

HOUSE FINANCE COMMITTEE
March 24, 2010
3:00 p.m.

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CALL TO ORDER

Co-Chair Hawker called the House Finance Committee meeting to order at 3:00 p.m.

MEMBERS PRESENT

Representative Mike Hawker, Co-Chair
Representative Bill Stoltze, 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

MEMBERS ABSENT

Representative Woodie Salmon

ALSO PRESENT

Leta Simons, Director, Division of Support Services, Department of Natural Resources; David Blaisdell, Director, Administrative Services Division, Department of Law; Guy Bell, Assistant Commissioner and Director, Division of Administrative Services, Department of Labor and Workforce Development; Alison Elgee, Assistant Commissioner, Finance and Management Services, Department of Health and Social Services; Patricia Walker, Staff, Senator Lyman Hoffman;

PRESENT VIA TELECONFERENCE

SUMMARY

HB 326 SUPPLEMENTAL/CAPITAL/OTHER APPROPRIATIONS

HB 326 was HEARD and HELD in Committee for further consideration.

#326

HOUSE BILL NO. 326

"An Act making supplemental appropriations, capital appropriations, and other appropriations; amending appropriations; repealing appropriations; making appropriations to capitalize funds; and providing for an effective date."

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Co-Chair Hawker introduced a new CS for HB 326. He informed the committee that the Committee Substitute (CS) contains only the operating budget items in the supplemental; the capital items will be considered separately in the capital budget. He noted that the Transaction Reports (copy on file) from the Legislative Finance Division (LFD) depicted a decrease of \$ 4.5 million from the Governor's proposed supplemental request.

Co-Chair Hawker reported that the bill does not fund everything the governor requested. He noted that drafting the CS was a joint effort that involved the House and Senate Finance Co-Chairs and their staff, the Office of Management and Budget (OMB), and LFD.

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Co-Chair Hawker mentioned items that were specifically not addressed in the CS: the Carlson case, reclamation bond interest on the foreclosure of an exploration project in the Cook Inlet area, and a Department of Natural Resources request for additional gas pipeline implementation funding for \$537 thousand.

Co-Chair Hawker summarized the highlights of the CS. He reported that K-12 education received forward funding in the amount of \$ 1,000,100,000. The CS included the FY 10 and FY 11 Corrections Officers arbitration award and capitalization of the disaster relief fund for \$5,000,000. He noted the increasing incidents of criminal cases being prosecuted that lead to the increases in the Office of Public Advocacy and the Public Defender Agency. The Department of Corrections fuel shortage was addressed by

additional funding of \$2,000,000 as well as the inmate healthcare shortfall of \$4,600,000. He reported that the estimates for the Department of Health and Social Services children's Medicaid Services were much higher than in the Governor's request; in excess of \$2,000,000. The state's Judgment and Claims issues increased from \$28,000 to \$1,400,000. The largest increment was the recent Bethel court decision on multi-lingual voting requirements for approximately \$1,000,000. He mentioned that another large increase occurred in the area of fire suppression activity for \$35,000,000. Finally, he alluded to increases for the Department of Transportation and Public Facilities in legal defense costs to challenge violations [of the Clean Water Act] imposed by the Environmental Protection Agency (EPA).

Representative Gara asked if all of the changes reflected in the CS were depicted in the spreadsheet (FY10 Supplemental Bill-HB 326 3/23/2010, copy on file) prepared by LFD. Co-Chair Hawker affirmed. He announced that all ensuing discussion on HB 326 was to be referenced from the spreadsheet.

Representative Gara cited item 376, page 6, of the spreadsheet in the amount of \$537,600., Gas Pipeline Implementation per the Governor's request for the Department of Natural Resources and asked why the amount was not funded.

LETA SIMONS, DIRECTOR, DIVISION OF SUPPORT SERVICES, DEPARTMENT OF NATURAL RESOURCES, explained that the supplemental request was to cover the cost of the AGIA (Alaska Gasline Inducement Act) coordinator's office and fully fund four positions. The remaining portion of \$315,000 was to fund a competitive benchmark study before FY 11 to examine the economic effects of non-conventional gas sources on the AGIA project.

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Representative Gara referenced the same item on the spreadsheet. He noted that extra costs have been incurred due to an accelerated pace of the project prompted by negotiations between TransCanada, Exxon, and AGIA. He wondered what part of the process has been accelerated. Ms. Simons answered that the overall pace of the project is moving faster than anticipated. Therefore, increased travel and project review have resulted.

Co-Chair Hawker warned that the governor's management of funds within the existing authorization for AGIA warranted further scrutiny by the Legislature.

Representative Gara asked what will happen to the project without the funding request appropriated. Ms. Simons stated that the state's response time and monitoring of the project will slow down. In addition, short funding the positions will leave them vacant. Representative Gara asked for details about the short funded positions. Ms. Simons responded that there were currently four positions in the gas pipeline implementation funding allocation (AGIA Coordinator's office). The Governor's office transferred \$390,000 last year to the Department of Natural Resources for the positions; \$100,000 was deleted in the transfer. She furthered that a higher level of expertise was needed therefore, two of the positions were upgraded and the AGIA Coordinators' salary was higher than anticipated.

Representative Fairclough MOVED to ADOPT CS HB 326(FIN) (26-GH2827\S, Kane, 3/23/10) as a working document. There being NO OBJECTION, it was so ordered.

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Representative Austerman asked who shorted the transfer of funds by \$100,000 from the Governor's Office to DNR. Ms. Simons was not certain. She remarked that happened during the legislative budget process last year.

Co-Chair Hawker questioned whether it was an executive decision or part of the legislative budget process.

Representative Doogan asked for the cost of the competitive benchmark study. Ms. Simons replied that the amount requested was \$315,000. Representative Doogan queried about the balance of the request and how it relates to the shortfall of funds. Ms. Simons reported that \$117,600 represents a shortfall in personal services and an additional \$90,000 for travel expenses and the balance for office furnishings and equipment.

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Representative Gara cited another AGIA related expenditure on the spreadsheet, page 6, item 375, for the Department of

Law, a decrement in the amount of \$884,000 re-appropriated from a \$1,600,000 lapsing balance. He asked if the administration was in agreement.

DAVID BLAISDELL, DIRECTOR, ADMINISTRATIVE SERVICES DIVISION, DEPARTMENT OF LAW, explained that the \$884,000 represents the current year's oil and gas contract funding that was appropriated last year that does not relate to AGIA. The excess funding was caused by legal cases proceeding slower than expected. He noted that the governor's requested amount of \$964,200 was the projection of need by the department for cases that are reflected in item 374 that the legislature appropriated \$884,000 for. He added that the oil and gas cases are picking up and some of the lapsing funds might still be needed. Representative Gara asked if the remainder of the lapsed balance was appropriate. Mr. Blaisdell responded that the funds are used for contract legal counsel.

Co-Chair Hawker clarified that the unused portion of the lapsed balance is still available to the department.

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Representative Gara identified page 12, item 428, Department of Labor and Workforce Development, \$85,000 reduction from an earlier supplemental proposal to be re-appropriated[unexpended/unobligated balance from the Branch Wide Oil and Gas Development appropriated to the Workforce Investment Board]. He asked for the department's position.

GUY BELL, ASSISTANT COMMISSIONER AND DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, stated that the department was in agreement with the re-appropriation.

Representative Gara inquired about the Department of Natural Resources item 456, page 14 [\$175,000 Cook Inlet Reclamation Bond]. Co-Chair Hawker restated that was the reclamation bond item he described earlier. He declared that it is an open item that must be resolved before the end of session. He explained that DNR had ceded the bond through the demise of the purchaser. A new, interest earning bond was in place. The legislature did not have a place to appropriate the interest due to restrictions on the bonds use.

Representative Gara asked for an explanation from the Department of Health and Social Services for items 357 - 358 on page 4 [item 357; reduction of the governor's request from \$700,000 to \$350,000 for Admin Support Services and item 358; reduction of \$1,050,000 to \$525,000 for Information Technology Services].

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ALISON ELGEE, ASSISTANT COMMISSIONER, FINANCE AND MANAGEMENT SERVICES, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, voiced concern about the appropriation reductions. She explained that the original appropriation request was for a fund source change to existing appropriations because the federal funds appropriated were not being realized. She stressed that no additional money was requested. The department would not be able to accommodate the proposed reductions through program changes this late in the fiscal year.

Representative Gara asked if general funds were replacing federal dollars. Ms. Elgee affirmed. She stated that federal funds for support services are appropriated through an indirect cost allocation methodology that has been poorly understood and implemented by the department. Therefore, much of the federal funding utilized by the department was not real. She summarized that the original request was for general funds to replace the federal funds.

Representative Gara voiced his concern about item 358. He worried that the reductions would result in the displacement of program services or staff. Ms. Elgee agreed. She related that in order to accommodate the reductions this late in the fiscal year the department would have to layoff sixty five employees. She noted that the department has the expenditure authorization but that approach would result in over-expenditures.

Co-Chair Hawker asserted that the department has had huge, very embarrassing, and problematic breakdowns in their accounting controls and accounting management practices. He noted that the legislature has backfilled almost every request without questions. He felt the department should accommodate the reductions within their existing resources.

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Representative Gara argued that the department has done a very good job of containing the costs within their control. He expressed concern about the program or staff reduction needed to accommodate the decrease. He noted that the department's funding request this year is between two and three percent lower than last year.

Representative Austerman wondered about the reduction of \$260,000 for the Department of Environmental Conservation on page 2, line 337 for laboratory services. He stated that the amount was approved in the Finance Subcommittee.

Co-Chair Hawker offered that the department determined that the funds were not needed.

Representative Austerman inquired about a grant to the Department of Commerce, Community and Economic Development on page 11, line 409 to the World Trade Center for \$250,000. Co-Chair Hawker indicated that it was an operating grant to a named recipient. It was brought to his office by Senator Hoffman to include in the supplemental.

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PATRICIA WALKER, STAFF, SENATOR LYMAN HOFFMAN, stated that the grant is for an exposition that begins in May of this year. Co-Chair Hawker expounded that the exposition is in China, commences in May and ends in October. He added that the item was requested by Representative Olsen and Senator Menard. The event is an Asian expo on international trade. The state's interest was in seafood marketing and has historically participated. The item was added to the supplemental to expedite the funding.

Representative Gara thought that the amount was excessive. Co-Chair Hawker furthered that the funds were used to maintain a booth for the months of May through September.

Representative Gara reported that during a Department of Environmental Conservation Finance subcommittee meeting there was testimony regarding the food safety inspection program. He related that testifiers felt the program was understaffed and unreliable which posed a danger to the public. In subsequent contact with the Commissioner, he relayed that the department would need an extra \$3 million for the staffing to comply with federal law. Rep. Gara stated that no additional funding request was submitted by

the department. Rep. Gara questioned whether the public was adequately protected.

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ADJOURNMENT

The meeting was adjourned at 3:56 PM