

HOUSE FINANCE COMMITTEE
February 3, 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 Stoltze, Co-Chair
Representative Allan Austerman
Representative Mike Doogan
Representative Anna Fairclough
Representative Neal Foster
Representative Les Gara
Representative Reggie Joule
Representative Mike Kelly
Representative Bill Thomas Jr., Vice-Chair
Representative Woodie Salmon

MEMBERS ABSENT

None

ALSO PRESENT

Annette Kreitzer, Commissioner, Department of Administration; Kevin Brooks, Deputy Commissioner, Department of Administration; Eric Swanson, Director, Division of Administrative Services, Department of Administration; Emil Notti, Commissioner, Department of Commerce, Community and Economic Development; Curtis Thayer, Deputy Commissioner, Department of Commerce, Community and Economic Development; Jo Ellen Hanrahan, Director, Division of Administrative Services, Department of Commerce, Community and Economic Development.

SUMMARY

HB 300 APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 300 was HEARD and HELD in Committee for further consideration. The following departments presented overviews:

Department of Administration
Department of Commerce, Community and Economic Development

HB 302 APPROP: MENTAL HEALTH BUDGET

HB 302 was HEARD and HELD in Committee for further consideration.

#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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Co-Chair Hawker discussed housekeeping.

DEPARTMENT OF ADMINISTRATION

ANNETTE KREITZER, COMMISSIONER, DEPARTMENT OF ADMINISTRATION, introduced her support staff. She defined the mission of the Department of Administration (DOA): to provide consistent and efficient support services to state agencies so that they may better serve Alaskans. She noted that DOA has ten divisions and five independent boards and commissions. She stated her intent to cover two major areas: personnel labor relations and retirement and benefits.

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Ms. Kreitzer maintained that DOA had been steady regarding recruitment and retention since she had been appointed commissioner in 2007. She reminded the committee that the situation in 2007 was dire; there were multiple long-time employees who were eligible to retire. She referenced current concern about the number of state employees who are eligible to retire. Regarding wages, she reported that in many areas the department is not keeping up with the private sector or other government agencies; the state continued old hiring practices of screening out applicants through desired qualification questions, which was relevant when there were many applicants. She believed the strategy was outdated as there were fewer and fewer applicants.

Ms. Kreitzer spoke of improvements the department had made, including the executive working group formed in 2007; a group of commissioners have identified areas of concern and set direction for improved recruitment and retention. Through labor negotiations, HB 417, and other initiatives, most state employees have had wages increase between 16 and 19 percent since 2008.

Ms. Kreitzer directed attention to a handout, "Administrative Order No. 237, Executive Working Group Status Report of Recommendations" (copy on file). She commented that the information was also available on the DOA main webpage. She highlighted action items completed and in progress: a geographic differential study, review of human resources integration, and a salary survey.

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Representative Gara expressed concern about salary survey results that social workers at the Office of Children's Services (OCS) [Department of Health and Social Services (DHSS)] were paid more than social workers in the private sector. He pointed out that the average length of stay at OCS was two years, which is damaging for the children served. He did not believe the survey took into consideration the unusual stress of the job and wondered whether a salary increase might improve morale.

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Ms. Kreitzer reminded him of salary increases to all state employees. She reported that the salary survey would first focus on job classes that have been identified as being underpaid. The focus would then turn to other issues; she suggested that the burnout might be addressed. She disagreed with Representative Gara's characterization of the survey comparisons and offered to address the issue more in subcommittee. She directed attention to the website as a means for gathering information.

Representative Gara restated concerns about OCS social workers. He did not feel that the issue had been addressed. He asked whether every state worker had received an increase in pay. Ms. Kreitzer replied that the impact to state employees had been 16 to 19 percent average increase since 2008.

Representative Gara asked whether it was realistic to expect [an increase for OCS workers]. Ms. Kreitzer did not believe the OCS social workers were in the underpaid category.

Representative Gara asked who he would go to if he had a solution to propose. Ms. Kreitzer replied that any suggestion made would have to conform to personnel rules.

Representative Gara questioned personnel rules. Ms. Kreitzer remarked that there were tools that hiring managers could use, such as alternative work weeks and flexible hours. The tools have to work for the division in question. She had made an effort to inform the commissioners' working group about people who are taking advantage of the tools.

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Ms. Kreitzer directed attention to a PowerPoint presentation, "News and Views: Economic Conditions and Pensions, House Finance Committee, February 3, 2010" (copy on file). She quickly reviewed the headlines on the slides to give the committee a sense of what she sees on a daily basis:

- Oil production fell more than 3 percent last fiscal year, and another 5 percent decline is expected in the current fiscal year
- Union workers at Alyeska made concessions

- Another state prodded the retirement of 46,000 public employees and increased the cost of health care coverage to employees
- Alaska is catching up with the rest of the country on the recession
- Anchorage municipality is expecting shortfalls and layoffs
- Increased stresses related to pensions

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Ms. Kreitzer turned to the subject of labor contracts. She reported that labor negotiations were taking place with several labor unions. She tells the unions that the state is looking for sustainable contracts. She noted that all states attending a recent gathering of human resource professionals reported that they were reducing non-union salaries and offering no increases for union workers; Alaska was the only state that was potentially increasing wages.

Ms. Kreitzer pointed out that the state is a self-insured provider of health coverage and pensions and one of the few states to pre-fund post-retirement benefits. She referenced the SB 125 contributions, the cost above the 22 percent for the Public Employees' Retirement System (PERS) and 12.56 percent for the Teachers' Retirement System (TRS) that the state contributes; the current year's amounts are \$165.8 million for PERS and \$190.9 million for TRS.

Ms. Kreitzer remarked that there had been some rebound in the market; the fiscal year earnings for PERS and TRS are just over 11 percent as of November 2009. Health care costs for active employees are up for FY 11 by 19.6 percent for active employees and 14 percent for retirees (retirees are on a calendar year).

Co-Chair Hawker wondered whether a schedule of the increases had been provided and wondered how the numbers compared with the previous six years. Ms. Kreitzer responded that based on an estimated 15,000 state employees:

- FY 02: 21.1 percent increase, which equates to an annual increment of about \$18 million
- FY 03: 9.6 percent increase

- FY 04: 11.9 percent increase
- FY 05: no increase
- FY 06: 16.3 percent increase
- Since FY 06: using reserves, 1.8, 1.9, and 4.8 percent increases
- FY 11: 19.6 increase, also using reserves

Co-Chair Hawker underlined that reserves were used to reduce a larger number to the 19.6 increase included in the FY 11 budget request.

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Co-Chair Hawker delineated the progressive increase in the cost for the health care trust for active public employees: \$3 million increase two years ago, \$7.5 million one year ago, and \$32 million for the current year. He queried the reasons. Ms. Kreitzer responded that actuaries had projected that \$32 million would be required for FY 11; the estimated increase for FY 12 is 20 percent.

Co-Chair Hawker summarized that there had been roughly a 40 percent increase in two years, following a period of around five years with a 15 percent increase. He wanted to know what was driving the increases. Ms. Kreitzer responded that the department would get more detail to the committee.

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Representative Kelly asked whether the annual increases are reflected in the adjusted base.

KEVIN BROOKS, DEPUTY COMMISSIONER, DEPARTMENT OF ADMINISTRATION, replied that the increases are reflected in the per-employee, per-month contribution, personal services benefits line in all the budgets.

Representative Kelly observed that a certain amount of the growth is only briefly considered during the average legislature. He asked whether only the increase was being considered, and if part of the growth was a given. Mr. Brooks replied that the department was presenting a macro view of all the budgets; the total spent on health care is \$200 million, which is in the base. The additional increments seen every year have shown single digit increases for several years.

Representative Kelly pointed out that there was a larger problem looming.

Co-Chair Hawker agreed and observed that the numbers are not as visible when allocated throughout the entire state budget and across all the agencies. He believed a macro-focus is necessary to examine the overall issue of state benefits. He wanted to know what happened in the last few years. Ms. Kreitzer responded that the department would get the information to the committee.

Representative Kelly relayed that he had made an uneasy truce with PERS and TRS but felt that the systematic growth in the budget was not good.

Co-Chair Hawker maintained that employees are very expensive; the FY 11 monthly cost per employee for healthcare is \$1,088. Ms. Kreitzer clarified that \$1,088 is the number that is being bargained.

Representative Doogan assumed that there were other factors contributing to the higher numbers than employees consuming healthcare without discretion, including increased health costs. He wanted a complete picture.

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Representative Doogan turned to social work salaries and the salary study. He believed that one third of social workers were quitting every year, which would result in considerable cost to the state in terms of recruitment and training. He wondered whether the department needed help to reduce social worker turnover. Ms. Kreitzer replied that DOA's personnel division works closely with the DHSS; there have been a number of meetings to address the issue. She did not want to speak for DHSS, but she had not been contacted about the problem. She stressed that she was obligated to use the survey to look at people who are under the line.

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Representative Doogan acknowledged that the issue was not only DOA's responsibility. He wanted to make a general point that excessive turnover in any category costs the

state money and is inefficient. He requested information regarding the longevity and seriousness of the problem.

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Representative Doogan expressed concern about the cost of continually retraining employees instead of figuring out how to retain them.

Co-Chair Hawker queried whether the social worker turnover rate in the state was comparable to similar jobs in the private and public sectors. He thought some jobs would always have a high turnover rate.

Representative Gara stressed that 50 percent of the social workers who left were people who had been in the position for less than two years. He pointed out that the 16 to 18 percent salary increases resulting from previous legislation did not go to the social workers who left, because the legislation was for workers with longevity. He asked whether the salary increases went to entry level employees. Ms. Kreitzer responded that the employees would have benefited from the salary increase if they had stayed on the job longer than two years. She emphasized that the longevity increments replaced by service steps have more of an impact on employees who stay longer, but they go to non-covered employees, and they have been bargained into contracts. Therefore, the social workers would have been covered to the extent that the social workers stayed with their contracts.

Mr. Brooks added that the salary schedule for General Government Unit (GGU) employees has moved 10 percent and 11.5 percent for Supervisory Unit (SU) employees; all new employees benefit from the schedule increase. Each employee will get an annual review for the first five years that could result in a 3.5 percent increase; after five years the review takes place every other year and could result in a 3.7 percent increase.

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Representative Gara queried the increase to entry-level workers. Mr. Brooks replied that entry-level pay is currently 10 percent higher and within a year would be 3.5 percent higher.

Ms. Kreitzer continued with health care costs. She believed the question should be how to contain big increases. She referred to a 2009 confidential health risk assessment of 44.3 percent of state employees; a second survey was planned for the end of 2010 or early 2011. Survey responses were compiled by an independent party and results show that the largest issues for Alaska are obesity, cardiac disease, and diabetes.

Ms. Kreitzer also explained that there had been a survey done in 2009 by Wells Fargo Insurances Services, which had become the state's claims administrator following a Request for Proposals (RFP). The RFP also specified that Wells Fargo was to build and provide its own networks; the company had recently announced that Alaska Regional Hospital is the preferred hospital for the AlaskaCare Health Plan. Other networks include Costco Wholesale's vision and pharmaceuticals services, Wellness Initiatives Network, Inc., Alaska Vision Services, Magellan Health Services, and Beech Street Corporation.

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Ms. Kreitzer reported that DOA was moving away from the use of social security numbers to increase identity protection and that the state is examining ways to further protect information it collects. All information is now electronically encrypted and physical security has been increased.

Representative Fairclough asked about Wells Fargo's capacity to handle the high volume of the state's health care. Ms. Kreitzer responded that she would get back to the committee regarding the issue.

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Representative Fairclough stated concerns about managing customer service.

Co-Chair Hawker expressed concerns about state procurement issues. Ms. Kreitzer questioned the accuracy of the information he had received.

Representative Joule emphasized that the state is a major employer in Alaska. He wondered whether the department was noticing more out-of-state job applicants in the current

economy. Ms. Kreitzer responded that DOA's emphasis has been to hire Alaskans. She noted that some positions, such as information technology (IT) positions are difficult to fill in Juneau. Other job categories experience difficulty as well. She questioned why. She acknowledged that some applicants come from the Lower 48 and some positions are being filled, but she did not think it was at the expense of Alaskan applicants. She encouraged anyone who heard complaints about the issue to let her know.

Co-Chair Hawker referred to a \$3 million decrease in third-party administrator costs for group health. Ms. Kreitzer explained that when there is a transition between third-party administrators, the state always holds out the amount of money it anticipates paying to unfilled claims. She believed the amount was closer to \$5 million, but less was needed in the transition; this explained the \$3 million reduction for retirement and benefits.

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Ms. Kreitzer scanned core services within the department. She reported on a 2006 legislative requirement for the Division of Finance to increase the number of electronic payments; there was a substantial increase in FY 10, approximately 2,100 more vendors (foster parents) were getting electronic payments, double the FY 09 amount.

Ms. Kreitzer noted that other progress in the Division of Finance included the elimination of the need for Social Security numbers on timesheets and leave slips. On-line pay-stubs and the discontinuation of paper paystubs in August have saved the state over \$130,000 in paper stock and postage.

Ms. Kreitzer anticipated questions regarding the new e-travel budget component. She reported that the state travel office has been significantly overhauled; the \$600,000 increment for interagency receipts now covers actual expenditures.

Ms. Kreitzer informed the committee that the construction for the Palmer State Office Building is on schedule and well underway; the bulk of the tenants will be in the facility by the end of August 2010. Mat-Su agencies, including the court system, law enforcement, the Department of Law (DOL), the Department of Public Safety (DPS), the

Public Defender's Office and the Office of Public Advocacy (OPA), will be co-located in the new building.

Ms. Kreitzer commented that most energy-saving measures had already been taken and indicated a report detailing cost savings because of that work.

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Co-Chair Hawker queried increased costs for state-owned facilities: the FY 09 actual cost was \$10 million; FY 10 was \$13.25; another \$2 million is being requested for FY 11. Mr. Brooks believed that part of the expense was for the Palmer State Office Building, which is a very large facility.

Vice-Chair Thomas thought the project had not been fully funded the previous year.

Ms. Kreitzer directed attention to Enterprise Technology Services (ETS). She relayed that bandwidth has been a challenge and that the cost of bandwidth should be considered when web-based initiatives are proposed. The cost to the state under the current core-services contract for bandwidth is measured in megabits per second; currently the cost is \$500 per megabit. Technical upgrades have doubled and tripled wide-area network bandwidths in areas including Juneau, Anchorage, Fairbanks, Ketchikan, Sitka, Kenai Peninsula, Bethel, and the Mat-Su. Technical deployment of land-based microwave connection has been completed from Bethel to Emmonak, Aniak, and St. Mary's.

Ms. Kreitzer observed that security is an ETS challenge because of constant and evolving threats to the state's network. Efforts begun in 2005 to undertake appropriate security initiatives have been continued.

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Ms. Kreitzer pointed to a supplemental request for \$865,000 for OPA, which has the court-appointed special advocate program. She observed that the program did good work; community volunteers serve as guardians ad litem (GAL) for abused and neglected children in the state's protective custody. The volunteers support and supplement OPA's professional GALs. A part-time coordinator of volunteer court-appointed special advocates (CASA) was hired the

previous year in the Mat-Su Valley, which has increased trained volunteer GALs by 114 percent and increased the number of children being served by volunteer GALs by 104 percent. In FY 09, OPA experienced a 13.6 percent increase in the number of public guardian clients and have developed a new guardian program to help family members learn how to be public guardians. In 2009, OPA's Office of Elder Fraud and Assistance recovered \$462,000 through settlement and court order for Alaska elders who were victims of fraud or financial exploitation; during 2010 so far, the office has recovered about \$1.5 million for elders.

Co-Chair Hawker queried the Public Defender Agency request in the supplemental budget which cited a number of case filings, including a 37 percent increase in felony cases in the Northern district. He wondered what was causing the increase in felony and misdemeanor prosecutions.

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Ms. Kreitzer had no concrete evidence as to why crime had risen. She speculated that in a declining economy, more people might qualify for a public defender.

Co-Chair Hawker noted that other agencies reported similar speculative conclusions. He thought the issue was serious and merited consideration. He asked about the \$300,000 increased request to the Violent Crimes Compensation Board, especially in the light of the declining Permanent Fund Dividend (PFD) funding. Ms. Kreitzer responded that she was there to defend the governor's budget. Mr. Brooks added that the calculation was by the Office of Management and Budget (OMB).

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Ms. Kreitzer listed measures the Public Defender Agency had taken to contain costs: the use of paralegals in order to free attorneys to do what they need to do; the case management system that has been implemented gives a better overall picture; and regional restructuring, with smaller offices being grouped into regional units.

Co-Chair Stoltze commended Mr. Steiner [Director of the Public Defender Agency].

Ms. Kreitzer moved to a \$1.15 million requested by the Alaska Oil and Gas Conservation Commission (AOGGC) for gasline evaluation work.

Co-Chair Hawker thought that AOGGC typically bills industry for services and asked why it was asking for state general funds. Ms. Kreitzer replied that general funds had been continually appropriated for the item year to year.

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ERIC SWANSON, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF ADMINISTRATION, explained that there have been general fund appropriations over the years for AOGGC oil and gas related work. He acknowledged that AOGGC bills industry for day-to-day operations, but the decision had been made to use general funds for gasline related work.

Co-Chair Hawker noted that oil and gas requests would be aggregated into a single request involving all relevant agencies.

Ms. Kreitzer turned to the Office of Administrative Hearings, another independent commission/board in DOA. She highlighted a supplemental request for \$85,000 general fund due to an increase in tax cases.

Ms. Kreitzer commented that the Alaska Public Offices Commission (APOC) did not have substantive budget items and has completed a computer filing project.

Ms. Kreitzer reported that the Division of Motor Vehicles (DMV) was requesting \$500,000 federal authorization for the commercial driver license (CDL) program and \$668,000 reduction for the [Dowling Road/Benson Avenue] lease.

Co-Chair Hawker referenced a \$600,000 capital request by APOC. He questioned increases to the Elected Public Officials Retirement System (EPORS). Mr. Brooks pointed out that the EPORS retirement system was fully funded.

Co-Chair Hawker asked how many bargaining unit settlements were open currently.

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Ms. Kreitzer replied that the department is negotiating with the SU, the GGU, Confidential Employees Association (CEA), and Labor, Trades, and Crafts (LTC).

Co-Chair Hawker wondered whether any of the negotiations would be concluded by the close of the budget process. Ms. Kreitzer stated that she was hopeful.

Representative Fairclough queried whether the CDL program in the DMV was contracted or internal. Ms. Kreitzer replied that it was both and offered to get more information.

Representative Fairclough noted other private sector CDL training and wondered how the state managed funding for the program.

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Representative Kelly commented that the current binding arbitration system means a single person makes the decision. He asked how many negotiations went to binding arbitration. Ms. Kreitzer replied that Class 1 Employees have the opportunity and ability to go to binding arbitration. The two biggest applicable unions are public safety employees, mostly troopers and airport safety officers working for Department of Transportation and Public Facilities and DPS; the other union is the Alaska Correctional Officers Association (ACOA), representing correctional officers in facilities throughout the state.

Representative Kelly queried the percentage going to binding arbitration. Ms. Kreitzer replied that there was an ACOA binding arbitration settlement before the legislature currently in the supplemental; the last contract went to binding arbitration as well.

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Representative Kelly wanted to know what percentage of bargaining engagements in the state could go to binding arbitration because that option is allowed, and how many have. Ms. Kreitzer replied that she could get the information. She recalled that the SU Class 1 Employees ended up going to binding arbitration in 2008, and that was extended across the entire bargaining unit.

DEPARTEMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT

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EMIL NOTTI, COMMISSIONER, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, provided an overview, "Department of Commerce, Community and Economic Development, Department Overview, February 2010" (copy on file). He stated the mission of the department:

- The mission of the Department of Commerce, Community, and Economic Development is to promote a healthy economy, strong communities, and protect consumers in Alaska.

Commissioner Notti described the three legs of the Department of Commerce, Community and Economic Development (DCCED): one keeps the community strong, a second deals with business aspects, and the third consists of independent agencies. He saw the department's priority, in keeping with the governor's instruction, as economic development as well as keeping the budget stable. A deputy commissioner was recently hired to pursue economic development for the state.

Commissioner Notti noted that the DCCED FY 10 budget included \$35 million general funds with an overall budget of \$195 million; the FY 11 budget is for \$33 million general funds with an overall budget of just over \$200 million.

Commissioner Notti reported that DCCED currently has 529 employees with a net zero increase in positions.

Commissioner Notti informed the committee that a core challenge is the high cost of energy, which hinders growth because of high transportation costs. He stressed that transportation costs factor large in economic development. He did not anticipate energy costs going down in the near future.

[2:51:42 PM](#)

Commissioner Notti listed DCCED accomplishments (page 3):

- Re-established the Alaska Film Office

- Helped nine new tourism businesses get started through the Tourism Mentorship program
- Administered over 1,400 grants with a value in excess of \$766 million
- Community & Regional Affairs presented 39 trainings throughout the state on bookkeeping, land planning, utility management, and tax assessment.

Commissioner Notti detailed that the Division of Community and Regional Affairs trains city administrators and village people to be eligible for federal grants and assists them when there are problems related to taxes, workmen's compensation, and bookkeeping. In order to keep utilities functioning, the division also trains people to operate utilities and to price services. These activities are part of the community leg of the department and use 14 percent of the general funds.

Commissioner Notti explained that the largest part of the department's budget is used for the business leg. He did not want to call this the "economic development" side as the bulk of the money is used to administer business licenses and to watch over the banking industry and insurance business. These activities in the two divisions [the Division of Banking and the Division of Insurance] employ approximately 20 investigators.

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Co-Chair Hawker asked what the state was doing to promote economic development, especially in the light of expenses attributable to a declining economy, such as Medicaid costs and rising criminal prosecutions. He also queried the department's management of professional licensing, pointing to years of audits stating the need for improvement.

Commissioner Notti replied that although there is an Office of Economic Development, the department is not pushing development. He relayed a brief history of the office. He agreed that DCCED is not doing much to push economic development; only 2 percent of money is spent in the state for economic development. He spoke in support of the current staff in the office.

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Co-Chair Hawker referred to Legislative Budget and Audit Committee reports and asked whether progress was being made.

CURTIS THAYER, DEPUTY COMMISSIONER, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, described work that the department has done to address the issue. He acknowledged that the department was behind in the area of renewing corporation filings. He reported that he had replaced personnel and had developed a team that was making progress on the backlog and reporting directly to him. He noted that the old computer system had impeded progress and was in the process of being replaced.

Mr. Thayer addressed queries related to the Office of Economic Development. He has been conducting an audit of personnel and their activities; new personnel are being sought who will be more responsive to community needs. The office is small, but many parts of state government are connected with it. He stated that more would be revealed after the audit was completed.

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Representative Kelly wondered whether the office should be cut since the director had been cut and it was such a small part of the budget. Mr. Thayer replied that there were many elements involved, including the Alaska Film project with \$100 million worth of credits. In addition, the agency administers the \$9 million from the state for the Alaska Travel Industry Association (ATIA). He wanted to evaluate what could be done to improve the division, as its reach is extensive.

Representative Kelly referred to the \$30 per barrel price of oil a year previous. He wondered whether the department would redirect the work the Office of Community Development if oil were the same price today. Mr. Thayer responded that the question was valid but he could not answer it since he was only six weeks into the evaluation process.

Representative Kelly thought the response was fair; his intent was not to criticize the department. He noted that the governor had given a lean agency budget. He was trying to determine where government spending could be cut.

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Mr. Thayer pointed out that the legislature had combined two departments, the Department of Community and Regional Affairs and the Department of Commerce and Economic Development, into one. He believed that over time, the community and regional affairs has been more prominent. His analysis was questioning how the economic development side could be aided.

Representative Kelly wanted to see concrete results.

Co-Chair Stoltze commented that Commissioner Notti was not working theoretically as he had been through times with much lower oil prices. He queried Mr. Thayer's perspective on the railroad. Mr. Thayer responded that he was working with the railroad regarding the Flint Hills [Resources Alaska], the Port of Anchorage, and the fuel issue.

Co-Chair Stoltze asked for more information about Flint Hills. Mr. Thayer answered that the department was trying to understand the issue. He pointed out that there were 70 potential projects, and he was attempting to analyze which are practical, which should be taken to the legislature, and which need administrative action. Some of the projects have been in play for five to ten years; he opined that Alaska was hampering its own economic development. He said the department was working with the Alaska Industrial Development and Export Authority (AIDEA) regarding the Flint Hills and the fuel storage at the Port of Anchorage projects.

Co-Chair Stoltze hoped there would be better communication between the department and the legislature. He was concerned about missing something that could result in serious repercussions for the state. Mr. Thayer agreed.

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Co-Chair Stoltze reiterated his desire for improved communication. He did not want to micromanage the department. He wanted a successful partnership between the state and the railroad.

Representative Austerman wanted more information about the film office. He had looked at the numbers in the annual report and wondered how much business had been generated in

the state by the tax credits. He thought the office should be closed down if it spends money and does not make money.

Co-Chair Hawker reported that he had been a critic of the film office tax credits. He gave Mr. Thayer a brief history of the legislation. He expressed concern regarding expense to the state.

Representative Gara queried trade and marketing efforts within the agency intended to expand economic development. He wondered whether there had been an evaluation of the results of money spent. Commissioner Notti replied that there was no statistical analysis of returns to the state for the money spent.

Mr. Thayer listed several trades, including the Alaska Seafood Marketing Institute (ASMI), Alaska Aerospace Development Corporation (AADC), and the Governor's Office of International Trade, and noted that none of them report directly to the department. He added that analysis was trying to determine how the money was being spent and whether efforts could be combined.

Representative Gara explained that he was referring to trade with businesses outside of Alaska. He understood statistics were hard to gather, but he wanted reassurance that the money the state spent on trade work was getting results.

Commissioner Notti replied that the question was whether the agencies were returning money to the state, such as AIDEA and the Alaska Housing Finance Corporation [connected with Alaska Energy Authority]. He thought it could be many years before the rocket launches returned money, and returns related to ASMI were hard to measure, although ASMI has had significant successes, including making Alaska fish products one of the top three menu items of the top 500 U.S. restaurant chains. He believed ASMI had the best numbers regarding its impact on Alaska's economy, for example related to how much gets back to the fishermen.

[3:15:32 PM](#)

Representative Fairclough asked about internal improvements. She wanted to know how the technical changes would be integrated in communities, specifically bandwidth in rural communities. Commissioner Notti replied that the

communications aspect is left up to commercial companies, which will build in response to demand. He acknowledged that some places had good bandwidth and others had slower. He recalled work in Ketchikan; AT&T had stepped up to fill the need.

Representative Fairclough wondered whether strong communications capability might contribute to a healthy economy in both rural and urban Alaska and strengthen communities to alleviate poverty. Commissioner Notti responded that communications is a key factor for economic development, especially taking into consideration the need to compete in a world market; small villages will need to get online before they can compete. He did not see that happening right away. He pointed to current efforts; for example, there were 29 applications for stimulus dollars for fiber optics. He cautioned however that fiber optics projects are billion-dollar projects, and there is not enough money. He did not see the state solving the problem.

Representative Fairclough wondered whether there are federal dollars to bring smaller communities online. She referred to a department evaluation regarding the cost of fiber optic communications.

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Commissioner Notti replied that Deputy Commissioner Michael Black could provide more details as he has been working on broadband issues with the federal government and with other departments.

Representative Fairclough asked for an update from Mr. Black to her office. She asked how the department was interfacing with the university concerning energy, particularly related to weatherization. She referred to cold-climate research and the need in both rural and urban communities to reduce energy costs. Commissioner Notti responded that Mr. Black had been working on the cold-weather issue, specifically related to Newtok/Mertarvik, where an energy-efficient community hall is being built through both the university and a private company.

Representative Doogan noted that the department budget is over \$2 million, 50 percent of which is corporation budgets; he asked what the remaining \$89 million was for.

JO ELLEN HANRAHAN, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, responded that the remaining part of the \$89 million was spread across banking corporations, a community and regional affairs program, insurance investments, and revenue-sharing programs, such as national forest receipts, the Payment in Lieu of Taxes (PILT) program, the Office of Economic Development, and the Serve Alaska program.

Representative Doogan asked whether part of the \$89 million was pass-through funds. Ms. Hanrahan replied that approximately \$30 million represented pass-through funds for revenue-type sharing programs such as PILT and national forest receipts. Part of the amount (about 36 percent of the DCCED budget) is for grants to communities.

[3:23:29 PM](#)

Representative Doogan wanted further clarification. Ms. Hanrahan explained that \$30 million is pass-through funds; the 36 percent is of the total budget and the \$30 million is part of the 36 percent.

Representative Doogan asked whether the approximately \$60 million remaining was for agency operations. Ms. Hanrahan directed attention to a pie chart on page 7 depicting the budget breakdown:

- Grants - 36 percent (\$72.5 million)
- Personal Services - 26 percent (\$51 million)
- Services (contractual) - 35 percent (\$70 million)

Representative Doogan wanted to determine how much of the budget was a typical agency budget and how much represented money passing through the agency on its way to somewhere else. He questioned how much was for grants administration and how much was for agency operations.

[3:26:10 PM](#)

Ms. Hanrahan replied that the department has begun to view itself in two pieces: corporations and core [agency operations]. Approximately \$111 million is for the corporations; \$89 million is for agency operations. Of the \$89 million for agency operations, a portion is for pass-through appropriations; she did not have the exact numbers

for the breakout, but offered to provide them at a later date.

Co-Chair Hawker provided a description of the DCCED budget, using the short form and dividing the various appropriations into "things we do" and "things somebody else does." Agency operations include the commissioner's office, the offices of economic development and community and regional affairs, investments (managing state loan programs), regulation of banking and insurance, and corporate business licensing. Operations that are conducted by others include revenue sharing, trade association contracts, Alaska Aerospace Corporation, AIDEA, Alaska Energy Authority (AEA), and ASMI programs.

Representative Salmon wanted clarification regarding the powers of the AIDEA board as related to AEA. He asked whether a previous problem had been resolved. Commissioner Notti replied that the year before, the department had tried to separate the programs. The department felt that AEA should not be under a board of directors that was primarily banking people and that AEA needed more freedom to do work related to producing energy. An attempt was made to create two different boards with separate executive directors for each entity. The action required legislative approval. The job was only half done; there was an executive director placed over AEA, but the executive director remained under the same board with AIDEA. He expected that a future attempt would be made to separate the boards.

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Representative Joule asked whether the AIDEA board spent time on energy issues. Commissioner Notti responded that the meetings for AIDEA and AEA, held by the same board, are held on the same day. He reported that the bulk of the time was spent on loans, projects, and AIDEA reports. He thought it was fair to say that AEA gave briefer reports and did not get as much attention as AIDEA.

Representative Gara asked whether there was a plan to upgrade diesel plants to save people fuel costs. He had realized that the best way to save money in many places was not to build a wind mill but to make the existing diesel plant more efficient. He referred to efficiency upgrades being done by the Denali Commission. For the past year, he

had been trying to work with AEA to get a list of diesel plants that AEA believed could be made more efficient, but he had not been able to get the information. He stated that his goal was to reduce energy costs by updating diesel plants that would not get Denali Commission funds in the next few years.

Commissioner Notti thought that wind power could save money in some places; he believed it had saved close to \$1 million in Kodiak, displacing diesel. However, the investment is high. He stated that upgrading diesel is only part of the problem. A community might be moving towards using low-sulfur diesel fuel, which requires a much more sophisticated and expensive engine; a village might need three different sizes of generators for different energy loads.

[3:36:20 PM](#)

Commissioner Notti emphasized that any energy upgrade is very expensive, whether wind, hydro, bio-fuel, or diesel upgrades.

Representative Gara queried instigating a statewide diesel upgrade plan. He believed that aggressive planning may be in order. Commissioner Notti deferred to AEA.

Co-Chair Hawker believed that a future Legislative Budget and Audit Committee meeting would address AEA projects.

Representative Kelly spoke of his experience on the subcommittee. The film office tax credits troubled him as well. He expressed frustration regarding the department's 500 employees.

[3:40:08 PM](#)

Representative Kelly commented that Mr. Thayer might have been brought on board to address the tough issues; he believed that the biggest issue was the high number of employees.

Representative Joule commended Margaret Gold Hanson, one of DCCED's employees in the Kotzebue office. He reported that she had been there for over twenty years, has a deep understanding of the community, and is an invaluable lifeline for many. She touches many lives in struggling

villages. He wondered if the same quality of people were being hired to maintain vital lifelines. Commissioner Notti acknowledged that the person in question was getting ready to retire and that there was no plan of succession. He noted one person who had been brought in on the land custodian deal for unincorporated villages, so that when the current person retires there will be institutional memory. He pointed out that people in the villages usually stay on for many years and that the jobs are economically very important in small communities.

Co-Chair Hawker remembered that his first four years on the committee were spent looking at the agencies and their executive structures. He felt that the growth of executives and employees in all agencies has been "horrendous" over the past six years. He referred to DCCED's organizational chart (copy on file), which indicates a commissioner and two deputy commissioners. He wondered what could be done.

Commissioner Notti responded that the organizational chart was a rough draft and that the division responsibilities of the two deputy directors had not yet been determined. He added that the chart does not reflect what the people on it are doing. He stated that he deals at any given time with a wide range of issues and cannot possibly keep up. The deputy commissioners are also extremely busy. He added that about 40 percent of the 529 employees in the report are from outside agencies. He felt the same issue should be examined throughout the departments.

Co-Chair Hawker felt that growth was a valid concern. He pointed to a \$200 thousand increment for postage because 37,000 insurance licensees needed to be notified of every change in rules. He questioned why the task was not done electronically. He also questioned the need for the inch-thick insurance report produced each session.

[3:50:01 PM](#)

Ms. Hanrahan agreed that the point was important. She noted that the issue was addressed in the ten-year plan, but that a statute change was needed.

Co-Chair Hawker maintained that he would introduce as a finance bill any statute that would save \$200,000.

Co-Chair Stoltze thought the measure could be attached to another bill.

3:52:28 PM

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ADJOURNMENT

The meeting was adjourned at 3:52 PM.