

HOUSE FINANCE COMMITTEE  
February 14, 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  
Representative David Guttenberg  
Representative Reggie Joule  
Representative Mark Neuman  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Representative Alan Austerman; Representative Sharon Cissna; Karen Rehfeld, Director, Office of Management and Budget, Office of the Governor; James Armstrong, Staff, Representative Bill Stoltze.

SUMMARY

HB 107 BUDGET: CAPITAL

HB 107 was HEARD and HELD in committee for further consideration.

#hb107

HOUSE BILL NO. 107

"An Act making and amending appropriations, including capital appropriations and other appropriations; making appropriations to capitalize funds; and providing for an effective date."

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AT EASE

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RECONVENED

KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, provided an overview of the governor's proposed FY 12 capital budget request. She summarized that the total for the capital bill was \$1,612,598,600.

Ms. Rehfeld provided highlights of the budget. She noted that a key component of the request was \$103 million of general funds to match or leverage over \$705 million of federal and other funds for specific projects, including:

- \$623 million, Department of Transportation and Public Facilities (DOT/PF), federal highway and aviation funds
- \$42.3 million, Department of Environmental Conservation (DEC), village safe water projects
- \$20 million, DEC, 9 municipal water and sewer projects
- \$5 million, municipal harbor grant program (50/50 match)
- \$65.7 million, Susitna Hydro-Electric Project (from the balance of the Railbelt energy funds) for Southcentral Alaska.

Co-Chair Stoltze reminded the committee that the Susitna project would benefit Northern and Interior Alaska, and that the Railbelt extended beyond Southcentral.

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Ms. Rehfeld continued with her list of highlighted items:

- \$25 million, renewable energy grants
- \$25 million, weatherization program
- \$10 million, Southeast energy grant fund
- \$10.5 million, access for three specific road projects:
  - Continuation of environmental work on the corridor from the Dalton Highway to Gubik and Umiat; \$8 million requested in the FY 11 budget, \$8 million in the FY 12 budget
  - Continuation of work on the Ambler mining district access, \$1.25 million
  - Continuing work on western access
- \$20 million, Port of Anchorage
- \$20 million, Pt. MacKenzie
- \$10 million, Skagway dock and terminal improvements

Ms. Rehfeld noted continued efforts on gasline development, both in-state and the Alaska Gasline Inducement Act (AGIA) project:

- \$160 million, reimbursements under AGIA
- \$5.5 million, continuation on work on the in-state gas development project

Ms. Rehfeld noted that the legislature would receive a report July 1, 2011 about the in-state gas project.

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Co-Chair Stoltze queried the thought process behind taking Alaska Housing Finance Corporation (AHFC) Capital Fund Program funds instead of unrestricted general funds. Ms. Rehfeld responded that for the last several years, the governor's proposal has been to take the AGIA reimbursement out of the AHFC capital fund. She acknowledged the debate over the funds, related to whether the funds were to be used for matching funds or for gas development.

Co-Chair Stoltze wanted the public and policy makers to understand that there was real money in the capital fund that was available for other projects.

Co-Chair Thomas asked why surplus cruise ship money was not used for the Skagway dock improvements, instead of the AHFC funds. Ms. Rehfeld replied that the dock facility could be used by cruise ships and by barges that remove ore. She pointed out that the amended budget proposal would likely have a proposal to switch funds for the project.

Co-Chair Thomas thought about 75 percent of the dock's use was cruise ships and 25 percent for ore removal. He asked whether the item was predicated on getting ownership from White Pass, which owned the dock. Ms. Rehfeld answered that she was not aware of any particular contingency related to the project. She noted that the Alaska Industrial Development and Export Authority (AIDEA) was involved with the loading facility and that the item would assist that project. She believed the project was not specific to White Pass. She offered to get the information.

Co-Chair Thomas pointed out that the language stipulated that White Pass was involved.

Ms. Rehfeld highlighted items related to education:

- \$28.5 million, Department of Education and Early Development (DEED), for Quinhagak, the first school on the early development school construction grant list
- \$19.9 million, DEED, for the first 14 projects on the school major-maintenance list

Co-Chair Stoltze observed that the schools on the list appeared to be located in Western Alaska. Ms. Rehfeld did not have the grant list, but believed that any school district in the state was eligible to apply for the grant. The requests were evaluated on an annual basis.

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Ms. Rehfeld offered to provide a sectional analysis of the bill, which contained 12 sections. She began with the numbers section:

- Section 1: just over \$1.4 billion

Ms. Rehfeld detailed that the section was organized by department and listed in priority order within each department. All deferred maintenance requests were at the end of the list, except for DOT/PF projects, which were listed by program area; within appropriations, the community projects were in alphabetical order. She noted that the capital books given to committee members had a project review listing for each department; the listing had specific reference numbers, backup page numbers, indication of appropriation or allocation, project title, and funding sources. The information could be used to find backup and get more detail on specific projects.

- Sections 2 and 3 (pages 38 through 44): Summaries of projects appropriated in Section 1, listed either by department or total fund

Ms. Rehfeld noted that the language portion of the bill began on page 45.

- Section 4: Legislative Budget and Audit language appropriation. Allows that federal and other program receipts that come in after the legislature has adjourned can go before the Legislative Budget and Audit Committee for consideration.

Co-Chair Stoltze pointed out that three schools on the list he referred to earlier were in Co-Chair Thomas' district; the remainder were in Western Alaska.

Representative Gara commented that the largest school on the deferred maintenance list that got funded the year prior was Service High School in Anchorage.

- Section 5 (page 45, lines 17 through 20), fund capitalization section. Subsection (a): \$160 million requested for the AGIA reimbursement project. Through FY 11, \$185 million had been appropriated for reimbursement of allowable expenditures under the AGIA project; the FY 12 request would bring the amount available for reimbursement to \$345 million.

Ms. Rehfeld referred to a report provided to the committee by the Department of Revenue containing all AGIA reimbursements to date and the anticipated expenditures under the program.

- Section 5, subsection (b): \$100,000 Division of Elections for polling place access and improvements. Specific to the Help America Vote Act fund, federal funds for election-related activities are put into the fund, and appropriations are requested out of the fund.

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- Section 6 (page 45, lines 26 through 31), related to fund transfers. Subsection (a): \$22 million, to go into the Alaska Capital Income fund and a \$25 million fund transfer from the AHFC capital fund to the renewable energy grant fund.

Ms. Rehfeld reminded the committee that the legislature had already approved \$150 million into the renewable energy grant fund; that has been made available for 124 projects. The Alaska Energy Authority (AEA) estimated that by the end of the year, the renewable energy fund projects would save 2.5 million gallons of diesel annually; by the end of 2012, renewable energy fund projects were expected to save 8 million gallons of diesel annually.

Representative Edgmon queried the \$25 million threshold. He wondered whether the number was what AEA could absorb at the present. He noted that the list was long, and he understood that more than \$25 million had been recommended to OMB. Ms. Rehfeld believed the original legislation that created the renewable energy fund anticipated a \$50 million appropriation per year over a five-year period. Initially, there was some funding made available to jump-start the project; it took AEA a while to get the grant process in place. She believed the program was ready to go, and the governor's budget proposed \$25 million as the starting point. She believed the program was working well.

Representative Doogan asked for more information about Section 6(a). Ms. Rehfeld responded that Section 6(a) represented the income from the Amerada Hess fund income, which was transferred annually into the Alaska capital income fund. The legislature could choose to make appropriations from the Alaska capital income fund.

Representative Doogan asked whether there were restrictions on what the fund could be spent on. Ms. Rehfeld replied that there were no restrictions.

Representative Wilson asked whether oil energy costs were measured by kilowatt hours spent by a community. Ms. Rehfeld thought AEA had extensive inventory of costs broken down by community.

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Representative Wilson referred to wind projects and cost comparisons to what was already being spent. She wondered whether Alaska was at bottom-line savings in terms of energy costs. Ms. Rehfeld replied that she could get the information.

Co-Chair Stoltze referred to weatherization program formulas and queried the plan for the \$25 million. He noted that the budget backup materials referred to the item as the "Lyman Hoffman weatherization program." Ms. Rehfeld stated that she was not aware of specific attribution. She answered that the \$25 million in the governor's budget was proposed specifically for the weatherization program. The other program was the energy rebate program, through which AHFC reimbursed for specific energy efficiency projects.

Co-Chair Stoltze noted that the item was for a grant program instead of the rebate program, which was considered more of an urban program. Ms. Rehfeld answered that there were specific eligibility requirements under each program.

Representative Edgmon noted that there was \$200 million to the weatherization program and \$160 million to the home energy rebate program (\$360 million total). He asked whether the \$25 million went fully to weatherization. He wondered whether there was still money in the queue for the home energy rebate program. Ms. Rehfeld offered to get the information.

Co-Chair Thomas spoke to the harbor fund. He pointed out that for water communities, harbors were the starting point for sport fish, commercial charters, and commercial fishermen. He called the harbor system the "road to resources" for fishing industry communities. He spoke to the fact that half the requests were vetoed, even though the program was a match program; 50 percent of the money

had to come from local municipalities. He noted that only five harbor projects were in the budget; he felt people who wanted to build roads to oil resources would be insulted by such a low number.

Co-Chair Stoltze wanted a detailed explanation of the energy programs. Ms. Rehfeld agreed.

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Representative Guttenberg believed the energy allocations were made based on degree days, cost of BTUs, and the extent of need. He reported that people in his community had difficulties getting into the rebate program. He queried the criteria used. Ms. Rehfeld offered to get information on the allocations and balances in the programs.

Representative Gara pointed out that the renewable energy program was originally slated for \$50 million per year. He questioned the amount in the budget for the weatherization program. Ms. Rehfeld responded that the original legislation for the renewable energy fund had intent language stating that there would be \$50 million per year; the proposed FY 12 capital budget requested \$25 million. She anticipated discussion about whether to increase the amount to the \$50 million. The FY 12 budget requested \$25 million for the weatherization program, not for the energy rebate program. She offered to provide the committee a breakdown (through AHFC) of the funding already committed and what was still available for the two programs.

Representative Gara asked whether the proposal was for zero money into the home energy rebate program for FY 12. Ms. Rehfeld responded that the FY 12 budget did not have a request for the energy rebate program.

Representative Neuman referred to the comprehensive highway safety plan in the budget at \$400,000. He pointed out that two of the deadliest highways were in his district, the corridor on the Parks Highway from Wasilla to Big Lake, and Knik-Goose Bay Road, where two community members had recently died. He asked how the safety concerns would be addressed in the budget. He pointed out that all the trucks on the "roads to resources" plan used the Parks Highway. Ms. Rehfeld responded that between DOT/PF and the Department of Public Safety (DPS), there was a shared

effort regarding highway safety for the roads mentioned. She added that federal highways safety funds were being utilized for additional trooper presence and enforcement, for outreach and education on highway safety, and for improvements to the particular roadways. She referred to additional funds slated through the Statewide Transportation Improvement Program (STIP) for improvements to the area. She thought the departments could provide more specific details.

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Co-Chair Stoltze noted difficulty in speaking to DOT/PF.

Representative Neuman referred to the \$250,000 item for the snowmobile trail development program. He thought the tracks program usually received over \$1.5 million in federal funds. He asked where the remainder of the money was going. Ms. Rehfeld responded that she did not know and offered to get more information.

Ms. Rehfeld continued with the sectional analysis.

- Section 7 (page 46, lines 1 through 5): Language authorizing settlements from insurance claims or losses into the general fund, appropriated into the state insurance catastrophic reserve account.
- Section 8 (page 46, lines 6 through 11): Specific to National Petroleum Reserve grants; \$5.4 million estimated in FY 12 from the U.S. Department of the Interior, Bureau of Land Management, 50 percent of federal money for sales, rentals, or leases within the National Petroleum Reserve-Alaska (NPR-A).

Ms. Rehfeld detailed that DCCED managed the annual grant application process for public services and facilities in communities directly impacted by leases or development of oil and gas within the NPR-A. She anticipated that the amended budget would identify the grants selected through the annual review.

- Section 9 (page 46, lines 12 through 19): Related to the Alaska Energy Authority (AEA). Subsection (a): \$2 million interest earnings from the renewable energy fund, appropriated to AEA for program administration. Subsection (b): Specific appropriation for the balance

of the Railbelt energy fund to be used for planning, design, and permitting for the Susitna hydro-electric project to complete field work for the Federal Energy Regulatory Commission (FERC) application in early 2015.

Representative Guttenberg asked whether Railbelt energy funds would no longer exist if subsection (b) passed. Ms. Rehfeld believed there was a bill currently under consideration that would change the current configuration of the Railbelt energy fund for the specific project. If the bill did not pass, the appropriation would take the balance and purpose it toward the project; the fund would not necessarily go away, unless it was decided to eliminate it. The fund would exist until any projects or activities appropriated through the fund were completed.

Representative Guttenberg surmised that the fund would be empty and could be eliminated. Ms. Rehfeld agreed.

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Representative Doogan referred to Section 9(a) estimating \$2 million available for administration of the renewable energy grant fund. He asked whether \$2 million was the total cost of administration and how the number was derived. Ms. Rehfeld replied that AEA had used the mechanism for the first time in the FY 11 budget; the budget was built around a combination of individual project management costs and the administrative portion of the budget. She believed the \$2 million would help cover the specific costs; the fiscal note for HB 152 did not provide AEA with sufficient funding to manage the program. She offered to get more information.

Representative Doogan turned to Section 9(b) with a more precise number (\$65,731,100) and asked how the number was derived. Ms. Rehfeld responded that \$65.7 million was the estimate of the available balance of the fund, although there were projects that had not been closed out. She offered to provide the committee with the AEA timeline that outlined specific steps for the project. She noted that the appropriation would get AEA partway to the FERC application.

Representative Doogan thought projects should be financed year-to-year and not be made capital projects. He asked for

information regarding how much of the money was expected to be spent year-to-year. Ms. Rehfeld offered to provide him with the AEA timeline. She addressed the issue of whether projects should be funded through the operating or the capital budget. She stated that timing was difficult in larger and more complex projects. The capital budget (with lapsing language) provided some flexibility to address changing conditions.

Representative Doogan stated that the process was either taking money that could be spent for something else or making the decision to take on and complete a large and expensive project. He did not want to back into a large financial commitment by using a smaller portion of the total funding needed in order to take a specific step in the process overall. He questioned whether that was the best approach.

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Co-Chair Stoltze referred to decisions made in the past by the committee to fund portions of projects.

Representative Costello queried the philosophy of the administration on the difference between using the operating and capital budgets for certain projects. She queried the considerations used, especially for projects that cost year after year. Ms. Rehfeld responded that there were several things to consider when looking at operating and capital budgets; there was not one answer that would fit all situations. The executive and legislative branches had struggled in recent years with appropriations in the operating budget that were placed in the governor's office and then allocated out to line agencies for various purposes, such as gasline activity and the domestic violence and prevention funds. Funds were allocated out to specific agencies for work within a given fiscal year, and at the end of the fiscal year, the internal reimbursable services agreements (RSAs) have to be reconciled to close out the budgets. In cases where the funding was not spent, the administration might come back to the legislature and ask for an extension of a lapse date on an operating item. She acknowledged that the process of managing multi-year operating items was sometimes confusing and difficult. Structurally, it depended on the will of the legislature as the session went on, whether to use the operating budget in

the preferred way or use the capital budget with its ability to flex one year to the next.

Ms. Rehfeld provided the example of funding for tourism marketing. The FY 12 budget proposed a starting point derived from exactly what had happened in the FY 11 budget; a portion of a grant going specifically through the capital budget to the Alaska Travel Industry Association (ATIA) and then in the operating budget, putting the amount through the qualified trade association (if not going back to the 50/50 matching requirement). The item was framed that way as a starting point, as discussion was expected about which direction the legislature wanted to take related to marketing on a broader scale.

Ms. Rehfeld provided another example of a budget item that had been discussed during the supplemental bill presentation. The Department of Law (DOL) had two large requests in the capital budget for oil and gas related litigation and for the BP litigation. She stated that timing was difficult in both the examples of tourism and litigation. She noted an operating supplemental item of nearly \$4 million for DOL for litigations.

Ms. Rehfeld summarized that some kinds of items were considered on a case-by-case basis. She referred to other instances where one-time items were rolled into an operating budget and then rolled out, which made comparisons difficult from one year to the next. She summarized that the administration was trying to manage all the complexities and make sense out of them in the budgets; ultimately the legislature would decide whether the items were funded and where they were located in the budgets.

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Representative Costello believed that the government was working for the public. She thought people in her district understood that the operating budget ran the basics of government and the capital budget was for one-time projects. She understood the need for flexibility as projects changed, but reminded the committee that the public was also involved in the discussion. A constituency might charge a legislator with reducing the growth of government, but the capital budget was confusing to explain in that regard.

Co-Chair Stoltze commented that it was good to start with the premise that the two budgets were for the two purposes, but there were unavoidable circumstances that brought the capital and operating budgets into each other.

Representative Wilson agreed that the capital budget should be for one-time, infrastructure projects. She pointed to budget items in the capital budget for computer and telephone upgrades. She was reminded of the process of determining what was a deduction or not when filing for taxes with the Internal Revenue Service (IRS). She likened upgrading lighting in a house to maintenance projects, compared to residing the house would be a major, one-time project, comparable to a capital-budget item. She thought capital projects were also related to creating jobs. She asked whether capital items were considered from the basis of whether job opportunities would be provided. Ms. Rehfeld responded that "in the perfect world," an operating budget would have sufficient funding to take care of year-to-year maintenance and sufficient funding to pay for unpredictable items like litigation costs. She believed that collectively, government had worked hard to minimize growth in the state agency operating budgets, which had ended up limiting the ability of agencies to address year-to-year needs without capital requests. She stated that there was no "cushion" left in agency budgets to deal with more expensive or unpredictable needs.

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Representative Wilson asked whether communities were asked about their ability to keep building upgrades through local budgets for clearly capital items such as schools. Ms. Rehfeld responded that the state had an annual school-funding formula to provide resources to school districts for school projects, and school districts had to put on-going maintenance and operating costs into their annual budgets.

Representative Wilson thought there was a lot of "building new" in the state, which created a lot of major maintenance issues. She thought there should be a major maintenance plan when a new facility was built. She did not think there was such a plan, or there would not be such a need for upgrades. She thought something was missing, especially as state revenue was decreasing. She thought communities should contribute to sustain expense. Ms. Rehfeld noted

that schools have to demonstrate that a preventative maintenance plan was in place before they were even eligible to apply for grants through the school construction or major maintenance fund. Some of the grants in the budgets were large and exceeded the ability of districts to take care of the on-going expenses in their annual budgets. She pointed to the backlog of deferred maintenance in state facilities, and agreed that on-going preventative maintenance programs were critical.

Representative Wilson noted that she was talking about more than schools, but about parks and programs throughout the state.

Co-Chair Stoltze pointed out that deferred maintenance by definition was setting something aside; waiting long enough would make the issue bad enough to become a capital project. He opined that evasive behavior was being rewarded.

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Representative Gara thought the Interior would benefit most from the Susitna hydro project because the price of electricity was very high in the region. He wondered whether analysis had been made to determine that the cost of the project would result in lower power costs, as compared to spending less on another project. Ms. Rehfeld responded that AEA had reviewed the issue using previous funding. She thought AEA could provide specific analysis.

Representative Gara believed electricity produced through diesel was expensive in Fairbanks. While the Susitna project would reduce rates in the northern Railbelt, it would not necessarily reduce rates in the lower part of the region.

Co-Chair Stoltze commented that no community had regretted getting on hydro, because it resulted in long-term stability.

Ms. Rehfeld continued with the sectional analysis.

- Section 10 (page 46): Grant to Life Alaska Donor Services for the Anatomical Gift Public Awareness and Transplantation Fund

- Section 11: Lapsed provisions for the sections of the bill related to fund capitalizations, which do not lapse (Sections 5, 6, and 7). Sections 8 and 9 were capital projects. Named recipient grants also do not lapse, unless a capital appropriation was otherwise stated.
- Section 12: Effective date of the bill: July 1, 2011

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Representative Edgmon wondered whether there would be an energy hearing in the finance committee. He stated that he wanted one.

Co-Chair Stoltze responded that an energy hearing would be set up for the committee.

JAMES ARMSTRONG, STAFF, REPRESENTATIVE BILL STOLTZE, presented some Capital Projects Submission and Information System (CAPSIS) data. He noted that the committee's submission deadline had expired February 11, 2011. He provided data compared with numbers from past years to provide perspective: Two years prior, there were 1,117 project requests; one year ago, there were 1,439; this year there were 1,576.

Co-Chair Stoltze reported that CAPSIS had improved the recording of capital project requests. Everything was digital and online and the system removed the necessity for the cumbersome binders. He noted that communities, non-profits, and legislators could call the Senate or House Finance Committee Co-Chair's offices (Senator Stedman or Representative Stoltze) to get a password to submit the requests.

Co-Chair Thomas queried the total amount of the capital requests. Mr. Armstrong responded that the governor's request for FY 12 was \$1.68 billion. In FY 11 the 1,439 requests equated to over \$2.5 billion.

Mr. Armstrong explained that all offices could view statewide requests on CAPSIS as well as projects in specific districts. The deadline for the members to present capital budget priorities would be Monday, February 28 at 5 p.m. He noted that there would be a technical training session for staff.

Representative Joule commented that he was grateful that earmarks were still alive and well, as they were sometimes more representative of the needs of the districts.

#

ADJOURNMENT

The meeting was adjourned at 2:36 PM.