

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

March 30, 2009

5:08 p.m.

MEMBERS PRESENT

Senator Kevin Meyer, Chair
Representative Nancy Dahlstrom, Vice Chair (via teleconference)
Senator Charlie Huggins
Senator Linda Menard
Senator Bert Stedman
Representative Mike Hawker
Representative Mark Neuman
Representative Bill Thomas
Representative Mike Doogan
Representative Bill Stoltze (Alternate)
Representative Chris Tuck (Alternate)

MEMBERS ABSENT

Senator Lyman Hoffman
Senator Donald Olson (Alternate)

OTHER LEGISLATORS PRESENT

Senator Gene Therriault

COMMITTEE CALENDAR

APPROVAL OF MINUTES
EXECUTIVE SESSION
RELEASE OF AUDITS
CONTRACT REQUEST
ARRA REPORT - STEVE PORTER
OTHER COMMITTEE BUSINESS

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

PAT DAVIDSON, Legislative Auditor
Legislative Audit Division
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Requested a contract for audit services.

STEVE PORTER, Consultant
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented an update on the American Recovery and Reinvestment Act of 2009 (ARRA) report.

LARRY PERSILY, Staff
to Representative Mike Hawker
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified and answered questions about the ARRA report.

ACTION NARRATIVE

[5:08:01 PM](#)

CHAIR KEVIN MEYER called the Legislative Budget and Audit Committee meeting to order at 5:08 p.m. Senators Meyer, Menard, Huggins, and Stedman and Representatives Hawker, Thomas, Neuman, Doogan, Stoltze, Tuck, and Dahlstrom (via teleconference) were present at the call to order. Also present was Senator Therriault.

APPROVAL OF MINUTES

[5:09:24 PM](#)

REPRESENTATIVE DAHLSTROM made a motion to approve the minutes of March 2, 2009. There being no objection, the minutes from the meeting of March 2, 2009 were approved.

EXECUTIVE SESSION

[5:09:37 PM](#)

REPRESENTATIVE DAHLSTROM made a motion to move to executive session for the purpose of discussing confidential audit reports under AS 24.20.301. There being no objection, the committee went into executive session at 5:10 p.m.

[6:01:25 PM](#)

CHAIR MEYER brought the committee back to order at 6:01 p.m.

^RELEASE OF AUDITS

REPRESENTATIVE HAWKER made a motion for the preliminary report for the Department of Administration and Department of Transportation & Public Facilities, Select Information System Security Controls to be released to the appropriate agency for response.

CHAIR MEYER, hearing no objection, released the preliminary report to the agency for response.

[6:01:48 PM](#)

REPRESENTATIVE HAWKER made a motion for the final audit for the FY 08 Statewide Single Audit to be released to the public for response.

CHAIR MEYER, hearing no objection, released the final audit to the public for response.

CONTRACT REQUEST

[6:02:06 PM](#)

CHAIR MEYER announced that the committee would now hear a contract request for the Legislative Audit Division.

[6:03:27 PM](#)

PAT DAVIDSON, Legislative Auditor, Legislative Audit Division, Alaska State Legislature, requested a contract for audit services in order to assist her division with the statewide single audit. She pointed out that, in September, 2008, the Legislative Budget and Audit Committee had authorized her to solicit and award contracts for audit services, in an amount not to exceed \$125,000. She noted that the solicitation did not generate as many responses as previous years, however new interest had been expressed. She asked that the Legislative Audit Division be allowed to solicit an award, not to exceed \$100,000. She explained that that there had been a contract awarded for \$23,000 under the initial request.

[6:05:01 PM](#)

REPRESENTATIVE HAWKER clarified that this was for the FY 09 single audit, and asked why the need to re-authorize the request.

6:05:32 PM

MS. DAVIDSON, in response to Representative Hawker, explained that she had spoken with Legislative Legal and Research Services, and that, since her previous request had been to a prior committee, it was determined to request a re-authorization for the FY 09 statewide single audit.

6:05:57 PM

REPRESENTATIVE HAWKER asked to clarify that this was a reissuance for a prior RFP.

6:06:10 PM

MS. DAVIDSON agreed.

6:06:26 PM

REPRESENTATIVE DAHLSTROM made a motion for the Legislative Budget and Audit Committee to authorize the solicitation of an award contract for audit services in the amount not to exceed \$100,000. There being no objection, it was so ordered.

6:07:11 PM

SENATOR STEDMAN requested a joint contract to Dr. David Wood and Dan E. Dickinson for an expansion of their work done during the preceding summer and fall. He noted that this report had been presented in December, 2008. He summarized the request, which was described in the "Outline Proposal to Develop Natural Gas Fiscal Excel Model..." included in the members' packets. He noted that this proposed analysis update would be presented to the Legislative Budget and Audit Committee in the early fall, with a final report submitted by November 15, 2009. He explained that this would allow time for review of the report prior to the 2010 Legislative session. He pointed out the need for better understanding of the interrelationship of gas and oil. He opined that the complexity of the issues required added time "to digest this." Senator Stedman observed that Dr. David Wood, as the author of the previous background report, was best positioned "to take this to the next step" and "to build this in layers." He endorsed that it was not practical, or in the best interests of the Legislative Budget and Audit Committee, to offer this proposal as a competitive sealed bid.

[6:10:29 PM](#)

CHAIR MEYER asked if this was Senator Stedman's justification for the request of a sole source contract.

SENATOR STEDMAN concurred.

[6:10:43 PM](#)

REPRESENTATIVE NEUMAN observed that this was an opportunity for "a better understanding of the fiscal landscape when we're coming into an open season on two different pipelines." He supported the proposal as a chance to "know all those" and "to help paint that picture."

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REPRESENTATIVE DOOGAN asked if the proposed excel model was intended to build a "plug-in model" for the entry of variables which would provide answers, similar to what "we were doing with oil taxes."

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SENATOR STEDMAN, in response to Representative Doogan, said that he was more interested in the analytical report. He allowed that a model was useful, but that he wanted to understand the working inter-relationship between gas and oil and to arrive at solutions. He offered his belief that the Legislature needed the analytic tools to reach any conclusions, as there may be "a difference of opinion" with the current administration or the [oil and gas] industry. He noted that the complexity of oil issues had required a few years for understanding and that this additional relationship with gas was even more complex.

[6:14:00 PM](#)

REPRESENTATIVE DOOGAN referred to the "Outline Proposal to Develop Natural Gas" and asked to clarify the amount and the "deliverables," as mentioned.

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SENATOR STEDMAN agreed that the contract request was for \$300,000. He suggested that Chair Meyer would have recommendations for the "deliverables." He reiterated that an

excel model without a report offering proposed solutions would not have value.

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REPRESENTATIVE HAWKER referred to the proposed committee motion for contract approval, and reported that it would appropriately define the scope of the contract.

[6:16:01 PM](#)

REPRESENTATIVE DAHLSTROM moved that the Legislative Budget and Audit Committee authorize the Chair to enter into a sole source contract in the amount not to exceed \$300,000 with Dr. David Wood and Dan E. Dickinson for professional analysis and expert economic advice with respect to natural gas physical designs and the evaluation of development scenarios. There being no objection, the contract was approved.

ARRA REPORT - STEVE PORTER

[6:16:32 PM](#)

CHAIR MEYER announced that Larry Persily was also available and that there would be the opportunity to ask questions.

[6:18:00 PM](#)

STEVE PORTER, Consultant, Alaska State Legislature, explained his process for organizing the information from the American Recovery and Reinvestment Act of 2009 (ARRA). He briefed the committee that once he understood the information and the data base, he had studied the potential impact to Alaska.

[6:20:00 PM](#)

MR. PORTER explained that the next stage of his analysis had been to recognize the formula driven appropriations that had to meet deadlines. He stated that he received assurance from the governor's office that those application deadlines would be met. He confirmed that these 34-35 items, which were not requested by the governor, were the basis of the next appropriation bill. He referred to the spread sheets and listings from the governor's office. He mentioned the discussions of formula appropriations. He said that he had created, and placed into a single location on the web site, a document with items numbered to match the spread sheet. He reported that this also provided the federal

site for documentation and appropriations, and the state site for other documentation and appropriations.

[6:24:32 PM](#)

CHAIR MEYER referred to the governor's statement regarding the strings attached to the ARRA appropriations, and he asked how onerous these strings were.

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MR. PORTER described strings as "things you were supposed to do that are not consistent or appropriate to the funding." He pointed out that only 2-3, of the 35 programs, had any strings. He explained that he had included the federal program information on the website to better understand the appropriation. He allowed that, because of the broad purposes, it was possible to appropriate without a future impact to the operating budgets. He summarized that the federal government had intended to create a supportive environment. He noted that the "strings" were for tracking, auditing, and documenting and that this was not unusual. In response to Chair Meyer, he shared that the \$28 million energy plan was one of the few that had "strings."

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LARRY PERSILY, Staff to Representative Mike Hawker, Alaska State Legislature, explained that only two of the strings required any action: (1) within eight years, adopt the energy efficiency codes for commercial and residential buildings to meet the compliance standard; and, (2) make a change in the base period for unemployment benefits eligibility. He pointed out that there were now more precise reporting requirements. He stated there were some restrictions on spending, including no swimming pools, casinos, zoos, or golf courses.

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MR. PORTER, in response to Chair Meyer, observed that Alaska was ahead of most states with the process, and would remain so if the appropriations' evaluations and decisions were made within the next three weeks.

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MR. PERSILY offered his opinion that the access information for competitive grants to non-profits and small communities should have been established several weeks prior. He noted that the governor had until April 3 to make decisions on which ARRA appropriations to accept.

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REPRESENTATIVE HAWKER shared that his office had received anecdotal information that Alaska was behind schedule for competitive grant money.

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REPRESENTATIVE HAWKER clarified that the energy efficiency and international building codes were, in actuality, "an adoption of certain standards for energy efficiency in new and renovated construction," and that if those standards were adopted, there were eight years to implement them and they would only be applicable to 90 percent of the new and renovated construction.

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MR. PORTER reflected that it was important to look at the purposes of ARRA in order to understand the ways to manage the money without an impact on future operating budgets.

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REPRESENTATIVE DOOGAN asked to clarify the classifications for money available to the state: money the state can compete for with other states; money the state must manage and spend; and money going directly to local governments. He asked if there was money which local governments could apply for, and if there were any other categories.

[6:36:35 PM](#)

MR. PORTER said that the amount of money coming into Alaska would be between \$1.2 and \$1.5 billion, and included the formula driven money, the Department Of Defense appropriations for Alaska, and the pass through money. He discussed the numerous "pots of money," and explained the assorted groups eligible to apply for each of these.

[6:38:46 PM](#)

MR. PERSILY explained that some of the money was distributed by formula, such as transportation and Medicaid money. He said that some of the money "comes to the state and flows right out," such as to school districts, and that some of the money went directly to municipalities, such as transit and energy money. He established that some formula money was for the state to administer to grant programs. He noted that money was also administered by federal agencies for competitive grant programs.

[6:39:39 PM](#)

REPRESENTATIVE NEUMAN asked for an explanation of competitive grants.

[6:40:04 PM](#)

MR. PERSILY said that different grant programs had different criteria, which could include need, or best new innovative ideas.

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REPRESENTATIVE NEUMAN asked how that compared to formula dollars.

MR. PORTER, in response to Representative Neuman, referred to the aforementioned "pots of money" and the large groups to which these monies were distributed. He explained that the balance of the money was dispersed by individual departments, often on a case specific basis.

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MR. PERSILY offered an example of a federal funding formula that would give Department of Environmental Conservation (DEC) \$2 million for air quality; and that DEC could distribute that money in competitive grants for new, fuel efficient buses or cleaner, more efficient diesel generators.

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REPRESENTATIVE NEUMAN expressed concern that increased spending would "super heat" the economy.

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MR. PORTER replied that ARRA had substantial pressure to move quickly, but that some contracts would spread into a second year, and beyond.

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MR. PERSILY confirmed that most of the money had to be obligated by December, 2010, and that the idea was to distribute the money to create jobs.

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MR. PERSILY, in response to Representative Thomas, explained that the National Science Foundation funding for the science research vessel was being distributed through the University of Alaska Fairbanks (UAF) School of Fisheries and Ocean Sciences program. He observed that the funding for the hospital in Nome was being directly distributed by the Indian Health Services to the project contractor, and not through the state.

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MR. PORTER, in response to Representative Thomas, said that some federal agencies were given the authority to decide where to distribute funds.

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MR. PERSILY explained that University of Alaska had an agreement with the National Science Foundation to operate the vessel, whereas there was not an agreement between Indian Health Services and the state to operate the hospital.

REPRESENTATIVE THOMAS asked why this was not considered to be an earmark.

MR. PERSILY said that those two appropriations were for top priority projects and were not an earmark in name.

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REPRESENTATIVE HAWKER commented that the research vessel project had been in the state budget for many years.

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REPRESENTATIVE HAWKER reflected that the concern should not be for the funding allocations, but for the need to report and account for them.

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MR. PORTER observed that, for some of the programs, the state had authorized a portion of the allocation for accounting, but that some of the programs did not allow any distribution to be spent on the accounting.

REPRESENTATIVE HAWKER opined that the majority of the legislature was willing to pay for accountants in order to accept the ARRA appropriations.

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MR. PERSILY affirmed that the Legislature and the Denali Commission had created a clearing house to help non-profits and communities get information for competitive grants.

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SENATOR MENARD summarized that the burden on the state reporting would be for tracking, auditing, and documenting.

REPRESENTATIVE HAWKER agreed, and specified the need for compliance reporting.

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ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 6:53 p.m.