

HOUSE FINANCE COMMITTEE
January 28, 2011
1:33 p.m.

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CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:33 p.m.

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 Les Gara (via teleconference)
Representative David Guttenberg
Representative Reggie Joule
Representative Mark Neuman
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Clark Bishop, Commissioner, Department of Labor and Workforce Development; Guy Bell, Assistant Commissioner and Director, Division of Administrative Services, Department of Labor and Workforce Development; Tom Nelson, Deputy Commissioner, Department of Labor and Workforce Development; Larry Hartig, Commissioner, Department of Environmental Conservation; Laura Beason, Acting Director, Division of Information and Administrative Services, Department of Environmental Conservation.

SUMMARY

BUDGET OVERVIEWS:

Department of Labor and Workforce Development
Department of Environmental Conservation

^BUDGET OVERVIEW: DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT

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CLARK BISHOP, COMMISSIONER, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, introduced a PowerPoint presentation. He explained that the mission of Department of Labor and Workforce Development (DLWD) was to:

Provide safe and legal working conditions and advance opportunities for employment for all Alaskans.

Commissioner Bishop detailed that the mission was delivered through three core areas (Slide 2):

- Statutory and Regulatory Assistance and Enforcement to protect Alaska's workers through wage and child labor law enforcement, workplace safety compliance and enforcement, mechanical device inspection, and overseeing State of Alaska Americans with Disabilities Act compliance.
- Workforce Development to support Alaska hire through the department's employment services, adult basic education, business partnerships, career and technical education and training (including AVTEC-Alaska's Institute of Technology), and vocational rehabilitation services.
- Income replacement for injured, unemployed and permanently disabled workers. This includes the department's Workers' Compensation, Fisherman's Fund, Second Injury Fund, Unemployment Insurance and Disability Determination programs.

Commissioner Bishop noted that computer services in job centers has been somewhat slower in some parts of rural Alaska, but he stated that improvements had been made, helped by the broadband connection in Western Alaska.

Commissioner Bishop listed "Key FY10 Accomplishments" (Slide 3):

- Protect Workers

- o The lost workday illness and injury rate per 100 employees was reduced by 9% from 1.76 in FY09 to 1.6 in FY10.

Commissioner Bishop reported that worker compensation premiums had declined in 2010 for the third year and efforts to educate employers and workers on the importance of workplace safety improved both employer bottom lines and the safety of employees. He opined the changes were the direct result of changes made in when he came to the DLWD four years prior, especially reinvigorating the governor's safety council. He stressed the value of public service announcements (PSA) about safety issues.

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Commissioner Bishop pointed out that DLWD had partnered with schools to further youth safety and employment. Outreach had been done that touched 5,300 students in 2009 and 5,100 in 2010 in 57 schools. The number of workers compensation incidents for minors dropped from 169 in 2008 to 38 in 2010. He emphasized that DLWD would continue to expand the youth safety and education programs in all school districts. He believed that educating early would impact the young person throughout their working life.

Co-Chair Thomas referred to the fishermen's fund and reminded fishermen that they must have their limited entry permit in possession January 1. Without the permit, injuries on the boat would not be covered. Commissioner Bishop offered to do a press release or PSA on the issue.

Commissioner Bishop pointed to "Key FY10 Accomplishments" (Slide 3):

- Workforce Development
 - o The nonresident hire rate in 2009 was 19.1%, down from 19.6% in 2008. Nonresidents earned 13.3% of total wages in 2009, unchanged from 2008. Nonresidents accounted for 28.1% of the oil industry workers (including major oil companies and oilfield services) in 2009; this was down from 29.8% one year ago and is the lowest in the last five years.
 - o The department served over 143,000 individuals through the job center network and online labor

exchange system. 36,308 total entered employment, facilitated by the department.

- o AVTEC trained 1,462 individuals in FY 10. Programs range from five days to eleven months. The completions for programs exceeding six weeks was 84%.
- Income Replacement
 - o Despite historically high claims for unemployment benefits, Alaska's unemployment insurance trust remains solvent with a December 31, 2010, balance of \$243.9 million.

Commissioner Bishop detailed that related to income replacement, 30 other states collectively had to borrow more than \$40 billion from the federal government to pay unemployment insurance. He recognized work by the legislature for creating Alaska's program.

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Commissioner Bishop spoke to the nonresident hire rate. He stated his commitment to improving training for Alaskans and reducing the non-resident hire rate.

Commissioner Bishop noted that there had been 1,610 graduates through the General Equivalency Diploma (GED) and adult basic education program. He noted he personally signs the GED diplomas, which comprise 18 percent of high school diplomas issued in the state.

Commissioner Bishop emphasized that the Employment Security Division (ESD) had served over 143,000 individuals through the job center network and on-line labor exchange system, and 36,308 had entered employment. He stressed that networking was the key to success. He spent time in the resource room talking to clients about their skill sets and helping them find employment. He appreciated staff that helped Alaskans find work.

Representative Edgmon requested a numbers breakdown related to non-resident hire for different industry sectors, such as oil and seafood. He informed the committee that his district included Unalaska, where 43 percent of the community was Asian, and over 20 different languages were spoken in the school.

GUY BELL, ASSISTANT COMMISSIONER AND DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, replied that about 75 percent of Alaska seafood workers were non-resident.

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Co-Chair Stoltze asked for more information. Commissioner Bishop replied that the methodology used to determine resident hire was a combination of cross-matching social security numbers in the ESD and the permanent fund for residency requirements.

TOM NELSON, DEPUTY COMMISSIONER, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, added that I-9 verification was also checked in the Seafood Office. Eligibility to work was also verified, including checking green cards and other documentation allowing work in the seafood industry.

Co-Chair Stoltze noted that a person could be eligible for a permanent fund dividend (PFD) without being a citizen of the U.S.

Commissioner Bishop spoke to the question of reducing the numbers of non-residents hired. He stated that he had focused on getting more Alaskans trained on the year-round legacy jobs in the seafood industry. In addition, he had worked with processors, who had not historically recruited in the Interior. He planned to have a strategy planning session in February in Juneau to address recruitment.

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Representative Costello queried non-resident hire in the oil industry. She requested a breakdown of where the nonresident workforce came from and what percentage of the total workforce was represented.

Representative Costello referred to vocational education and asked whether the department worked with the Department of Education and Early Development to reach young people in high school with vocational skills. Commissioner Bishop replied that his presentation would give an overview of the career-technology education plan, which connected youth into areas with high nonresident hire rate. He listed areas that the Alaska Workforce Board targeted: construction, mining, oil and gas, healthcare, and so on.

Representative Wilson referred to people who worked on the North Slope but owned homes in the Lower 48 where they lived during their two weeks off. She wondered whether the department tracked permanent residency. Commissioner Bishop responded that a person had to spend a certain time in Alaska to receive a PFD.

Representative Wilson viewed people who lived in Alaska half-time as Alaskans. She wondered why there was a perception that North Slope workers lived outside the state. She questioned the true numbers.

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Commissioner Bishop responded that he could spend hours providing a comprehensive overview on resident hire broken down by occupation and industry. He noted that he had worked on the North Slope for 18 years and knew other life-long Alaskans worked there and spent winters outside the state.

Representative Wilson asked for a handout with the numbers. Commissioner Bishop referred to the publication "Nonresidents Working in Alaska," the non-resident hire report for 2009. He recommended the document.

Representative Neuman asked what occupations attracted the most nonresident hires. He wondered how the budget reflected Alaskans being trained to fill positions occupied by non-residents. Commissioner Bishop offered to get the information.

Representative Gara opined that the state did not have the coordinated vocational-education program it needed. He thought there was a problem with North Slope workers not being Alaskans. He pointed to the pipeline training center in Fairbanks. He queried the effort made by the department to bring people from rural areas to be trained in Fairbanks for the North Slope jobs.

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Commissioner Bishop responded that the effort was extensive. He provided data that was a year old, and promised to get more recent data to the committee. He

detailed that more than 27 percent of the class that had gone through the class was from rural Alaska.

Representative Gara wanted more living space for rural people so they could get the training. He referred to a visit he had made along the Yukon River when there was a fire two years prior. He described mushroom pickers who came to the state in the aftermath of the fire. He stated that the people picked morel mushrooms and made a lot of money selling them. He asked whether DLWD was planning to train locals to be prepared for a cottage industry like the mushrooms that spring up after fires. Commissioner Bishop answered in the affirmative; one of the most compelling DLWD success stories related to the rural firefighter training program. The department had provided more than \$100,000 to promote and recruit rural residents for firefighters training. Skills were intended to create other opportunities for other seasonal employment within the Division of Forestry. He noted that 100 rural firefighters were trained the previous years.

Representative Gara asked about training for the gourmet mushrooms. Commissioner Bishop was not familiar with the mushroom pickers.

Representative Guttenberg agreed that the described mushroom industry was big and pointed out that considerable money was made by mushroom brokers. He thought the state should explore the issue.

Representative Gara recommended thinking outside the box.

Representative Guttenberg stated that local hire was a significant issue for him. He wanted to know everything the administration was doing related to promote local hire. The heads of companies could insist on hiring Alaskans, then subcontractors and others down the line would follow suit.

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Representative Costello referenced the Pipeline Training Center in Fairbanks and asked whether any Alaskan could take advantage of it. Commissioner Bishop answered that the program was inclusive, not exclusive. He offered to get more detailed information.

Vice-chair Fairclough queried the definition of non-residency. She wondered whether the numbers regarding nonresidents were separated out by union and non-union people. Commissioner Bishop responded that the data did not distinguish between union and non-union.

Vice-chair Fairclough questioned whether the issue affected the number of nonresidents hired. She gave the example of Ocean Rangers, who were brought up out of Seattle, although now there was a training program in Alaska. Commissioner Bishop replied that Alaskans were being prepared to apply for Ocean Ranger positions.

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Commissioner Bishop directed attention to the Alaska Vocational Technical Center (AVTEC), which trained 1,462 people in FY 10. He encouraged visits. He reported that there had been 84 percent completions for programs exceeding six weeks.

Commissioner Bishop informed the committee that a new core-driller apprenticeship program had piloted the prior year and was progressing. He noted upcoming plans to expand the program. The program would train rural residents and prepare them for high-paying and high-skilled core-drilling jobs. The program was the first of its kind in the U.S. and Canada.

Commissioner Bishop reported that he had toured the new Goose Creek facility to view classrooms and shop spaces for training. He hoped to coordinate with the Department of Corrections to get pre-apprenticeship programs ready to reduced recidivism.

Co-Chair Stoltze thought Goose Creek was a good example of cooperative efforts for local hire. The emphasis had been on Mat-Su Borough local hire. The project was bonded by the borough. He maintained there were ways for local hire to work out through collaborative agreements.

Co-Chair Thomas noted that several thousand of his people had gone to the Mat-Su to look for work.

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Commissioner Bishop continued that he was excited about a joint program by the Departments of Public Safety and Education and Early Development, a cadet corps program in Sitka. He thought there was a trend towards collaboration. Another example was a foster-youth program worked on jointly by the Department of Health and Social Services and DLWD.

Commissioner Bishop highlighted an AVTEC solar-wind-hydro program; the wind turbine was operating in Seward up and close to being commissioned. He added that AVTEC had a good diesel power-generation program, and would be able to incorporate solar, wind, and hydro power, and create alternative energy sources in rural Alaska.

Commissioner Bishop directed attention to FY 12 budget highlights (Slide 4):

- DLWD total Budget request FY12 was just under \$194 million; just under \$102 million of that was federal funding.
- DLWD proposed four programmatic increments:
 - o \$1 million towards Career and Technical Education (CTE) Plan
 - o \$250,000 for AVTEC for deferred maintenance, expansion of maritime

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Commissioner Bishop detailed that the CTE plan was the direct result of the gasline training plan strategy II developed three years prior (Slide 5):

Alaska Career and Technical Education Action Plan

A collaborative effort of the Departments of Labor and Workforce Development and Education and Early Development and the University of Alaska

The Plan outlines a comprehensive, integrated career and technical education (CTE) system for Alaska that aligns training programs and coordinates delivery to prepare Alaskans for Alaska careers. Six strategies:

1. Smooth transitions from secondary to postsecondary education and from school to work.
2. Align curricula to meet industry standards.

3. Identify and promote CTE delivery models that provide all Alaskans the knowledge and skills for further training and careers.
4. Recruit, develop, support and retain high-quality CTE teachers.
5. Maximize the use of public facilities for training.
6. Establish and maintain sustainable funding mechanisms for a successful CTE system.

\$1 million FY12 budget request to implement priority actions, including competitive grants and technical support to school districts.

Commissioner Bishop stressed that the tool would help get Alaskan young people on the pathway to careers starting in grade school and on through high school.

Commissioner Bishop turned to the second budget request for \$250,000 for AVTEC for deferred maintenance. He talked about the Maritime Training Program (Slide 6):

- Maritime Training Program \$48.0 UGF, \$51.0 DGF & 1 PPT -AVTEC will have the capacity to train 60 mariners per year, and qualify Alaskans for employment in Ocean Ranger positions on cruise ships traversing Alaskan waters. In 2010, 5 of 21 Ocean Rangers deployed were Alaskan residents.
- Maintenance Staff to Operating from Capital \$250.0 UGF -This will move all but 1 of AVTEC's 6 maintenance staff to the operating budget. The positions were previously supported with Capital Deferred Maintenance funding.

Representative Wilson appreciated work done tracking young people out of school and into their work lives.

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Commissioner Bishop listed other programs, including the nurse program (Slide 6):

- Registered Nurse Training Program \$226.8 UGF, \$100.0 DGF, \$300.0 Other & 2 PPT -An additional 20 Alaskans will be trained to become Registered Nurses. AVTEC will be able to satisfy the deliverables on a federal Health Professions Opportunity Program grant that the

Cook Inlet Tribal Council (CITC) received, for which AVTEC is the sole provider.

Co-Chair Thomas asked whether there would be future requests to replace federal funds with general funds. Mr. Bell estimated that the state's future commitment once the grant to CITC expired would be approximately \$60,000 general funds. He detailed that leasehold improvements had to be made in the Muldoon training center. The improvements were "front-loaded" to a five-year period; the lease would be raised for five years and then drop significantly.

Co-Chair Stoltze mentioned the response of the City of Seward to AVTEC. He wondered Seward was an odd place to train workers, since he did not feel it cared for the economy. Commissioner Bishop responded that the green energy program fit the community of Seward. He pointed out that the nurses program was in Anchorage.

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^BUDGET OVERVIEW: DEPARTMENT OF ENVIRONMENTAL CONSERVATION

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LARRY HARTIG, COMMISSIONER, DEPARTMENT OF ENVIRONMENTAL CONSERVATION, introduced a PowerPoint presentation. He described the mission of the Department of Environmental Conservation (DEC): To protect human health and the environment. He pointed out that the department's programs emphasized the links between humans and the environment and ultimately dealt with issues of human health. He reported that DEC made sure the air, water, and food was safe, and that hazardous waste was managed safely and cleaned up if released. The department also oversaw public drinking water systems and waste systems, even in the smallest communities.

Commissioner Hartig noted that many DEC functions derived from federal acts (such as the Clean Air Act, Clean Water Act, and Resource Conservation Recovery Act) that the state implemented or was delegated to run. He noted that there were often very complex requirements associated with the

programs. The state often found itself being the "oil in the machine" between the federal government and the local communities trying to implement the difficult federal requirements that sometimes do not work well in Alaska. The department works with the federal government and the local community to make sense of the complex requirements.

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Commissioner Hartig listed "Responsibilities and Functions" of the department (Slide 3):

- Develop standards
- Issue permits
- Provide compliance and financial assistance
- Respond to spills of oil and other hazardous substances
- Safeguard the quality of food and seafood
- Operate the State Environmental Health Lab
- House the Office of the State Veterinarian
- Regulate pesticides and certain types of use
- Educate and assist the public
- Interact with our federal agency counterparts
- Investigate violations and enforce state law

Commissioner Hartig explained that the department develops standards for emissions of air and water. The standards are applied to permits or other authorizations. The state also has to track the situation and measure performance against the standard and to demonstrate that the standards are met.

Commissioner Hartig continued that the state issues permits and then ensures compliance. The department will assist people with compliance and had the ability to make loans and grants to communities for water and sewer projects.

Commissioner Hartig noted that DEC addresses food safety. Food that comes from outside the state or that is produced in Alaska and shipped outside falls under federal jurisdiction. Any food produced and consumed in the state is regulated by DEC.

Co-Chair Thomas asked whether DEC was involved in the exported morel mushrooms discussed in the earlier presentation. Commissioner Hartig answered that the

department would inspect and regulate mushrooms that were packaged to be shipped outside the state. He added that the mushroom business was big.

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Commissioner Hartig emphasized that the quality of seafood was very important. He noted that other governments asked the department to certify products leaving the state. He pointed out that even though interstate commerce and national commerce were regulated by the federal government, through the Food and Drug Administration (FDA) or U.S. Department of Agriculture (USDA), they relied heavily on state operatives to conduct the inspections.

Commissioner Hartig explained that DEC operated the State Environmental Health Lab in Anchorage, housed the Office of the State Veterinarian, regulated pesticides and certain types of use, such as the railroad.

Commissioner Hartig pointed out that DEC was also a regulatory and enforcement agency with police powers; it could issue subpoenas with the attorney general's office and bring civil and criminal actions.

Commissioner Hartig directed attention to a table containing an overview of the budget. He summarized that the department's operating budget had fairly steady funding. There were small increments and additional positions that did not represent new initiative with new programs; increases were related to more work in a few areas, including the gasline initiative. He noted that preparing for a large gasline required a great deal of work up-front. Under the Alaska Gasline Inducement Act (AGIA), the proposal was to have permits by 2014; the department was required to collect baseline data, create a model about existing and future emissions, and determine right-of-ways.

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Vice-chair Fairclough asked whether the department duplicated any of the work done by the Alaska Natural Gas Development Authority (ANGDA). Commissioner Hartig could not think of any overlap. He stated that the role of DEC was not looking at pipeline routes or economic feasibility, but looking at air and water emissions and permits.

Commissioner Hartig directed attention to a pie chart on Slide 5 illustrating the FY 12 budget request by program divisions:

- Administration: 10.6% or \$8,583.9
- Air Quality: 12.9% or \$10,385.7
- DEC Buildings Maintenance and Operations: 0.7% or \$560.1
- Environmental Health: 22.2% or \$17,912.1
- Spill Prevention and Response: 23.1% or \$18,649.2
- Water: 30.5% or \$24,559.2

Commissioner Hartig detailed the components of the Division of Administration (Slide 7):

- Commissioner's Office
 - Commissioner: Larry Hartig
 - Deputy: Dan Easton
- Administrative Services
 - Director: Mary Siroky
 - Environmental Crimes Unit
 - Information Services
 - Financial Services
 - Budget Services
 - Procurement & Building Management
- State Support Services
- Challenges:
 - Increased Lease Costs
- New Initiatives:
 - No Significant New Initiatives

Commissioner Hartig detailed that the division housed the Environmental Crimes Unit with two criminal investigators (in Fairbanks) and one civil investigator (in Anchorage). The unit would be notified for larger and more serious violations and would work with the attorney general's office. He noted that the state had environmental crimes, but not that many. The unit worked closely with the federal government.

Commissioner Hartig pointed out that the biggest challenge for the Division of Administration was increased lease costs, illustrated on Slide 8. Over the past seven years, lease costs have increased about \$1.4 million. The department had been absorbing the costs; there was an

increment in the FY 12 operating budget for \$468,900 to help offset some of the cost, but about \$1 million was absorbed. He emphasized that a \$1 million hit was significant for DEC as a relatively small department with a total operating budget of \$80 million (30 percent federal funds).

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Vice-chair Fairclough wondered if environmental assessment data of contaminated sites related to the gas line project expired. Commissioner Hartig clarified that he referred to a DEC data base of contaminated sites in the state that was referenced for a variety of purposes. In relation to a gas line, the data could be used to determine if any portion of an 800 mile long proposed corridor or construction site for a gas line was contaminated, who was responsible, and if it was remedied. He added that the records help to identify potential risks to a project.

Vice-chair Fairclough asked about baseline data on air quality for analysis in furthering gas line development. She wondered if there was a "shelf life" for data collected on air quality in the event development takes many years. Commissioner Hartig explained that various air quality data was gathered. For example, meteorological data would not change that much over the years but air emissions data was continuously monitored. He elaborated that Federal Clean Air Act required standards were "prevention of significant deterioration"(PSD); an air pollution ceiling established to protect human health. The department examined the cumulative impact of existing development to remain under the ceiling and in the "attainment area" established by the federal regulations. The department restricted existing emissions to allow new industry on the North Slope. He related that multiple new projects such as: outer continental shelf, standard regional on shore, gas line, etc. were slated for potential development. The department must draw conservative emission assumptions to remain within allowable limits and enable future development. The department introduced monitoring programs for air emission data. The data will be updated constantly for all North Slope development.

Representative Wilson voiced that Fairbanks was designated a "non-attainment" area. She asked if the designation denied Fairbanks the benefits of a gas line.

Commissioner Hartig responded that Fairbanks was designated a non-attainment area because of "p m 2.5" small particulate matter generated by wood stoves. He elaborated that monitoring data guided efficient and effective choices to mitigate the problem and measures progress towards attainment. He furthered that if a municipality remained in a non-attainment area designation for too long the federal government can withhold highway funds. The designation can restrict development since the allowable emission standards are in violation, there isn't room for new industry to emit.

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Representative Wilson clarified that her concern was the non-attainment area designation prohibited the additional use of natural gas because of cumulative emissions. Commissioner Hartig confirmed the situation. He felt that it was important to work toward attainment and that timing was critical.

Representative Costello referred to increased costs associated with leases. She asked how the department funded the increases the last seven years without increased available funding. Commissioner Hartig pointed to information included on the bottom of Slide 8, that detailed the cost cutting measures taken by the department to cover lease costs:

Cost Cutting Measures Taken To Cover Increased Lease Costs:

- Equipment replacement schedules have been delayed or discontinued indefinitely. Replacement is only occurring as equipment fails and only after a determination that it meets a vital need.
- Positions are being held vacant resulting in diminished customer service levels.
- Funding for new air monitoring sites and special studies has been dropped from current spending plans.
- The number of site visits for compliance monitoring has been reduced.
- Contracts for petroleum research and shore zone mapping have been cancelled.
- Travel expenditures have been reduced beyond the 10% travel reduction absorbed in FY11.

Commissioner Hartig noted that the reductions were spread throughout the department.

Co-Chair Thomas asked what community experienced the largest increase in lease costs. Commissioner Hartig identified Anchorage. He explained that due to a miscalculation in the rent when the department entered into the lease they paid too much. The offset resulted in an artificially low rent for a period of time. The increase in FY12 reflected the actual cost of the Anchorage rent and a jump in Juneau rent.

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Co-Chair Thomas asked when the Anchorage and Juneau leases expired. Commissioner Hartig offered to get the information.

Representative Costello queried shore zone mapping and petroleum research timelines. She asked if the work will increase and when completion was expected. Commissioner Hartig replied that program managers and directors set the priorities for what work was relevant and required. Performing the work was a question of timing; executed when pertinent to a project.

Representative Gara wondered if trucking in natural gas from the North Slope for use in Fairbanks was a more productive use of state funds than the regulatory approach. Monitoring and enforcing air quality still resulted in violations. Commissioner Hartig explained that the problem was timing and health issues. A transition to a gas line would take time. Air quality must be addressed in the interim. The federal regulations were based on significant human health concerns. The department believed significant air quality improvement was achievable through better stoves and other similar measures. He emphasized that the department wanted to work with the community, find viable solutions and advocate for them to the federal government.

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Representative Gara restated the question. He pointed out that gas line aside, the community of Fairbanks was working on trucking in natural gas in a cost-effective way. He suggested that instead of fining people for poor air

quality standards, why not use the regulatory money to bring cheaper, cleaner gas and help the community burn less wood. Commissioner Hartig asserted that the department had not penalized anyone in the community. The department was working with the community to develop a containment plan to achieve compliance over time. He stressed that DEC never issued any fines, and preferred that the community deal with individual violators.

Vice-chair Fairclough queried whether the department asked the legislature for increases to cover lease costs. Commissioner Hartig replied that the FY12 governor's budget contained an increment of \$468.9 thousand. Vice-chair Fairclough voiced that the additional expense resulted in reduced services. She wondered if DEC requested increases during the years of higher lease costs.

LAURA BEASON, ACTING DIRECTOR, DIVISION OF INFORMATION AND ADMINISTRATIVE SERVICES, DEPARTMENT OF ENVIRONMENTAL CONSERVATION, answered that a small increase was requested in FY08. She related that the largest expenses was incurred in FY10. Additional significant lease costs occurred over the past two years.

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Representative Edgmon inquired about the secondary wastewater issue in Unalaska and the department's external relations with the Environmental Protection Agency (EPA). Commissioner Hartig felt that the relationship with the EPA was very good. He shared that conflicts occurred in connection with national standards that do not fit well in Alaska, resource constraints that do not match Alaska's priorities, and timing demands to implement regulations. For example, the secondary wastewater treatment requirements or rising diesel costs in Fairbanks at the same time as compliance deadlines and national regulations for particulate emissions became law. He emphasized that despite the issues the relationship worked.

Commissioner Hartig explained secondary treatment of public wastewater and the problem it poses for many rural Alaska communities. He related that primary treatment employed separation, filtering, and settling of wastewater and discharged the effluent. Secondary treatment added biological processes to remove more of the contaminants out of the water. The process was more effective but more

expensive. The EPA established the secondary wastewater regulations over 30 years ago. The agency offered waivers for Alaskan communities in recognition that many were not ready to comply. Only eight communities applied. Consequently, the EPA issued waivers to all communities that would have gotten a waiver if they had applied (including Unalaska). The agency reserved the right to could suspend the waiver at any time. He added that of late, the EPA determined that Unalaska was in violation of their primary wastewater permit, and must also comply with secondary wastewater regulations. The waiver was revoked for other factors: Unalaska is a larger community with more economic development, not a Native community (one of the factors), and the water discharged was located next to seafood plants that attract the endangered Steller's Eiders.

Commissioner Hartig continued that the state in the meantime, took primacy and will issue the next permit. The department believed that an enhanced primary permit was adequate and the money saved was better spent on other larger priorities such as landfill and drinking water compliance issues. He thought that Unalaska was a unique situation, but the concern was whether the EPA would suspend waivers in other communities. He concluded that the state will deliberate with the EPA until agreements were reached.

Representative Edgmon commented that secondary treatment could cost Unalaska \$30 - \$40 million. He wanted DEC to take a more aggressive stance with the EPA.

Co-Chair Thomas asked if the federal government will force the state to enforce drinking water regulations. He queried if the department would help communities obtain new water systems needed for compliance. Commissioner Hartig related that the department's Environmental Health Division oversaw food safety and public water plants. He explained that public drinking water from water facilities that serve over 25 people were regulated under the federal Safe Drinking Water Act. The regulations were updated periodically. Recently, the EPA identified a new pathogen, mandated additional treatment and that all public water systems come into compliance, even though the pathogen may not exist in Alaskan communities. He reported that Cordova, Ketchikan and other communities were struggling to comply. DEC was committed to resolving the issue with waivers or other

means of alternative compliance. He asserted the issue was another instance where the department was working with the EPA on behalf of communities to come up with solutions.

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Commissioner Hartig furthered that DEC was working arduously on the waste water issues in Unalaska and held numerous discussions with the EPA.

Co-Chair Thomas added that the "water bug" [pathogen] inflicted very expensive and burdensome regulations for Cordova and other communities making compliance difficult. Commissioner Hartig assured that DEC was aware of issue and working with Cordova. Co-Chair Thomas suggested the legislature might introduce a resolution encouraging federal help. He guessed that compliance could cost \$100 million or more.

Commissioner Hartig directed attention to the Division of Environmental Health (Slide 9):

Components:

- Director's Office
Director: Kristin Ryan
 - Food Safety & Sanitation
 - Laboratory Services
 - Drinking Water
 - Solid Waste Management
 - Building Maintenance & Operations
- Challenges:
 - High Risk Food Safety Inspections
 - Environmental Health Lab Revenues
- New Initiatives:
 - Shellfish Pilot Program
 - Deregulating Low Risk Small Business and Community Event Foods

Commissioner Hartig spoke of a new initiative that monitored paralytic shellfish poisoning (PSP) for recreational users. The shellfish pilot program asked local

communities to collect samples and send them to the environmental health lab in Anchorage. The department will report back to the local community about safe and unsafe beaches. He reported that close monitoring for PSP was in place for the commercial shellfish industry. Due to loss of life in Alaska the pilot program was vital for recreational users. The funding request for the FY12 capital budget was \$400 thousand. The department will consider program expansion with success of the pilot.

Co-Chair Thomas requested clarification on funding for the commercial shellfish program.

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Commissioner Hartig explained that in FY11 the department added a field operator position to collect commercial shellfish samples for PSP testing. In FY12 the department requested an increment for a laboratory microbiologist. The position's duties will include processing PSP samples for commercial and recreational users

Commissioner Hartig turned attention to slide 10, Division of Air Quality:

Director: Alice Edwards

Components:

- Director's Office
- Air Quality

Challenges:

- Federal Rules for Greenhouse Gas
- Fairbanks Air quality

New Initiatives

- Gasline permitting
- North Slope Cumulative Air Quality

Commissioner Hartig indicated that EPA instituted regulatory reporting of greenhouse gas emissions for larger facilities. Permits were required. The regulations were new to industry and the state. The state must investigate what control technologies the facilities could employ to prevent or reduce their emissions. He mentioned that

Representative Guttenberg opined that Fairbanks was unique in the world for severity of temperature inversions; resulting in poor air quality and sick citizens. He asked what authority DEC would exercise to address the problem as the compliance deadline looms. Commissioner Hartig restated that the department was working closely with the borough on the issue. The borough does not enforce emissions for home-heating devices; responsibility falls on the state. The department does not have administrative penalties it can enforce. Violations must be enforced through civil action, which has not happened. A complaint hot-line was set up. He repeated that DEC was working with the borough and EPA on an attainment plan. He warned that EPA will write the plan if attainment was not reached. Representative Guttenberg believed if the state lost control the EPA will wield a heavy hand. He referred to uncooperative citizens and asked if DEC established a timeline to prosecute violators. Commissioner Hartig revealed that the department had to "fall into" enforcement. He had hoped for local control. The department did advance a timeline; they were working on a case by case basis. Severe violations would cause DEC to accelerate enforcement. The bottom line was protecting human health.

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Representative Joule recounted the problem with naturally occurring asbestos in Ambler. When gravel was moved asbestos dust particles were released in the air. Some projects were held up. A clean source of gravel was identified. The problems were resolved. He worried that the same problem could arise constructing the road to the Upper Goldbelt mining district in Ambler. He asked if the administration planned to develop guidelines for air quality or propose legislation. Commissioner Hartig commented that there were no standards in Alaska when using asbestos containing materials. The asbestos fibers released in the air were a human health risk. A working group from the Department of Transportation and Public Facilities (DOT), Department of Health and Social Services (DHSS), and DEC were examining the issue to determine if regulations and statutes were necessary.

Commissioner Hartig directed attention to the Division of Spill Prevention and Response (SPAR) (Slide 11).

Components:

- Director's Office
Director: Larry Dietrick
 - Industry Preparedness & Pipeline Operations
 - Prevention & Emergency Response
 - Contaminated Sites Program
 - Response Fund Administration
- Challenges:
 - Declining Prevention Account Balance
 - New Initiatives:
 - Contaminated Site Identification for Gasline Work
 - Deepwater Horizon Lessons and Risk Assessment Work Plan
 - Aleutian Island Marine Traffic Risk Assessment

He communicated that SPAR was funded through the response fund. He referenced Slide 11, "How the Response Fund Works"):

- Response Account
 - Funded by 1¢ surcharge on each barrel of oil
 - Surcharge suspended when fund exceeds \$50 M
 - Pays for situations deemed emergency or imminent threat
- Prevention Account
 - Funded by a 4¢ surcharge on each barrel of oil
 - Pays for the programs within the Spill Prevention & Response Division and associated capital projects

Commissioner Hartig explained how the response fund worked. The fund represented the five cents surcharge on crude oil that was produced in the state. When the response fund dropped below \$50 million the one cent surcharge kicked in until the fund was replenished. The four cents portion was used to fund SPAR operations. Commissioner Hartig cited Slide 14 that illustrated a graph depicting the prevention account balance and consequences of a six to seven percent yearly decline in North Slope production. He noted that the cost of running SPAR increased as production decreased.

SPAR was living on a surplus, which was diminishing. The surcharge will not replenish the fund enough to run the division.

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Representative Costello asked why DEC's oil decline curve differed from the Department of Revenue's (DOR) predicted decline. Commissioner Hartig corrected that the curve illustrated the decline in the prevention account balance not crude oil production.

Commissioner Hartig continued that in FY11 the legislature added intent language to the department's budget soliciting proposals for the fund's sustainability. The department outlined two options, either increase the surcharge, or back fill with general funds. He emphasized that the issue was complex. He assured that the Governor was closely tracking the account to consider options.

Representative Guttenberg asked if the department was authorized to back-charge the party responsible for the spill. Commissioner Hartig explained that DEC was legally required to prosecute the Potentially Responsible Party (PRP). The collected funds were deposited into a mitigation account. The legislature decided the use of the money. Historically the funds were always re-appropriated back into the response fund.

[3:38:10 PM](#)

Commissioner Hartig turned to water quality (Slide 15):

Division of Water Quality
Program Director: Lynn Kent

Components:

- Water Quality
- Facility Construction
 - Village Safe Water Program
 - Municipal Grants & Loan
- Challenges:
 - Declining Federal Funding in the Village Safe Water

Program

- Completing and Maintaining Permitting Primacy
 - Water Quality Standards
- New Initiatives:
 - Gasline Permitting

Commissioner Hartig relayed that the Village Safe Water Program operated in communities of <600 residents. The program was funded with 75 percent federal funding and 25 percent state match. Federal funding was declining, about 40 percent in the last seven years. He cited Slide 16, "Rural Alaska Water and Sewer" that depicted a graph of the funding decline between 2004 and 2011. He identified a table on Slide 17 that showed how the federal match declined from 2004 to 2011. He pointed out that in 2004 the United States Department of Agriculture (USDA) contributed \$30 million, down to \$17.4 million in 2011. In 2004 the EPA's match was \$43 million decreasing to \$13 million in 2011. He added that the state's match decreased accordingly. Special set aside funds for native communities: Indian Health Service (IHS) and EPA Tribal had declined. The overall totals went from \$127 million in 2004 to \$77 million in 2011; a precipitous drop predicted to go to zero. Commissioner Hartig added that in larger communities the state provides \$23 million a year in funding for a municipal match program. In FY12 the governor proposed \$20 million in matching funds from the capital budget.

Representative Gara referred to a letter he and Representative Austerman sent DEC requesting a proposal for additional inspectors for the food safety program. He recounted that in budget subcommittee last year they learned that a lack of food safety inspectors rendered the program was a danger to public health. Additional funds for more inspectors were not requested in the governor's budget. The department's response was to leave it up to the legislature. He wondered what the administration planned to do. Commissioner Hartig divulged that DEC's level of food inspections were well below federal requirements. The difficulty was the size and accessibility of Alaska. In other states, county governments carried out inspections. In Alaska, Anchorage was the only community that performed and funded inspections. All other communities relied on the state. Statewide DEC performed one inspection per facility every four years; recommended twice each year. He indicated

that the DEC's solution was to address the issue in other ways. The department would need 31 more inspectors at a cost of \$2 million per year to carry out inspections twice a year. He did not believe the legislature would fund that amount.

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Representative Gara concluded that the issue was a significant public danger. He was concerned that nothing was done. He felt inaction could lead to loss of life. The legislature relied on public policy proposals from the agency. He felt the agency was "passing the buck" for liability on to the legislature.

#

ADJOURNMENT

The meeting was adjourned at 3:46 PM.