

HOUSE FINANCE COMMITTEE  
March 19, 2009  
1:38 p.m.

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CALL TO ORDER

Co-Chair Hawker called the House Finance Committee meeting to order at 1:38 p.m.

MEMBERS PRESENT

Representative Mike Hawker, Co-Chair  
Representative Bill Stoltze, Co-Chair  
Representative Bill Thomas Jr., Vice-Chair  
Representative Allan Austerman  
Representative Harry Crawford  
Representative Anna Fairclough  
Representative Richard Foster  
Representative Les Gara  
Representative Reggie Joule  
Representative Mike Kelly

MEMBERS ABSENT

Representative Woodie Salmon

ALSO PRESENT

Karen Rehfeld, Director, Office of Management and Budget, Office of the Governor; Dan Spencer, Director, Division of Administrative Services, Department of Public Safety

PRESENT VIA TELECONFERENCE

None

SUMMARY

HB 113 "An Act making supplemental appropriations, capital appropriations, and other appropriations; amending appropriations; making appropriations to capitalize funds; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

HB 113 was HEARD and HELD in Committee for further consideration.

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#hb113

HOUSE BILL NO. 113

"An Act making supplemental appropriations, capital appropriations, and other appropriations; amending appropriations; making appropriations to capitalize funds; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

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KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, explained the circumstances that guided drafting of the supplemental budget. She stated that a lot has happened in the state that affected the budget since the supplemental bill was introduced on February 3, 2009. The Office of Budget and Management released an interim revenue forecast that determined state revenues will be significantly lower than what the 2009 and 2010 budgets were built on. The goal for drafting the supplemental budget was to achieve a reduction in expenses for the current year. All departments went through a process to find ways to reduce general fund expenditures. The Office of Management and Budget also looked at existing projects, especially capital projects to identify lapsing balances from unspent funds left over after a project is completed. Four million dollars in lapsing funds were re-appropriated for other needs. The governor instructed departments to develop savings targets and identify ways to save money. The goal was to find additional reductions of \$20 million for the 2009 budget. The savings targets were incorporated into the supplemental bill. The savings realized by the departments totaled \$17.5 million.

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Ms. Rehfeld spoke to the hiring freeze imposed on state agencies. She noted that specific guidance was in place to the departments. There is a waiver process and exemptions available for positions in public safety and 24-hour facilities. The overall goal is to minimize the draw from state savings to cover the 2009 budget shortfall.

Ms. Rehfeld explained the ratifications section in the supplemental. Primarily, ratifications correct errors when recording revenue.

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Co-Chair Hawker interjected that ratifications shown on the pink spreadsheets [amendments to the supplemental legislation introduced by the governor on March 13, 2009] reflect whole numbers to the penny.

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Co-Chair Hawker requested Ms. Rehfeld address only the highlights of each section in the legislation. She noted that two packets of amendments to the supplemental bill were previously submitted on February 24<sup>th</sup>, and March 13<sup>th</sup>.

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Representative Austerman asked for clarification on the \$1.1 million amendment for the Department of Administration. Ms. Rehfeld explained that on the pink spreadsheet, page 1, line 1, identifies an unallocated reduction of \$1.1 million for the Department of Administration. The entry on line 3, \$107.6 thousand for Retirement and Benefits is included in the \$1.1 million on line 1. This was an error that shows up as a duplicate reduction. The entry on page 36, of the spreadsheet, line 202, is an amendment correcting that error.

Co-Chair Hawker explained that many amendment items in the supplemental are really an appendage to the original budget proposal, not an amendment. They were budget item changes that were discovered after the transmittal of the original supplemental bill.

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Representative Gara referred to the unallocated reductions in every department. He asked how these reductions were achieved. Ms. Rehfeld explained that she asked the agencies to find reductions when the FY 2010 budget was signed by the governor. The Office of Management and Budget set a target of \$20 million based on a percentage of general fund expenditures for personal services spread across the agencies. The Department of Public Safety and Department of Corrections were exempted. Departments were asked to devise plans to identify reductions from any budget component in their agency. As the fiscal year progressed and revenue changed, it became a priority to implement the savings plans to achieve reductions. These reductions were built into the supplemental budget.

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Representative Gara asked if all of the agencies unallocated reductions have been earmarked for other uses. Ms. Rehfeld responded that the departments did have plans in place on how to achieve the reductions. She exemplified the Department of Administration's plan that included managing their vacancies to delay hiring, reallocating some general fund expenditures to capital fund appropriations where possible, and other measures.

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Co-Chair Hawker interjected that mechanically these are reductions from the Office of the Commissioner who has the authority to allocate the reductions throughout their agency.

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Representative Gara stated that departments are adjusting the time it takes to fill vacancies to achieve reduction goals. He was concerned that OMB was not granting waivers in order to maintain the savings targets. Ms. Rehfeld explained that some departments were holding positions vacant for a period of time to reduce spending as part of their plan. Half way through the fiscal year the hiring freeze went into effect. The departments now have to seek a waiver to fill those positions. She believed that the waiver process was causing a delay in re-hiring those positions. There are a number of waiver requests pending. The Office of Management and Budget is expediting those requests, focusing on the positions deemed critical by a commissioner.

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Representative Gara reiterated his concern about keeping positions open longer to reflect savings. Ms. Rehfeld felt that commissioners were thoughtful when considering these cost savings decisions. She reminded Representative Gara that exemptions exist for critical positions.

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Ms. Rehfeld noted the item in the Department of Administration for the Personnel Board on line 2, for \$725.0 thousand. The expenditure was reduced by the amendment to \$560.8 thousand.

Representative Gara shared his concern that the state's salary structure is so low agencies can not attract professionals. He stated that the Department of Administration announced they were going to do a salary review. He wondered if the reduction will delay the study. Ms. Rehfeld answered that the salary study has been contracted out and is in progress. The results are expected by the end of this year.

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Ms. Rehfeld pointed out the Department of Correction's item on line 12, Inmate Health Care expenditure for \$1.405.8 million. She voiced that OMB finds it difficult to accurately determine the anticipated medical needs of the inmate population in order to avoid a supplemental request.

Ms. Rehfeld added that another area that has proved challenging to estimate is the amount of federal receipts for federal prisoners. On line 204, \$1,000.0 reflects a fund source change from general fund expenditures to federal receipt authorization.

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Representative Kelly requested the Department of Corrections explain what happened to the operating expenses appropriated for the Wildwood facility that has not yet opened. He asked for a response in writing.

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Ms. Rehfeld moved on to the Department of Health and Social Services. She noted that the general fund reductions in the areas of Behavioral Health and Medicaid Services are based on projections of need. Co-Chair Hawker interjected that on line 24, the \$8,100.0 general fund reduction is a reduction in authorizations.

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Representative Gara asked for clarification of the \$8,100.0 million reduction. Ms. Rehfeld answered that based on current projections and trends the state won't need the additional authorization. Co-Chair Hawker added that the demand for Medicaid services was overestimated.

Representative Gara wondered if eligibility requirements were increased to decrease the number of Medicaid recipients. Ms. Rehfeld replied that there has not been a change in eligibility requirements.

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Ms. Rehfeld reported that on line 26, the \$6million request for Medicaid Services has been withdrawn. The department indicated that those services would not be necessary in the current fiscal year.

Co-Chair Hawker asked about the request on line 30. Ms. Rehfeld explained that the \$500.0 general fund request reflects the recent license suspension and takeover by the state, of the Mary Conrad Center in Anchorage. The expenditure is for interim management contract services. The center is a residential care facility.

Representative Gara referred to line 29, \$4,760.0 million unallocated reduction in general fund expenditures. He suggested that the funds could be redirected to underfunded programs within the department that are not providing adequate levels of service. He identified the Independent

Living Program within the Office of Children's Services (OCS) as an example.

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Ms. Rehfeld agreed that funds could be redirected but the goal of the savings target was to manage the budget to provide services, minimize the reduction's impact, and still achieve some savings. Representative Gara disagreed with the philosophy of managing a budget just to reach a monetary goal. He asked how the department plans to respond to the program inadequacies he described. Ms. Rehfeld reported that the department does communicate inadequacies to OMB and requests budget increases. The department can not provide for all services at a desired level considering the existing budget shortfalls. The department will provide priority services as effectively as possible under the current fiscal restraints. Co-Chair Hawker acknowledged the political differences in the legislative and executive branches. He commended OMB's restraint in developing a supplemental budget that focuses on reductions instead of large increases while maintaining critical services.

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Representative Austerman voiced that he understood Representative Gara's concern. He contended that the legislature also has the ability to decide what budget items are priorities.

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Ms. Rehfeld did not address any budget items for the Department of Labor and Workforce Development nor the Department of Law. She noted that the Department of Military and Veterans Affairs was exempt from the savings targets. The department uses very little general fund dollars.

Representative Gara cited lines 32-34, detailing Department of Law expenditure requests for outside counsel. He mentioned a recent Department of Law analysis that estimated a cost savings of up to 25% for the department if more legal work could be accomplished in house. He asked for OMB's position on the study. Ms. Rehfeld alluded to the Department of Administration's salary study. She indicated that the findings will suggest that current salaries are insufficient for attorneys which accounts for their difficulty in trying to fill specialized positions. In addition, private firms lure away experienced attorneys from the department offering more lucrative wages. She concluded that the department might always need to contract for outside counsel for specialized attorneys. However, higher salaries might achieve more of a balance within the department between the amount of in-house counsel and contracted services.

Co-Chair Hawker reminded Ms. Rehfeld that the item on line 33, \$1,335 million request for expertise and outside counsel for Oil and Gas Projects has been withdrawn in Amendment 221.

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Ms. Rehfeld stated that the unallocated reduction on line 39, in the amount of \$1,240.0 million is targeted for personal services and will be spread throughout the Department of Natural Resources. She noted that many of the funding increases in the various Department of Public Safety components reflect the results of the collective bargaining agreement with the Public Safety Employees Association (PSEA). The decrement on page 7, line 56, of \$1.1 million for Village Public Safety Officers' (VPSO) contracts reveals the departments inability to hire all of the contracted positions. The funds are included in the FY 2010 budget and the commissioner has indicated that all of the positions will be filled in that fiscal year.

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Vice-Chair Thomas asked why the Department of Public Safety was not able to recruit and fill all of the positions.

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DAN SPENCER, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF PUBLIC SAFETY, explained that the hiring process has not been able to keep pace with the amount of additional positions recently funded. The department added fifteen new VPSO positions. The goal is to increase the overall number of VPSO positions and focus on recruitment and retention. The department also instituted a salary increase. In FY 2010, the department hopes to have all the positions filled. Vice-Chair Thomas wondered what the problem is with recruitment and retention of VPSOs. Mr. Spencer answered that the recent salary increase to a \$21 per hour starting salary may improved retention. In addition, the department authorized periodic pay increases similar to merit increases. Vice-Chair Thomas felt that a deterrent in recruitment and retention is their inability to carry firearms. Mr. Spencer explained that the VPSOs are not certified police officers. Their level of training as well as responsibility and liability are significantly different.

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Mr. Spencer added that the VPSO program is done in partnership with the participating community's non-profit organizations. The non-profit organizations are confident

that the salary increases and recruitment efforts will result in more hires.

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Representative Thomas stressed that recruitment and retention has been a problem with the VPSO program for years. He did not feel confident that the problems will resolve any time soon.

Representative Austerman pointed out that only five of the fourteen villages in his district had VPSOs. He also wondered where the problem lies. Mr. Spencer was not familiar with the specific issues in that district.

Representative Gara questioned why the department can attract new recruits now but was not able to in past. He asked what will be different. Mr. Spencer emphasized that it will take time to predict with certainty if the retention efforts are working. The department believes they are. Newly instituted salary increases along with periodic pay increases enables candidates to look at the position as a career. Enhanced recruitment efforts are taking place around the state, which also takes time. If recruitment takes place in an urban area and a qualified candidate is found, the department will consider moving that person to the village dependent on funding. The department identified a problem with candidate selection. Half of the recruits did not graduate from the academy. Many dropped out voluntarily. Recruiters must do a better job of detailing expectations of the candidates. The department has worked to improve state trooper recruitment and all of the trooper positions are currently filled. The department hopes to see the same results with the VPSO program one year from now.

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Co-Chair Stoltze felt that much focused attention and commitment by the legislature and department has been directed at filling state trooper and VPSO positions. He emphasized that not only has there been increased funding, there is an on-going effort and commitment to fill these positions.

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Representative Kelly added that the department was doing a good job improving the recruitment efforts and increased hiring of state troopers and VPSOs without the defined benefit system.

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Mr. Spencer said he does not know how the state's retirement plan affected recruitment. He informed the committee that the VPSO program does not offer retirement benefits.

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Vice-Chair Thomas pointed out that he only has knowledge of the VPSO program problems in his district. He thanked the department for their endeavors to fill the positions.

Representative Austerman noted that on pages 36-37, the Department of Health and Social Services amendment components specify large sums of general fund and federal fund reductions based on the economic stimulus package. He asked how that will affect the department's ability to provide the same services in the FY 2010 budget. Ms. Rehfeld explained that OMB requested approval for the increase of the Medicaid reimbursement rate allowed under the stimulus package in the supplemental and the FY 2010 budget amendments. The benefit of the increased reimbursement rate will extend until the first quarter of FY 2011. The reductions listed on pages 36-37 reflect the stimulus funding.

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Co-Chair Hawker added that the aggregate total reductions in the general fund for the federal supplement are roughly \$53 million in FY2009, \$74 million in FY2010, and \$24 million in FY2011. Representative Austerman asked when general fund money will be needed for the reimbursement rate.

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Ms. Rehfeld stated that the department will need to seek guidance from the federal agency for the reimbursement rate projections for the last three quarters of FY 2011. Co-Chair Hawker elaborated that the Federal Medical Assistance Program (for Medicaid) (FMAP) rate fluctuates at the will of Congress. The actual amount would be difficult to predict at this time. He deduced that the general fund burden will increase in FY 2011.

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Ms. Rehfeld directed attention to the Department of Transportation's highlighted budget request items reflecting three bargaining union contracts: Inlandboatmen's Union; Masters, Mates, and Pilots; and Marine Engineers on page 39, lines 226-228. She noted requests related to commodity price increases and state equipment fleet costs. Co-Chair Hawker interjected that \$1,114.0 million in commodities price increases reflects price fluctuations in sand and gravel and winter chemicals (page 11, line 73).

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Ms. Rehfeld continued with a University of Alaska item on page 16, line 86. The item reflects an unanticipated workers' compensation claim. She also pointed out a significant utility cost increase affecting multiple campuses in the amount of \$1,272.0 million on page 17, line 87.

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Representative Hawker reported that the supplemental capital budget items are moved into the regular capital budget each legislative session. Ms. Rehfeld stated that most of the capital budget items in the supplemental (starting in Section 3, page 17) are requests for federal receipt authority for highway and aviation programs in the Department of Transportation. She exemplified the request on line 94, for the Alaska Military Youth Academy Infrastructure Project Improvements for the Department of Military and Veterans Affairs federal earmark in the amount of \$2,470 million.

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Co-Chair Hawker remarked that the federal funds came from an earmark. He did not think the governor was accepting earmarks. Ms. Rehfeld replied that OMB does consider earmarks designated for a priority budget item or that has gone through a public process.

Co-Chair Stoltze questioned why the Department of Military and Veterans Affairs funding for the Youth Academy on line 164, is being transferred to the Alaska Marine Highway. Ms. Rehfeld answered that in areas where OMB requested re-appropriations the specific projects were completed and the funds would have lapsed to the general fund. The funds were directly re-appropriated for other needs.

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Ms. Rehfeld referred to page 18, line 95; \$6 million in Cruise Ship Gambling Tax revenues is being used for state parks deferred maintenance. She announced that it is the first proposal that expends gambling tax revenue.

Co-Chair Hawker added that an extensive legal evaluation has determined that the cruise ship gambling tax revenue is part of the general fund and available for general use. The tax revenue does not have to be designated for specific use. Ms. Rehfeld affirmed.

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Vice-Chair Thomas asked what are the plans for deferred park maintenance if this item is not approved in the capital budget. Ms. Rehfeld stated that OMB would have to re-evaluate the deferred maintenance needs. Co-Chair Stoltze asked how OMB decided to expend the gambling tax revenue for state parks. She explained that OMB looked at addressing the state parks deferred maintenance needs for the benefit of all Alaskans. Expenditures were not limited to the tourism or cruise ship industry. Co-Chair Hawker reiterated that the tax revenue is a simple general fund expenditure.

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Ms. Rehfeld addressed line 229, the Kalskag High School Replacement. The school was destroyed by fire. The \$18,688.7 million is the state's share of the replacement cost. The insurance proceeds will be deducted from this amount.

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Ms. Rehfeld referred to the ratifications section starting on line 192 on page 34. She explained that fire suppression activity is an annual request. The six remaining ratifications result from accounting transaction errors. Co-Chair Hawker recommended OMB oversee internal accounting improvements for the agencies involved. He felt the errors were avoidable.

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Representative Fairclough remarked that the gambling tax revenue should not be referenced as such in the budget to avoid a risk of litigation from the cruise industry. The money is general fund dollars.

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Representative Crawford recalled how the legislature took PFD's from felons and misdemeanants to use the monies for child support. He emphasized that has not been done and he questioned when it would be. Ms. Rehfeld offered to discuss that issue with him.

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Representative Austerman cited page 17, line 92, and remarked that the fund source for the component is listed as business license receipts. He felt it should be designated as general funds. Co-Chair Hawker commented that there is presently a statutory construct that earmarks business license receipts as a separate fund source.

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Co-Chair Hawker closed public testimony.

HB 113 was HEARD and HELD

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ADJOURNMENT

The meeting was adjourned at 3:01 PM