

HOUSE FINANCE COMMITTEE  
January 31, 2011  
1:32 p.m.

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CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:32 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  
Representative David Guttenberg  
Representative Reggie Joule  
Representative Mark Neuman  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Joseph Schmidt, Commissioner, Department of Corrections;  
Sam Edwards, Deputy Commissioner, Department of Corrections; Leslie Houston, Director, Division of Administrative Services, Department of Corrections; Bryan Butcher, Commissioner, Department of Revenue; Ginger Blaisdell, Director, Administrative Services Division, Department of Revenue; Jerry Burnett, Deputy Commissioner, Department of Revenue.

PRESENT VIA TELECONFERENCE

Bruce Tangeman, Deputy Commissioner, Tax Division, Department of Revenue.

SUMMARY

Budget Overviews:

Department of Corrections  
Department of Revenue

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^BUDGET OVERVIEW: DEPARTMENT OF CORRECTIONS

JOSEPH SCHMIDT, COMMISSIONER, DEPARTMENT OF CORRECTIONS (DOC), introduced department staff. He provided a PowerPoint presentation titled "Department of Corrections House Finance Committee Overview." He highlighted the department's mission statement (slide 2):

The Alaska Department of Corrections enhances the safety of our communities. We provide secure confinement, reformative programs, and a process of supervised community reintegration.

Commissioner Schmidt relayed that the prior mission statement had been to "incarcerate and supervise offenders." The mission statement had been modified given that the department wanted to offer a wider range of services. He discussed that the system had experienced growth and DOC wanted to provide other services outside of secure confinement, which was expensive and would lead to the construction of additional prisons. He opined that the crowded prison system was a symptom and not a sickness. He expounded that recidivism was the sickness the department was working to reduce. The department was able to handle new offenders; however, repeat offenders represented a heavy burden.

Commissioner Schmidt discussed the department goals on slide 3. Goals included the protection of the public, the reduction of recidivism, a delay of the need for new sentenced prison beds, and to ensure that an offender's incarceration was productive. He expressed that the department should work to make itself smaller. He relayed that 297 felons were released from prison into Alaskan communities per month; therefore, it was important to work with prisoners during their incarceration.

Commissioner Schmidt discussed the make-up of the department (slide 4):

- 1,500 Staff
- 12 Facilities in Alaska (with another under construction)
  - One of six states operating both pretrial & sentenced facilities
- Out of state contract of 1,000 beds in Hudson, Colorado
- 13 probation field offices
- 15 contract jails
- 789 community residential center beds
- 290 electronic monitoring placements
- 5,900 prisoners in facilities
- 6,000 offenders on supervision
- 38,000 bookings per year (22,000 individuals)
- 1 in 36 Alaskan adults are under our supervision

Commissioner Schmidt added that four years earlier DOC had 1,050 out-of-state prisoners in Arizona. The department had reorganized, switched to a Colorado facility, and the number had dropped to 1,000. He relayed that DOC planned to bring all out-of-state prisoners back to Alaska once the Goose Creek Correctional Center opened. He added that DOC had never used electronic monitoring to address overcrowding, but utilized the method when a prisoner was reentering the community. He explained that 95 percent of electronic monitoring cases were successful and that the 5 percent failure rate did not reflect the perpetration of new crimes. The program had been very successful, but DOC did not want to push community programs to the point of failure.

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SAM EDWARDS, DEPUTY COMMISSIONER, DEPARTMENT OF CORRECTIONS, highlighted the three divisions of the department (slides 5 through 7). The Division of Administrative Services included budget, finance, internal audit, procurement, information technology, research and records, facilities maintenance, and prison planning units. The small division was directed by Leslie Houston and offered critical functions. The Division of Institutions was the largest and included all in-state prisons, prisoner

transportation, classification and furlough, and out-of-state prisons. The division was directed by Garland Armstrong, represented the largest portion of the DOC budget, and provided the 24-hour secure confinement functions. He discussed that building additional prison beds was very expensive and time consuming; therefore, DOC worked hard to utilize existing beds and to keep the recidivism rate down.

Mr. Edwards relayed that there were as many supervised individuals through the Division of Probation and Parole as there were in secure institutions. Approximately 15 percent of the department staff was dedicated to dealing with felons out in the communities. He stressed that the division staff were the first line of defense. The division was directed by Donna White and had 13 probation offices and 15 community jails statewide.

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Mr. Edwards continued to discuss the Division of Probation and Parole (slide 7). Electronic monitoring and Community Residential Centers (CRC) had been placed under the division, given that the primary function of the division was to supervise people in the community.

Co-Chair Stoltze asked about the success rate of probation. He believed there was a high prevalence of parole violations.

Commissioner Schmidt replied that DOC would provide the committee with success statistics. He detailed that DOC put approximately 200 people back in jail on a monthly basis; of the 200 people, approximately 100 were jailed due to new charges and 100 were jailed due to technical violations.

Representative Joule queried the demographics related to parole violations. He noted that a prisoner was released at their place of residence unless they had not gone through the appropriate treatment program (e.g. sex offender or anger management) due to the lack of availability. He wondered about the prevalence of violations that occurred when prisoners were released in a place that was not their home.

Commissioner Schmidt responded that the issue was a significant problem. He discussed that due to the lack of

treatment programs in some rural areas, prisoners from those areas were required to remain in cities until they went through treatment (many times individuals were on treatment program waiting lists). He believed that moving the resource out was the right thing. He elaborated that the original Goose Creek Correctional Center plan had been downsized in order to move resources to rural areas as well. He discussed that rural communities had a low number of active warrants and that urban centers had a higher percentage of people in jail. He relayed that the department could provide additional detail at a later time.

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Representative Gara wondered whether other states offered transitional programs for individuals released from prison that helped to decrease the recidivism rate. He was not surprised to hear the recidivism rate was a problem when individuals were released into a community where they had no home or resources.

Commissioner Schmidt responded that Texas had done a significant amount of work in the area; specifically on a cost-effective justice model. The department had implemented the Probation Accountability with Certain Enforcement (PACE) program modeled after a Hawaii program that helped individuals while they were under supervision after release from prison. A task-force had been working on a five-year strategic reentry plan that would be published in February 2011. He added that an individual's success also depended on their own desire to succeed. He emphasized the importance of engaging communities in planning for reentry.

Representative Gara wondered whether there was a plan that would be implemented.

Commissioner Schmidt responded in the affirmative. He furthered that the plan would provide an assessment of the current issues and recommended strategies that included programs offered in other states.

Representative Gara asked about the availability of treatment services for individuals released from prison who had substance abuse problems. He had heard mixed reviews about programs that were offered in prisons.

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Commissioner Schmidt responded that the reentry plan would focus on after care, follow up, and wrap-around services. He discussed that assessments were conducted in pretrial facilities to educate individuals on available services based on their needs. He noted that DOC had a document that listed all of its programs and the status of each and emphasized that the department welcomed any criticism and ideas for improvement.

Representative Neuman wondered why the prison employment program had been discontinued. He asked what it would take to restart the program. He stressed the importance of teaching vocational skills to prisoners for reentry into society. He had heard the program had been eliminated because it had not made money; however, he did not believe anything in the corrections sector made money. He opined that inactivity was not good for the inmates or correctional officers.

Commissioner Schmidt agreed that the discontinuation of the Prison Employment Program (PEP) was unfortunate. When the program had sunset several years earlier there had been intent language stating that the program should be self-sustaining. The program had been located in Juneau, Eagle River, and Seward; two of the three had been losing money; however, the Juneau laundry had made enough to cover them. At a later time the Juneau laundry segment was no longer able to sustain all three parts; therefore, the decision had been made to discontinue the program. The Juneau laundry program had received money in the budget and was currently in operation again. He had been supportive of the program and was interested in discussing how to reopen it.

Representative Neuman opined that the best way to reduce recidivism was to provide prisoners with skill sets, which would allow them to earn a living upon their release.

Co-Chair Stoltze discussed historical victims' rights and criminal administration legislation. He wondered about DOC's success in implementing its responsibilities under Article 1 of the Alaska statutes.

Commissioner Schmidt responded that the principals in Article 1 were part of the department's mission statement and were taken very seriously. He believed victims' rights were core guiding principles and told a related story.

Co-Chair Stoltze believed that in many cases the treatment of the offender was not relevant in respect to the rights of a victim (e.g. in cases related to sexual abuse or other).

Commissioner Schmidt agreed. He discussed the importance of assessment related to recidivism reduction. He explained that one-third of prisoners would reoffend again regardless of treatment; another third would not reoffend and did not need treatment. The remaining one-third represented the group in the middle that would respond to treatment. He discussed that treatment providers did not cure sex offenders, but managed them and provided protection to the public. He noted that in addition to working to reduce recidivism, the department's focus on secure confinement was also imperative.

Co-Chair Stoltze discussed that some behavior was not correctable and that severe offenders would "have to answer for it elsewhere." He appreciated the commissioner's values towards criminal victims' rights. He added that the department's VINE [Victim Information and Notification Everyday] program helped to improve information available to victims' families and other. He referred to the importance of constitutional rights for victims and the accused.

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Commissioner Schmidt agreed and added that funding to reduce recidivism was always used for that specific reason. He emphasized that mistakes or re-offenses could happen, but the department was centrist in its focus and would not betray its stated goal and purpose.

Representative Edgmon discussed that Texas had spent a significant amount of money on prevention and protection related to recidivism. He wondered whether a similar program would be applicable in Alaska.

Commissioner Schmidt responded in the affirmative. He discussed that it was challenging to compare Alaska's system with the one in Texas given that Alaska had a smaller number of prisoners and a smaller budget. He explained that the cost-effective justice model in Texas had substantially reduced costs. He furthered that the department's current probation program had been modeled

after a program in Hawaii and was experiencing the same results. He believed the Texas program would work as well; however, there were differences due to the scale of services and other services that Alaska would utilize. He discussed other ancillary costs related to victims, medical, counseling, court, and other.

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Vice-Chair Fairclough asked whether victims' service agencies had reviewed the curriculum in the sex offender management program. She cited concern that a sex offender could learn how to "game the system." She opined that victims' services could provide a different and helpful viewpoint related to the curriculum.

Commissioner Schmidt supported the idea. He believed that the department should work with victims' agencies if it was not currently doing so.

Vice-Chair Fairclough discussed that the Alaska Network on Domestic Violence and Sexual Assault and other agencies could provide suggestions related to the justice program. She referred to concerns that efforts to rehabilitate offenders could be used as a diversionary tactic to help an offender go unnoticed in the future.

Mr. Edwards explained that CRCs acted as pre-release centers for prisoners to help transition them into a community when they were without a place to live, a job, and community support. He relayed that the department focused on providing vocational skills for inmates, which was one of the core tenets (along with basic education) to preparing a person for success upon release into a community. Substance abuse treatment was available in almost every DOC facility; some facilities were only able to provide a short-term version of the treatment program because DOC was largely a pretrial department. He noted that the department worked to provide services offered in larger systems to reduce recidivism and focused on education, vocational skills, treatment, jobs, community support, and places to live.

Mr. Edwards pointed to "Population Management Strategy" on slides 9 and 10. The strategy had been implemented four years earlier and focused on how to prepare a person for transition back into the community. He noted that a large

portion of the success was related to a prisoner's safety during their jail time. The department assessed the risk level for each prisoner and worked to house similar prisoners together in order to increase the safety level of each individual; there were three custody levels. He addressed that electronic monitoring and CRCs allowed individuals who had demonstrated a low risk to establish housing, jobs, and community support. Population management helped to free up beds in jails and prisons, which was critical due to a lack of space. He relayed that the use of half-way houses had increased by 15 percent since 2008 and electronic monitoring had increased 77 percent; both strategies were important in the transition of individuals safely back into communities. He elaborated that the department was near its goal of 300 individuals on electronic monitoring and was proud of the program's success.

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Representative Joule wondered whether electronic monitoring was an option available to all parts of the state.

Mr. Edwards answered that traditionally electronic monitoring had only been available in hub locations; however, as technology improved it was expanding into outlying areas. He expounded that Barrow was interested in the program and that it had recently been implemented in Sitka and Juneau. He added that as the distance increased from cities so did the difficulty of home visits.

Commissioner Schmidt discussed "Program Strategy" on slide 11. He discussed the long-term substance abuse treatment program and the need for a statewide treatment program plan. He talked about the placement of prisoners and whether they were in appropriate locations. He relayed that Alaska was a unified state and the department supervised both misdemeanants and felons. The average sentence length in the system was 160 days; therefore, a one-year program with one-year waiting list did not work for the prison population. He explained that the long-term program had been converted into two programs to provide access to more prisoners and additional three-month to four-month programs had been created. The program focused on substance abuse, anger management, criminal thinking, parenting, education, and vocational training. A brochure outlining the program would be available to committee members.

Commissioner Schmidt addressed different types of prisoner jobs such as food services, laundry, general maintenance, lawn care and landscaping, custodial, and animal care (slide 12).

Representative Joule asked whether the program strategy listed on slide 11 was specific to non-felons. Commissioner Schmidt clarified that the strategy applied to all prisoners.

Representative Joule wondered why sex offender treatment had not been included in the list on slide 11. Commissioner Schmidt responded that the list conveyed how the department approached the programs and was not a list of the programs it offered. He added that there were community based programs in Bethel and Juneau.

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Commissioner Schmidt moved on to discuss PACE on slide 13. He relayed that the program was modeled after Hawaii's Opportunity Probation with Enforcement (HOPE) program. He reiterated his earlier comments that 200 prisoners were put back in jail per month; half of the number reflected new crimes. He furthered that half of the crimes were committed while an individual was waiting for a court process (e.g. a warrant to be served or other) and that PACE targeted those individuals. Under the program, police had agreed to pick up offenders the day of their offence and the court would see them within 24 to 48 hours. The program's premise was that certainty of getting caught deterred negative behavior.

Commissioner Schmidt relayed that a pilot program had begun with 30 of the department's highest offenders and within one week 17 of the offenders were in jail for various reasons. The prisoners were sanctioned and released in order to provide them with an opportunity to keep any gains they had made (employment, etc.). He explained that the brief jail time worked to keep the probationers from making violations. The program currently included approximately 70 individuals and DOC was planning to start a domestic violence PACE model in Fairbanks in the current year. He stressed that the program offered immediate enforcement and accountability.

Commissioner Schmidt provided a brief overview of the Goose Creek Correctional Center on slides 14 through 16. The facility was expected to be ready for occupancy in March 2012 and included five buildings, 435,000 square feet, 150 acres, and 1,536 beds. The facility would allow for out-of-state prisoners to return to Alaska and would employ up to 347 individuals. He detailed that the perimeter looked like DOC maximum security prisons and had dual 12-foot fences with razor ribbon, observation posts, and armed vehicles; however, the inside was a medium security facility and resembled a "city within a city." A post office, medical clinic, treatment programs, and jobs were all available to help prisoners with a routine. He stressed that the department did not want prisoners to adapt to prison.

Commissioner Schmidt discussed that the department planned to place approximately 30 minimum custody prisoners in the facility to test the facilities and warranted systems. The facility was expected to be ready for full occupancy by July 2012. He believed that a slow ramp-up was optimal for both fiscal and security reasons; the first full budget request would be for FY 14. The department had used the medium security Palmer Correctional Center and the high security Spring Creek facility in Seward to develop the staffing model and operation costs for the facility. The Goose Creek facility was estimated on the higher end because it had an intensive medical clinic and special management unit to use for several hundred prisoners in the event of misbehavior or pretrial overflow. He relayed that on a per inmate, per day basis the Palmer facility cost approximately \$68, Spring Creek cost \$104, and FY 14 budget projections for Goose Creek fell in the middle at \$86.

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Representative Neuman asked what the department was doing to train correctional officers throughout the state for work at the Goose Creek Correctional Center. He wondered whether there were corrections positions that were filled with out-of-state residents.

Commissioner Schmidt responded that in the past the department had conducted out-of-state recruitment; however, currently the recruitments were in-state only. He noted that there were typically around 100 applicants in response to one position posting in the Anchorage/Mat-Su/Eagle River area. The department had conducted a survey of current

correctional officers throughout the state and 67 had conveyed their interest in working at the new facility. He explained that approximately one-third of the officers in the new facility would be existing correctional officers; a slow ramp-up period would provide time to hire and orient new officers and would ensure safety at the facility.

Representative Neuman queried what the department was doing to prepare and train individuals throughout the state to work at the new facility.

Commissioner Schmidt replied that a six-week training academy had been opened during the current year at the old Palmer hospital building. Currently two academies had been trained in the program. He relayed that there was a good training staff onsite and that the program may need a slight augmentation in the future when academies were back-to-back. He added that people from around the state came to Palmer for the six-week program. He noted that the probational academy was slightly different and was split up.

Representative Neuman wanted to make sure that people from around the state had an opportunity to work at the new facility.

LESLIE HOUSTON, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF CORRECTIONS, explained that in FY 11 the department had been placed under three areas of legislative intent language. The first was the inmate healthcare component, which focused on the identification of cost containment measures in an effort to control costs that had continued to increase. The department was looking at electronic medical records to help in managed care areas and was working with the Department of Health and Social Services and one of its contract partners, Qualis Health Corporation. The contract corporation assessed the appropriate levels of care, which would allow DOC to move forward on a cost-efficient managed care process.

Ms. Houston relayed that the second area of legislative intent was related to programs. She discussed that DOC had spent the past year doing data surveillance in all of its institutions that offered the programs. She opined that DOC would be able to prove the outcomes of its programs, which it had not been able to do in past years. The third legislative intent area was under the Alaska Correctional

Officer Association contract, which had been implemented in the past year. She noted that the funding had been appropriated based on a snapshot in time because there had been a few areas in which DOC had not been able to quantify (e.g. education incentives, merit increases, geographic differential, etc.). She discussed that overtime within the department was directly associated with regular and medical transport. She opined that getting a handle on inmate healthcare would help to bring overtime down.

Ms. Houston relayed that there would be a 4.6 percent funding increase for FY 12. The increase was related to security confinement in the amounts of \$3.6 million for Goose Creek and \$1.3 million for community jails equity. She elaborated that two years earlier the legislature had tasked DOC with a complete audit and review of all community jails to ensure that they were all on equal ground. There was an increase of \$1.5 million related to inmate medical funding to address medical service fees; the area had been the most difficult to contain and related to medical treatment outside of prison facilities. The department had recently renegotiated a contract with North Star Community Residential Center and was seeking \$900,000 for CRCs and increased beds related to supervised release. She detailed that DOC had requested interagency receipt authority related to its reformatory programs. The request would help DOC receive funds from the Alaska Marine Highway System to support the laundry service program at Lemon Creek Correctional Center in Juneau.

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Vice-Chair Fairclough had heard that there was a high Alaska Native incarceration rate and wondered whether the state had worked with tribal entities on restorative justice. She understood that Alaska Natives received 100 percent reimbursement through federal Indian Health Services (IHS) compared to Medicaid funds provided by the state. She asked whether the state was working with the federal government to provide better health care options for qualified IHS participants in prison.

Ms. Houston replied in the affirmative. She delineated that the federal regulations were clear on federal financial participation for institutionalized individuals. She explained that inmates were cut-off from all federal funding including, Medicaid, Medicare, veterans' benefits,

IHS, etc. She believed that Alaska was one of many states that were in current discussions with the federal government to determine whether any changes could be made.

Vice-Chair Fairclough encouraged the department to continue the conversations with the federal government. She opined that it may be helpful for the administration to examine the relationship because there were mental health issues that were overlapping in multiple incarcerated populations. She opined that locating services could help to reduce recidivism. She believed that it would be beneficial to have the ability to provide all available mental health and other services to incarcerated individuals.

Representative Edgmon asked whether there was a significant difference between the per bed cost for a diesel operated facility versus those operated by natural gas. Ms. Houston replied that she would provide the information at the subcommittee level.

Representative Edgmon understood that fuel represented a large portion of an organization's overall cost structure.

Co-Chair Thomas thanked the commissioner and department staff for addressing the committee.

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^BUDGET OVERVIEW: DEPARTMENT OF REVENUE

BRYAN BUTCHER, COMMISSIONER, DEPARTMENT OF REVENUE (DOR), introduced department staff and provided a PowerPoint presentation titled "Alaska Department of Revenue Budget Overview House Finance Committee." Commissioner Butcher highlighted that DOR's mission was to collect, distribute, and invest funds for public purposes (slide 2). He listed statutory departmental duties including, enforcement of state tax laws, the collection and investment of state funds, and to register cattle brands. The DOR core services were to:

- Coordinate, develop and promote programs for collection and investment of public funds

- Provide controls and enforcement for the collection, investment and payment of funds for the Tax Division, Treasury Division, Permanent Fund Dividend Division, and Child Support Services Division
- Provide administrative support for the following authorities, boards and corporations: Alaska Retirement Management Board (ARMB), Alaska Mental Health Trust Authority (AMHTA), Long Term Care Ombudsman (LTCO), Alaska Municipal Bond Bank Authority (AMBBA), Alaska Natural Gas Development Authority (ANGDA), Alaska Housing Finance Corporation (AHFC), and Alaska Permanent Fund Corporation (APFC)

Commissioner Butcher highlighted that the DOR budget was broken into six major components including, the Commissioner's Office, and the Administrative Services, Tax, Treasury, Permanent Fund Dividend (PFD), and Child Support Services Divisions (slide 3). He added that the PFD Division was responsible for the distribution of dividend checks and the Child Support Services Division was in charge of the collection and distribution of child support payments. He noted that the slide also included various corporations.

Commissioner Butcher highlighted the department organizational chart on slide 4. The commissioner oversaw the deputy commissioners, division director, and corporations. Jerry Burnett was the deputy commissioner of the Treasury Division, AMBBA, PFD Division, and Child Support Services Division. Bruce Tangeman was the deputy commissioner of the Tax Division and the Criminal Investigations Unit.

Commissioner Butcher discussed the DOR priority programs on slide 5:

When dividing the budget into the mission statement's three priority programs, you will see that investment is the largest part of the total budget at 50 percent; distribution and collection are approximately 25 percent each. The smallest slice of the pie indicates the work of the Long Term Care Ombudsman that provides safety for Alaskans.

Commissioner Butcher pointed to a pie chart, which broke down agency functions (left chart on slide 6); the "Safety for Alaskans" function was under 1 percent and represented the long term care ombudsman. The pie chart on the right hand side of slide 6 showed priority programs by fund group. Almost two-thirds of DOR funds were in the "Other Funds" category such as, APFC receipts, AHFC receipts, and other (non-general fund) state funds. Federal funds made up approximately 25 percent of the budget and unrestricted and designated general funds made up 13 percent.

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Vice-Chair Fairclough wondered whether there had been a downturn in federal funds.

GINGER BLAISDELL, DIRECTOR, ADMINISTRATIVE SERVICES DIVISION, DEPARTMENT OF REVENUE, replied that there were a variety of federal fund groups. She relayed that there had been a slight downturn that she would look into and follow up on. She noted that AHFC occasionally had special projects, but that the child support funds tended to be very stable.

Commissioner Butcher added that the department would get back to the committee with more detail. He remarked that the budget showed a large uptick in federal funds for the current year due to the inclusion of \$36 million in Section 8 public housing payments, which had not been included in past years. He furthered that there was a \$4 million reduction in federal funds for FY 12.

Vice-Chair Fairclough asked for an apples-to-apples comparison. She believed that the absence of the "Ted Stevens Effect" would be a loss to Alaska and wanted to be able to chart any losses that may occur.

Commissioner Butcher directed attention to the "Challenges and Successes" of the department (slide 7). He discussed the category titled "Predicting the Future," which included work the department did to determine where and how to invest funds. He highlighted the department's fall 2010 Revenue Source Book, which listed historical information on oil revenue sources and other tax collections in addition to future predictions on the price of oil and production levels. He noted that each source book had a unique focus

and that the current book had a chapter on tax credits. The department had provided a book to each legislative office.

Representative Costello asked how DOR estimated pipeline throughput and whether its past predictions had been accurate.

Commissioner Butcher responded that DOR contracted with a number of petroleum industry experts who utilized information provided by the oil and gas industry, calculations on the maturity of oil fields, new fields scheduled to come online. Predictions were never exact, but they had been fairly close over the past five years. He explained that the department was not able to predict the stoppage of throughput due to pipeline shutdowns. He detailed that the state had lost approximately \$80 million due to a pump station leak several weeks earlier. The department could provide members with a detailed view on its forecast methods at a later time.

Representative Edgmon wondered how DOR invested funds for other departments and what was done with any spinoff revenue. He referred to a Department of Transportation bridge project that had been part of a bond package; the bonds had been sold and he wondered whether DOR managed the money.

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Commissioner Butcher replied that due to arbitrage rules the department was limited on the amount it could make once an invested bond had been sold. He believed the return would be minimal. He noted that Jerry Burnett was available to provide additional detail.

Representative Gara explained that the committee had been told there would be a delay in the Liberty oil field startup. He wondered about the reason and length of the delay.

Commissioner Butcher responded that he did not have additional detail on the delay. The delay had been described as a "breather" in the press. He explained that the forecast had been compiled prior to the announcement by BP; therefore, the delay had not been factored in. He would work to provide additional detail to the committee.

Representative Gara wondered whether BP had put some of its large projects on hold due to the financial trouble it had experienced as a result of the recent oil spill in the Gulf of Mexico. Commissioner Butcher did not want to speculate on the issue.

Representative Guttenberg asked whether the department tracked and compared the success of the investment strategies used for each of the funds (e.g. Constitutional Budget Reserve (CBR), AMHTA, etc.).

Commissioner Butcher answered that he was not aware of a specific tracking of all of the funds. He noted that the strategies were different from the Permanent Fund Corporation, which invested in long-term strategies. He noted that entities such as AHFC were required to have a significant amount of liquidity and invested primarily in short-term strategies. He would follow up with comparisons between funds and their benchmarks.

Representative Guttenberg asked whether DOR investigated oil spills to determine if a company had been negligent and whether it should compensate the state for loss of revenue. He referenced a recent spill and a BP spill on the North Slope that had occurred in 2004.

Commissioner Butcher replied in the affirmative. The Tax Division was responsible for determining whether a spill had occurred due to a natural disaster (e.g. an earthquake or other) or due to negligence.

Representative Guttenberg wondered whether the research was public. Commissioner Butcher replied that the question fell under the purview of the Department of Law.

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Vice-Chair Fairclough asked for a comparison between oil production and price forecasts versus actual production and price for the past 10 years. She referenced data that showed a negative prediction over the past 10 years and thought it may have been related to price.

Commissioner Butcher believed that predictions would have shown a tremendous volatility in price. He would provide the committee with detail at a later time.

Representative Gara opined that the state was not good at marketing to potential oil producers. He discussed the positive aspects of the royalty relief credit, which he believed was under the Department of Natural Resources (DNR); he thought the credit should be listed in the DOR book as well. He explained that taxes on an existing or new field would be reduced if they were too burdensome for a developer. He requested that the departments look into advertising the credit.

Commissioner Butcher agreed. He had advocated for becoming more aggressive on the issue in recent conversations with the DNR commissioner. There was an upcoming North American Society of Petroleum Explorers meeting where DOR and DNR would focus on the issue. He emphasized that both departments were working to ensure that the state did not lose business due to a lack of initiative and communication to companies.

Representative Gara believed that a lack of focus on the issue would be a missed opportunity.

Commissioner Butcher continued to discuss the department's challenges and successes (slide 8). He relayed that staff recruitment continued to be a challenge. The chief economist position had been empty for a couple of years and the assistant chief economist position had been empty for one year. He explained that the pay level did not attract qualified applicants and DOR was working on the issue. Three out of four master auditor positions were filled and DOR was optimistic it would fill the last position in the current fiscal year. There were two vacant commercial analyst positions, but DOR believed it would fill them during the current fiscal year as well.

Representative Guttenberg asked whether the positions had been exempted from the normal pay policy. Commissioner Butcher replied in the affirmative. The master auditor and commercial analysts fell into the exempt category.

Representative Guttenberg queried whether any of the positions had been filled.

Commissioner Butcher responded that three of the four master auditor positions had been filled and the department was happy with their work. The commercial analyst positions

were new as of the current fiscal year and DOR was confident it would fill the positions.

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Commissioner Butcher continued with challenges and successes (slide 8). He delineated that there had been some information technology issues in the department wide network infrastructure; however, significant improvements had been made in the current fiscal year. He referenced that PFD filing issues related to "Click, Pick, Give" had been resolved. He explained that the Integrated Tax System software was in the review process and would help improve input and output for the Tax Division. The legislature had appropriated \$300,000 to review the system and to ensure that sufficient funds would be allocated.

Commissioner Butcher pointed to slide 9 and discussed that DOR had received FY 11 funding for a one-year long term care ombudsman investigator position due to an increase of complaints to the long term care ombudsman. He noted that unfortunately the number of complaints had remained high; therefore, DOR had made a request to make the position permanent in FY 12. The Criminal Investigations Unit brought together the criminal investigations positions from the PFD Division, Child Support Services, and the Tax Division and had increased the amount each division had brought in. He discussed the department worked with the AMHTA on public safety issues for the mentally ill and AHFC housing and weatherization programs that focused on increasing residential energy efficiency and life safety issues.

Representative Guttenberg thanked DOR for solidifying life safety functions in homes.

Commissioner Butcher clarified that there had been separate raters under the weatherization program and the home energy rebate programs; the corporation was working to combine them into one position. He explained that the much more of the life safety focus had been under the weatherization program because the program had been directed at lower income households.

Commissioner Butcher pointed to oil and gas issues on slide 9. The DOR and DNR commissioners headed the Alaska Gasline Inducement Act (AGIA) effort. He relayed that negotiations

were currently underway following the results of the open season; TransCanada had hoped to bring information forward at the beginning of the year; however, the process had moved more slowly. The department hoped to be able to provide an update to the committee in the near future. He explained that one of the biggest challenges for the Tax Division was to the transition from the Economic Limit Factor (ELF) to the Petroleum Production Tax (PPT) and subsequently to the Alaska's Clear and Equitable Share (ACES). He noted that the division had begun to catch up with the audit lag related to the tax transitions and was working more smoothly than it had in the past couple of years.

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Commissioner Butcher briefly discussed DOR work conducted during legislative session (slide 10). He detailed that the prior session DOR had been impacted by more than 275 pieces of legislation; 48 of the bills and 17 resolutions had been passed. He expounded that staff had prepared 116 fiscal notes, drafted regulations, and had worked to improve statutes.

Ms. Blaisdell discussed the DOR FY 11 budget summary by division (slide 11). She relayed that the Child Support Services Division had been impacted by American Recovery and Reinvestment Act (ARRA) funding; there was an additional increment in the FY 12 budget request to reinstate some of the federal funds. The Treasury Division had added an investment officer to replace an external manager, which had saved approximately \$850,000 in management fees for a \$250,000 person. She communicated that as of the prior year, CBR management fees were paid with general funds instead of CBR funds.

Ms. Blaisdell continued to discuss the FY 11 budget summary. The primary funding for the Administrative Services Division was related to emergency computer support due to some system failures. She shared that under the commissioner's office \$50,000 had been appropriated for the AGIA reimbursement audit; there was an increment for \$125,000 in FY 12 because the audit had been much more intensive than originally anticipated. The commissioner's office had also been given \$1.5 million to review the fiscal analysis of the gasline terms, which had currently not been spent. There had been an appropriation for

\$250,000 to the Tax Division for the AGIA Information Reporting System, which looked at incoming AGIA reports and how to communicate the information. She touched on the petroleum commercial analyst positions the department hoped to have filled in the near future.

Ms. Blaisdell communicated that the PFD Division had been given \$100,000 for Dot.Net system training. The software had been used to develop the PFD system; funds in the same amount were included in the FY 12 budget request, given success in the current fiscal year. Approximately \$75,000 had been appropriated to pay for increased chargeback fees, the replacement of the central postage machine, and other. She noted that funds had been received for the temporary long term care ombudsman investigator position. She concluded the summary with detail regarding AMHTA. She explained that the corporation submitted its operating budget, which was backed out in full and requested again. She noted that the process looked slightly unusual; however, it had been used for a number of years.

Representative Costello believed the \$3 million increment for management fees seemed high and asked for detail on the cost. Ms. Blaisdell replied that the FY 12 CBR management fee request was for approximately \$2.5 million out of the general fund.

Representative Costello wondered why the increment was \$2.5 million. She reiterated that the fee appeared high.

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JERRY BURNETT, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE, answered that the Treasury Division managed \$10 billion and approximately \$3.5 billion of the amount was externally managed. He communicated that the \$2.5 million in management fees was measured in basis points and was not unreasonably large. He added that the figure seemed large; however, there was a significant amount of money under management. He noted that the cost was less than the cost of management for the retirement funds or the permanent fund.

Representative Costello asked why the appropriation would come from the general fund in the current year.

Ms. Blaisdell answered that in the prior year there had been discussions in the finance subcommittees that a CBR appropriation required a three-quarter vote by the legislature. She explained that the legislature had decided to pay for the investment fees out of the general fund in order to eliminate the requirement. She furthered that every time money had been spent out of the CBR a liability had been created, which required the state to re-pay the funds; therefore, the legislature decided to use general funds up front.

Representative Gara discussed that felons did not receive PFDs and that the money should be given to their children who were owed child support. The legislature had passed a bill that gave DOR the discretion to take the funds and provide them to established child support arrears. He understood that the funds currently went towards funding important victims' services; however, he did not understand why the funds did not go to owed child support. He discussed current legislation that would mandate the department to provide the funds to the Child Support Services Division. He believed that children were a priority and asked DOR to think about and follow up on the issue. He did not want funds to be taken from victims, but he believed children should receive funds as well.

Commissioner Butcher responded that DOR was looking at the issue and would follow up with the committee.

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Representative Doogan asked whether the CBR management fees were approximately \$2.5 million. He wondered whether the permanent fund management fees totaled \$14.1 million.

Ms. Blaisdell answered the \$14.1 million represented the requested FY 12 increment. She explained that the division had approximately \$90 million in investment management fees on the books.

Representative Doogan surmised that the total would be slightly over \$100 million if the current request was granted. Ms. Blaisdell replied in the affirmative.

Commissioner Butcher elaborated that the \$2.5 million was an increment as well and did not represent the total

amount. He noted that the department would provide the total amount to the committee.

Representative Doogan asked for a description of the additional third-party fiduciary work that was included in the \$14.1 million increment shown in the Legislative Finance fiscal analysis.

Commissioner Butcher responded that the department would follow up with the requested information.

Vice-Chair Fairclough believed that the fees should be looked at as a percentage of the total money that was managed. She reminded the committee that there the permanent fund (approximately \$38 billion) and the CBR were both managed under many different strategies. She explained that different fees were associated with the various investment strategies and that the costs were in line with typical management fees.

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Ms. Blaisdell discussed that the legislature had appropriated a total of \$2.2 million to the department for FY 11, which represented approximately \$850,000 in savings; the majority of the funds went to one-time items. The FY 11 fiscal note total was \$7.9 million in addition to approximately \$51 million to AHFC and the Alaska Gasline Development Corporation (AGDC). She communicated that the department's budget did not grow substantially on an annual basis; however, it was heavily impacted by fiscal notes.

Ms. Blaisdell highlighted the department's FY 12 budget request (slide 13). The department had requested funds for CBR management fees, child support services federal funding adjustments due to the end of ARRA, server license fees for the department network system, \$125,000 in AGIA audit funding, and creating a Criminal Investigations Unit, which combined investigators from the Child Support Services, Tax, and PFD divisions to allow for shared information. There was a \$167,000 increment for an AMHTA drug and alcohol position; the position was a coordinated effort between the Mat-Su borough, Providence Health Systems, and AMHTA (slide 14). The budget also proposed funding to make the long term care ombudsman position permanent and for travel costs (currently most of the investigations were conducted in the Anchorage area or by phone).

Commissioner Butcher discussed that AHFC was requesting a small amount of receipts related to veterans' bond sales (slide 15). Federal housing assistance payments represented Section 8 vouchers paid to landlords, which had previously been a pass-through. The Legislative Finance Division had suggested that the funds be included in the AHFC budget; therefore, funds had been backed out and put back in. He noted that federal receipts were \$4 million less than they had been for FY 11. The AGDC plan for a gasline was due on July 1 and \$1.095 million had been included in the FY 12 budget to account for staff to continue any potential research and work.

Ms. Blaisdell addressed the FY 12 budget request for the APFC on slide 16. The corporation had requested \$115,000 for operation costs, \$319,000 for salary management plan funding, and additional costs for investment management fees. She noted that APFC would provide more detail to the committee at a later time.

Commissioner Butcher read concluding remarks from slide 17:

- The Department of Revenue is the state's largest fiscal manager. We pride ourselves in prudent investment practices for a variety of programs and needs.
- Our customer service divisions of PFDD and CSSD have notably improved their business practices as many of you have noticed the decreased constituent concerns in these areas.
- The Tax Division is one of the busiest areas of the department as they work closely with every taxpayer in Alaska and are frequently involved in tax policy decisions contemplated by the legislature.
- Our corporations receive national recognition for their exemplary program management and fiscal solvency.

Co-Chair Thomas thanked Commissioner Butcher for addressing the committee.

#

ADJOURNMENT

The meeting was adjourned at 3:37 PM.