

HOUSE FINANCE COMMITTEE
January 24, 2011
1:39 p.m.

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CALL TO ORDER

Co-Chair Thomas called the House Finance Committee meeting to order at approximately 1:38 p.m. [NOTE: The first minute or so of the meeting was not recorded on BASIS; the Co-Chair noted who was present and the first testifier introduced himself.]

MEMBERS PRESENT

Representative Bill Stoltze, Co-Chair
Representative Bill Thomas Jr., Co-Chair
Representative Anna Fairclough, Vice-Chair
Representative Mia Costello
Representative Mike Doogan
Representative Bryce Edgmon
Representative David Guttenberg
Representative Mark Neuman
Representative Tammie Wilson

MEMBERS ABSENT

Representative Les Gara
Representative Reggie Joule

ALSO PRESENT

Representative Mike Chenault; Representative Dan Saddler; Daniel S. Sullivan, Commissioner, Department of Natural Resources; Jeanmarie Davis, Director, Division of Support Services, Department of Natural Resources; Becky Hultberg, Commissioner, Department of Administration.

SUMMARY

BUDGET OVERVIEWS:

Department of Natural Resources
Department of Administration

^BUDGET OVERVIEW: DEPARTMENT OF NATURAL RESOURCES

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[NOTE: The first few minutes of the meeting were not recorded, during which the commissioner introduced himself and said the following.]

DANIEL S. SULLIVAN, COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, provided a PowerPoint presentation, "Alaska Department of Natural Resources, House Finance FY12 Overview" (copy on file). He noted that the Department of Natural Resources (DNR) was a large agency and he was committed to learning the details of its functioning. In addition, he emphasized the critical importance of the agency's relationship with the legislature. He knew there would not always be agreement on policy issues, but stated his commitment to making the process work.

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Commissioner Sullivan began with the first slide, "Who We Are and What We Do":

- Article 8, Section 1 of the Alaska Constitution provides that "it is the policy of the State to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest."
- Article 8, Section 2 provides that the "legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people."

Commissioner Sullivan continued that the department's mission was taken from the constitution: Develop, conserve, and enhance natural resources for present and future Alaskans. He pointed to a map of Alaska with different colors showing federal, Native, and state lands. He emphasized the enormity of the amount of land under state control. He listed other important functions of DNR ("What We Do"):

- DNR manages (1) the state's land - approximately 100 million acres of uplands, 60 million acres of tidelands, shore lands, and submerged lands, and

40,000 miles of coastline - and (2) the state's vast energy and natural resources

- State land use and the natural resources developed from state land are the primary source of state revenue
- DNR also manages state parklands; conducts wildland fire suppression; and supports the agriculture and timber industries in Alaska
- Another important function of DNR is obtaining and providing the geologic, hydrologic, land records, and other information needed to manage and utilize the state's natural resources

Commissioner Sullivan turned to a slide with statistics about "Employees and Budget":

- DNR currently employs about 1,100 Alaskans in full-time and seasonal positions, with main offices in Anchorage, Juneau, Fairbanks, and Palmer, and regional offices throughout the state.
- Our FY11 operating budget is \$152.5 million, which includes funding for AGIA implementation
- Our FY12 operating budget request is \$153.7 million, made up of:
 - o 48% Unrestricted General Fund
 - o 17% Designated General Fund
 - o 23% Other funds including industry receipts
 - o 12% Federal

Commissioner Sullivan noted that the FY 12 budget was approximately \$1 million greater than the year before.

Commissioner Sullivan directed attention to a slide depicting an organizational chart of the agencies in DNR.

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Representative Guttenberg noted that the Alaska Gasline Inducement Act (AGIA) Coordinator's Office position was vacant on the flow chart and asked whether the department was interviewing applicants in order to fill it. Commissioner Sullivan replied that the department was actively looking and wanted an energetic, knowledgeable, and qualified candidate for the position.

Commissioner Sullivan reported his intent to give an overview of each division within the department along with a sense of each division's mission.

Division of Oil and Gas:

- Kevin Banks, Director
- 105 full and part time budgeted positions
- 10.82% of DNR's FY12 Operating Budget Request
- \$16,624.5 budget request (all sources)

Commissioner Sullivan detailed that the oil and gas division was one of the most important, and that it held annual oil and gas lease sales, managed exploration and development activities on state lands, conducted resource evaluations, and promoted Alaska oil and gas. In addition, the division assured appropriate oversight and maintenance of oil and gas infrastructure and facilities.

Division of Mining, Land and Water

Commissioner Sullivan described the division as the "heart and soul" of DNR.

- Wyn Menefee, Acting Director
- 207 full and part time budgeted positions
- 15.27% of DNR's FY12 Operating Budget Request
- \$23,481.2 budget request (all sources)

Commissioner Sullivan detailed that the work done by the division touched on all aspects of DNR's work, from acquiring land from the federal government and for public purposes to defending state ownership interests, including navigable waters and easements. The division also authorized commercial and recreational use of state lands, sold state land to individuals, and managed water sources and water rights.

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Co-Chair Stoltze asked for details regarding the management of state park lands. He queried the acreage of park lands and the definition of "park lands." He wanted a philosophical discussion in relation to the divisions. Commissioner Sullivan replied that the goal was to make Alaska's parks the pride of all Alaskans, which he did not

think was currently the case. He offered to provide numbers related to the amount of park lands, noting that Alaska had more park lands than any other state in the country.

Co-Chair Stoltze referenced historical aversion to designated use of parks and described a desire for a multiple-use approach.

Representative Doogan asked what the empty boxes on the organizational chart represented. Commissioner Sullivan replied that the white boxes designated subdivisions within each division and did not represent position vacancies.

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Representative Wilson queried potential lawsuits related to claiming navigable waters on Bureau of Land Management (BLM) land. She noted constituent concerns in the Mosquito Fork area. Commissioner Sullivan offered to get more information. He added that the issue had been carefully considered when he worked as the Attorney General for the Department of Law (DOL). He referred to a legal strategy related to navigable waters, including a petition to the U.S. Secretary of the Interior to rescind regulations that DOL felt violated the Alaska National Interest Lands Conservation Act (ANILCA) with regard to U.S. National Park Service regulations and the authority by which actions were conducted on Alaska's navigable waters. He assured the committee that DNR would continue to be vigilant about the issue.

Representative Wilson asked whether the funds would come out of the DNR budget if the state had to go to court. Commissioner Sullivan replied that the funding would most likely be a combination of both DOL and DNR funding for DOL.

Vice-chair Fairclough hoped navigable waters referred to larger waterways. She commented on Co-Chair Stoltze's reference to the accessibility of parks specific to District 17, where the park land was in a valley with the water draining towards the valley. Under past leadership, residents who had developed property above the park land were not allowed access or improvements. The park had been non-receptive to the municipalities.

Commissioner Sullivan commented that he had been listening to Alaskans regarding DNR issues, and that the subject of access had come up frequently.

Vice-chair Fairclough wanted discussion about more access to parks, including where horses could be taken.

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Representative Costello referred to a DNR increment to fill five positions in the Division of Mining, Land and Water to address the 2,376 permit backlog. She referred to discussion with constituents regarding the length of time permits were taking. She asked whether the new positions would be able to take care of the backlog and queried the timeline. Commissioner Sullivan acknowledged the issue of "permitting efficiencies," including both timeliness and certainty in terms of permitting decisions. He stated that he had asked his team to look at issues such as overlap and redundancy related to federal and state permitting, regulatory issues that did not make sense, as well as statutory mandates that might need to be reviewed. He referred to an experienced deputy who was leading the effort. He believed the budget increment requested would be helpful, but he also believed the problem was not only about personnel. He thought the department should take a step back and determine whether the process was working as well as it could, including whether information technology (IT) upgrades were needed.

Representative Guttenberg referred to a bill that he was sponsoring that would address the management of parks and provide opportunity to discuss the philosophy of park management. He referred to China's control of its rare earth elements and queried potential initiatives from the administration to develop and mine Alaska's rare earth elements. Commissioner Sullivan replied in the affirmative. He noted that the governor had highlighted the issue in his State of the State address. He referred to an increment request and noted that his team was working intently on the issue. He stated that his philosophy was to go "on offense" related to resource development, and he wanted Alaska to be in the forefront of the rare earth elements issue.

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Vice-chair Fairclough referred to a story of a family that had relocated out of Alaska due to permitting problems. She asked whether the permitting process could be streamlined when federal land was involved. Commissioner Sullivan replied that he wanted to review specific examples of experiences in Alaska. He noted that DNR was looking into state and federal overlap. He thought improvements should be made in situations where the federal government and the state required identical permitting.

Vice-chair Fairclough asked whether state property had different regulations than federal property. Commissioner Sullivan replied that he would get the answer.

Division of Forestry

- Chris Maisch, Director
- 280 full and part time budgeted positions (does not include the hundreds of fire season crews)
- 25.38% of DNR's FY12 Operating Budget Request
- \$38,988.6 budget request (all sources)

Commissioner Sullivan detailed that the division comprised a large part of the DNR budget and that the division's two key functions were fire-protection services and managing three state forests. He referred to successes in supporting timber harvesting and processing, including the wood-pellet mill in Fairbanks, harvesting in Tok, and a bio-mass facility that had recently opened in the state.

Co-Chair Thomas queried the severity of forest fires in the state during the prior year. Commissioner Sullivan offered to get more information. He noted that the increment requested in the supplemental had been high and that there had been extensive activity in the Interior.

Representative Guttenberg commended the work of the fire crews.

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Representative Wilson noted the status of the Fairbanks North Star Borough relative to the Environmental Protection Agency (EPA) and queried air-quality problems. Commissioner Sullivan responded that Alaska had a strong and cooperative relationship with the federal government related to

firefighting. He acknowledged the importance of the partnership.

Representative Guttenberg recalled an initiative related to health issues because of smoke created by fires. The measure would change the status of a fire from "let burn" to "attack" to assure the issue was addressed. He asked for more information. Commissioner Sullivan asked whether the issue was that fires closer to communities should have statutory priority.

Representative Guttenberg clarified that the issue related to the health effects of the smoke.

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Division of Geological and Geophysical Surveys

- Bob Swenson, Director
- 48 full and part time budgeted positions
- 5.85% of DNR's FY12 Operating Budget Request
- \$8,983.2 budget request (all sources)

Commissioner Sullivan detailed that the division had done outstanding work mapping the location of minerals and getting them online. He noted that the information was important for industry when working on investment issues in the state.

Division of Coastal and Ocean Management

- Randy Bates, Director
- 33 full time budgeted positions
- 3.05% of DNR's FY12 Operating Budget Request
- \$4.691.7 budget request (all sources)

Commissioner Sullivan detailed that the division administered the Alaska Coastal Management Program and oversaw Alaska's participation in the Coastal Impact Assistance Program, which distributed funds to outer continental shelf (OCS) states to help mitigate impacts of OCS oil and gas activities.

Representative Neuman referenced proposals put together by division director Randy Bates to make the coastal management division more efficient and more responsive to

communities. He asked whether the proposals would be implemented and referred to frustrations expressed in communities. Commissioner Sullivan responded that the issue of coastal zone management had been contentious during the previous year. He had not seen the proposals by Mr. Bates, but he stressed that the administration wanted to extend the program. He referred to discussion in Barrow about the program.

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Division of Agriculture

- Franci Havemeister, Director
- 46 full and part time budgeted positions
- 4.74% of DNR's FY12 Operating Budget Request
- \$7,282.4 budget request (all sources)

Co-Chair Stoltze referenced bond packages and a greenhouse item and stressed the importance of agricultural studies in Alaska.

Division of Parks and Outdoor Recreation

- Ben Ellis, Director
- 185 full and part time budgeted positions
- 10.09% of DNR's FY12 Operating Budget Request
- \$15,495.5 budget request (all sources)

Commissioner Sullivan pointed out that in FY 10, Alaska state parks were visited by 5.39 million people, 72 percent of whom were Alaska residents.

Division of Support Services

- Jean Davis, Director
- 130 full and part time budgeted positions
- 8.48% of DNR's FY12 Operating Budget Request
- \$12,113.4 budget request (all sources)

Commissioner Sullivan informed the committee that there were offices in the department as well.

State Pipeline Coordinator's Office

- Mike Thompson, State Pipeline Coordinator
- 31 full and part time budgeted positions
- 5.07% of DNR's FY12 Operating Budget Request
- \$7,789.2 budget request (all sources)

Commissioner Sullivan commended work done by the office on the recent pipeline shutdown and restart and referenced "troubling" EPA issues.

Office of Project Management and Permitting

- Tom Crafford, Director
- 12 full time budgeted positions
- 2.75% of DNR's FY12 Operating Budget Request
- \$4,223.9 budget request (all sources)

Commissioner Sullivan detailed that the office coordinated the permitting for large projects.

Office of the AGIA Coordinator's Office

Commissioner Sullivan reviewed the Office of the AGIA Coordinator's Office, which focused on the permitting for the Alaska natural gas pipeline under AGIA:

- 9 full and part time budgeted positions
- 2.32% of DNR's FY12 Operating Budget Request
- \$3,563.3 budget request (all sources)

Office of Mental Health Trust Lands

- Greg Jones, Executive Director
- 16 full and part time budgeted positions
- 1.88% of DNR's FY12 Operating Budget Request
- \$2,892.7 budget request (all sources)

Commissioner Sullivan noted that the office focuses on management of the real estate assets of the Mental Health Land Trust.

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Co-Chair Thomas asked whether DNR also managed for timber sales. Commissioner Sullivan believed that it did. Co-Chair

Thomas referred to letters he had received requesting more timber sales in smaller communities.

Office of the Commissioner:

- Dan Sullivan, Commissioner
- 9 full time budgeted positions
- 0.79% of DNR's FY12 Operating Budget Request
- \$1,221.1 budget request (all sources)

Commissioner Sullivan referred to the Boards and Commissions associated with DNR:

- Natural Resource Conservation & Development Board (NRCDB)
- Citizen's Advisory Commission on Federal Areas (CACFA)
- Board of Agriculture and Conservation
- Board of Forestry
- Alaska Historical Commission
- Alaska Royalty Oil and Gas Development Board
- Seismic Hazards Safety Commission
- Outdoor Recreation Trails Advisory Board

Representative Neuman stated his opinion that Alaska was a resource extraction state rather than a resource development state. He wondered what direction the departments were being given to use Alaska's resources to create jobs for Alaskans. He felt a great deal of money was used to transport resources out of the state so that others could make money from developing them.

Commissioner Sullivan summarized what he had heard, seen, and learned during his "engagement tour" of the state. He thought there were challenges, but believed that the opportunities were greater. He emphasized the importance of the issue of partnership. He listed a summary of the main challenges he had garnered after dozens of meeting with people throughout the state:

- TAPS throughput
- Aging infrastructure
- High energy costs throughout the state
- Gas pipeline
- Cook Inlet energy

- Permitting efficiencies

Commissioner Sullivan provided data regarding the Trans-Alaska Pipeline System (TAPS) throughput because he thought the issue was enormous and needed to be addressed:

- In 2006, output was approximately 840,000 barrels per day
- In 2007, output was approximately 734,000 barrels per day
- In 2009, output was approximately 640,000 barrels per day
- Overall loss: 200,000 barrels per day

Commissioner Sullivan emphasized that the loss summed up what the state was facing. He pointed to a list of specific DNR-related challenges:

- Permitting efficiencies & workload
- Federal land conveyance
- Litigation -defending permitting process
- Forest management
- Unlocking resources
- Publicizing resources
- Management challenges
- Retention / Recruitment

Commissioner Sullivan thought the issues could be addressed at the subcommittee level because most of them were already addressed by elements within the governor's budget request.

Vice-chair Fairclough noted that there were quite a few positions in the department that have been unfunded in the past, but that DNR was now recommending funding for existing positions. She thought money had been moved from the positions by the department and asked where the funding had gone. Commissioner Sullivan did not know the answer. He believed some of the funding was federal. He pointed out that there were about 128 vacant positions; part of what was requested in the governor's budget was funding to fill the positions. He stressed the importance of filling the positions, particularly those related to permitting.

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Vice-chair Fairclough reiterated her desire to know where the funding for the positions had gone. She hoped the subcommittee would look closely at the positions that were federally funded. She thought money had been removed from key positions for other reasons.

Co-Chair Thomas pointed out that the department had been asked whether increments received the year prior had been spent to hire the positions the legislature had given the department authority to hire.

JEANMARIE DAVIS, DIRECTOR, DIVISION OF SUPPORT SERVICES, DEPARTMENT OF NATURAL RESOURCES, explained that the department had received some additional increments the previous year involving positions, particularly within the Division of Agriculture. She referred to funding for a plant health and phytosanitary certification position and reported that the department was conducting interviews and expected the position to be hired by February 4. Other funding for the Division of Agriculture related to the Farm to School Program; a development specialist had been hired and had started December 28 and had held the first Farm to School Summit. She added that a second position would be filled for the program.

Ms. Davis continued that there had been some additional funding in the area of oil and gas for arbitration related to oil and gas royalty issues; DNR was involved in an arbitration process with BP and ConocoPhillips.

Ms. Davis added that funding had also been received for the Office of Project Management and Permitting for work on OCS planning and the environmental impact statement (EIS) process. A state team had been developed that had been tracking OCS efforts, particularly Shell's offshore exploration and drilling in the Beaufort Sea.

Representative Costello asked for comment regarding how appropriations to the department did not necessarily match its division structure. She wondered how the budget could be clearer so that the public could understand it. Ms. Davis agreed that the budget could be clearer and that the department was restructuring it.

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Representative Doogan calculated that DNR was requesting approximately \$1.2 million more for FY 12 than it had received for FY 11. He wondered whether the request was concentrated in any particular area or whether it was spread throughout the budget. Commissioner Sullivan believed the increased amount was spread out, though there was some concentration related to permitting efficiencies, both for filling positions and capital requests related to permitting IT needs.

Ms. Davis added that the difference was between the FY 11 management-plan numbers (the amount DNR had to operate with for FY 11) and the amount requested for FY 12. She noted that the budget was structured to have an FY 12 adjusted base. In the adjusted base, each of the items included in the FY 11 management plan that were one-time appropriations or multi-year appropriations got backed out of the number. The department then started from an adjusted base number going forward; that number calculated by the Legislative Finance Division was about \$7.2 million less than the FY 12 request. The department actually had about \$7.2 million of money throughout the budget, some of it to continue one-time items that the legislature had funded the prior year, and some for the new issues.

Representative Doogan asked whether the \$1.2 million amount was in one segment of the budget or spread throughout. Ms. Davis responded that the bulk of the amount was in the Mining, Land and Water Division, with some amounts in other divisions. She emphasized the difficulty of explaining because of the way the numbers were compared.

Representative Doogan noted that people from the departments often had a difficult time explaining exactly where money was going. He wanted to be able to make comparisons.

Representative Guttenberg pointed out that the Legislative Finance Division had gone through the budget book and highlighted questioned areas. He wanted the questions to be answered in the Finance Committee subcommittee.

Representative Dan Saddler queried funding sources for increased staff to meet permitting needs. Commissioner Sullivan replied that DNR was requesting funds for the Division of Mining, Land and Water, plus additional requests for litigation issues (approximately \$0.5 million

between DNR and DOL) related to permitting. He referred to on-going litigation related to the Pebble Beach case and the broader issue of authority being addressed in litigation between environmental groups and the state.

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Vice-chair Fairclough returned to the issue of position vacancies. She relayed that some years ago, there had been a re-organization to central hiring. She wondered whether the policy had created barriers to hiring qualified people. Commissioner Sullivan did not know the answer related to the centralized hiring process. He believed recruitment and retention were important issues and had to be addressed aggressively. He referred to past experience.

Vice-chair Fairclough noted that since centralized hiring had been implemented, departments had expressed concerns regarding lag time, which could be substantial enough that qualified applicants found other employment while they were waiting to hear back. She questioned whether the approach saved money. She suggested that the subcommittee review the issue.

Co-Chair Thomas requested a summary of the amounts budgeted and how the funds would be spent. He hoped that other departments would provide similar summaries.

Commissioner Sullivan emphasized that Alaska's opportunities, especially in resource development, far outweighed the challenges. He directed attention to "Opportunities - Alaska as a Storehouse":

- North Slope: world class energy basin
- Massive mineral deposits
- Vast amounts of renewable resources
- New players looking to unlock our resource potential
- Ongoing innovation

Commissioner Sullivan stated that the North Slope hydrocarbon basin was still a world-class basin by any measure, especially when including the OCS areas. He pointed to a list of the state's specific resources, noting that if Alaska were a country, it would rate in the top ten in the world:

- Oil: 43 billion barrels of undiscovered, technically recovery reserves; this does not include massive quantities of unconventional (shale, heavy oil, etc.)
- Gas: 236 trillion cubic feet of undiscovered, technically recoverable reserves
- Coal: 17% of the world's coal resources; 2nd most in the world
- Copper: 6% of the world's copper resources; 3rd most in the world
- Lead: 2% of the world's lead resources; 6th most in the world
- Gold: 3% of the world's gold resources; 7th most in the world
- Zinc: 3% of the world's zinc resources; 8th most in the world
- Silver: 2% of the world's silver resources; 8th most in the world
- Rare earth elements: Alaska has over 150 occurrences, and one of N. America's most significant deposits
- Timber: Alaska has 17% of the nation's forestland

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Commissioner Sullivan stressed the importance of partnership:

- Stakeholders eager to form alliances
- Partnership moves projects forward
- Missing one key partner...

Commissioner Sullivan stated that the federal government was the key missing partner. He listed the results of federal obstruction:

- Projects delayed or derailed
- Opportunities foreclosed
- Jobs lost and investment climate chilled
- But we will redouble cooperation efforts

Commissioner Sullivan referred to examples of federal obstruction. He thought developing Alaskan resources would be good for the country as well as the state. He questioned whether the federal government was abiding by law in certain circumstances, including ANILCA, the organic act establishing the National Petroleum Reserve-Alaska (NPR-A),

and the OCS Lands Act. He argued that the federal laws listed discussed the primary importance of developing resources in Alaska or not continuing to designate wilderness areas.

Commissioner Sullivan stated that DNR would increase efforts to get cooperation with the federal government. He thought all Alaskans could work together to get the partnership. He referred to an op-ed article by Tara Sweeney from the Arctic Slope Regional Corporation (ASRC), which he felt articulated the frustrations many Alaskans felt.

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Commissioner Sullivan concluded with a broader vision and how some issues of sequencing and opportunity over the next ten years could mean a bright future for Alaska ("State at a Crossroads: Bright Future"):

- TAPS decline arrested
- OCS's elephant fields placed on-line
- ANWR and NPR-A open for development
- Innovation leads to unconventional and heavy oil production
- North Slope gas brought on-line
- Mining production throughout the state
- Cook Inlet resurgence
- Renewable resources meet state's growing energy needs
- Rural Alaska: jobs up & energy costs down
- New markets for our resources
- Value added industries

Commissioner Sullivan stressed that good policies could create the bright future for both urban and rural Alaskans. However, there could be an alternate future which he hoped could be avoided through partnership ("State at a Crossroads: Bleak Future"):

- TAPS throughput decline accelerates
- Aging infrastructure failures hamper operations
- Major energy companies leave the state
- No gas pipeline
- Existing mines exhausted and no new mines brought on-line

- Crushing energy costs
- Importation of LNG to meet Railbelt energy needs
- Federal overreach transforms state into a national park
- State population declines

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Representative Edgmon addressed the issue of partnerships and queried ways to work with federal government, including educating federal agencies about Alaskan experience. Commissioner Sullivan agreed that litigation was not the preferred way to deal with the federal government. The agency had been exploring other ways. He provided the example of establishing an endangered species taskforce among state attorneys general. He noted frustrations in working with the federal government on Endangered Species Act (ESA) issues, including a lack of opportunity for input. For example, the state had had only 24-hour notice regarding the critical habitat designation for the polar bear. He reported that he had gone to federal officials and that he had not been satisfied with the results. For example, he met with a federal official regarding the Wild Lands designation in attempt to establish a partnership, but came away without real results for Alaska.

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^BUDGET OVERVIEW: DEPARTMENT OF ADMINISTRATION

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BECKY HULTBERG, COMMISSIONER, DEPARTMENT OF ADMINISTRATION, provided an overview of the department's budget. She explained that she had been commissioner for three weeks, although she was familiar with the functioning of state government. She described the Department of Administration (DOA) as an agency that served as a support function for state government as well as provided direct services to Alaskans.

Commissioner Hultberg indicated a handout to the committee, "DOA Challenges and Initiatives FY2011/FY2012" (copy on

file), which detailed information about the department by division. She summarized that overall DOA had nearly 1,100 employees and an overall budget of around \$308 million.

Co-Chair Stoltze requested that future handouts to the Finance Committee be presented on department letterhead.

Public Defender Agency

Commissioner Hultberg began her review with the Public Defender agency. The core services of the agency were to (1) communicate legal rights, legal process, charges, and evidence; (2) investigate allegations and viable case strategies; and (3) represent clients in court proceedings. She added that the public defender agency maintained 13 offices statewide; in FY 10, it experienced significant statewide caseload growth of approximately 10 percent overall, with significant growth in the Northern and Northwest areas.

Commissioner Hultberg continued that the number of conflict cases had climbed steadily following the implementation of the agency's paralegal program; conflict cases must go to the Office of Public Advocacy. In FY 10, the conflict cases comprised just over 15 percent of the caseload. In order to reduce the number of conflict cases, one of the major initiatives the public defender agency undertook was defining and implementing a new conflict procedure that would hopefully reduce the number of cases.

Commissioner Hultberg detailed that the paralegal program has been successful and had allowed the agency to complete lower-level tasks using paralegals at a lower cost, resulting in absorbing more caseload.

Office of Public Advocacy

Commissioner Hultberg reported that the Office of Public Advocacy (OPA) provided legal, guardian ad litem, and public guardian representation. In addition, OPA represented individuals in conflict cases from the public defender agency. Caseload growth has been an issue for OPA, especially conflict cases. She stated that caseload growth in mandatory case assignments increased by 20 percent in FY 10 and that criminal cases increased by 35 percent.

Commissioner Hultberg continued that the number of cases open in January 2011 was 21 percent higher than in January 2010. Public guardian functions had increased as well.

Commissioner Hultberg outlined initiatives taken by OPA:

- The Y-K Delta Court Appointed Special Advocate (CASA) program was established and the first CASA class graduated in Bethel in November, 2010.
- In October 2010, the first ever biennial joint Department of Law, Department of Administration (Office of Public Advocacy & Public Defender Agency) and Judiciary Conference was held.

Office of Administrative Hearings

Commissioner Hultberg described the core services of the Office of Administrative Hearings (OAH) as conducting hearings and alternative dispute resolution processes to resolve administrative cases (appeals and original actions). She noted that variable caseloads were the most significant challenge for OAH because the issue has caused difficulty in the collection of interagency receipts.

Commissioner Hultberg reported that OAH has taken initiative in alternative dispute resolution. Mediation in particular has been a successful tactic. She added that OAH has been a "victim of its own success" in that the situation has contributed to the difficulty in collection of interagency receipts because the cases have been resolved more efficiently and effectively.

Alaska Public Offices Commission (APOC)

Commissioner Hultberg highlighted a significant challenge for APOC, the Insight project to allow electronic filing for disclosure reports. She maintained that the project had been difficult to implement. The lobbyist model was complete; lobbyists and their employees could file online. However, the campaign and public official financial disclosure modules still needed to be developed. The problem was caused by cost overruns and missed deadlines in the original procurement.

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Co-Chair Thomas communicated concerns about "rude" responses by the agency to requests from legislative staff for a summary report of regulations. Commissioner Hultberg reported similar concerns and referred to a meeting in December 2010 where a decision was made not to allow for a public workshop. There was another meeting in January 2011 and the commission decided to move forward with a public workshop. She stated that there would be more information available about the regulatory process.

Co-Chair Stoltze referred to similar inquiries.

Alaska Oil and Gas Conservation Commission (AOGCC)

Commissioner Hultberg directed attention to the description of the oil and gas commission's responsibilities in the handout. She highlighted that in light of the recent disaster in the Gulf of Mexico, AOGCC was conducting a thorough review to identify any necessary changes or additions to their regulations to improve oversight capabilities and ensure safety in Alaska. One result was recognition of the need to hire an additional petroleum engineer and a petroleum inspector.

Enterprise Technology Services (ETS)

Commissioner Hultberg highlighted challenges for ETS. The lease expires on the Anchorage Data Center facility at the end of 2011 and alternate space had not yet been identified. The department needed to deal with the physical plant, and at the same time technology was changing; there was opportunity to virtualize a significant portion of servers.

Commissioner Hultberg continued that another challenge for ETS was addressing deferred maintenance needs for the State of Alaska Telecommunications System (microwave) (SATS). She detailed that the department was currently in year two of a five-year plan to update the system, at the cost of \$3 million each year.

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Representative Guttenberg thought the department's statement (in the handout) that bandwidth need increased 10 percent each year minimized the actual demand for increased bandwidth. He stated that the need for bandwidth technology

was exponential. He pointed out that the U.S. was lagging behind the rest of the industrial world and Alaska was lagging considerably behind that. He referred to discussion with Commissioner Bell (Department of Commerce, Community and Economic Development) and urged DOA to work with her to expand capabilities across the state. He emphasized that the ability of small businesses to function in parts of the state that were not on the main lines was a major problem. He noted that the state was located close to 90 percent of the industrial world, which had the potential of making Alaska a good place to do business. Commissioner Hultberg responded that DOA was working with DCCED to deal with bandwidth and was working on regulations as well. She agreed that all areas of the state should have access to high-speed connections.

Division of Retirement and Benefits

Commissioner Hultberg highlighted significant challenges for the Division of Retirement and Benefits. She emphasized the need to improve the service center and remediate or replace inadequate or obsolete data-processing systems. She referred to efforts to address the problem, including:

- Core retirement system repair and stabilization,
- Core system security improvements,
- Core system back-up and disaster recovery capability,
- Peripheral system replacement or elimination, and
- Document imaging conversion from film to digital.

Commissioner Hultberg referred to the microfilm library that was being converted to digital.

Representative Guttenberg stated that he had heard from a significant number of retirees who were concerned that the state was only bringing active employee plans into allowing coverage of dependents up to age 26. He asked why the state did not bring the retirees as well, as the cost would not be significant. Commissioner Hultberg responded that the federal legislation required that active employees be brought in and did not address retired employees. The department's plan for retirees had not changed; it was adding dependants under 26 for active employees.

Representative Guttenberg queried the economic analysis used when deciding to leave retirees out. Commissioner Hultberg offered to get back with an answer.

Commissioner Hultberg continued with the Division of Retirement and Benefits, opining that the increased cost of healthcare for both active and retired members was a significant burden on the state. She believed that the unfunded liability was a significant concern, as well as the coverage of dependants up to age 26.

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Co-Chair Thomas asked how the quality of Alaska's healthcare ranked compared to other states in the country. Commissioner Hultberg offered to get the information.

Division of Risk Management

Commissioner Hultberg described the core services of the division as claims processing, litigation management, contract review, insurance administration, and consulting. She noted the challenge of new reporting requirements to the Center for Medicare and Medicaid Services (CMS).

Commissioner Hultberg stated that the department was excited about an initiative called the Return to Work Program; Risk Management has been working with the Division of Personnel and the Division of Retirement and Benefits on the program.

Vice-chair Fairclough returned to the subject of updating data processing and asked whether the administration was reviewing the state's procurement system and process. Commissioner Hultberg responded that she did not know but offered to get more information.

Commissioner Hultberg returned to the Return to Work Program and detailed that there was only a 50 percent chance that an injured employee would return to work after a six-month absence; after six months, there was less chance that the worker would return. The program would try to get injured workers back to work quickly.

Representative Neuman asked whether the program was for all employees in Alaska. Commissioner Hultberg responded that the program was for state employees.

Representative Neuman queried the process for retraining older people who have been injured. He questioned the expense of retraining older employees. Commissioner Hultberg responded that the program was built around the fact that an injured worker was being paid to remain home, which was not optimal for the state or for the long-term career prospects of the worker. She offered to get more information.

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Vice-chair Fairclough asked whether there would be an overview of how the changes in the federal healthcare law would affect Alaska. She referred to high Medicaid costs that could increase because of new reporting requirements to the federal government connected with workmen's compensation claims and tort settlements.

Representative Guttenberg questioned different reporting requirements in different municipalities in the state related to Medicaid and Medicare. Commissioner Hultberg offered to get more information. She noted that the item listed was specific to workers compensation and other claims, and was fairly narrow.

Division of Motor Vehicles (DMV)

Commissioner Hultberg noted that one significant initiative by the DMV was a program initiated in January to enable people to renew licenses and identification cards online. The service would especially benefit individuals that did not have a DMV office in their community.

Representative Costello questioned the ability to purchase or renew fishing licenses through the DMV. Commissioner Hultberg responded that the department was willing to look into the idea.

Co-Chair Thomas thought the idea could create income for the state.

Co-Chair Stoltze commented that the DMV ran better when employees were excited to be there. He referred to past division directors. He thought the DMV was the most improved aspect of visible local government and thought it was a good template for other divisions.

Vice-chair Fairclough returned to the question of fishing license renewal as well as the ability to renew concealed weapon permits and marriage licenses. She commented that people needed a centralized place to renew licenses, access state services, or at least get the forms to fill out and submit. Commissioner Hultberg stated that the department would take a serious look at the issue.

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Co-Chair Stoltze commented that it was difficult to wait in line for government services and requested that the department prioritize the needs of the customer.

Division of Finance

Commissioner Hultberg noted that the services of the division affected mainly state functioning. The core services include accounting, payroll processing, and centralized travel. She pointed to the division initiative of automation of travel approvals and reimbursement. The initiative was in the final stages and would further improve efficiency related to state travel.

Commissioner Hultberg continued that the time and attendance project (Alaska Statewide System for Employee Time, or ASSET) would impact most employees and was moving from paper to online entry or time clocks to streamline the practice throughout the system.

Commissioner Hultberg described the Statewide Administrative Systems Replacement project to replace current systems (ASSET was part of this larger process). She stated that the department was using Best Value methodology from Arizona State University to procure a system. Implementation efforts were expected to begin in July of 2011 and would take a number of years.

Division of Personnel

Commissioner Hultberg explained that the division performed many of the human-resources functions of state government. She highlighted the division's initiative related to the classification system. The current job classification system would be replaced with a point-factor method, which would reduce subjectivity in the classifications. She noted

that the ASSET project in the finance division was a key partner in the initiative.

Alaska Public Broadcasting

Commissioner Hultberg noted that Alaska Public Broadcasting was administratively housed in DOA. She highlighted workforce challenges, including new standards for emergency alerts and the need to control costs and raise revenue to sustain current levels of service.

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Commissioner Hultberg pointed out that the FY 11 increments were not summarized on one piece of paper, but stated that she would get the information to the committee.

Co-Chair Thomas commented that he had received complaints related to Alaska Public Broadcasting about the poor response time when the system stopped functioning in rural Alaska. He noted that he supported public radio and had helped start KHNS in Haines.

Representative Doogan requested totals for the current year's operating budget and total increments requested in next year's budget. Commissioner Hultberg replied that DOA was requesting \$308 million in operating funds. The increment requested for the upcoming fiscal year was \$1.6 million; the majority was federal or other funds and there was a small amount of general funds.

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ADJOURNMENT

The meeting was adjourned at 3:26 PM.