

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

Anchorage, Alaska

August 20, 2010

2:04 p.m.

MEMBERS PRESENT

Senator Kevin Meyer, Chair
Senator Lyman Hoffman
Senator Linda Menard (via teleconference)
Representative Mark Neuman (via teleconference)
Representative Bill Stoltze
Senator Donny Olson (Alternate)
Representative Chris Tuck (Alternate)

MEMBERS ABSENT

Representative Mike Hawker, Vice Chair
Senator Charlie Huggins
Senator Bert Stedman
Representative Nancy Dahlstrom (Alternate) (Resigned 5/31/10)
Representative Bill Thomas
Representative Mike Doogan

OTHER LEGISLATORS PRESENT

Representative Mike Chenault (via teleconference)

COMMITTEE CALENDAR

APPROVAL OF THE MINUTES
REVISED PROGRAM - LEGISLATIVE
OTHER COMMITTEE BUSINESS
EXECUTIVE SESSION
RELEASE OF AUDITS

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

AMANDA RYDER, Legislative Fiscal Analyst
Legislative Finance Division
Legislative Agencies & Offices
Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Provided information about the requested RPLs to the Joint Committee on Legislative Budget and Audit.

ANNA KIM, Director

Administrative Services

Department of Education and Early Development (EED)

Juneau, Alaska

POSITION STATEMENT: Answered a question regarding RPL05-1-0036.

ALISON ELGEE, Assistant Commissioner

Office of the Commissioner

Department of Health & Social Services (DHSS)

Juneau, Alaska

POSITION STATEMENT: Answered a question regarding RPL 06-1-0167.

DELISA CULPEPPER, Chief Operating Officer

Alaska Mental Health Trust Authority (Trust)

Department of Revenue (DOR)

Anchorage, Alaska

POSITION STATEMENT: Answered questions regarding RPL 06-1-0173.

BOB PAWLOWSKI, Staff

Senator Kevin Meyer

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Provided information and answered questions regarding the contract amendment with David Wood & Associates operating as DWA Energy Limited.

MILES BAKER, Staff

Senator Bert Stedman

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Provided information and answered questions regarding the contract amendment with David Wood & Associates operating as DWA Energy Limited.

ACTION NARRATIVE

[2:04:13 PM](#)

CHAIR KEVIN MEYER called the Joint Committee on Legislative Budget and Audit meeting to order at 2:04 p.m. Present at the call to order were Senators Menard (via teleconference), Olson (Alternate), and Meyer, and Representatives Stoltze, Neuman (via

teleconference), and Tuck (Alternate). Senator Hoffman arrived as the meeting was in progress. Representative Chenault (via teleconference) was also in attendance.

APPROVAL OF THE MINUTES

[2:04:27 PM](#)

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

[2:06:14 PM](#)

REPRESENTATIVE STOLTZE made a motion to approve the minutes of June 25, 2010, and July 30, 2010. There being no objection, the minutes from the meetings of June 25, 2010, and July 30, 2010, were approved.

REVISED PROGRAM - LEGISLATIVE

[2:06:35 PM](#)

CHAIR MEYER announced that the next order of business would be consideration of Revised Programs - Legislative (RPLs).

[2:07:03 PM](#)

AMANDA RYDER, Legislative Fiscal Analyst, Legislative Finance Division, Legislative Agencies & Offices, Alaska State Legislature, informed the committee that two RPLs impact fiscal year 2010 (FY 10), and five impact FY 11. She suggested that the committee assume an RPL is for FY 11 unless otherwise specified. Ms. Ryder introduced RPL 05-1-0036 from the Department of Education and Early Development (EED) for \$185,427 of federal receipts for operating funding to pay for a summit to be held in 2011 to develop a website and to deliver three workshops. Participants in the summit are library, archive, and museum staff with a focus on Native populations. There is a one-to-one match requirement for funding; however, the match will be met through existing salaries, contributions, and by other organizations, with no new state funds needed and no new positions created. She further explained that the RPL does not include a valid allocation, but EED advised that the funding for this RPL will be attached to the libraries' allocation. Furthermore, she clarified that the written information provided on RPL 05-1-0036 will be corrected from an amount of \$185,400 to \$185,427.

[2:09:08 PM](#)

REPRESENTATIVE CHENAULT asked for a breakdown of the funds that would be coming from the department.

[2:09:45 PM](#)

CHAIR MEYER set RPL 05-1-0036 aside and stated that the committee would come back to it.

[2:10:52 PM](#)

MS. RYDER introduced RPL 06-0-0693, noting that it applies to FY 10. The Department of Health & Social Services (DHSS) is requesting operating authorization for \$922,000 of American Recovery and Reinvestment Act (ARRA) funds in five Office of Children Services allocations. The allocations were underestimated due to the rate applied for foster care. This authorization is needed to properly account for revenue and expenditures at the end of FY 10; in fact, the funding has been spent and if the RPL is not approved, a ratification will be required.

[2:11:46 PM](#)

REPRESENTATIVE NEUMAN asked for confirmation that the money was spent before it was authorized.

[2:12:10 PM](#)

MS. RYDER explained that the money spent was federal authorization, thus "this is just swapping federal authorization that was spent for ARRA authorization, which is also federal authorization."

[2:12:21 PM](#)

REPRESENTATIVE NEUMAN asked whether this was additional money or money pulled from another source.

[2:12:41 PM](#)

MS. RYDER advised the department did have enough federal authorization in its budget to collect the receipts, but did not have enough ARRA authorization to expend the receipts owed.

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CHAIR MEYER, hearing that Representative Neuman was satisfied with the response, asked if there were further objections. There being none, RPL 06-0-0693 was approved.

[2:13:48 PM](#)

MS. RYDER introduced RPL 06-1-0167 from the DHSS for \$669,139 of ARRA funds in the Division of Public Assistance administration allocation. A 19 percent increase over the last year has strained the division's ability to provide adequate levels of customer service. This funding will be used to improve business practices in order to manage increasing caseloads. No new positions will be added and no state match is required.

[2:14:25 PM](#)

REPRESENTATIVE NEUMAN asked whether these funds will continue to be added to the next operating budget.

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MS. RYDER clarified that no RPL funding goes into the "base"; therefore, even if this RPL is approved, any additional funding must be approved during the FY 12 budget process.

[2:15:20 PM](#)

REPRESENTATIVE NEUMAN asked for assurance that the state is not being put into a position where it is expected to continue funding these programs.

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CHAIR MEYER set RPL 06-1-0167 aside.

[2:16:32 PM](#)

MS. RYDER introduced RPL 06-1-0173 from DHSS for \$210,853 of Mental Health Trust Authority Authorized Receipts (MHTAAR) funding for a one-to-one match of available federal funds for the Alaska State Loan Repayment Program (SHARP). The SHARP program is designed to encourage selected health care practitioners to work in Alaska by making loan repayments for the practitioners while they are providing care in areas of need. According to DHSS, there are no general fund impacts.

[2:17:01 PM](#)

REPRESENTATIVE CHENAULT asked whether this program will repay loans on a long-term basis.

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CHAIR MEYER set RPL 06-1-0173 aside.

[2:17:54 PM](#)

MS. RYDER introduced RPL 07-1-1018 from the Department of Labor & Workforce Development (DLWD) for \$1,006,800 of additional federal authorization in the Alaska Vocational Technical Center (AVTEC) allocation, thereby increasing this federal authorization from \$483,200 to \$1,500,000. Of this increase, \$600,000 is needed because Pell grants have increased, and \$700,000 to \$800,000 is needed because all Title IV eligible post-secondary institutions must now use the William D. Ford Federal Direct Loan Program for new federal student loans. Although AVTEC will certify the direct loans online and disburse funds for its students, it will not increase its operating costs and there are no current or future general fund impacts.

[2:19:15 PM](#)

CHAIR MEYER asked if there were any objections. There being none, RPL 07-1-1018 was approved.

[2:19:36 PM](#)

MS. RYDER introduced RPL 45-0-0034, noting that it is a FY 10 operating RPL from the University of Alaska (UA) for \$1,300,000 of federal authorization for the Anchorage campus. These funds are needed for three reasons: the UAA federal receipts authority was reduced by \$4.7 million; there was an increase in Pell grant activity; there was a budget structure change within the university system. No state general funds will be used, nor is a match required. The funds have been spent and if the RPL is not approved, a ratification will be required.

[2:20:36 PM](#)

CHAIR MEYER asked if there were any objections. There being none, RPL 45-0-0034 was approved.

[2:21:01 PM](#)

MS. RYDER introduced RPL 45-1-1100, noting that it is a capital RPL from the UA for \$2,623,211 of ARRA funding. This additional capital authorization will allow the university to accept four awards, and no general funds will be used nor is a match required.

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CHAIR MEYER asked if there were any objections. There being none, RPL 45-1-1100 was approved.

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CHAIR MEYER returned to RPL 05-1-0036 and asked Representative Chenault to restate his question.

[2:22:17 PM](#)

REPRESENTATIVE CHENAULT asked what portion of the \$185,000 one-to-one match will come from state agencies or departments.

[2:23:01 PM](#)

ANNA KIM, Director, Administrative Services, Department of Education and Early Development (EED), informed the committee the libraries' portion of the contribution is \$108,460 to be spent on personal services and other non-personal services line items as part of its normal operation. The Institute of Museum and Libraries Services grant portion is \$185,427 - the requested amount - and the balance of \$49,575 will come from entities outside of the state.

[2:24:09 PM](#)

CHAIR MEYER asked if there were any further objections. There being none, RPL 05-1-0036 was approved.

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CHAIR MEYER returned to RPL 06-0-0167 and asked Representative Neuman to restate his question.

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REPRESENTATIVE NEUMAN asked whether these increases will return to be included in the next operating budget, even though they are said to be "one-time."

[2:25:09 PM](#)

ALISON ELGEE, Assistant Commissioner, Office of the Commissioner, Department of Health & Social Services (DHSS), informed the committee 100 percent of the food stamp program is funded by the federal government. The department acts as the federal government's agent, although benefits are paid directly to the recipients. She explained that the department had federal authorization to cover the program, but the administration money for FY 11 came through ARRA funds, thus the RPL is needed to allow the department to properly account for the funds. Ms. Elgee said the department does not anticipate requesting general funds to support the food stamp program at any point.

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CHAIR MEYER, hearing that Representative Neuman was satisfied with the response, asked if there were any further objections. There being none, RPL 06-1-0167 was approved.

[2:27:17 PM](#)

CHAIR MEYER returned to RPL 06-1-0173 and asked Representative Chenault to restate his question.

REPRESENTATIVE CHENAULT asked whether this program would extend beyond one year. He also asked how long the legislature can expect the program to be supported by MHTAAR before "we have to roll that into the state budget."

[2:28:11 PM](#)

DELISA CULPEPPER, Chief Operating Officer, Alaska Mental Health Trust Authority (TRUST), said she was on an advisory committee and oversees workforce development for the Trust. This is the first year the Trust has matched funds with the federal program out of the National Health Services Corps State Loan Repayment Program; in fact, the Trust has been supporting this program for three years on its own. Although the federal match effectively doubled the amount of money available to health professionals, the federal money was late so contracts were not written to obligate MHTAAR money prior to the end of the fiscal year.

Therefore, part of this is "carryover money" from FY 10 to FY 11. In addition, when the grant was written, two other entities were committed to match funds but they subsequently failed to participate. In response to the question about the length of the program, Ms. Culpepper said the federal program has a two-year authorization, but the Trust has been funding the program for three years and she opined it would continue to do so.

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REPRESENTATIVE CHENAULT agreed that MHTAAR supports worthy programs; however, he maintained his concern about a funding source that "goes away for other projects, and we end up picking it up in the state's operating budget."

[2:31:04 PM](#)

CHAIR MEYER concurred. He asked whether there were further objections. There being none, RPL 06-1-0173 was approved.

[2:32:22 PM](#)

REPRESENTATIVE STOLTZE moved to accept RPLs 05-1-0036; 06-0-0693; 06-1-0167; 06-1-0173; 07-1-1018; 45-[0]-0034; 45-1-1100 as submitted.

[2:32:32 PM](#)

CHAIR MEYER confirmed that the motion reflected RPL 45-0-0034, and announced that there being no objection, all of the RPLs are approved.

[2:33:10 PM](#)

CHAIR MEYER announced the next order of business would be one item of other committee business: No-cost contract amendment for Dr. David Wood operating as DWA Energy Limited.

OTHER COMMITTEE BUSINESS

[2:33:27 PM](#)

BOB PAWLOWSKI, Staff to Senator Kevin Meyer, Alaska State Legislature, introduced the contract amendment to the contract with Dr. David Wood, operating as DWA Energy Limited. He informed the committee the amendment to the David Wood contract is specifically to clarify the work needed to look at oil tax

structure and oil fiscal design. This work was an integral part of the original report provided by Dr. Wood in November 2008, and in March 2009, during discussions on understanding the interrelationship of the fiscal design between oil and gas taxes. The modification adds to the existing contract issued in March and April of 2009, a new Section B, which replaces the original Section B, and which includes a statement of work to be completed by Dr. Wood. The statement adds work needed to compile a model for oil fiscal design and tax structure comparable to the model that was done for gas tax structure; to look at the current fiscal design and tax structure components and determine variables; to look at known and yet-to-be-known upstream oil reserves concluding the upstream cost production data from Prudhoe Bay and other North Slope fields; to analyze other oil fiscal regimes globally in comparison to Alaska; to complete additional analysis of the revenue effects of alternating the components of variables identified in this section. Mr. Pawlowski noted that this scenario would lead to producing a report outlining the working interrelationship between oil fiscal design and tax structure and gas fiscal design and tax structure, thus allowing the legislature to examine the relationship between the present tax structure, and one that taxes oil revenue at one level and gas revenue at another level. He advised that the amendment was requested by Senator Stedman.

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MILES BAKER, Staff to Senator Bert Stedman, Alaska State Legislature, opined the idea behind the amendment is that although most of the work has been done on the model that was previously presented to the committee, the amendment clarifies other issues if the legislature decides it wants Dr. Wood to look at specific oil tax variables. In fact, Mr. Baker expressed his belief that Senator Stedman's primary interest is in looking at the progressivity feature, which is unique to Alaska and triggers a surcharge that applies to the entire net value. In addition, the amendment clarifies the model used in the scope of work.

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SENATOR MENARD observed that the administration is interested in doing its own investigation into oil tax variables, and asked whether there will be an effort to coordinate the studies to avoid a duplication of expenses.

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MR. BAKER opined the legislature wants an independent team of consultants in order to benefit from analyses outside of what the administration is doing. However, there is an effort to coordinate with the Department of Revenue (DOR) and its consultants, so that there is no argument about models.

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SENATOR MENARD expressed her desire to coordinate efforts in order to quiet the public's perception, both of discord and that the state is spending money on duplicate contracts.

[2:40:00 PM](#)

MR. BAKER said he was not opposed to sharing information. Furthermore, he confirmed that the amendment is not anticipated to cause the contract to exceed the amount that the committee has already approved.

[2:40:44 PM](#)

CHAIR MEYER agreed that cost is an obvious concern, yet it is important for the legislature to remain independent. He suggested that this topic could be addressed by other consultants as well. Chair Meyer understood that Senator Stedman is interested in the "bracketing part of the progressivity."

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MR. BAKER said correct. Consultants agree that Alaska's progressivity feature is unique because once triggered, the higher tax applies to the entire total net revenue. However, the state has not studied the effect of this feature on the current credit structure and other factors.

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CHAIR MEYER added that there was a desire for an "international flavor" that Dr. Wood could provide.

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REPRESENTATIVE STOLTZE asked to what extent Dr. Wood's analysis will revisit the issues of the statute that was vetoed by Governor Parnell.

[2:43:22 PM](#)

MR. BAKER said that was not his understanding. At the time Dr. Woods looked at the state's tax structure, one of his recommendations was to have the legislature consider decoupling. Now, in light of the possibility that decoupling will not happen, Mr. Baker suggested that Senator Stedman is looking at other things, such as "bracketing." As a matter of fact, the report does not readdress the decoupling issue specifically.

[2:44:00 PM](#)

REPRESENTATIVE STOLTZE asked, "Is it certain enough to say 'no'?"

[2:44:11 PM](#)

MR. BAKER said, "No, I would, it's not certain enough to say 'no'."

[2:44:24 PM](#)

REPRESENTATIVE NEUMAN asked whether the report would be able to look at the way the gas is valued. Presently Btu equivalents are used, but gas has different mixes of liquids and dry gases, and he questioned whether Btu equivalents are the best way to determine its value. The state needs to ensure that it gets the highest value in incentives and credits for exploration. Because the Btu equivalents for gas affect the "numbers" used by the consultants, he urged that more exploratory work be done on this subject.

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REPRESENTATIVE STOLTZE said he appreciated members' requests for information, but he stated the need for more focus on the scope of the consultant's report. For example, the legislature does not know the intended path of the consultant. He said, "We hire too many consultants, in my opinion, and I would like to ... not to handcuff them, but I also don't want to turn folks loose on every imaginable subject"

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CHAIR MEYER advised that the contract has gas in the title, thus Representative Neuman's request could be done under the existing contract. He surmised that the purpose of the amendment is to extend the contract to include oil.

[2:46:41 PM](#)

MR. PAWLOWSKI said yes. He added that the existing contract has a lot of flexibility in gas, but specifically highlights throughout "its interrelationship between gas and oil as a fiscal design, and yet there was not a specific section detailing the model for oil."

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CHAIR MEYER reminded the committee that all requests for the consultant and his work are to be through the Joint Committee on Legislative Budget and Audit in order to limit costs and the topics that are requested, and he solicited further information from Representative Neuman on his request. He then asked the committee to return to the subject at hand.

[2:47:34 PM](#)

REPRESENTATIVE CHENAULT agreed the legislature needs to work with the administration, but sometimes the administration is following a different path and it is in the legislature's best interest to ensure its questions are answered - not just by the administration - but by consultants hired independently. Although the legislature and the administration need to work together, and not waste money, he stressed that the legislature should "have our own people that can give us the information that we ask for."

[2:49:05 PM](#)

REPRESENTATIVE STOLTZE moved that the Joint Committee on Legislative Budget and Audit approve amending the scope of the contract with DWA Energy Limited to include issues involving oil.

[2:49:37 PM](#)

CHAIR MEYER, hearing no objection, announced that the motion was approved.

EXECUTIVE SESSION

2:49:47 PM

CHAIR MEYER announced that the next order of business would be that the committee would go into executive session.

REPRESENTATIVE STOLTZE made a motion to move to executive session under Uniform Rule 22 for the purpose of discussing confidential audit reports under AS 24.20.301. There being no objection, the committee went into executive session at 2:50 p.m.

CHAIR MEYER brought the committee back to order at 3:11 p.m.

RELEASE OF AUDITS

3:11:37 PM

REPRESENTATIVE STOLTZE made a motion for the final audit to be released for the Special Report on the Department of Transportation & Public Facilities, Alaska Marine Highway System - Procurement Process.

3:11:51 PM

CHAIR MEYER, hearing no objection, announced that the audit would be released.

3:13:03 PM

ADJOURNMENT

There being no further business before the committee, the Joint Committee on Legislative Budget and Audit meeting was adjourned at 3:13 p.m.