

HOUSE FINANCE COMMITTEE  
February 9, 2012  
1:36 p.m.

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CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:36 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

Karen Rehfeld, Director, Office of Management and Budget, Office of the Governor; Angela Rodell, Deputy Commissioner, Treasury Division, Department of Revenue; Representative Alan Austerman.

SUMMARY

HB 283      BUDGET: CAPITAL

HB 283 was HEARD and HELD in Committee for further consideration.

HB 285      APPROP: MENTAL HEALTH BUDGET

HB 285 was HEARD and HELD in Committee for further consideration.

HB 286 G.O. BONDS FOR PORTS

HB 286 was HEARD and HELD in Committee for further consideration.

HB 307 SUPPLEMENTAL/CAPITAL/OTHER APPROPRIATIONS

HB 307 was HEARD and HELD in Committee for further consideration.

#hb283

HOUSE BILL NO. 283

"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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KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET (OMB), OFFICE OF THE GOVERNOR, explained that she would provide a high level overview of the legislation.

Co-Chair Stoltze agreed that a broad and general approach would be the most helpful.

Ms. Rehfeld informed the committee that the governor's proposed FY 13 capital budget totaled \$1.8 billion, which excluded duplicated funds. She referred line 24 of the OMB December 2011 fiscal summary, which included the mental health capital budget. The total number included \$882 million in unrestricted general funds, \$81 million of designated general funds, \$20 million of other funds, and \$820.5 million of federal funds. The bill contained 14 sections. The first section was the largest and totaled \$1,766,800,000; it was organized by department and projects were listed in priority order. Deferred maintenance appeared at the end of each department's list with the exception of Department of Transportation and Public Facilities (DOT) because it had been organized within the different appropriation levels. Individual project review listing and backup for each project was included in the member's capital budget books. She highlighted priority

projects in the Resource and Development (R&D) area including, Roads to Resources, permitting, strategic minerals assessments, digital mapping, and responsible development of natural resources. The budget also included education funding for two schools off of the Department of Education and Early Development (DEED) school construction list that totaled \$61 million.

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Representative Gara queried the fund source for bulk fuel upgrades listed on page 4 of the bill. Ms. Rehfeld directed attention to the appropriation level on page 3, line 24. She explained that a portion of the \$7 million was paid for with general funds. She would follow up with detail at a later time.

Ms. Rehfeld continued to highlight the education components including \$24 million for the first 14 projects on DEED's school major maintenance list. Other items included disaster preparedness and a search and rescue helicopter for the Interior under the Department of Public Safety (DPS); transportation infrastructure such as highways, aviation, municipal, water, sewer, village safe water, and other.

Co-Chair Stoltze asked to hear a list of litigation and settlements items later in the meeting.

Representative Joule discussed a \$14 million appropriation that had been vetoed the prior year related to a school in Kivalina. He believed that the state did not want to build the school at the existing location, which was one of the reasons the appropriation had been vetoed. He wondered whether the administration had been working with the community to find a transportation route to the mainland where a school could be built.

Ms. Rehfeld responded the state had been working with Kivalina on a relocation site. Work was underway to include the project on the DEED priority list for the following fiscal year. She noted that improvements were needed on the existing building, but a relocation of the school would represent significantly different costs; therefore steps to determine the best approach and timing were in progress.

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Representative Joule noted that road access to the school fell under the purview of DOT; therefore, he wondered whether the department would work with the community on the issue. Ms. Rehfeld deferred the question to DOT for follow up at a later time.

Representative Joule communicated that there was a \$10 million road to resources in Umiat that people did not want; the people in Kivalina would be happy to use the road to find an alternative location for the school site.

Ms. Rehfeld outlined the various sections in the bill:

- Sections 2 and 3 summarized the funding sources in the numbers section of the bill by department and for all fund sources respectively.
- Sections 4 through 6 were included for informational purposes and related to the proposed Government Obligation (G.O.) Bond package in HB 286.
- Section 7 gave Legislative Budget and Audit the authority to consider federal and other program receipts that came in when the legislature was not in session.
- Section 8 related to fund capitalization and included \$60 million for proposed Alaska Gasline Inducement Act (AGIA) reimbursements and \$1.7 million in federal funds for the Emerging Energy Technology Fund.
- Section 9 included a \$25 million fund transfer to the Renewable Energy Grant Fund and a \$35.5 million fund transfer to the Regional Educational Attendance Area School Fund.

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Ms. Rehfeld continued to detail the bill sections:

- Section 10 related to the State Insurance Catastrophic Reserve Fund that allowed insurance claims to be appropriated to state agencies in order to mitigate loss.

- Section 11 included an appropriation for National Petroleum Reserve-Alaska (NPRA) grants estimated at approximately \$5.4 million. A list developed annually by the Department of Commerce, Community and Economic Development (DCCED) would be brought to the committee to include in the budget.
- Section 12 encompassed three pieces for Department of Fish and Game (DFG) related to amending a previous appropriation for the Sport Fish hatchery in Anchorage to include operations. There was a subsection to reappropriate \$5 million from the hatchery to the Fish and Game Fund that would allow DFG to apply any sale proceeds from the resolution sale towards the purchase of equipment for a new vessel.

Ms. Rehfeld detailed several ongoing operating funding questions related to the Sport Fish Division. She explained that the division's budget had Fish and Game Fund authority and that the administration had concerns about the cash in the fund and future revenue projections. The reappropriation of the \$5 million into the fund would help ease concerns in the short-term. She furthered that there were several ways to address the issue and that related conversations would be continued.

Co-Chair Stoltze wondered whether the surplus of proceeds was related to bond sales that had occurred in 2007. Ms. Rehfeld deferred the question to the department.

Co-Chair Stoltze was concerned about ambiguity on the issue. He welcomed any opportunity to pay off the bonds and to shorten the commitment the life of the \$9 surcharge on sport fishing licenses. Ms. Rehfeld asked the DFG to follow up with a response.

Co-Chair Stoltze stressed that the department should prioritize the retirement of the debt. He believed the funds should be used for capital and not operating expenses.

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Representative Neuman wondered whether DCCED could choose how to delegate the proposed \$5.4 million in capital project grants (Section 11, page 52).

Ms. Rehfeld replied that funding for NPRA grants came from the Bureau of Land Management under the U.S. Department of the Interior (proceeds were derived from sales, rentals, bonuses, and royalties on leases issued within the NPRA). Local entities applied for grants within communities that were directly impacted by the leases or development of oil and gas within the NPRA. She elaborated that a certain number of communities were eligible to apply for grants and the funds could be used for planning, construction, maintenance and operation of public facilities, and other necessary public services.

Representative Neuman asked for verification that the grants only applied to communities impacted by development within the NPRA. Ms. Rehfeld responded in the affirmative.

Co-Chair Thomas referred to Section 12(d) related to the transfer of general funds to sport fish construction and operations. He discussed the ability to absorb operation costs within the department. He asked Ms. Rehfeld to provide an explanation of the change during the operating budget portion of the meeting.

Ms. Rehfeld replied that DFG would be available to answer questions. She cited concerns that the cash flow into and out of the Fish and Game Fund had been low; she did not believe the issue had been contemplated in the past.

Co-Chair Thomas explained that the operating budgets had gone up and down for years. He remembered being told that DFG costs could be absorbed and he wondered why the comment had been made.

Co-Chair Stoltze noted that the item had been a revenue bond, but he believed that the obligation to voters was no less implicit. He believed that letting the public know that the House Finance Committee was not playing games with funds would send a positive message. He voiced his tendency to be critical of revenue bonds.

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Representative Gara asked whether sport fishery facility upgrades had been completed. Ms. Rehfeld believed that the Anchorage hatchery had been completed.

Representative Gara surmised that the designation of left over sport fish money to operating expenses meant that money remained. Ms. Rehfeld responded that there was approximately \$5 million available.

Representative Gara referred to earlier testimony from Co-Chair Stoltze related fishing license fees.

Co-Chair Stoltze clarified that there was a proposal to forego an opportunity to shorten the obligation of license payers.

Ms. Rehfeld continued to explain the bill sections:

- Section 13 provided for lapsed provisions of various sections. For sections that were identified as capital projects, appropriations were made for the valid life of the projects and carried forward from one year to the next.
- Section 14 included the effective date of the bill: July 1, 2012.

Representative Doogan wondered whether funds were transferred from the general fund to a discrete fund for expenditure (under the fund transfers section of the bill). Ms. Rehfeld replied in the affirmative.

Representative Doogan asked what happened when the money was not spent in its entirety. Ms. Rehfeld responded that the money would remain in the particular fund for use at another time. The legislature could appropriate as much as it wanted into a fund and could then choose to make appropriations when it saw fit.

Representative Doogan wondered whether the legislature was "banking" a fund for the next year if it was not fully expended. Ms. Rehfeld answered in the affirmative. She explained that designated funds were usually expended from the Renewable Energy Grant Fund on an annual basis. Fiscal Year 13 was the first year of the formula that required funds based on the amount paid in municipal debt service for school projects to go into the Regional Education Attendance Area School Fund; the proposed budget allocated the funds to two school projects included in the capital budget.

Representative Gara referred to the organization Arctic Power and wondered whether the administration had considered something similar to advertise that Alaska's clean natural gas was not harsh on the environment. He discussed that part of the state's future was related to a gas pipeline. He noted that one of the impediments was shale gas in the Lower 48 and forecasts had shown that the price of shale gas would increase as communities became more concerned about its impacts.

Ms. Rehfeld believed that Commissioner Sullivan at Department of Natural Resources (DNR) had been involved in education and outreach to educate people in the Lower 48 on Alaska's potential. She added that Arctic Power had broadened its scope to help with education and outreach in the Lower 48.

Representative Gara was interested in an ad campaign that highlighted the cleanliness of Alaska's natural gas compared to shale gas in the Lower 48. He believed the campaign would help increase Alaska's chances of finding a market for its gas.

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Representative Edgmon emphasized the need to make Congress aware of Alaska's broad support for opening the Alaska National Wildlife Reserve (ANWR) and that the state's pipeline was only one-third full. He discussed funding for Arctic Power and the potential need to double or triple the state's effort in D.C.

Vice-chair Fairclough believed that leg work could be beneficial and hoped the state would continue working to open the petroleum reserve. She was hopeful that Congress would pass an ANWR resolution; the National Conference of State Legislatures supported the opening of the petroleum reserve by a three-quarters vote. The legislature would continue to encourage the U.S. Senate to support the issue as well.

Co-Chair Stoltze thought the current makeup of the U.S. Senate and the president could prevent a bill on the issue from passing.

Representative Costello wondered how many runways in the state were not up to Federal Aviation Administration

standards. Ms. Rehfeld would have DOT follow up with a response.

HB 283 was HEARD and HELD in committee for further consideration.

#hb286

HOUSE BILL NO. 286

"An Act providing for and relating to the issuance of general obligation bonds for the purpose of paying the cost of municipal port projects; and providing for an effective date."

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Co-Chair Stoltze asked for information on the governor's proposal to use general obligation (G.O.) bonds as a funding approach.

ANGELA RODELL, DEPUTY COMMISSIONER, TREASURY DIVISION, DEPARTMENT OF REVENUE, read from a statement:

This bill would authorize the issuance of \$350 million in general obligation debt. General obligation debt is backed by the full faith, credit and resources of the State. We currently have approximately \$628 million in general obligation bonds outstanding. The State has the resources and capacity to take on the proposed additional debt.

Currently, interest rates are at historic lows. This has allowed us to take advantage of the market and reduce our debt service obligations. In January of 2012, we sold \$175.56 million of general obligation refunding bonds (with more than \$26 million of the 2012 bonds sold to Alaskans) and used the proceeds to refund \$191.410 million of bonds that had been issued in 2003. This transaction has an all-in true interest cost of 1.24% and saved the state \$27 million, net present value.

This transaction demonstrates the attractiveness of Alaska's general obligation paper and also the current low cost of borrowing in the tax exempt market. Any new debt issued will have the debt service structured to provide a low cost of funds and a level burden on

future state budgets. As we move forward with this proposed legislation, we would like to work closely with you to ensure all of the projects meet the necessary tests for tax exemption and can take advantage of the low rates.

In November of 2010, Moody's Investors Service raised the state's general obligation rating to AAA. This was followed by S&P raising our rating to AAA this past December. A triple A rating is the highest investment grade rating achievable and expresses an opinion of the rating agency as to the ability of the state to honor its long-term unsecured financial obligations and contracts. In reviewing our rating, Fitch, Moody's and S&P will be looking to the final dollar amount issued and the overall plan of finance in conjunction with other State issues such as revenues, expenses and other commitments such as the PERS/TRS unfunded liability.

We have provided a fiscal note which assumes the voters would approve \$350 million in general obligation bonds. We are required by federal tax law to track all funds to final expenditure and to ensure that all funds are spent within 3 years of the date of issuance. In order to comply with these requirements, we assumed the bonds would be issued in three tranches, giving an opportunity for funds to be spent before additional debt is incurred. We assumed the first issuance would come in February 2013, following the November 2012 election. Debt repayment would begin in Fiscal Year 2014.

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Ms. Rodell continued reading from a statement:

The costs associated with issuing bonds including underwriting, ratings, legal counsel, financial advisors, marketing and disclosure services, administration and printing, for a \$350 million bond program would total approximately \$2,965,000 or \$8.50 per bond.

Co-Chair Stoltze asked whether there were projections that showed how different interest rates would impact the FY 14 operating budget and beyond.

Ms. Rodell replied that interest rates were not expected to rise in the near-term; the department had made a conservative estimate of 4 percent if an issuance did not occur until 2014. She elaborated that DOR had raised rates slightly with the assumption that they would rise somewhat because there would be two years before it had the full issuance. The projected interest rate would add approximately \$19 million per year in debt service.

Representative Wilson asked whether investments would make more than 4 percent. Ms. Rodell replied that DOR expected the long-term funds would exceed 4 percent. Representative Wilson asked what the same funds had made the prior year. Ms. Rodell replied that the DOR Revenue Sources Book assumed a 3.2 percent rate for general funds going forward and a 6.85 percent rate for long-term funds.

Representative Gara asked what the Statutory Budget Reserve (SBR) was currently earning. Ms. Rodell replied that the SBR was currently earning approximately 3.5 percent. Representative Gara asked whether the amount was less than the bonds would cost. Ms. Rodell answered that DOR assumed a rate of 3.2 percent at present with the assumption that rates would rise on the bond issuance; it also assumed that rates would increase on the SBR if borrowing costs increased to 4 percent.

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Representative Gara surmised that the SBR was invested in short-term issuances and that it could be used more quickly than Constitutional Budget Reserve (CBR) funds. Ms. Rodell responded in the affirmative.

Representative Gara discussed that there was currently \$16 billion in savings and the state would have no problem making long-term bond payments in the next several years. He was concerned about the possibility of increased annual payments of \$19 million ten years out if state revenues decreased and costs continued to increase. He thought the state could be more responsible presently and know what it could afford to spend.

Ms. Rodell replied that there would be no money to invest for the future if the \$350 million was spent at present; therefore, there would be no funds to fall back on when

revenues were on the decline. Whereas, the state would only need to come up with \$19 million to pay the debt service if debt had been issued. She stressed that once cash was spent it was gone.

Representative Gara believed that the state would be facing a tighter budget 10 years in the future and that the SBR could be much smaller if it only earned 3 or 4 percent per year. He opined that DOR's assumption that the SBR would be the same size in ten years was unlikely. He believed the state should work to protect future years from long-term obligation.

Co-Chair Stoltze commented that bonds had an internal discipline and they had to be inherently fair for Alaskan voters to approve. He added that the governor could not "cherry pick" or veto certain sections. He opined that perhaps spending would even be restrained less than it would have been through other spending vehicles.

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Representative Doogan asked whether the bond issuance cost would come out of the general fund. Ms. Rodell replied in the affirmative.

Representative Doogan wondered whether the issuance cost was the only cost that tax payers were responsible for. Ms. Rodell answered that outside of the issuance cost, the only other cost was associated with principle and interest; the costs were amortized over the life of the debt.

Representative Doogan queried the total cost of existing bonds. Ms. Rodell replied that there were \$628 million in outstanding principal. She asked for clarification on the question.

Co-Chair Stoltze clarified that the question related only to G.O. bonds.

Representative Doogan verified that he was interested in the current cost of existing G.O. bonds. Ms. Rodell would follow up with the information.

Representative Doogan noted that the current \$350 million was likely to increase. He asked for verification that if the state's total indebtedness was \$670 million that 50

percent would have been added to the debt total. Ms. Rodell responded in the affirmative.

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Representative Joule wondered how high the state was willing to go related to a bond package with the understanding the legislature would have an interest. He observed that the governor recognized needs of the state through legislation and that negotiation would occur with the state's upper tolerance level in mind.

KAREN REHFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, replied that the governor had indicated there was room for between \$50 and \$75 million. She believed there was also sensitivity to what the voters felt comfortable approving.

Representative Joule referred to talk about "one-third, one-third, one-third."

Co-Chair Stoltze pointed to the fiscal note that included a sale schedule.

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Representative Edgmon wondered whether the bond package had been directed at "shovel ready" projects.

Ms. Rehfeld answered that the projects were in various stages; some were more shovel ready than others. She explained that the timing of the bond sales would depend on where the projects' stood. She pointed out that none of the projects would be fully funded for specific phases and it would be important for the projects to be able to reach completion with the help of other financing options. She restated that the bonds were not designed to fully fund the projects.

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Co-Chair Thomas believed that community projects partially funded by bonds would need additional funding in the future. He wondered why the projects would not be fully funded with bond money, given his belief that it would be less expensive than using general funds.

Ms. Rehfeld responded that there were different funding opportunities for each project and some were working with the Alaska Industrial Development and Export Authority (AIDEA).

Co-Chair Stoltze remarked that it was not necessary to get into detail on specific projects during the meeting. He thought there were pros and cons to fully funding projects all at once. He noted the issue would be dealt with as a policy that was presented in the budget and without it the construction of the capital budget would be different given that holes would be created. Ms. Rehfeld agreed and believed the governor had put the bill forward to work with the legislature on developing infrastructure along Alaska's coastline.

Vice-chair Fairclough asked how much bond debt the state typically had relative to the \$627 million debt. She relayed that the legislature had been working to pay down debt during her time in office. She asked for a historical five to ten year perspective. Ms. Rodell replied that the state had a past history of not issuing bond debt.

Co-Chair Stoltze pointed to bonds used in 2002, 2008, and 2011.

Ms. Rodell continued to reply and explained that there was \$197 million in voter approved authorized unissued debt for education; before the debt was issued the Department of Education and Early Development would have to show that it was prepared to spend the money during the three-year time frame. The \$628 million was more than the state had historically had on its books, given that the state had a long period of no G.O. debt issuance.

Co-Chair Stoltze explained that there had been securitized loans and revenue bonds on the books and that the G.O. bonds had been present during the past three elections; he noted his preference for the approach, given its inclusion of voters.

Vice-chair Fairclough noted that Standard and Poor's (S&P) had recently upgraded the state's credit rating to AAA. She pointed to the fiscal note that showed an expected blended rate of 2.35 percent on the \$350 million debt. The CBR was currently yielding 3.4 percent and the CBR subaccount had a 6.85 percent rate of return. She surmised that there would

be a net gain to Alaskans. She discussed that small communities may not have the ability to come up with matching funds that the administration may want. She wondered how the bond market would look at the state's fiscal structure of \$16 billion per year. She referenced the decline in production that had been offset by the high production value.

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Ms. Rodell answered that rating agencies would primarily be concerned about the state's plan to repay debt, but they would not put a cap on the state's debt issuance. She communicated that the state had traditionally structured its debt very conservatively and it worked to limit debt to 20 years or less. The state worked to actively manage and take advantage of current markets and had been able to frontload a significant portion of the debt, to keep near-term debt service constant, and offer relief in FY 22 through FY 24 by over \$10 million per year. She believed agencies would look at all of the state's financial obligations including the unfunded liability for the Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS). Agencies would also look at steps Alaska was taking to manage the obligations, to increase revenues, and to hold budgets back in declining revenue years. She expounded that Alaska had a good history of showing fiscal restraint when revenues were not meeting expectations.

Vice-chair Fairclough discussed the PERS and TRS unfunded liability. She surmised that the state was able to move within the current range, maintain its AAA rating with Moody's and S&P, and go forward carrying debt without too much of a burden on the current operating budget. Ms. Rodell agreed.

Co-Chair Stoltze believed the governor would communicate his views on the appropriate debt cap.

HB 286 was HEARD and HELD in committee for further consideration.

#hb285

HOUSE BILL NO. 285

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

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KAREN REFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, discussed that HB 285 was incorporated in the budget books and in subcommittee work for the operating and capital budgets. The bill was a collaborative effort between the Alaska Mental Health Trust Authority (AMHTA), AMHTA beneficiary groups, and state agencies (Department of Administration, Department of Corrections, Department of Education and Early Development, Department of Health and Social Services, Department of Labor and Workforce Development, Department of Natural Resources, Department of Revenue, University of Alaska, and the Court system); it provided a comprehensive look at programs and services for AMHTA beneficiaries. The total budget was \$249,376,500; the operating component was \$236.5 million and the capital component was \$12.9 million. Unrestricted general funds made up \$212.4 million, designated general funds were \$20.1 million, and other funds represented \$16.8 million.

Ms. Rehfeld relayed that AMHTA settlement income account funds were zero based. The trust operating funds from the current year were reversed and built back in dependent upon the trust's recommendation; the trust budgeted on a two year cycle. Letters that included AMHTA recommendations and the governor's budgeted items were included in a letter in member's packets.

HB 285 was HEARD and HELD in committee for further consideration.

#hb307

HOUSE BILL NO. 307

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

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KAREN REFELD, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, discussed that she would provide an overview of HB 307 and would highlight supplemental budget items on a spreadsheet titled "FY 2012 Supplemental Requests" (copy on file).

Ms. Rehfeld discussed that the FY 12 proposed supplemental budget totaled \$97,236,400. She provided a breakdown of the total:

Unrestricted General Funds	\$78,514,700
Designated General Funds	(\$2,350,600)
Other Funds	\$4,810,000
Federal Funds	\$16,271,300

Ms. Rehfeld explained that within the supplemental request agency operations totaled \$38.9 million; \$30.4 million was general fund. The request included:

Fire Suppression	\$4.9 million
Disaster Relief	\$3.0 million
Formula - Adult Public Assistance	\$2.6 million

Ms. Rehfeld relayed that the capital supplemental for emergency repairs and projects that were ready to go to bid during the upcoming summer totaled \$20.4 million; \$10.1 million was general fund. The bill included two significant settlements: (1) a \$20 million settlement was reached with the Department of Law for the Optional Retirement Program \$20.0 million; and, (2) an \$18 million settlement was reached with the Department of Education and Early Development for the Moore case. She explained that the bill had 18 sections.

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Ms. Rehfeld pointed to items 4 through 7 related to Department of Commerce, Community and Economic Development (DCCED) (page 1 of the spreadsheet). She detailed that there had been challenges with the Corporations, Business and Professional Licensing (CBPL) Division fee structure

and how it had charged various programs for indirect and other activities. The division had been working to capture what some of the problems had been for the past several years. Item 6 was the largest item and related to an adjustment for licensing fees:

Corporations, Business and Professional Licensing:

Adjustment for Licensing Fees - Fund source change from professional licensing receipts (receipt supported services) to the general fund to reimburse the professions for historical indirect cost overpayments that were associated with the Business License and Corporations programs. This is a one-time fund change.

General Fund Receipt Supported Services \$0.0

Ms. Rehfeld expounded that the professional licensing fees were supposed to be self-supporting; however, as the charges were incorrectly tagged to certain boards the fees had gone up. The one-time change would allow the fees to carry forward into the upcoming year, which would help smooth cost increases over time. Other CBPL items were related to indirect charges associated with support for professional licensing boards. She believed legislative subcommittees would spend a substantial amount of time on the issues.

Co-Chair Thomas pointed to page 1, item 2 related to the Public Defender Agency (PDA) under the Department of Administration. He pointed to the backup materials (Section 1, page 2) and asked about the \$125,000 for a new lease remodel for Kotzebue and an additional \$150,000 for "other anticipated but unbudgeted maintenance." He opined the items should have been in the FY 12 budget.

Ms. Rehfeld agreed. She explained that the administration had worked hard in the past several years to avoid not budgeting and using the supplemental to fall back on. She detailed that the budgets for the Office of Public Advocacy (OPA) and the PDA had been among the most difficult budgets because the administration had not been able to address the increasing caseloads in a reasonable way. Work was underway to determine a better way to budget for the two agencies in the future.

Co-Chair Thomas wondered whether the \$45,000 for an unbudgeted computer upgrade was for more than one computer. He repeated his concern about unbudgeted items.

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Ms. Rehfeld replied that the PDA item would be detailed further during the subcommittee process.

Representative Gara asked about a \$244,000 increase for support for CBPL boards and commission members (page 1, item 4 on the spreadsheet). He wondered why the amount had been increased by 75 to 80 percent from the prior year.

Ms. Rehfeld replied that the professional licensing boards were supposed to be self-sufficient; however, because of some business accounting challenges the state had not been able to track expenses to the right boards. She believed that the bill and the FY 13 budget tried to correct the issue through the fees paid by the boards.

Representative Gara remarked that it was fine if the amount reflected reimbursement to boards that had put the funding in; however, he was concerned if the money was additional.

Representative Joule referred to page 1, item 9 associated with Department of Corrections (DOC) community jails. He wondered how the \$600,000 was broken out between the 15 community jails. The administration had brought forward \$190,000 for the Kotzebue community jail the prior year; money had been moved around within the line item and the Kotzebue jail had been shorted by approximately \$125,000. He asked whether the item included funds to cover the jail.

Ms. Rehfeld believed there was a specific line item that covered the Kotzebue jail. She relayed that DOC had scheduled a meeting with the jail to discuss reopening; some of the funds in item 9 would help with the reopening. The item would be considered for the amended budget as well. Part of the issue related to how community jails were funded; the department was working to come up with a blended per bed rate to allocate funding to avoid the situation that had occurred when the jail had closed.

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Vice-chair Fairclough communicated that according to the backup the Kotzebue jail was scheduled to reopen on February 1, 2012. She wondered whether the facility had reopened. Ms. Rehfeld replied in the negative. She restated that DOC was scheduled to meet with the jail to discuss reopening.

Vice-chair Fairclough asked about a \$75,000 budget item related to dispatching services for Kotzebue. Ms. Rehfeld replied that the item was for the Department of Public Safety (DPS) and was not related to the Kotzebue jail.

Vice-chair Fairclough observed that the dispatch services had been paid for in matching funds previously, but would be charged to the state under the proposed budget.

Ms. Rehfeld informed the committee that there was a DPS request for transportation during the time the Kotzebue jail was closed.

Ms. Rehfeld pointed to page 2, item 10 for the Department of Education and Early Development (DEED):

Student and School Achievement:

Comprehensive System of Student Assessments Contractual Costs: this additional funding is needed to accommodate the negotiated contract for the Comprehensive System of Student Assessments. The FY 2013 Governor's budget includes an additional \$750.0 for modified contract terms.

General Fund \$1,000.0

Ms. Rehfeld elaborated that an increase in the FY 13 budget had been included for standards based assessments.

Representative Wilson believed that funding had not been included for the standards-based assessments for a couple of years and that the item made up for the error. Ms. Rehfeld believed the funding was for existing contract increases. She deferred the question to DEED for follow up.

Representative Wilson had received a different response from DEED. Ms. Rehfeld replied that they would follow up on the question later.

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Ms. Rehfeld highlighted Department of Health and Social Services (DHSS) items 14 through 16 on page 2:

Item 14

Adult Public Assistance:

Adult Public Assistance Caseload Growth - Increased program enrollment, particularly in the disabled and blind category - tied to the dramatic growth in the Alaska senior population. A \$6,075.0 increment is included in the FY 2013 Governor's budget.

General Fund \$2,600.0

Item 15

Energy Assistance Program:

Low Income Home Energy Assistance Program (LIHEAP) and Alaska Affordable Heating Program for the state based on projected needs. The impact of this supplemental request is being considered for a FY 2013 budget amendment.

General Fund \$928.7

Item 16

Energy Assistance Program:

Low Income Home Energy Assistance Program (LIHEAP) and Alaska Affordable Heating Program for Tribes based on projected needs. The impact of this supplemental request is being considered for a FY2013 budget amendment.

General Fund \$1,691.6

Representative Edgmon asked whether the public assistance item had been included to meet increased caseload demand and expected federal shortfalls.

Ms. Rehfeld replied that item 14 was based on increased demand. There was also contingency language that was dependent on the amount of federal funding that would be provided. The item was designed to fill the shortfall in

the projection for the remainder of the fiscal year. She expected to receive updated numbers in the future.

Ms. Rehfeld pointed to page 3, item 23 related to the Department of Law:

Oil, Gas and Mining:

Oil and Gas Outside Counsel - Increased litigation costs for oil and gas outside counsel attributable to three types of cases: tariff proceedings; Trans Alaska Pipeline System (TAPS) property tax proceedings; and oil and gas royalty issues. An increment of \$6,150.0 is included in the FY2013 Governor's budget and is based on anticipated caseload.

General Fund \$3,116.0

Ms. Rehfeld discussed item 25 for the Department of Military and Veterans Affairs (page 3):

Office of the Commissioner:

Base Realignment and Closure Commission Impact - Department of Defense Secretary Leon Panetta has announced that the plan to cut nearly \$500 billion in the next 10 years from the Department of Defense budget will impact all 50 states and a Base Realignment and Closure Commission (BRAC) will be requested of Congress to address facility reductions as soon as possible. The U.S. military's presence in Alaska represents 10% of the state's economy. The Alaska Military Force Advocacy and Structure Team (AMFAST) recommends the State of Alaska hire an experienced consulting group to address ideas proposed by the next BRAC. This request will promote and sustain Alaska's current military facilities and force structure. The impact of this request is being considered for a FY2013 budget amendment.

General Fund \$300.0

Co-Chair Thomas remarked that a resolution passed by the Senate discouraging the closure of military bases in Alaska had left out Coast Guard bases. He stressed that Coast Guard bases were very important to rural and Southeast Alaska and would be included in the House resolution.

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Representative Gara referred to the \$3 million outside counsel appropriation (page 3, item 23). He opined that it was less expensive to hire in-house counsel for research memos, briefings, and other. He wondered why the state should pay more money for outside counsel when the work could be done in-state.

Ms. Rehfeld replied that there were excellent attorneys doing great work in the areas that needed assistance on some of the important larger ongoing cases. She relayed that it was possible for some of the work to be done by a line attorney if the state was willing to bring on additional employees; however, that was not the approach that had currently been taken. The item had been on the administrations list to include in the operating budget each year, but a supplemental request was usually required.

Representative Gara noted that he had worked on the Exxon Valdez oil spill case and the state had hired outside counsel at that time as well. He explained outside counsel had done work that should have been done in-house. He believed that administrations had used outside counsel to keep the state employee count down, but it actually cost the state more money.

Co-Chair Thomas commented that sometimes the state needed to hire former state attorneys who had done significant work on specific cases in order to gain their expertise.

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Ms. Rehfeld flagged Department of Natural Resources item 35 (page 4):

Fire Suppression Activity:

FY2012 Fire Suppression Activity - This is a preliminary estimate of supplemental needs for spring

firefighting and costs of initial attack of wildland fires through June 30, 2012.

General Fund \$4,892.5

Ms. Rehfeld directed attention to page 5, item 38 for DPS Alaska State Trooper detachments:

Replace Federal Pass through Funds from Alaska Highway Safety Office - The Alaska Bureau of Highway Patrol will no longer receive federal funds for non-DUI related traffic enforcement. In order to maintain traffic enforcement to include non-DUI specific activity, such as impaired driving, youth drivers, aggressive driving and speeding, and seat belt enforcement, supplemental funding is necessary as the current budget cannot absorb these costs. Additional federal funding reductions are anticipated for DUI-related traffic enforcement starting in FY 2014. The impact of this supplemental request is being considered for a FY 2013 budget amendment.

General Fund \$1,900.0

Ms. Rehfeld expounded that the Department of Transportation and Public Facilities (DOT) would continue to receive federal highway safety funds, but the amount of funds related to driving under the influence (DUI) would be less. She noted that the issue would continue to be monitored, given the importance of ongoing DUI and non-DUI related enforcement on the highway safety corridors.

Representative Doogan surmised that the federal government had discontinued funds and the state had become responsible for funding items with general fund money. Ms. Rehfeld responded in the affirmative. She clarified that continued work would not be funded through the specific highway safety grant.

Representative Doogan wondered whether an evaluation had been made to determine whether the items should be continued or lapsed. Ms. Rehfeld replied that the governor considered the issues and had brought forward items that warranted ongoing work.

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Representative Joule pointed to item 37 on page 5 in the amount of \$106,000 for DPS jails and prisoner transportation. He did not know what time period had been used or whether there had been earlier expenses. He pointed to a \$75,000 expenditure (item 36) and wondered how much the items would end up costing the state; he thought costs could have been saved. He discussed the difficulties related to transportation of prisoners from rural areas, many of which did not have holding facilities. He believed the state was beginning to realize that it had had a good deal. He hoped that a deal between Kotzebue and the administration could be settled.

Ms. Rehfeld agreed. She understood that progress had been made and the administration hoped for a positive outcome.

Co-Chair Thomas remarked that the seatbelt law had been implemented because the federal government would pay for the enforcement. He wondered whether the law would be repealed if the federal funding was taken away. Ms. Rehfeld answered that item 38 did not relate to seatbelt enforcement, which was attached to a different federal highway safety funding stream.

Vice-chair Fairclough referred to bad weather conditions in Eagle River and Anchorage that had resulted in road closures and stranded drivers. She wondered whether substantial funds had been included for highway safety. She was concerned that residents would have been unreachable in emergency situations. She understood that DOT was working to stay on top of the issue. She pointed to two appropriations for \$100,000 apiece for sanding and snow removal and wondered whether the amount was enough.

Ms. Rehfeld responded that DOT would do what was needed to protect the safety of citizens. She expected the numbers would be refined during session to account for disaster relief.

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Representative Neuman was concerned that the long-term programs (e.g. item 38) that had been funded by the federal government in the past almost became embedded in the operating budget. He wondered whether there was a way to identify federal funds that were not coming or if the state was backfilling them with general funds.

Ms. Rehfeld replied that the administration worked with the departments to identify what they knew looking forward; typically the reductions and timing were not known very far in advance. She explained that the co-chair had requested a look-back on federal funds that could be identified as going away. The issue also involved funds that had gone directly to institutions, organizations, or communities; there would be pressure for the state to look at the items to determine whether it should continue them. She pointed to the DPS DUI enforcement federal grant change that specified allowable and unallowable costs as an example of an issue the state would need to address.

Representative Neuman was interested in a ten-year forward plan that showed which federal funds the state would not receive. He believed there were many important non-state items that the state could become overloaded with when funding was lost.

Ms. Rehfeld moved to DOT item 50 on page 6:

AIA Field and Equipment Maintenance:

Purchase De-icing Chemicals - In FY2011, the cost per ton of urea increased from \$342 per ton to \$719 per ton. Also, the airport has commissioned a third new tank for potassium acetate in order to mitigate continuing supply shortages. An increment of \$1,634.5 has been included in FY 2013 Governor's budget.

International Airport Revenue Fund \$1,634.5

Ms. Rehfeld looked at item 52, page 6 related to the University of Alaska:

Anchorage Campus:

Federal Receipt Authority for Pell Grants - Additional federal receipt authority is needed to accommodate the increases in Pell grant activity. A related FY 2013 budget amendment is also being considered.

Federal Receipts \$5,000.0

Ms. Rehfeld directed attention to capital items; there were several items that were emergency in nature or could go to

bid during the upcoming summer if the funding authority was moved up. She highlighted a DOC Yukon-Kuskokwim Correctional Center Dorm Renovation Project for Bethel (item 55, page 7):

This project is necessary to replace capital funding that was redirected from other projects to address an emergency with overcrowding at Yukon-Kuskokwim Correctional Center (YKCC). The YKCC Dorm Renovation Project adds 28 additional bunks, increasing the offender housing capacity to 193.

General Fund \$1,284.5

Ms. Rehfeld furthered that DOC had used deferred maintenance funds that had been slated for other projects in order to complete the work; therefore, item 55 would provide the department with replacement funds. She looked at item 57 on page 7 that funded \$1.1 million for a Kenai River parcel purchase from the Exxon Valdez Oil Spill Settlement (EVOSS) trustee council. The purchase would provide public access to the river.

Co-Chair Thomas thought EVOSS funds were only designated for oil damaged properties. Ms. Rehfeld explained that the EVOSS council had recommended the fund source for the Kenai land purchase. She could not speak to the requirements of the EVOSS funding.

Co-Chair Thomas thought follow up on the item was necessary.

Ms. Rehfeld pointed to DOT items 59 and 60 on page 7:

Item 59

Alaska Marine Highway System - Cordova Dock Emergency Repairs - The existing float system of the Cordova Dock needed emergency repairs in the fall of 2011.

General Fund \$1,200.0

Item 60

Alaska Marine Highway System - Vessel and Terminal Overhaul and Rehabilitation - Vessel and terminal overhaul and rehabilitation is primarily used to meet and maintain United States Coast Guard requirements and obtain Certificates of Inspection (COI) necessary

to operate the vessels. Total spending this year is slightly higher than previous years due to the one-time \$1.2M propeller shaft strut replacement work required by the Malaspina in order to clear a pending CG-835 No-Sail order which was about to expire.

General Fund \$5,455.0

Ms. Rehfeld relayed that in the past several years \$7 million to \$8 million had been included annually in the budget for overhaul work on state ferries.

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Vice-chair Fairclough wondered which project had excess funds that had been redirected to fund the Bethel Yukon-Kuskokwim correctional facility (item 55, page 7).

Ms. Rehfeld replied that the deferred maintenance money had been diverted from other projects in order to address immediate emergency overcrowding in the correctional facility; the funding would allow DOC to complete the projects that had been shorted funds.

Vice-chair Fairclough asked why the Kenai River parcel purchase (item 57) had not been included in the FY 13 capital budget.

Ms. Rehfeld answered that there were a number of items that Department of Natural Resources (DNR) needed to complete in order to purchase the property and prepare the boat launch; DNR felt that more work could be done on the boat launch if the funds were allocated sooner.

Ms. Rehfeld explained that several items on page 8 had been moved to the supplemental budget in order to allow projects to go out to bid during the current spring. She highlighted several capital items:

Item 68

Nome - Runway 10-28 Rehabilitation - This project will rehabilitate, repave and repaint the settled area on the main runway of the Nome Airport. Repair of the settled area has become a high priority safety concern. The project will advertise for construction bids in April 2012 with a schedule for completion by fall of 2012.

Federal Receipts \$3,900.0

Item 69

Unalaska - Runway Safety Area and Pavement Rehabilitation - This project will construct a runway safety area, runway extension, airport lighting and drainage improvements, other minor repairs, and address poor pavement conditions at the Unalaska Airport. In order to utilize the upcoming construction season and not have to wait another 12 months, authorization is needed before July 1.

Federal Receipts \$3,000.0

Item 71

Anchorage Metropolitan Area Transportation Solutions (AMATS) - Glenn Highway Trail Rehabilitation - This project will resurface the existing Glenn Highway trail between Muldoon Road and North Birchwood Loop, construct a wayside at milepost (MP) 8.6, pave existing parking area at the westbound weigh station, replace the existing pedestrian bridge over Ship Creek (bridge #1402), construct minor realignment of the pathway at the Muldoon Interchange, and upgrade any curb ramps not meeting ADA guidelines. In order to utilize the upcoming construction season and not have to wait another 12 months, authorization is needed before July 1.

Federal Receipts \$2,340.0

Ms. Rehfeld directed attention to page 9 that included Department of Law (DOL) judgments and settlements. She provided detail on the Moore settlement that focused on helping low performing districts to achieve success (item 79). The \$18 million would be used over a five-year period and a committee would be appointed (that would include DEED) to design how the funds would be used.

Co-Chair Thomas wondered whether funds for non-performing schools could be removed from the operating budget, given the \$18 million allocation in the supplemental budget.

Ms. Rehfeld replied that the funds in the supplemental were specific to a legal settlement. She deferred the question to DOL for follow up.

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Representative Wilson relayed that they [Education Subcommittee] were meeting with the attorney general to determine what the state could and could not do. She wondered why the Moore settlement funds had been allocated all at once if they were to be spent over a five-year period.

Ms. Rehfeld replied that the decision may have been part of the settlement negotiation.

Representative Wilson would follow up on the issue.

Ms. Rehfeld referred to page 9, item 80. She detailed that the backup materials included a complete list of judgments and claims. Item 80 was the largest and related to the optional retirement system for university professors and a change in the Teachers' Retirement System (TRS) employer contribution rate:

Judgments and Settlements - Actual judgment and settlement costs received as of January 30, 2012

General Fund \$20,770.8

Ms. Rehfeld discussed the supplemental request for disaster relief; it was hard to predict the level of funding needed (item 87). The item factored in expectations based on fall and winter storms and potential spring flooding and other:

Supplemental Disaster Funding - Current disasters are expected to exhaust the available general funds in the Disaster Relief Fund. In addition to fall and winter storms, traditionally there are springs floods that have been eligible for expenditures from the Disaster Relief Fund. The impact of this supplemental request is being considered for a FY2013 budget amendment.

General Fund \$3,000.0

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Ms. Rehfeld pointed to ratifications on page 10. Items 97 through 99 reflected precise dollar amounts; funds for fire suppression activity (item 97) were \$36,388.

Representative Costello looked at a DNR item related to the gas pipeline project (page 9, item 85) that included zero funding. She asked for an explanation on the item that appeared to be a statute related change.

Ms. Rehfeld explained that the item related to ongoing Alaska Gasline Inducement Act (AGIA) efforts under DNR and extended the lapse date on a previous appropriation. She would follow up with the estimated amount.

Representative Neuman wondered whether the item 85 was a reappropriation of a prior supplemental. Ms. Rehfeld responded that some of the AGIA appropriations were classified as a "multi-year operating"; the administration followed up to provide an estimate of available funds that would allow items to continue into the next fiscal year. She would follow up with more detail.

Vice-chair Fairclough commended DOL for resolving multiple legal cases that had been ongoing.

#  
ADJOURNMENT

[3:31:46 PM](#)

The meeting was adjourned at 3:31 PM.