

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

December 16, 2009

2:03 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Bill Stoltze (Alternate)

COMMITTEE CALENDAR

APPROVAL OF MINUTES
REVISED PROGRAM - LEGISLATIVE (RPLs)
EXECUTIVE SESSION
RELEASE OF AUDITS
STATUS UPDATE OF CONTRACTS
OTHER COMMITTEE BUSINESS

PREVIOUS COMMITTEE ACTION

No Previous Action to record

WITNESS REGISTER

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

POSITION STATEMENT: Provided information regarding the RPLs before the Joint Committee on Legislative Budget and Audit.

BETSY JENSVOLD, Budget Manager, Central Office

Finance and Management Services
Department of Health and Social Services (HSS)
Juneau, Alaska

POSITION STATEMENT: Testified and answered questions on RPL 06-0-0221.

ROB COMBELLICK, Deputy Director
Central Office
Division of Geological & Geophysical Surveys (DGGS)
Department of Natural Resources (DNR)
Fairbanks, Alaska

POSITION STATEMENT: Answered questions on the RPL for the Alaska Volcano Observatory (AVO).

WENDY REDMAN, Vice-President
University Relations, UA Statewide System
UAF Main Campus
Fairbanks, Alaska

POSITION STATEMENT: Answered questions on RPL 45-0-1137.

FRANK RICHARDS, Deputy Commissioner
Highways & Public Facilities
Office of the Commissioner
Department of Transportation & Public Facilities (DOT/PF)
Juneau, Alaska

POSITION STATEMENT: Answered questions on RPLs 25-0-7547, 25-0-7548, and 25-0-7549.

GARY DAVIS, Regional Director
Southeast Region
Department of Transportation & Public Facilities (DOT)/PF
Juneau, Alaska

POSITION STATEMENT: Answered questions on RPL 45-0-1137.

DAN DICKINSON, Certified Public Accountant (CPA), Consultant
Legislative Budget and Audit Committee
Anchorage, Alaska

POSITION STATEMENT: Provided an interim report of a fiscal model.

ACTION NARRATIVE

[2:03:47 PM](#)

CHAIR KEVIN MEYER called the Legislative Budget and Audit Committee meeting to order at 2:03 p.m. Senators Huggins, Menard (via teleconference), Stedman, and Meyer and Representatives Hawker, Neuman, Doogan, and Dahlstrom were present at the call to order. Senators Hoffman (via teleconference) and Olson and Representatives Thomas (via teleconference) and Tuck arrived as the meeting was in progress. Representative Chenault was also in attendance.

^APPROVAL OF MINUTES

[2:04:49 PM](#)

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

[2:05:02 PM](#)

REPRESENTATIVE DAHLSTROM made a motion to approve the minutes of November 6, 2009. There being no objection, the minutes from the meeting of November 6, 2009, were approved.

^REVISED PROGRAM -LEGISLATIVE (RPLs)

[2:05:15 PM](#)

CHAIR MEYER announced that the next order of business would be consideration of the RPLs before the committee. He asked Mr. Teal to describe each RPL and if there is an objection, the RPL would be set aside for further discussion.

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DAVID TEAL, Legislative Fiscal Analyst, Legislative Finance Division, Alaska State Legislature, began his review of the RPLs with RPL 06-0-0219 for \$207,211 in American Recovery and Reinvestment Act (ARRA) funds for the State Supplemental Grant Funding for the Communities Putting Prevention to Work State Supplemental Funding for Healthy Communities, Tobacco Control, Diabetes Prevention and Control and Behavioral Risk Factor Surveillance System with the Department of Health and Social Services (DHSS). He explained this would provide supplemental funding in the amount of \$207,211 to an existing formula-based federal grant in the Chronic Disease Prevention and Health Promotion allocation. It is a 24-month grant that will end in 2012. If the funding is approved the department will also request an additional \$414,427 in ARRA funding in the 2011 Governor's amended budget. The total grant is actually approximately \$828,000. One existing staff member will continue to be funded with the approval of the RPL and there is no general fund involved.

MR. TEAL remarked that the total RPL amount requested for the RPLs totals approximately \$14.2 million in ARRA funding, with a portion capital and operating funds. The division did not find any technical problems with any of the RPLs.

There being no objection, RPL 06-0219 was approved.

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MR. TEAL moved on to RPL 060-0-0221 for \$952,086 in ARRA funds for Prevention and Wellness- Communities Putting Prevention to Work program within the DHSS. Like the previous RPL, this one is focused on obesity and diabetes. The total grant is \$5.7

million over the life of the grant from February 2010 to 2012. This funding is for communities to work on policy and environmental changes to reduce obesity/overweight, increase physical activity, and improve nutrition to address the rising rates of obesity and diabetes in Alaska with eligibility limited to tribal organizations within Alaska. The state is applying on behalf of the communities of Anchorage and Wrangell, which were selected by the DHSS on the basis of their submitted plans. If the funding is approved the DHSS will request an additional \$2.9 in the Governor's 2011 amended budget. He stated that about 25 percent of the grant will be retained by the DHSS for grant management. Two long-term non-permanent positions will be added in Anchorage, and a portion will partially support personnel services for three existing positions.

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SENATOR STEDMAN recalled former Governor Palin's vetoes and asked for clarification on the relationship with these RPL funds.

CHAIR MEYER objected and held RPL 06-0-0221, in order to allow the department to respond.

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MR. TEAL moved on to RPL 07-0-1111, Department of Labor & Workforce Development, for \$200,000 in ARRA funds in order to identify green jobs and the supply and demand for green jobs, environmentally friendly jobs and training programs in Alaska. The DLWD would use the funds to incorporate all the information into the employment information products produced by their Labor

Market Information component. The total grant funding is \$800,000, with \$200,000 under this RPL, and assuming the RPL is approved, the department will request an additional \$600,000 in the Governor's 2011 amended budget. He related this request will fund two new non-permanent and eight existing positions for approximately 13 1/2 months. No state general funds will be used, nor is any state match required.

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CHAIR MEYER asked if a green job is defined.

MR. TEAL answered that he did not think there is a specific definition for a green job listed, but offered that it commonly understood as environmentally friendly.

REPRESENTATIVE HAWKER offered his belief that this is a waste of federal tax dollars. However, he highlighted the importance of workforce development throughout the state and opined the DLWF would find a way to accomplish something meaningful for the state from these funds.

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CHAIR MEYER concurred, given that occupations in the fishing and oil industry would likely believe their jobs are green jobs.

SENATOR STEDMAN added that the timber industry jobs are also green jobs.

There being no objection, RPL 07-0-1111 was approved.

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MR. TEAL moved on to RPL 10-0-5070, for an additional \$1.5 million in ARRA funds for the Alaska Volcano Observatory with the Department of Natural Resources to maintain current level of operation at the volcano observatory. The funding will be used to upgrade and maintain seismic equipment and other monitoring to conduct geological investigations and to provide volcano hazard information to the public. He noted that the DNR lost federal earmarks and a long-term stable funding source will need to be identified to keep the program active. No new positions will be required and the funding will provide about half of the support for five state funded positions. He clarified a combination of state and federal personnel run the observatory.

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SENATOR OLSON objected and asked to have this RPL held over since another RPL, RPL 45-0-1137, will also be considered for the University of Alaska (UA). He offered his belief that this request is for essentially the same function which is the monitoring of seismic activity for active volcanoes. He highlighted his desire to avoid duplication of services in the future.

CHAIR MEYER held RPL 10-0-5070 to allow the departments to respond to questions.

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MR. TEAL moved on to RPL 11-0-0463, for \$150,017 in ARRA funds for the Aquaculture Grant Program for Alutiiq Pride Shellfish

Hatchery Operating Costs with the Alaska Department of Fish & Game. He explained that this would provide a pass through grant to the non-profit hatchery located in Seward to fund their current aquaculture operations in calendar year 2010 to grow algae. The APSH hatchery is the only certified seed source for indigenous species such as geoduck, littleneck clams, razor clams, and cockles. He highlighted the ADF&G will request additional funding in FY 11, but it is not certain if the funding will be requested in the budget or through a federal reimbursement program (RPO). He noted this RPL is federally funded, that no general fund is required, and existing positions are not impacted.

There being no objection, RPL 11-0-0463 was approved.

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MR. TEAL moved on to RPLs 25-0-7547, 25-0-7548, and 25-0-7549, for a total of \$8.9 million for three projects: Ketchikan: Tongass Highway - Viaducts Replacement and Rehabilitation; Sand Point - School Loop Road Rehabilitation; and Richardson Highway MP 265-267 Repaving, Department of Transportation & Public Facilities. He offered that all three RPLs are similar projects so he directed his general comments to all three RPLs. He remarked that this would bring the running total of \$37.4 million from highway and bridge ARRA funding that has come before the committee. He explained that a continued favorable bidding climate and project delays has created the need to add projects in order to maximize the ARRA funds. He recalled from the last committee meeting that the DOT/PF was under obligated. Thus, these projects will bring the DOT/PF to be slightly over obligated. He noted the total obligation is \$118.7 of the

\$178.5 available. This authorization will put the roads and bridges program at \$184.7 million, which is \$6.2 million above the \$178.5 million in available funding. He stated that the DOT/PF advises that \$4 million of the Sand Point portion was not obligated. Thus, it appears that the chart showing \$6.2 million in over obligated funds is actually \$2.2 million in over obligated funds. However, the surplus obligation does not guarantee that all the ARRA funding can be used since some projects run into permanent snags, some are underbid, and any combination of events could mean that DOT/PF would not be able to obligate all of the ARRA funds.

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MR. TEAL continued. He suggested that the DOT/PF commissioner could provide more detail on the ARRA funds. However, with respect to 25-0-7547, 25-09-7548, and 25-0-7549, the bottom line is the DOT/PF may need additional authority during the session. He referred to a letter in members' packets from the University of Alaska (UA) Vice President of University Relations, Wendy Redman, dated December 9, 2009, which outlines a process the UA uses in unusual situations for time sensitive grants. He suggested the committee may wish to review the UA process at some time for applicability.

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SENATOR STEDMAN objected to all three DOT/PF RPLs.

CHAIR MEYER held RPLs 25-0-7547, 25-09-7548, and 25-0-7549 for further explanation.

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MR. TEAL moved on to the final RPL, RPL 45-0-1137, for \$2 million in ARRA funds to the UA to accept a grant award to improve monitoring systems and other geological and geotechnical related activities in Alaska. He explained that a late replacement RPL added \$299,800 for geological and geotechnical site investigation. The timeframe for this grant is from December 2009 through 2011, with no general fund or other state matching funds required. He recapped that so far in 2010, the LBA has approved 39 ARRA proposals from the UA, and this request will bring the total to 41.

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SENATOR OLSON inquired as to the difference between the RPL 10-0-5070 for the Alaska Volcano Observatory and the 45-0-1137, for the UA, in terms of duplication of services. He further inquired as to whether the two agencies are being coordinated to eliminate or avoid duplication, and specifically to identify the parties who need to coordinate their respective activities. He expressed concern that the ARRA funding is one-time funding and that at some point the state will need to pickup funding.

MR. TEAL suggested holding this RPL over since it was related to RPL 10-0-5070 to allow for the departments to jointly respond to the questions.

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CHAIR MEYER objected to RPL 45-0-1137, and therefore it was held for further consideration and discussion and to allow the DNR and UA to respond to questions.

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CHAIR MEYER brought up the RPLS for discussion that were previously held beginning with RPL 06-0-0221.

SENATOR STEDMAN stated that he would like an explanation between this RPL and its relationship to the veto of several million from the operating budget.

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BETSY JENSVOLD, Budget Manager, Central Office, Finance and Management Services, Department of Health and Social Services (HSS), stated that a \$2 million ARRA Prevention and Wellness incremental request submitted during the 2009 legislative session was vetoed by Governor Palin with the understanding that it could be revisited when the federal funding became available. She stated that the announcement for this grant fund program was made on September 29, 2009, that the DHSS anticipates learning within the next two months if the grant will be awarded on its November application.

CHAIR MEYER stated that Ms. Jensvold seemed to have answered the question.

There being no further objections, RPL 06-0-0221 was approved.

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CHAIR MEYER suggested that the RPL 10-0-5070 could be combined with RPL 45-0-1137 for consideration.

SENATOR OLSON concurred that it would be appropriate to consider the RPLs together.

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SENATOR OLSON expressed concern that the two RPL requests from DNR and UA totaling \$3.5 million appeared similar, the project scopes seemed vague, but that his main interest is the coordination of efforts between the DNR and the UA to avoid overlap or duplication of services at the AVO. He remarked that once stimulus funding is depleted that the agencies would look to the state for ongoing funding.

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ROB COMBELLICK, Deputy Director, Central Office, Division of Geological & Geophysical Surveys (DGGS), Department of Natural Resources (DNR), stated that the Alaska Volcano Observatory (AVO) is a cooperative program involving the U.S. Geological Survey (USGS), which provides the source of the funds historically, the UAF, and the DGGS within DNR. He opined that this is a highly coordinated program, which is one of the best cooperative programs in the country. He characterized the AVO operation as a three-legged stool, in which each of the three components is performing its part of the complex machine required to monitor and assess active volcanoes and hazards and risks posed to overflying airplanes, communities, and infrastructure in the state. Thus, since each of three entities

provides its own expertise and capabilities to the AVO, the RPLs do not provide duplicate services.

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MR. COMBELLICK elaborated by stating that what has happened over the past few years is a reduction in overall federal funding of approximately \$5 million. He recalled historically that total funding for the AVO in Alaska was \$9 million in FY 2005, which was then reduced to \$5 million in FY 2009. He anticipated a reduction of \$1 million to the DNR and UAF funding in FY 10, which represents a total reduction of \$5 million to the overall program. He remarked that the reductions jeopardize the ability of the AVO to monitor active volcanoes that threaten aircraft, communities, and infrastructure in Alaska. He characterized the RPLs as stop-gap funding to help two legs of the stool to keep up their portion of the program. He summarized the DNR request of \$1.5 million would span 21 months and would include half the funding for five staff at the AVO that were previously 100 percent federally funded. Additionally, the RPL would cover \$800,000 in operational support for the component of the program DNR performs.

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MR. COMBELLICK expanded on different aspects of the work done by the DGGS, UAF, and U.S. Geological Survey (USGS), such that DGGS provides the helicopter and aircraft support for the UA that allows them to transport instrumentation and personnel to the field. Additionally, he noted that while the DGGS maintains the AVO website, the UAF is more involved in remote sensing. He related long-term funding that seems somewhat promising is being

sought by U.S. Senators Murkowski and Begich, who introduced legislation in the U.S. Senate under SB 782 to provide stable funding for the U.S.G.S. Volcano Hazard Program with intent to fund at \$15 million. He explained that this ARRA stimulus funding would hold them over until federal funding arrives. Further, he offered that the division has requested a general fund (GF) increment for \$300,000, which is a fund transfer from federal to state for FY 11. He stated that the DNR does not plan to request additional funding beyond the FY 11 increment. He opined that once the ARRA is depleted, if other federal funding does not materialize, that the DNR would suffer operation and monitoring losses at the AVO in the event the state decides not to fund the AVO program in the future.

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SENATOR OLSON pointed out that many of the volcanoes are located in the corridor between Asia and the Aleutian Islands and asked how the state could assure air quality for freighters, aircraft, and passenger airlines for safety purposes. He reminded members of the disaster when a KLM 747 jet [flight 867] lost all four of its engines about 10 years ago when it flew through volcanic ash.

MR. COMBELLICK agreed that the safety issue is important. He acknowledged many disruptive eruptions, such as the sudden eruption of the Kasatochi Volcano in 2008, which had been inactive but disrupted many aircraft. He reiterated the AVO's importance. He stressed that somehow the AVO must maintain its funding for Alaskans' safety and Alaska's economic well being. He recalled that Mt. Redoubt disrupted the operations of the Cook Inlet Pipeline Company's Drift River Terminal Facility. He

recapped that these RPLs will offer stop-gap funding, pending new federal funding, and in the meantime the AVO is requesting partial state support for its staff to maintain the critical monitoring function. He remarked this RPL will also give the state a stronger voice in the program.

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CHAIR MEYER reiterated that he would also like to consider RPL 45-0-1137 at the same time.

SENATOR OLSON acknowledged he would like to hear from UAF with respect to the AVO services.

REPRESENTATIVE HAWKER related his understanding that the DNR federal funding for the AVO is lapsing, the federal government is not currently funding the program, but the DNR is currently relying on Alaska's U.S. Senators to secure additional funding. He asked if the DNR is taking any other actions to secure long-term funding.

MR. COMBELLICK answered that the most promising alternative is to secure federal funding from Alaska's U.S. Senators' efforts to pass legislation.

REPRESENTATIVE HAWKER offered his belief that the safety of international aircraft is not the state's responsibility but rightfully falls under federal responsibility.

MR. COMBELLICK acknowledged that it is the federal responsibility to ensure aircraft safety, but much of the AVO funding has been obtained through federal earmarks. He

acknowledged that the base budget was part of the U.S. Geological Survey's federal budget. He mentioned that AVO impacts the safety of Alaskans and the state's economy. He noted that if air carriers cannot operate effectively over Alaska that alternate routes might be found. He emphasized DNR's main concern is for public safety and protection for the state's infrastructure. Thus, the DNR's dominant interest is focused around the Cook Inlet region and the half-dozen volcanoes that affect air and ground safety in the area.

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REPRESENTATIVE HAWKER said he hoped that the department's rationale for funding could be expanded beyond the reason that the federal government will no longer fund the AVO.

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WENDY REDMAN, Vice-President, University Relations, UA System, UAF Main Campus, stated that she would like to bring up the issues raised by Representative Hawker and Senator Olson with respect to the future funding for the AVO as well as the issue of responsibility since those are the key points for the UAF. She explained that a five state coalition is currently seeking federal funding for monitoring volcanoes, including Hawaii, Washington, Oregon, California, and Alaska, but whether that effort will be successful is uncertain. However, she said the university agrees with the point that Representative Hawker made that the federal government has a major responsibility through the Federal Aviation Administration (FAA). She offered her belief that pressure is being placed on the FAA. She related her understanding from Washington D.C. sources that the military

also has growing concerns over the safety of air space over Alaska. Thus, additional pressure may be placed by the military for the FAA to take some action. She pointed out that the UAF is also pursuing this matter with Alaska Airlines to see whether or not it can assist in efforts for monitoring volcanoes. She acknowledged that the questions raised are legitimate. She stated that she wished she had answers to these questions and asserted that certainly over the course of the year additional pressure will be made since it is clear that federal earmarks are gone.

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SENATOR OLSON expressed concern over future funding for the AVO, particularly pending state revenue reductions. He characterized this issue as very important to the state given the past experiences of disasters such as the KLM airline disaster.

There being no further questions or objections, RPLs 10-0-5070 and 45-0-1137 were approved.

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CHAIR MEYER moved to take up RPLs 25-0-7547, 25-09-7548, and 25-0-7549. The RPLs were as follows: RPL 25-0-7547 for \$8.9 million for the Ketchikan: Tongass Highway - Viaducts Replacement and Rehabilitation; RPL 25-09-7548 for \$3.6 million for the Richardson Highway MP 265-267 Repaving, Department of Transportation & Public Facilities; and RPL 25-0-7549 for \$4 million for the Sand Point - School Loop Road Rehabilitation.

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SENATOR STEDMAN asked for clarification on the \$700,000 lapsed funds and a status on the bidding process on RPL 25-0-7547 for the Ketchikan: Tongass Highway Viaducts Replacement and Rehabilitation. Additionally, he asked for an update on the project bidding and status.

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FRANK RICHARDS, Deputy Commissioner, Office of the Commissioner, Department of Transportation & Public Facilities (DOT/PF), explained the project for Ketchikan: Tongass Highway Viaducts Replacement and Rehabilitation, involves providing protection to the existing structures on Tongass Avenue, which is essentially a bridge but also provides a main economic route through Ketchikan. He recapped the project stating the project was originally estimated at \$7.3 million, bids went out, and the spread was for a low bid of \$6.3 million and the next bidder was \$8.5 million. However, he noted the original bidder had some irregularities and the DOT/PF award must go to the second bidder. Thus, the DOT/PF needs additional authority which means a request for increased funding authority and a reduction in the Federal Highway Administration (FHWA) authority. He highlighted the DOT/PF goal is to maximize the availability of ARRA funds on existing projects. He reiterated Mr. Teal's comments, such that of the \$178 million authorized ARRA project funds for the state, the DOT/PF has obligated approximately \$118 million, leaving an additional \$60 million more to obligate. He related that the bidding environments are still favorable. He stated approximate \$88 million is left to bid, and if favorable bidding comes in at 10 percent, that the DOT/PF may have additional ARRA funding, which necessitates action on these 3 RPLs. He remarked that it

may also be necessary to come back on other projects in January 2010, as well.

SENATOR STEDMAN pointed out that the documents indicate that the DOT/PF will administratively restrict and lapse \$700,000 of federal authority. He said he hoped that does not mean the DOT/PF is returning \$700,000 to the FHWA.

MR. RICHARDS clarified that in an effort to keep the House Finance committee co-chairs informed the DOT/PF is advising that is not using the federal receipt authority on the Ketchikan project. Thus, the authority will lapse and be replaced with ARRA funds.

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REPRESENTATIVE DOOGAN asked for clarification on the figures for the RPL 25-0-7547 for the Ketchikan: Tongass Highway Viaducts Replacement and Rehabilitation. He recapped such that the project was initially funded at \$5.75 million, with an increase of an additional \$2.2 million totaling \$7.8 million for the project. He inquired if the total bid amount could be restated.

MR. RICHARDS reiterated the project figures. He stated that the DOT/PF had \$7.2 million in FHWA authority for the Ketchikan: Tongass Highway Viaducts Replacement and Rehabilitation, which represents the engineer's estimate, with the low bid at \$6.3 and the next higher bid was \$8.5 million.

REPRESENTATIVE DOOGAN referred to page 55 of the memorandum dated December 10, 2009 from the Division of Legislative Finance, which read: Ch. 61, SLA 2001, page 41, lines 21 - 24,

Ketchikan: Tongass - Viaducts Replacement and Rehabilitation - 5,750,000; and Sec. 1, Ch. 159, SLA 2004, page 44, line 33 and page 45, lines 3 - 4, Ketchikan: Tongass Highway - Viaducts Replacement and Rehabilitation - \$2,200,000. He interpreted that to mean federal authority would equal \$50,000 less than \$8 million. He asked for clarification as to why more funding authority is required if the bid is lower.

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MR. TEAL recalled that the project had a shortfall of \$1.3, which is the amount requested in RPL 25-0-7547. Additionally, he noted the fund source change since the project would be replaced with \$1.3 million ARRA funds, with \$700,000 in FWHA authority would lapse.

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MR. RICHARDS, in further response to Representative Doogan, explained that the FHWA requires states to maintain the level of expenditure on a project. He further explained that what is happening in this project is that regular FHWA funding is being replaced with ARRA funding.

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GARY DAVIS, Regional Director, Southeast Region, Department of Transportation & Public Facilities, stated that the monies utilized for engineering services outside of the contract so total funds available are not strictly used for construction dollars, but services such as engineering services are also performed.

REPRESENTATIVE DOOGAN thanked Mr. Davis for the clarification.

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SENATOR STEDMAN inquired as to the geographical home base of the bidders.

MR. DAVIS recalled that the DOT/PF received four bidders: Dawson Construction [based in Bellingham and Ketchikan], Sea Con Construction LLC, Granite Construction, which is a national firm with a major office located in Anchorage, and Mowat Construction Company, which he said he believed is a company based out of Seattle. In further response to Senator Stedman, Mr. Davis responded the number two bidder was Sea Con Construction, LLC, and that Dawson Construction was the number one bidder, which he recalled had been deemed a non-responsive bidder.

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REPRESENTATIVE DOOGAN referred to the other two DOT/PF RPLs: RPL 25-0-7549 for \$4 million for the Sand Point - School Loop Road Rehabilitation; and RPL 25-09-7548 \$3.6 million for the Richardson Highway MP 265-267 Repaving, Department of Transportation & Public Facilities. He asked whether the DOT/PF has been strictly identifying "shelf-ready" to bid projects for use with the ARRA funds.

MR. RICHARDS answered that the projects selected by the state must have adhered to the FHWA guidelines. He related that the DOT/PF was not able to get some projects through the obligation process in time to qualify for the ARRA funds. He pointed out

that the Sand Point project before the committee is an example of a project that Senator Hoffman and the City of Sand Point had identified as a project that had been adhering to the FHWA process and had requested consideration for ARRA funds. He explained that during the legislative interim, the DOT/PF has worked with the City of Sand Point to make certain the project has followed the necessary FHWA process.

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MR RICHARDS, in response to Representative Doogan, explained with respect to RPL 25-09-7548 for the \$3.6 million for the Richardson Highway MP 265-267 Repaving, DOT/PF that the DOT/PF had planned on using regular FHWA funds under the Bridge and Pavement Refurbishment efforts. He added that the DOT/PF uses approximately \$50,000 per year for that purpose. He related that the DOT/PF had identified this as a project that could go out to bid and obligate quickly, using ARRA dollars. In further response to Representative Doogan, Mr. Richards answered that the DOT/PF did not receive many requests to add projects since the projects had to have followed a prescriptive FHWA process including such items as holding the appropriate environmental documents and having undergone the right of way certification.

REPRESENTATIVE DOOGAN related his understanding that the Sand Point project was one of a small pool of projects that were eligible for ARRA funds.

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MR. RICHARDS agreed. He remarked that the DOT/PF anticipates the potential for another federal transportation cycle. Thus,

the DOT/PF has informed and asked communities and tribes to identify projects that are following the federal prescription in anticipation of possible federal funding, which according to U.S. President Obama might be as high as \$50 billion for transportation projects. He further remarked that the DOT/PF expects the obligation timeframes to be much stricter.

[3:00:05 PM](#)

SENATOR STEDMAN asked for clarification on language in the Statewide Transportation Improvement Program (STIP) and how the remaining \$23 million would be used.

MR. RICHARDS identified that the DOT/PF has two programs in place required by the FHWA, a bridge maintenance program and a pavement management program. He explained that the DOT/PF performs a detailed assessment of its bridge and roadway assets for project needs, such as deferred maintenance or major capital projects. The DOT/PF then decides within this category which projects should be funded such as crack sealing, overlay, or bridge maintenance. He noted the overall program is outlined generally in the STIP, which allows the DOT&PF the flexibility to address deferred maintenance allowable under the FWHA. He stated the DOT/PF performs some projects and also contracts for other projects, which allows the DOT&PF to remedy safety issues such as permafrost settling problems along the Alaska Highway.

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CHAIR MEYER removed the objection on the three RPLs for the DOT/PF.

There being no further objections, RPLs 25-09-7547, 25-09-7548, and 25-09-7549 were approved.

CHAIR MEYER referred to a letter dated December 9, 2009 from Wendy Redman, Executive Vice President, University of Alaska Statewide System, with respect to UA RPLs during the legislative session. He recalled previous discussion on this issue in committee. Unless anyone has something to add to the debate the LB&A committee will continue to have monthly meetings, with the consent of the Co-Chairs of the House and Senate Finance Committees for the purpose of considering RPLs.

REPRESENTATIVE HAWKER asked to place on the record his belief that as the operating budget co-chair of the House Finance Committee that having the committee review and approve ARRA grants separately is an appropriate method of handling the ARRA grants that become available to the UA.

SENATOR STEDMAN stated that we will proceed with caution.

^EXECUTIVE SESSION

[3:05:36 PM](#)

CHAIR MEYER announced that the next committee would now go into executive session.

SENATOR STEDMAN made a motion to move to executive session for the purpose of discussing confidential audit reports under AS 24.20.301. There being no objection, the committee went into executive session at 3:05 p.m.

4:15:43 PM

CHAIR MEYER brought the committee back to order at 4:15 p.m.

^RELEASE OF AUDITS

4:15:52 PM

CHAIR MEYER announced that the next order of business would be release of audits.

REPRESENTATIVE DAHLSTROM made a motion for the following final audits be released to the public:

A Sunset Review on the Department of Commerce,
Community and Economic Development, Board of Marital
and Family Therapy

A Sunset Review of the Department of Commerce,
Community and Economic Development, Board of
Professional Counselors

A Sunset Review of the Department of Commerce,
Community and Economic Development, Board of Social
Work Examiners

There being no objection, the aforementioned final audits were released.

4:16:20 PM

REPRESENTATIVE DAHLSTROM made a motion to release the following preliminary audits to the agencies for response:

A Sunset Review of the Department of Commerce,
Community and Economic Development, Board of Pharmacy

A Sunset Review of the Department of Commerce,
Community and Economic Development, Board of Certified
Real Estate Appraisers

A Sunset Review of the Department of Commerce,
Community and Economic Development, Board of
Psychologist and Psychological Associate Examiners

A Special Report on the Department of Transportation
and Public Facilities, Gravina Island Access Project

There being no objection, the aforementioned preliminary audits were released to the agencies for response.

[4:16:58 PM](#)

REPRESENTATIVE DAHLSTROM made a motion to release the Single Audit Pilot Project Interim Communication to the public. There being no objection the Single Audit Pilot Project Interim Communication was released to the public.

^STATUS UPDATE OF CONTRACTS

[4:17:20 PM](#)

CHAIR MEYER announced that the next order of business would be to hear a status update from individuals with whom the committee contracts. He noted that the committee's consultant, Dan Dickinson, would provide a follow-up presentation to brief the committee on the fiscal model.

DAN DICKINSON, Certified Public Accountant (CPA), Consultant, Legislative Budget and Audit Committee, reminded the committee that he has been working with Dr. David Wood. As many members are aware, last year Dr. Wood reported on fiscal design of future discoveries of 10 yet-to-be discovered fields. At that time, Dr. Wood was directed not to engage in the current issues about a gas pipeline. However, the work he and Dr. Wood have been charged with now does engage in the current issues about a gas pipeline while maintaining a multi-year focus. He stated that he has been assisting the committee in building capacity for evaluating various gas issues. He explained that Dr. Wood is currently in Poland, which is interesting in terms of the Alaska context, such that Poland is concerned since it receives its gas from the former Soviet Union, which has not always been a good relationship. He further explained that shale gas has been discovered in Poland and Dr. Wood has been consulting with the Polish Oil Company, which is a partially privatized oil and gas company. The company has recently completed a round of bids with several major oil companies and is interested in the leases moving forward and for further exploration.

[4:19:07 PM](#)

Mr. Dickinson referred to the first page of his handout titled, "December Review of 2009 Project to Build & Evaluate an Integrated Alaska Gas Fiscal Model (AGFM)," dated December 16,

2009. He remarked that he would not go through all of the slides, as many of the slides Dr. Woods had covered in his September 2009 presentation. However, he wanted to touch on a few things about the model. He reminded the committee that this is a model of the Alaska Gas Fiscal Model, and that he does not have a crystal ball, but that the model can be used to extrapolate information for a basis of fiscal comparison. He cautioned that the model will not determine the value of a project, or the number of jobs. However, the model will help outline fiscal implications when trying to decide between courses of action. Thus, in applying the same set of assumptions to several projects, the model can provide information on the fiscal issues.

[4:20:21 PM](#)

MR. DICKINSON referred to slide 5 of his presentation, which he said outlines some aspects of this model, such that one module examines "Upstream" and analogues to existing North Slope fields for hypothetical yet-to-be discovered fields of various size of gas and oil reserves such as if another Prudhoe Bay was discovered. The model also allows users to combine bits and pieces of different fields to scrutinize aspects such as how it would work to have various oil companies involved. One model dimension is to analyze "Downstream and Midstream" by allowing mixing and matching of 10 hypothetical components, such as from Delta Junction to the Canadian border or to Cook Inlet. One new aspect that has been worked on is the supply chain that comes down to Cook Inlet. One of the initial options was a gas-to-liquids (GTL) plant on the North Slope, but recently there has been interest in examining GTL in Cook Inlet instead and analyzing what other opportunities it creates. The model will

allow analysis of different "Cases" pertaining to the analysis of the economic environments and prices for oil and gas. He pointed out a disconnect between oil and gas prices, such that currently a unit of gas that typically is sold at 6 to 1 ratio is now a 20 to 1 ratio between price commanded by oil as opposed to gas.

[4:22:08 PM](#)

MR. DICKINSON stated that if you can take your gas and find a way to make it look like a refined product from a refinery, it will create a huge economic uplift. While that has been true for a year, these projects whose scope is 15 to 20 years, and this ratio change is for one year, the model still allows those comparisons for GTL that have not been considered previously.

MR. DICKINSON explained that one dimension is to examine "Fiscal Regimes". Dr. Wood developed 10 mechanisms to think of progressivity. Additionally, the model examined how 8 other oil and gas producing U.S. states tax oil and gas so that projections can be made for tax scenarios such as Prudhoe Bay using Texas or Louisiana systems. Finally, the model allows for financial analysis of "Sensitivities" which allows projections using various scenarios such as adding \$3, \$4, or \$5 dollars more and the outcome. He noted the results are reported in pages of graphics to help determine outcomes. Thus if results are known using a static model and one piece is changed, it can help to know whether the results are totally changed or only just slightly diluted.

[4:24:08 PM](#)

MR. DICKINSON then referred to slide 17 titled "AGFM - Can Consider Wide Range of Oil/Gas Prices," which presents graphically what was just discussed. He pointed out the relationship between oil and gas price. He remarked that the graphic displayed on this slide originated as part of the original AGIA documentation made in May 2007, with the graph now extended to show the changes that have happened since then. Thus, this slide demonstrates the true disconnect between the oil and gas markets, which had been previously thought to be connected.

MR. DICKINSON referred to slide 18, titled "AGFM - Compare Fiscal Take under Various Combinations," which demonstrates the price scenarios of three different cases. Case 1 relates to a pipeline through Canada; Case 2 is a liquefied natural gas (LNG) case; and Case 3 relates to a GTL case. Thus, the price scenario for a low gas price and a high oil price from Alaska's fiscal point of view results in a GTL number that rises above the other two options. He offered his belief that if the historic conditions continue for another 20 years that this model can show there are other ways to examine oil and gas.

MR. DICKINSON referred to slide 24, titled "Additional specific refinements to the GTL Supply Chain". He explained that this slide summarizes the work done with respect to the Point McKenzie gas plant. The information was obtained from presentations made by former Commissioner Harry Noah, and from estimates developed by DNR for some components. He emphasized the huge and dramatic tax difference that is currently in the law when considering GTLs. He remarked that gasoline used as fuel in the state receives a very low tax rate \$.17 per thousand

cubic feet (Mcf) but if it is exported or used as a feed stock it has a much, much higher tax.

[4:27:16 PM](#)

MR. DICKINSON concluded that the last slide titled "Thank You" contains contact information for himself and Dr. Woods.

[4:27:24 PM](#)

REPRESENTATIVE HAWKER remarked that the work is impressive. He referred to slide 18, to Case 1, the low gas price, high oil price scenario. He explained that due to the low gas, high oil disconnected price resulted in the figures presented, which show that the GTL suddenly appears more profitable than LGN or a pipeline. He suggested that the scenario might create a false precision mindset. He inquired as to whether Case 1 had been calculated under the current tax regime with the dilutive aspect of incremental gas development. He further inquired as to whether these combinations were also developed using a dilutive aspect of incremental gas development. He offered his belief that an instance showing these figures would not ever occur since the state would not allow a dilutive gas tax regime to actually come into being.

[4:28:29 PM](#)

MR. DICKINSON agreed. He explained that the box is labeled "Alaska Take for Status Quo (CPT) & Three Different Supply Chains." He further explained that CPT represents a combined progressivity tax, which Representative Hawker is calling a

dilutive effect. He reiterated that one option is to examine other ways of reviewing progressivity.

REPRESENTATIVE HAWKER expressed his concern that someone who might want to show that GTLs as the ultimate solution might examine these numbers and misinterpret them. He reiterated that are not comprehensive analysis in his view.

MR. DICKINSON agreed. He stated that one inherent problem in developing any scenarios using the status quo that take advantage of a loophole or some special circumstance is that it is almost certain that the outcome would not occur if that specific path were followed.

^OTHER COMMITTEE BUSINESS

[4:29:32 PM](#)

CHAIR MEYER announced that the final order of business would be Other Committee Business. He asked for comments.

SENATOR MENARD stated that she appreciated being able to do participate telephonically.

^ADJOURNMENT

[4:30:25 PM](#)

There being no further business before the committee, the Legislative Budget and Audit Committee was adjourned at 4:30 p.m.