

SENATE FINANCE COMMITTEE
February 9, 2010
9:31 a.m.

9:31:47 AM

CALL TO ORDER

Co-Chair Hoffman called the Senate Finance Committee meeting to order at 9:31 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Charlie Huggins, Vice-Chair
Senator Johnny Ellis
Senator Dennis Egan
Senator Donny Olson
Senator Joe Thomas

MEMBERS ABSENT

None

ALSO PRESENT

Karen Rehfeld, Director, Office of Management and Budget, Office of the Governor; Jack Kreinheder, Chief Analyst, Office of Management and Budget, Office of the Governor; Laura Baker, Deputy Director, Division of Administrative Services, Transportation; Leta Simons, Director, Division of Support Services, Department of Natural Resources; Kim Garner, Director, Division of Finance, Department of Administration.

PRESENT VIA TELECONFERENCE

None

SUMMARY

SB 229 APPROP: OPERATING BUDGET/LOANS/FUNDS
 SB 229 was SCHEDULED but not HEARD.

SB 231 APPROP: MENTAL HEALTH BUDGET
 SB 231 was SCHEDULED but not HEARD.

SB 253 APPROP: DEFERRED MAINTENANCE/REPLACEMENT

SB 253 was HEARD and HELD in Committee for further consideration.

SB 254 SUPPLEMENTAL/CAPITAL/OTHER APPROPRIATIONS

SB 254 was HEARD and HELD in Committee for further consideration.

[9:32:01 AM](#)

Co-Chair Hoffman explained that the governor requested quick action on SB 253, the deferred maintenance bill.

#sb253

SENATE BILL NO. 253

"An Act making capital appropriations for deferred maintenance projects, equipment replacement, and emergency repairs; and providing for an effective date."

SB 253 was HEARD and HELD in Committee for further consideration.

[9:34:06 AM](#)

KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, explained that her task was to provide a high level overview of both the supplemental requests beginning with the deferred maintenance legislation. She explained the governor's plan to preserve state owned assets and create jobs in the process. She announced that the state has 2300 buildings and a \$1.9 billion backlog of deferred maintenance projects. The governor included the first \$100 million in the December 14 budget for FY11. The governor is requesting the legislature consider accelerating approval to allow funding projects this construction season. She highlighted the eight page bill containing five sections.

Ms. Rehfeld provided a sectional analysis. Section 1 includes a specific request by department. Section 2 is a simple funding summary by department. Section 3 includes a total funding summary. Section 4 includes the lapse provision of the bill. Section 5 informs of the immediate effective date.

[9:36:31 AM](#)

Ms. Rehfeld highlighted by agency the department requests. Some departments requested allocations within a total amount. She reported that the Department of Administration's (DOA) allocation of \$100 million is \$7.25 million. The proposal is to split between facilities with the deferred

maintenance at approximately \$4.25 million and the State of Alaska Telecommunications System (SATS) telecommunication system deferred maintenance at \$3 million. She continued with the Department of Corrections (DOC) which has \$6.5 million in deferred maintenance projects. She depicted the Department of Education and Early Development's (DEED) request of \$1.7 million for deferred maintenance at Mt. Edgecombe high school.

Co-Chair Hoffman asked Ms. Rehfeld about potential jobs provided in the state. She invited the senior policy analyst from the Office of Management and Budget (OMB) who has been working on Institute of Social and Economic Research (ISER) studies of employment information.

JACK KREINHEDER, CHIEF ANALYST, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, explained that the projections available for this type of deferred maintenance package and repair work result in \$100 million in general funds and approximately \$106 million in total funds. The direct jobs are estimated at 700 on an annual average basis. If employees are hired for a six month job, more than 700 people could be hired. The multiplier effects of the money spent in the economy equals approximately 1100 jobs. Ms. Rehfeld pointed out the potential projects funded with the approval this legislation. Most agencies do not have the internal capacity to do the work themselves, so they must contract.

Ms. Rehfeld continued with the Department of Environmental Conservation (DEC) who allocated \$200 thousand to address the deferred maintenance needs at the environmental health lab. The allocation for the Department of Fish and Game (DFG) is \$2 million with specific allocations within that including \$850 thousand for statewide employee housing needs, \$700 thousand for statewide storage and shop facilities, and \$450 thousand for the Kodiak warehouse compound upgrades.

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Ms. Rehfeld discussed the Department of Health and Social Services (DHSS) and their decision to split the \$7 million allocation. She continued with the deferred maintenance allocation for the Department of Labor and Workforce Development (DLWD) including \$1 million for the Alaska Vocational Technical Center. The Department of Military and Veterans Affairs (DMVA) allocates \$4 million in general funds and \$6.3 million in federal funds to support a number of components.

Ms. Rehfeld explained that the Department of Natural Resources proposed to receive a \$4 million allocation. The Department of Public Safety (DPS) proposed a single

allocation of \$1.3 million to statewide facilities for statewide deferred maintenance. Ms. Rehfeld addressed the Department of Transportation and Public Facilities (DOT) and the proposed allocation of \$25 million of the entire package allocated across the various modes of transportation within the department. The airport deferred maintenance request is \$3.5 million, the Alaska Marine Highway Vessel Facility request of \$3 million, facilities deferred maintenance for \$1 million, harbor deferred maintenance for \$600 thousand, and highway deferred maintenance package request of \$16.9 million.

[9:43:46 AM](#)

Co-Chair Hoffman acknowledged the committee's initiation of a boost in the department's deferred maintenance last year. He asked the department to comment. Co-Chair Stedman echoed Co-Chair Hoffman's request and noted imbedded policy issues such as harbor maintenance listed on Page 57. Ms. Rehfeld suggested that the department discuss the specific questions.

LAURA BAKER, DEPUTY DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, TRANSPORTATION, discussed the estimates. Co-Chair Stedman requested further information on harbor maintenance. Ms. Baker replied that the harbor deferred maintenance funding addresses the top priority item on the harbor list, which is the Port Alexander Inner Float repair and replacement. The float is used by school children and the boarding ramp is not Americans with Disabilities' Act (ADA) compliant. The project total is estimated at \$630 thousand.

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Co-Chair Stedman acknowledged that municipal harbors received funding for deferred maintenance. He informed that many harbors have been privatized. These remaining harbors contain areas that through moorage could support the harbors themselves. He felt concern about policies regarding small harbors and docks. Ms. Baker offered to follow up with the committee on the concern including outstanding projects and plans. Co-Chair Hoffman requested that time frames on transfers be included in the follow up.

Co-Chair Stedman asked about the follow up. He expressed opposition to the state funding private docks. He provided the example of Baranof Warm Springs. Ms. Baker answered that she would include that information. Co-Chair Stedman remarked that the committee could commune and discuss the issue further. He stressed that he is philosophically opposed to the state building and maintaining private docs. Ms. Baker agreed to schedule a meeting to follow up on the issue.

Co-Chair Hoffman requested comment upon funds in the budget to address deferred maintenance of pot holes throughout the state. He remarked that the program was well received. He received requests for additional funds for roads and road construction, especially for the road to Dillingham. He opined that Alaskan citizens prefer to have funds spent on the repair and construction of roads.

Ms. Baker informed about an updated report regarding the \$12.4 million added to the highway and aviation base budget. A portion of the funds were used to offset the potential supplemental need this year. She offered to provide the report to the committee. The funds recently added to the operating budget in July will address work required on roads this construction season and fiscal year.

[9:51:46 AM](#)

Co-Chair Hoffman asked about the \$1 million for deferred maintenance and critical repairs. Ms. Baker responded that the facilities' deferred maintenance of \$1 million will be spread across the regions adding sprinkler systems, ventilation systems, compliance for the Environmental Protection Agency (EPA), and the addition of an overhead hoist for the Tok equipment building. She stated that she was available to discuss the issue further. Co-Chair Hoffman asked about the \$16.9 million for highway deferred maintenance and the \$37.5 million for maintaining existing facilities. Ms. Rehfeld answered that OMB plans to provide the committee with a list including a breakdown of the requested projects.

[9:54:12 AM](#)

Senator Olson asked why only \$3.5 million dollars was requested out of a \$94 million backlog. Ms. Baker responded that current needs in the department are approximately \$94 million. She agreed that the portion for aviation was small, but the allocation was based on needs by mode. The aviation portion in the deferred maintenance allocation includes a number of projects at the top of the list.

Co-Chair Stedman requested information about the process used to identify and recommend certain agencies. He asked how the process integrates with last year's reduced deferred maintenance budget. He elucidated that the state now has the responsibility to "catch up" and restructure for the next generation.

Ms. Rehfeld defined the five year plan with the goal of \$100 million appropriated each year to address the backlog. The general allocation was based on square footage by agency. She noted that adjustments did occur, but allocations must

be scrutinized because some agencies have greater needs for deferred maintenance funding.

Co-Chair Hoffman asked how the allocation values between departments are determined. Ms. Rehfeld maintained that the allocations were determined by observing the footage of the facilities within the agency. Co-Chair Stedman expressed curiosity about the ages and condition of the various agencies. Ms. Rehfeld agreed that the age and condition of the agencies must be reviewed carefully to determine priorities.

[10:00:49 AM](#)

Senator Thomas asked about the intention to move the 2011 maintenance list to 2010. Ms. Rehfeld responded that the governor is proposing that the second year of the five year plan begin in FY12. She explained that FY11 is the first year requesting an accelerated start date. Senator Thomas noted the lack of steady funding during the various years in the five year plan. He provided examples.

Ms. Rehfeld informed about the various agencies' ten year plans. She explained why some years show higher appropriations. Senator Thomas observed that the projects are more similar to capital projects than deferred maintenance projects.

[10:03:14 AM](#)

Senator Egan asked a policy question regarding various projects and the corrosive salt used on the Southeast Alaskan roads in the winter. He observed that the state saves money by resorting to the less expensive salt versus the newer varieties of ice control. The burden is passed on to the owner of the vehicle. Ms. Rehfeld commented that DOT is the best contact, as they have had issues with the EPA and other regulatory agencies. Ms. Baker added that the department is considering alternatives to the salt mixture used for icy roads. She offered to provide more information, but maintained that the belief about salting the roads is a misconception. Co-Chair Hoffman asked if Frank Richards was available for questioning. Ms. Baker responded that Mr. Richards was not available. Co-Chair Stedman agreed that the concern about salt content is also expressed in Sitka, Ketchikan, and Anchorage as the belief exists that cars are dissolved by the brine mixture.

[10:06:32 AM](#)

Co-Chair Stedman referenced Page 46 and the deferred maintenance cost for the Mount McKinley meat plant. He asked about the meat plant.

Senator Olson regressed to a question for (DOT) about the road between Saint Mary's and Mountain Village in his district, which is in need of repair. He asked about the state's maintenance of the road. Ms. Baker promised to follow up with an answer as she was currently unaware. Senator Olson commented about the resistance to the maintenance possibly due to a misunderstanding about whether equipment is owned by the state or federal government. He emphasized that the road must be maintained for the safety of the local people.

[10:08:47 AM](#)

LETA SIMONS, DIRECTOR, DIVISION OF SUPPORT SERVICES, DEPARTMENT OF NATURAL RESOURCES, discussed the Mt. McKinley meat plant. She explained that the meat plant is an asset of the agricultural revolving loan fund, which is an enterprise fund. Mt. McKinley meat plant is in need of some improvements to maintain safety standards and to retain good working conditions in the facility.

Co-Chair Stedman reviewed the list of deferred maintenance repairs. He opined that most of the items should have a sinking fund available for replacement reserves. He asked if the meat factory had a process to replace equipment. Ms. Simons noted that the plant was an asset of the Agricultural Revolving Loan Fund. The fund's focus is to provide agricultural loans.

Co-Chair Stedman stated that the assets should be protected by policies. He requested that the department follow up with the committee about the management of the organization's assets. Ms. Baker agreed to comply.

Senator Huggins agreed with Co-Chair Stedman's point. Senator Olson followed up that the Mt McKinley meat plant is a valuable processing plant. He stated that he has used it himself. He believed that the funding should continue.

[10:12:55 AM](#)

Ms. Rehfeld noted that a request was not reflected for the Alaska Court System, which is \$2.5 million for deferred maintenance.

Co-Chair Hoffman pointed out a revised update illustrating that the state will have \$2.2 billion in reserves. The Senate bipartisan working group proposed to save \$1.5 billion of the \$2.2 billion. The governor agreed that the responsible act is to save additional dollars from FY10. The roller coaster effect on the state budget may not necessitate \$100 million for the next five years. He suggested thinking twice about expenditures made today versus later when the future price of oil is yet unknown. He

opined that the state acted responsibly by saving \$1.5 billion of the additional revenues.

Senator Thomas interjected that some departments listed the total estimated deferred maintenance cost listed as a number. He appreciated information presented in that form.

[10:15:51 AM](#) AT EASE
[10:16:50 AM](#) RECONVENED

#sb254
SENATE BILL NO. 254

"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."

SB 254 was HEARD and HELD in Committee for further consideration.

Ms. Rehfeld provided a high level overview of the supplemental bill before the committee. She noted that agency representatives are available online for questions. She explained the proposal to place funding into savings due to the potential surplus in FY10. She mentioned the public education fund appropriation of approximately \$1.1 billion as witnessed in Section 12(a) of SB 254. She discussed the various appropriations and the repayment of the Constitutional Budget Reserve (CBR). The regular discussion about supplemental funding includes unanticipated needs. She discussed the various operating components of the budget addressed through the supplemental appropriations. Fire suppression comprises a significant component of the budget. She mentioned Alaska's significant fire season this year. The base amount in the budget for fire suppression is \$35.4 million. The non formula agency operating requests equal approximately \$32 million. She mentioned statewide items included in the operating proposal in Section 12(b), which includes the movement of funds into the small business economic development revolving loan fund. Additionally, a \$5 million request is included to replenish the disaster relief fund under Section 12(c). Specific capital requests are "emergency" in nature and address areas where funding was not sufficient to complete a project. The total of the capital component of the budget is \$58.3 million.

[10:21:43 AM](#)

Ms. Rehfeld observed that the review of supplemental requests includes discernment of standalone items versus those that can be addressed in the next budget cycle. Some items were not incorporated into the FY11 budget, but are

currently discussed in terms of budget amendments. She noted that inmate health care is another area of significant concern with a supplemental request based on the number of catastrophic cases. She noted the number of catastrophic cases. The state must not charge other federal programs for health care of inmates when they enter incarceration. Medicaid growth causes concern, as the authorization in FY10 was not sufficient.

[10:23:46 AM](#)

Ms. Rehfeld highlighted sections of the 17 page bill. The first section of the bill is the operating supplemental request by departments. Section 2 summarized the funding by agency. Section 3 provides the capital requests. Section 4 summarizes the capital funding. Section 5 is the language section and spurs discussion about the Federal Matching Assistance Program (FMAP) rate under the American Recovery and Reinvestment Act (ARRA). In order for the state to receive the benefit under the ARRA funds requires conditions of no change to current Medicaid program and the state cannot place the savings in a "rainy day" account. Included in the supplemental bill is language clarifying that that the state's ability to utilize the higher reimbursement rate has allowed the use of general funds to cover other increased costs in our budget. Section 6 includes the request for funding to implement the arbitrator's decision from March 19, 2009 regarding the Alaska Correctional Officer Association. Section 7 includes a specific item for pupil transportation under DEED. Section 8 involves a miscellaneous claim for the Division of Juvenile Justice. Section 9 is a correction to an appropriation in the FY10 budget concerning \$85 thousand for pipeline training from DLWD. Section 10 from the Department of Law (DOL) is a request for \$28 thousand for judgments and claims. Section 11 allows the Department of Natural Resources (DNR) the use of program receipts from the sale of aircraft estimated at \$2 million. Section 12 addresses fund transfers proposing the transfer of \$1.1 billion to the public education fund and also addresses the Alaska International Airport System (AIDEA) revolving loan fund to the small business economic development fund along with the \$5 million for disaster relief referenced earlier. Section 13 addresses ratifications. Ratification is sometimes known as zero balancing and is a term used to request authorizations to cover expenditures that have already occurred and resulted in an over expenditure of an appropriation. The legislature's authorization to ratify the appropriations gives the department the additional authorization for what occurred in a prior year, but does not affect cash in the current year.

Co-Chair Hoffman asked for the ratification history for the last five years. He recalled that the category of

expenditures is now in excess of \$10 million. He asked if departments are spending unauthorized funds because the legislature will ratify them. What is the administration doing to control the unauthorized spending?

[10:29:36 AM](#)

Ms. Rehfeld answered that ratifications include a couple of outstanding items. The largest portion is the \$10.3 million ratification for firefighting. Ratifications are an area of the budget where a base appropriation is decided upon, not knowing what the fire season will look like. The next step is to approach the legislature with the supplemental request based on the estimates from the firefighting that took place during the last fire session. Following adjournment of the legislature, language in the supplemental bill allows ratification for the following year. Because last year's fire season was so dramatic, the \$10.3 million represents funding needed for firefighting during the end of FY09.

Ms. Rehfeld announced another significant piece concerning the Department of Corrections (DOC) who overestimated the amount that they would receive from the federal government for housing federal prisoners. The department reduced the authorization in the budget because DOC does not receive funding to house federal prisoners.

[10:33:17 AM](#)

Co-Chair Stedman asked the ramifications if the legislature does not ratify. Ms. Rehfeld responded that the accounting system clean up will not be effective. Co-Chair Hoffman asked if the departments would have to pay the costs from their current budget. Ms. Rehfeld answered that she was not sure that the department could revisit past years because the statute prohibits it.

KIM GARNERO, DIRECTOR, DIVISION OF FINANCE, DEPARTMENT OF ADMINISTRATION, stated that departments cannot accrue expenditures from previous years that have now expired due to uncollectable receivables because of the legal sanctity of the appropriations. The appropriation level at which the legislature creates the language locks the accounting system and the users of the funds at the legal level. Co-Chair Stedman compared the ratification situation with the Alaska Marine Highway System's compliance with legislative appropriations.

Co-Chair Hoffman understood the situation with fire suppression and correction officers. He agreed that a plan was necessary to correct expenditures that have not been appropriated by the legislature.

Ms. Rehfeld informed that an authorization of the expenditures was approved, but were unavailable in the end.

She explained that areas identified as problems in the ratification process must be corrected in the budget document. Several corrections are proposed in the supplemental bill and in the FY11 budget.

Ms. Garnero noted that \$481 thousand of ratifications are related to several departments. The process is a onetime clean up of the accounting system receivables. The future intention is to reconcile annually.

Ms. Rehfeld addressed Section 14 and the correction allowing DOL to address the receipt of restitution in juvenile cases. The state debt and other obligations require adjustments to address international airport revenue fund and recommendations from their bond council to minimize the revenue needed from customers within the international airport.

Ms. Rehfeld stated that Section 16 extends the lapse for the instate gas pipeline appropriation. The budget was scheduled to lapse on February 28, 2010. The department requests authority to extend the lapse date to the end of the fiscal year, June 30, 2010.

[10:38:58 AM](#)

Co-Chair Stedman wished to discuss the gas pipeline appropriation further in the future. Co-Chair Hoffman recalled that the legislature "short funded" so that the department could justify their accomplishments. He pointed out that the short fund equaled \$3 million. Ms. Rehfeld responded that the instate pipeline coordinator has not requested additional funds in the current year. Existing contracts are in place, and work is ongoing. Only a request for an extension exists.

Ms. Rehfeld announced that Section 17 addresses the Constitutional Budget Reserve (CBR) and the management of the funds. The department is proposing to replace the management with general funds at \$1.673 million. Section 17 also authorizes a draw from the Statutory Budget Reserve (SBR) if revenues are not sufficient to cover expenditures in FY10.

[10:41:13 AM](#)

Co-Chair Stedman requested clarification on the \$1.6 million. He asked if it included the cost of handling the \$400 million over the next 90 days or is it a portion of the management funds by DOR. Ms. Rehfeld explained that the mentioned funds are the management fees for the entirety of the CBR.

Co-Chair Hoffman asked for justification. He asked if it was because the administration does not believe that a three quarter vote in the legislature was possible. Ms. Rehfeld explained that if the goal is to retain the CBR then it should not be drawn from to manage the funds. Co-Chair Stedman declared that a discussion about plans for the sizable state savings should be held this session.

Ms. Rehfeld referred to Section 18 and the regular lapse provisions for capital projects. Appropriations requested in Section 12 and the deposit to the public education fund does not lapse. Section 19 is a repeal of Section 43c known as the 17(b) provision. The administration does not believe that the provision is necessary given the objective to repay the CBR. Section 20 requires an effective date for the passage of the bill. Section 21 states that the act will take effect April 18, 2010.

[10:44:59 AM](#)

Senator Ellis asked about Section 6 and the bargaining agreement with DOC. He asked about an adjustment to the FY11 budget regarding the agreement. Ms. Rehfeld answered that if the government approves this, these funds will be allocated to the personal services components within the DOC budget in order to pay the increased wages as incorporated in arbitrator's decision. She stated that the \$3 million will be spread where their personal services cost exist within their budget.

[10:46:14 AM](#)

Ms. Rehfeld noted that if the legislature chooses to approve the funding, then the FY11 budget must be amended. Senator Ellis asked if the agreement would exist in a section related to the department. Ms. Rehfeld revealed that a large bargaining unit agreement that covers all departments requires a single section that allocates across all of the agencies and the funding sources and is spread throughout all of the budgets if approved by the legislature.

[10:47:15 AM](#)

Co-Chair Hoffman elaborated that the committee would address the legislation further in the future. He requested the questions about SB 253 be answered tomorrow.

Senator Olson asked a question about Section 11 and the Department of Natural Resources (DNR). He voiced concern about an appropriation for aircraft replacement. He assumed that the aircraft referred to was the CL214 used for water bombing. He asked why the parts and accessories were sold. Ms. Rehfeld could not answer the question. Senator Olson suggested a future meeting regarding the issue.

ADJOURNMENT

The meeting was adjourned at 10:49 AM.