was submitted to OMB on July 25<sup>th</sup>, but since that date more grants have [been awarded]. Therefore, it would be all the grants between now and the next committee meeting.

REPRESENTATIVE DOOGAN remarked that he is reluctant to give the university a blank check of any size on this issue. He said that he's even more reluctant due to the knowledge that sometimes the timing issue is because the paperwork is in the administration's possession for so long. He said that part of being a publicly funded institution is the many requirements, of which this committee's approval is one. Therefore, he said he's reluctant to eliminate the legislature's only oversight in order to save a bit of time.

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REPRESENTATIVE DAHLSTROM offered that since the stimulus package has created a new landscape, perhaps the committee should meet more often than monthly. She opined that no one on the committee intends for the university to lose any funds. She asked if more meetings would ease Ms. Rizk's concerns.

MS. RIZK said that would be very helpful. She noted that during session the university tried to make it very apparent that research is what the university does and most likely these grants would be coming. At that time, the university was assured that the committee would meet as often as necessary in order to accept these stimulus grants, with the \$1 million blanket authority to cover those grants awarded in between [meetings]. The aforementioned is why she suggested reinstating the \$1 million blanket authority.

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CHAIR MEYER interjected that the committee could have emergency meetings, if necessary. He also suggested that perhaps OMB's review could be reduced to one week. He then said that he would review the rules regarding voting telephonically so that members don't have to travel.

SENATOR MENARD related her understanding that the rules for telephonic voting are that it can occur when everyone votes the same.

SENATOR STEDMAN said that voting telephonically would have to be discussed. He said that he wasn't very inclined to have "whipsawed" meetings because a particular entity has a request. He opined that waiting another 15 days to address the grant for the Tibetan Plateau rising won't make any difference. Therefore, he suggested scheduling meetings once a month.

CHAIR MEYER announced that the committee will continue to [meet on a monthly basis], with the next meeting being on September 26<sup>th</sup>. However, he told the university to let the committee know if something is in jeopardy.

MS. RIZK related her appreciation to the committee as this matter is worked through. She offered to provide the committee with any materials that would be helpful in making the process move faster for the committee or increase the level of comfort for the committee members.

[2:39:05 PM](#)

MR. TEAL suggested that the committee might want to give the university direction as to whether it wants the university to provide formal RPL paperwork, the grants, or merely a spreadsheet listing the funds. He expressed concern with the volume of paper that the committee receives for review. He suggested that the committee may also want to give the university guidance with regard to spending money on grants prior to their approval by this committee. Currently, the university may be spending funds in anticipation of the committee's approval.

CHAIR MEYER commented that spending funds prior to the committee's approval is dangerous.

SENATOR STEDMAN remarked that there would be some legal issues with such action. He noted that other agencies have been cautioned not to spend funds without the authority to do so.

MR. TEAL noted his agreement, but added that the university is spending in anticipation of approval. Therefore, the committee may want to instruct the university not to do so.

MS. RIZK said she is clear on that point. She explained that between the June meeting and this meeting, the university was in an in between stage and thus there may have been some expenditures on grants pending approval from the committee.

SENATOR MENARD clarified that she didn't want anyone to think this is a turf issue; rather she characterized it as the committee doing its due diligence.

#### **REIMBURSABLE SERVICE AGREEMENT (RSA)**

[2:42:09 PM](#)

CHAIR MEYER then turned the committee's attention to the annual request for \$33,000 to continue the work on the Alaska Department of Fish & Game (ADF&G) RSA.

[2:43:20 PM](#)

TINA CUNNING, Special Assistant, Office of the Commissioner, Alaska Department of Fish & Game, explained that as a result of an audit in 1997, this committee decided that it had a very special interest in being sure that the Department of Natural Resources (DNR) and ADF&G were adequately asserting and managing the state's navigable waters, R.S. 2477s, and protecting public access on those. The aforementioned involved some fairly complex issues. These are items that don't normally rise during the priority process of the two agencies. As a result, this very specific work that the committee wanted performed caused the committee to enter into an individual contract with DNR and ADF&G to conduct the research and work on behalf of the Legislative Budget and Audit Committee. The contract has continued each year.

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The committee took an at-ease from 2:45 p.m. to 2:48 p.m.

[2:48:21 PM](#)

REPRESENTATIVE DAHLSTOM moved to approve an RSA in the amount of \$73,000 to continue the contracted research regarding the navigable waterways. There being no objection, it was approved.

[2:48:36 PM](#)

#### **OTHER COMMITTEE BUSINESS**

CHAIR MEYER informed the committee that responses to the request for proposals (RFP) entitled "Economic Analysis and Modeling for the Alaska Natural Gas Taxation" have been received from Econ One, CIRI Cambridge Series (ph), Longston and Associates (ph), and Altos Management (ph), all of which are very qualified. Chair Meyer expressed his desire to review the four responses and select a subcommittee to make recommendations to the committee. The members of the subcommittee are as follows: Senator Stedman, Representative Hawker, Representative Doogan, and Senator Meyer.

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CHAIR MEYER announced that September 25<sup>th</sup> is the date for the next meeting at which time the responses from the audit should be available. He indicated that the committee will meet about every five weeks.

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SENATOR MENARD requested that the committee research the parameters of telephonic meetings.

CHAIR MEYER noted that an energy conference is scheduled during the September 25<sup>th</sup> timeframe, and therefore the meeting may be rescheduled.

[2:52:24 PM](#)

PAT DAVIDSON, Legislative Auditor, Division of Legislative Audit, Alaska State Legislature, explained that by committee policy agencies are provided 20 days to respond to an audit. The audit reports have to be distributed five days in advance of the scheduled meeting. Additionally, Ms. Davidson noted that it takes a few days to incorporate and publish the report. All told, it amounts to about a five-week process. She related that only one report has been released to the agency for response, and she offered to coordinate with the agency regarding shortening their response.

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CHAIR MEYER said that would be appreciated. He noted that he and Senator Huggins, Senator Stedman, and Representative Dahlstrom, are attending the energy conference.

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MS. DAVIDSON noted that in advance of this meeting the division sent out light blue copies of the report. She reminded the committee that since the report wasn't released, that information remains confidential.

2:54:11 PM

**ADJOURNMENT**

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 2:55 p.m.