

HOUSE FINANCE COMMITTEE
January 29, 2010
1:37 p.m.

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CALL TO ORDER

Co-Chair Hawker called the House Finance Committee meeting to order at 1:37 p.m.

MEMBERS PRESENT

Representative Mike Hawker, Co-Chair
Representative Bill Thomas Jr., Vice-Chair
Representative Allan Austerman
Representative Mike Doogan
Representative Anna Fairclough
Representative Neal Foster
Representative Les Gara
Representative Reggie Joule
Representative Mike Kelly
Representative Woodie Salmon

MEMBERS ABSENT

Representative Bill Stoltze, Co-Chair

ALSO PRESENT

Tom Irwin, Commissioner, Department of Natural Resources;
Leta Simons, Director, Division of Support Services,
Department of Natural Resources; Pat Galvin, Commissioner,
Department of Revenue; Ginger Blaisdell, Director, Division
of Administrative Services, Department of Revenue; Jerry
Burnett, Deputy Commissioner, Department of Revenue

PRESENT VIA TELECONFERENCE

None

SUMMARY

HB 300 APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 300 was heard and HELD.

HB 302 APPROP: MENTAL HEALTH BUDGET

HB 302 was heard and HELD.

#hb300

#hb302

HOUSE BILL NO. 300

"An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds; making supplemental appropriations; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska; and providing for an effective date."

HOUSE BILL NO. 302

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

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FY 11 GOVERNOR'S BUDGET OVERVIEWS: DEPARTMENT OF NATURAL RESOURCES

Representative Gara corrected a mistake made at yesterday's meeting regarding graduate programs at the university level. He spoke in support of Fairbanks as the flagship campus.

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TOM IRWIN, COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, referred to a handout entitled, "Alaska Department of Natural Resources - House Finance Committee Overview". He began by stating the Department of Natural Resource (DNR) mission: Develop, conserve and maximize the use of Alaska's natural resources consistent with the public interest.

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Commissioner Irwin listed the department's divisions, offices, and boards and commissions, as shown on slide 1.

He referred to chart 1 on slide 3, which shows DNR's priority programs.

Co-Chair Hawker expressed appreciation for the detailed spreadsheet on the department's organization.

Commissioner Irwin described the sections of the pie chart which show budget allocations by priority. The programs provide resource opportunities for resource development. He highlighted the blue section - 40.1 percent of the budget, the largest section related to natural resource development. The next largest area is wildfire management - 22.4 percent.

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Commissioner Irwin turned to slide 4 to detail the current status of the FY 10 budget. The adjusted base operating budget for FY 10 is \$133 million. One-time items, the Mental Health Trust Land Office and multi-year operating appropriations, increase the FY 10 budget by \$12 million for a total of \$145 million. This includes funding for DNR's portion of the AGIA implementation. He noted that over half of the budget is general fund - 53 percent. Federal dollars make up 11 percent, and the remaining 36 percent is in the "other" category. He detailed the "other" category items.

Co-Chair Hawker noted an anomaly between the Mental Health Trust budget and the way state agencies handle their budgets. It results in what would appear to be an increase in the agency budget by \$2.3 million. He pointed out that the perceived increase is not an actual increase. The Mental Health Trust Authority operates on a zero-based budget. The appearance of the extra millions is not new financing.

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Commissioner Irwin listed the number of permanent and non-permanent positions in the department. The department employs between 900 and 1,000 Alaskans, less in the winter and more in the summer. He highlighted several jobs. The main DNR offices are in Anchorage, Juneau, and Fairbanks. There are typically around 130 vacancies or about 11.5 percent of total positions. He spoke of job classes and pay

differential. He noted the challenge of having to recruit for certain jobs.

Co-Chair Hawker asked which categories were difficult to fill and if the legislature could help in any way. Commissioner Irwin gave an example of the difficulty of finding fire fighters. He spoke of the necessity to compete for certain jobs due to the complications of modern life. Co-Chair Hawker wondered if there was difficulty filling higher-paid positions. Commissioner Irwin reported that there were problems with losing college-trained workers, and finding highly skilled, top-level workers.

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Representative Joule pointed out that the commissioner rose from the ranks. Commissioner Irwin agreed that industry experience was important, but sometimes it is difficult to afford to hire those workers. He maintained that both are needed.

Representative Austerman agreed that this was a problem throughout departments and warrants a separate discussion. Co-Chair Hawker noted that collective bargaining negotiations were pending and several labor questions should be considered by the committee.

Representative Kelly related the conversation to hiring for the pipeline. He commented on the current job picture nationwide. He has heard that it is hard to find hires for top people.

Commissioner Irwin reported that his top people have not gone to the federal government, but there is competition across the board. Co-Chair Hawker commented on the ability of salary overrides for exempt positions, which has helped to retain some positions.

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Representative Joule wondered if positions could be moved up in order to fill openings as needed. He wondered if there were more out-of-state applicants. Commissioner Irwin said he has not seen more non-Alaskan applicants. Representative Joule had heard rumors about out-of-stater's moving north.

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LETA SIMONS, DIRECTOR, DIVISION OF SUPPORT SERVICES, DEPARTMENT OF NATURAL RESOURCES, addressed Representative Joule's question. She noted a problem in filling upper level forestry jobs. She offered to provide data on failed recruitments from outside the state.

Representative Salmon asked how fires are screened. Commissioner Irwin replied that all fires from the previous year are examined and the management plan is reviewed. Not every fire is put out. He shared statistics on lightning strikes. He clarified that some forest fires need to burn out in order to prevent fires in the future. He related that he does not meddle in the management of fire fighting, but leaves that up to the experts who have significant data for their use. He spoke of a concern about the smoke damage from fires.

2:10:31 PM

Commissioner Irwin explained that Fairbanks is easy to protect from fires; however, Anchorage is not. Fire fighting plans are continuously being updated.

Representative Kelly asked what the criteria are whether to fight a fire or not. He thought that fires were not fought for smoke. Commissioner Irwin explained that some fires were fought for smoke due to potential health problems. Representative Kelly thought that the message should be communicated honestly as to which fires would be fought and why. He shared a personal story.

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Commissioner Irwin emphasized that there would be fires that cannot be stopped.

Co-Chair Hawker commented that supplemental budgets are anticipated for fire fighting. He expected a \$35 million request. Commissioner Irwin thought it would be about \$40 million.

Ms. Simons clarified that the budget would end up being around \$40 million or more, but the actual supplemental would be the same amount as the emergency declarations, which total \$35 million.

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Commissioner Irwin turned to slide 5 - recent highlights of DNR. He noted that the department received \$8.5 million from North Slope lease sales, an increase of \$2 million over 2008. He termed it a positive pattern. He said the department has collected \$20 million from royalty settlement negotiations. ExxonMobil completed drilling and casing the surface section of its first production well at Pt. Thomson. The department continues to support the development of a pipeline to deliver North Slope natural gas to markets outside of Alaska. ExxonMobil joined TransCanada to progress the Alaska Pipeline Project. The legislature has allowed the department to move forward with AGIA. He spoke highly of TransCanada.

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Commissioner Irwin reported on a trip to Houston to gather information about the open season. He spoke highly of ExxonMobil.

Representative Austerman requested information about the Federal Stimulus Act.

Commissioner Irwin related that there was \$10.7 million left of Stimulus money. The department is planning on spending the funds on putting Alaskans to work this coming summer in various projects. He spoke of two benefits from Stimulus money. One is putting Alaskans to work and the other is training that will also benefit the fire season. Representative Austerman asked if the money would be spent this summer. Commissioner Irwin said it would.

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Co-Chair Hawker clarified that the Stimulus money bill passed last year approves funding until June 30, 2010. There is language in HB 300 that continues the funding into the subsequent fiscal year. Commissioner Irwin pointed out that the \$10.7 figure is from the Federal Stimulus Act.

Representative Fairclough inquired if the amount is \$8.5 billion or \$5.7 billion in FY 09, as reflected on slide 5. Commissioner Irwin said it is \$5.7 billion. He stated an intention to generate more money. Representative Fairclough

requested an update on the AGIA process as it relates to First Nation issues.

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Commissioner Irwin informed the committee that the issues are significant; however, the NPA TransCanada right-of-ways are well-grounded. Representative Fairclough wished for a timeline for permits. She recalled that the Alaska Native claim took a significant amount of time. Commissioner Irwin offered to provide updated Alaska Pipeline Project information to the committee in order to answer Representative Fairclough's questions.

Representative Fairclough asked if there were 8.3 million acres of new state land. She wondered if the goal of a million acres of transfer had happened. Commissioner Irwin believed the goal was 1.9 million acres. He pointed out that Alaska has gained as much ground the last four years as the size of Massachusetts and Connecticut combined. He noted that getting land has its burdens. Native corporations and the state over-selected lands. He thought 11 million or 12 million acres were over-selected.

Co-Chair Hawker inquired about the RS 2477 rights of ways. He recalled that the legislature used LB&A to manage that process because it believed that the administration was not pursuing land rights of ways with vigor. He requested the department's take on the issue.

Commissioner Irwin explained the process that would be required to settle the RS 2477 issue. He thought it would require a lawsuit. He predicted it would be a \$2 million lawsuit.

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Commissioner Irwin addressed Representative Austerman's question regarding abandoned wells. He related how DNR worked with the Pearl bankruptcy. A buyer in the form of Cook Inlet Energy was found. Representative Austerman asked if the industry posted a bond. Commissioner Irwin said that DNR has a fund that was used. The reality is there is not enough protection in some areas of the state. The fund is not sufficient for today's risk.

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Representative Gara clarified that he voted against all taxes except for a fair share for oil tax.

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Commissioner Irwin turned again to recent highlights of the department. He spoke of successes when permitting mine, land, and water projects, such as Kensington, Red Dog, Fort Knox, Pebble, and Donlin Creek.

Commissioner Irwin spoke of contracts with state parks to replace toilet facilities. He discussed the needless damage that happens in state parks.

Co-Chair Hawker recalled a capital development improvement plan for state parks. He wondered if DNR's budget supported that plan. Commissioner Irwin stated that he supports the governor's budget. This administration has put in another step to move forward on parks maintenance. He offered to find out if the budget keeps up with the original statewide plan.

Representative Austerman thought "user fees" were necessary. He complimented the work that James King does. Commissioner Irwin described how other governments manage their parks with donations.

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Representative Foster appreciated work that the department does on park maintenance, especially the toilet facilities. Commissioner Irwin shared that the facilities are great looking.

Representative Gara brought up a concern about the expense of state park use. He wondered about guided float trips on the Kenai River and a survey which could lead to an exclusion from using the river. Commissioner Irwin replied that the department has made no decisions regarding the use of the Kenai River. He shared some history about the Kenai River's impaired fishery and the restrictions imposed. The state must continue to manage such issues fairly.

Representative Gara noted that did not want to see half of the float trips reserved for non-Alaskans. Commissioner Irwin stressed that he works for all Alaskans.

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Co-Chair Hawker spoke of a universal challenge involving the loss of federal funding authority. He questioned whether the state should continue to supplant federal money with state funds. He questioned if the state should support things like the Alaska Volcano Observatory (AVO), by supplanting federal monies. Commissioner Irwin thought it was critical to continue to support this issue. He supported his view with statements about air traffic safety.

Co-Chair Hawker asked if the state is actively pursuing this issue. Commissioner Irwin replied that it is a matter of safety first, business second. He termed it a small amount of money for safety.

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Ms. Simons added that the request for the FY 11 budget is for \$300,000. The goal is to have DNR maintain their funding efforts for AVO. American Recovery and Reinvestment Act (ARRA) funds which have stepped in to pick up the slack are short term funds. Co-Chair Hawker believed that the \$1.5 million in ARRA funds were approved at the December LB&A meeting.

Commissioner Irwin wondered if it was a philosophical question about replacing federal funding.

Co-Chair Hawker questioned if the state was aggressively seeking to replace federal funds.

Representative Joule commented that the department had been silent regarding coastal zone management. He noted high levels of frustration in the coastal communities with the lack of response and the lack of alternatives offered. He believed there would have to be more dialogue in the future.

Co-Chair Hawker echoed concerns regarding the lack of a productive dialogue.

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Commissioner Irwin acknowledged that it was an issue.

Representative Fairclough asked if the department has worked with DOT to see if landing fees might be used as a revenue source to fund the AVO, rather than general funds. She thought there could be a partnership with the private sector.

Commissioner Irwin was not aware of discussions to that effect. He offered to get more information.

Commissioner Irwin turned to slide 6 - department priorities. He suggested presenting more details in a handout to distribute to the committee at a future date.

Co-Chair Hawker agreed.

Representative Gara queried which department addresses pipeline spills.

Commissioner Irwin responded that both DNR and DEC respond to oil spills. The goal of DNR is to work on gap analysis using the Petroleum System Integrity Office (PSIO), whereas DEC deals with risk analysis. He suggested the issue be addressed at another time at more length.

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DEPARTMENT OF REVENUE

PAT GALVIN, COMMISSIONER, DEPARTMENT OF REVENUE, referred to a handout entitled, "FY 11 Budget Overview". He began with a pie chart on slide 2 - core and corporations, which depicts the breakdown of the Department of Revenue (DOR). The blue section is the department core services, the red section is the Alaska Housing Finance Corporation section, and the green section is the Permanent Fund Corporation section.

Co-Chair Hawker interjected that the budget subcommittees would attend to the specific details by agency.

Commissioner Galvin referred to slide 3 where the priority programs are depicted. The bulk of the dollar amount is spent managing investments. The money is used for internal personnel and external managers. The blue portion is funds collected from the Tax Division and from a portion of Child

Support Services. The red portion is the distribution of funds to Child Support Services and the Permanent Fund Dividend. The tiny purple portion is for the Long Term Care Ombudsman Program and for statutory conflict avoidance purposes.

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Commissioner Galvin described what the Long Term Care Ombudsman does, as depicted on slide 4. The governor is requesting an increment to fund a person to oversee the investigation and follow up of this program. He opined that the position was overdue because of the growth in complaints.

Co-Chair Hawker observed that the growth in complaints was an alarming statistic. He wondered if there was a need for a regulatory solution.

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GINGER BLAISDELL, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF REVENUE, explained that the complaints were family driven and varied and were on "a one-to-one" basis. There has been no request for statute changes.

Commissioner Galvin continued with slide 5 - a description of the Tax Division's responsibilities. He emphasized the importance of the annual tax report.

Co-Chair Hawker noted that the excise tax is responsible for motor fuel taxes. He wondered if that tax were to be eliminated, if there would be a corresponding reduction in personnel. Commissioner Galvin replied that there would not be a reduction in staff because there would still be a reporting requirement.

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Commissioner Galvin related the Treasury Division's responsibilities, as shown on slide 6. The budget item is an increment related to management of the general fund and other sub-accounts, such as the Constitutional Budget Reserve (CBR). The increment shown is for management fees for the CBR.

Co-Chair Hawker called the CBR the state's savings account. He wondered what the debt of the CBR currently was. Commissioner Galvin reported that the debt between the general fund and the CBR was about \$400 million. The current balance is roughly \$8.6 billion. There is a balance in the statutory budget reserve (SBR) of about one billion. Co-Chair Hawker summarized that the CBR debt is down to about \$400 million.

Representative Doogan asked if the \$400 million represents money that used to be in the CBR and was taken out and spent. Commissioner Galvin clarified that the remaining amount that would need to be refunded in order to satisfy the previous withdrawals is \$400 million. Representative Doogan restated his question to ask if earnings it might have had were included, or if it is just the principle. Commissioner Galvin deferred to Mr. Burnett.

Co-Chair Hawker asked for the response to include the authority upon which the answer is based.

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JERRY BURNETT, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE, addressed if whether the amount included the earnings that would have been there if the money had never been removed. He explained that each year, on an accounting basis, there is negative amount in the general fund. That is the principal amount and not the earnings that could have been earning interest. If lost earnings are included, the number might be larger, but there is no way of knowing.

Co-Chair Hawker inquired where "payback" is defined. Mr. Burnett replied that it is in the Constitution, Article 9, Section 17, which was passed in 1990.

Co-Chair Hawker noted that Representative Doogan's question was important.

Representative Austerman asked if there was about \$8.6 billion in the CBR currently and about \$1 billion in the SBR. Commissioner Galvin said that was correct.

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Commissioner Galvin returned to the responsibilities of the Treasury Division. He pointed out that the Treasury

Division was the primary staff to the Alaska Retirement Management Board (ARMB) and is the location of the unclaimed property function.

Commissioner Galvin explained the role of the Permanent Fund Dividend (PFD) Division - slide 7. He related significant changes in operations and distribution practices. He noted one budget item, an increment for \$100,000 for Information Technology (IT) training.

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Representative Gara asked about the CBR. He shared his understanding of the CBR. He questioned future obligations.

Mr. Burnett explained that CBR fund language states that the only future money that would go into the CBR are tax royalty settlements from court cases or administrative proceedings, such as from the TAPS Tariff cases last year. The past year, over \$400 million was added from settlements. Representative Gara presented a hypothetical case where a new base level was established. Mr. Burnett agreed with the example.

Co-Chair Hawker stated that Legislative Finance explained that only the principle of the CBR that was borrowed must be repaid, not the interest accrued. He pointed out that the state has included interest in repayments. Mr. Burnett clarified that while that is correct, it is not an equivalent to the amount lost in the transaction.

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Representative Doogan asked for an explanation of the fund source for the PFD Division. Commissioner Galvin said it was money transferred from the PFD fund. No general fund monies are used.

Representative Fairclough wondered if there was a way to cross reference PFD applications or have multiple-year applications so that those who forget could recoup their dividend. Commissioner Galvin replied that there is no such plan in place. Representative Fairclough wondered if a different system could be used for long-time Alaskans. Commissioner Galvin discussed the "once in a life-time application".

3:34:27 PM

Commissioner Galvin reported on the Child Support Services Division (CSCD) - slide 8. He noted an award received by the division, the PAC-10 Challenge Preventing Arrears Cup for 2009. He explained a fund source change for balancing the agency's budget. The American Recovery and Reinvestment Act (ARRA) funding changes occurred during the past year.

Co-Chair Hawker asked why administrative services did not request an increment for Child Support Services Division (CSCD). Mr. Burnett reported that no increment requests have been requested since 2002 because none were needed.

3:38:51 PM

Commissioner Galvin described the duties of the Commissioner's Office - slide 9. He related that there were pending IT issues that would require support. He noted two reports: AGIA Project Report and ACES Status Report.

Representative Gara requested an update on AGIA. Co-Chair Hawker expected updated reports to be considered across agencies. Representative Gara requested a report. Co-Chair Hawker agreed to provide that information later. Commissioner Galvin said that on Monday there would be a presentation in House Resources.

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Commissioner Galvin related that the Alaska Municipal Bond Bank Authority (AMBBA) falls within the Treasury Division - slide 10. Two pieces of legislation are proposed to deal with this funding, the Crime Lab and the University Life Sciences Building. Ms. Blaisdell reported on the status of those bills.

Representative Fairclough spoke of Build America Bonds. Commissioner Galvin informed the committee that there are a number of different public financing options.

Mr. Burnett related that Build America Bonds are taxable debt bonds subsidized by the federal government. Local governments have made use of them. Should the certificates of participation pass, it is likely that Build America bonds would be used for a portion of the debt. The State Debt Committee would deal with them. The Recovery Zone

Bonds are for areas without bonding authority for local and commercial projects. They have up to 45 percent federal subsidy attached. Both bonds must be done in 2010. Co-Chair Hawker was looking forward to the legislation regarding those bonds.

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Commissioner Galvin turned to the Alaska Housing Finance Corporation. He spoke of two pieces of pending legislation, Revenue Bonds for Veterans and Energy Efficiency Bonds for weatherization.

Representative Salmon asked about the status of the PFD. Commissioner Galvin reported that the PFD balance has recovered significantly from where it was a year ago. It is currently approaching \$35 billion. He noted that the PFD Corporation has a variety of increments in the budget. He stated his view, as a board member, that the APFC Board attempts to tightly manage the budget and requests only necessary items.

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Commissioner Galvin discussed the department's 10-year plan - slide 13. He related that the department's budget projection remains flat. Co-Chair Hawker asked if the spike in the graph was showing capital spending. Commissioner Galvin said that was correct.

Co-Chair Hawker asked about the growth of fund balances, assuming an increase of 7 percent per year. He inquired if the fund balances are earning 7 percent a year. Mr. Burnett clarified that the expectation is that fund balances would increase. Co-Chair Hawker asked if it was an aggregate. Mr. Burnett agreed. Co-Chair Hawker concluded that that would imply surpluses in all areas of operations at a rate aggregating 7 percent per year for the next ten years. Mr. Burnett agreed and added that the larger funds do naturally increase.

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Commissioner Galvin discussed oil and gas requests - slide 1. He said they were related to the AGIA reimbursement function. Four new positions were identified and are being requested. He spoke of the audit of the AGIA Reimbursement

Fund and the need for a fiscal systems analysis to support negotiations of gasoline fiscal terms. Representative Doogan asked for clarification of the last item in a future discussion.

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ADJOURNMENT

The meeting was adjourned at 3:59 PM.