

**ALASKA STATE LEGISLATURE**  
**SENATE STATE AFFAIRS STANDING COMMITTEE**

July 19, 2011  
9:07 a.m.

**MEMBERS PRESENT**

Senator Bill Wielechowski, Chair  
Senator Joe Paskvan, Vice Chair  
Senator Kevin Meyer

**MEMBERS ABSENT**

Senator Albert Kookesh  
Senator Cathy Giessel

**OTHER LEGISLATORS PRESENT**

Senator Linda Menard  
Representative Mike Hawker  
Representative Sharon Cissna  
Representative Paul Seaton - via teleconference

**COMMITTEE CALENDAR**

Presentations on ways to increase efficiency and effectiveness  
of Alaska's state government

- HEARD

**WITNESS REGISTER**

CURTIS THAYER, Deputy Commissioner  
Department of Commerce, Community and Economic Development  
Anchorage, AK

**POSITION STATEMENT:** Presented ways the department could find  
efficiencies.

DANIEL S. SULLIVAN, Commissioner  
Department of Natural Resources  
Anchorage, AK

**POSITION STATEMENT:** Presented ways the department could find  
efficiencies.

MARK LUIKEN, Commissioner  
Department of Transportation and Public Facilities  
Anchorage, AK

**POSITION STATEMENT:** Presented ways the department could find efficiencies.

BRUCE TANGEMAN, Deputy Commissioner  
Department of Revenue  
Anchorage, AK

**POSITION STATEMENT:** Presented ways the department could find efficiencies.

JERRY BURNETT, Deputy Commissioner  
Division of Treasury  
Department of Revenue  
Juneau, AK

**POSITION STATEMENT:** Presented ways the department could find efficiencies.

JOHN SPALDING, representing himself  
Anchorage, AK

**POSITION STATEMENT:** Testified that legislators should forget about buying property in downtown Anchorage and instead move their offices to the airport.

BREEHIA MITCHELL, representing herself  
Juneau, AK

**POSITION STATEMENT:** Provided a personal example illustrating inefficiency in state government.

LYNN WILLIS, representing himself  
Anchorage, AK

**POSITION STATEMENT:** Suggested the Legislature vet the budget during the Interim.

BARBARA WINLKEY, representing herself  
Anchorage, AK

**POSITION STATEMENT:** Provided examples of waste, including special legislative sessions.

JERRY LAVINE, representing himself  
Anchorage, AK

**POSITION STATEMENT:** Testified that the Legislature was one of the inefficiencies of state government.

PAUL D. KENDALL, representing himself  
Anchorage, AK

**POSITION STATEMENT:** Testified that more meetings of this type were needed to provide time to go into detail and settle problems or gripe about government in a constructive manner.

BARBARA LESSMEIER, representing herself  
Anchorage, AK

**POSITION STATEMENT:** Described inefficiencies in the state run job centers in Anchorage.

LEWIS DAVIS, representing himself  
Anchorage, AK

**POSITION STATEMENT:** Testified that he's seen lots of waste in state government and believes that many state employees are overpaid.

JOHN FARLEIGH, representing himself  
Anchorage, AK

**POSITION STATEMENT:** Testified that the state could be more efficient if it developed its own healthcare system.

THERESA OBERMEYER, representing herself  
Anchorage, AK

**POSITION STATEMENT:** Encouraged all legislators to travel to Norway to look at that permanent fund.

#### **ACTION NARRATIVE**

[9:07:10 AM](#)

**CHAIR BILL WIELECHOWSKI** called the Senate State Affairs Standing Committee meeting to order at 9:07 a.m. Present at the call to order were Senators Menard, Meyer and Chair Wielechowski.

#### **Presentations on ways to increase efficiency and effectiveness of Alaska's state government**

CHAIR WIELECHOWSKI said the committee would hear presentations from the commissioners of the departments of commerce, natural resources, transportation, and revenue on efficiencies and effectiveness in state government. He noted that a core responsibility of legislators is to ensure that public dollars are spent wisely. From time-to-time it's necessary to step back to assess whether or not there are more efficient and effective ways of accomplishing this task.

CHAIR WIELECHOWSKI related that earlier this year the Institute of Social and Economic Research for the University of Alaska Anchorage (UAA) reported that Alaska's current level of spending was not sustainable. The report noted that oil production, which is the base of state government, is in decline. It is therefore time, while the revenue stream is strong, to look at state

government programs and services and consider new ways to harness technology to serve Alaskans more effectively and extend the reach of the state budget. He encouraged Alaskans to submit their ideas on accomplishing this task on the website: [stateofAlaska.aksenate.org](http://stateofAlaska.aksenate.org).

CHAIR WIELECHOWSKI explained that each of the commissioners were asked to describe three to five ways that the efficiency and effectiveness of their department could be improved and to identify any statutory changes needed to implement the suggested improvements.

CURTIS THAYER, Deputy Commissioner, Department of Commerce, Community and Economic Development (DCCED), stated that he would speak on behalf of the department today because Commissioner Bell was delayed after touring the Healy Clean Coal Plant.

9:10:18 AM

MR. THAYER stated that DCCED has the constitutional responsibility to review community activities, collect and publish local government information, and assist local government in managerial functions. This is accomplished by promoting healthy economies and strong communities. DCCED is committed to knocking down barriers to increase communication and efficiency.

DCCED regulates banking and securities, corporations through professional and business licensing, the insurance industry, and public utilities through the Regulatory Commission of Alaska (RCA). DCCED assists local governments and unincorporated communities with grants, technical assistance, financial and utility management, and planning and energy management, primarily through the Division of Community and Regional Affairs. DCCED has programs aimed at key economic sectors such as electrical power generation through the Alaska Energy Authority (AEA), tourism, mining, fishing, and aerospace.

MR. THAYER said DCCED used \$12 million that was in the capital budget to conduct a marketing program for the state in lieu of a qualified trade association. DCCED is working with ATIA to look for a good governance structure and the ideal marketing structure. To date they have assumed five contracts.

DCCED is working with other departments to leverage the state's current investments in agriculture, mining, seafood, tourism, forest products, film, and other industries. This cohesive

approach provides a broad perspective to partner for media outreach and to respond to trade and consumer inquiries.

9:14:01 AM

MR. THAYER said DCRA staff and the Division of Administrative Services were proactive in developing efficiencies, which made it possible to immediately send revenue-sharing checks to communities once the bill became effective on July 1. That high bar is expected to continue. Streamlining the form and turnaround time for grants under \$50,000 is an efficiency that will leave more time to review requirements on million dollar grants. This helps the grant recipient and provides good stewardship of the state's money, he said.

REPRESENTATIVE CISSNA observed that since the Division of Community and Regional Affairs was brought under DCCED about eight years ago, she's seen a disconnect in how communities function and survive in terms of commerce. She asked if DCCED had conversations about bridging that paradigm to ensure that rural Alaska is developed at home where both the resources and people are located.

MR. THAYER replied the conversations are ongoing and perspectives differ. Since the Legislature combined the two departments to form the current DCCED, some people have said there is too much focus on commerce and others believe there is too much focus on rural Alaska. The DCCED perspective is that there can never be too much emphasis on either. He explained that the director of DCRA is a 27-year employee who is very involved in rural Alaska. He brought the idea of expedited revenue sharing forward and now it's a department priority. DCCED provides regional assistance through the legislatively established Alaska Regional Economic Assistance Program known as the ARDOR program to provide economic hubs statewide. DCRA now travels to rural Alaska more frequently to identify problems. For example, the community of Newtok worked with DCRA, DOTPF and the military to relocate out of a flood plain to a nearby area. This was a community-driven program and those opportunities exist across rural Alaska. The department is also working on the Connect Alaska project to conduct a broadband inventory of rural areas.

9:20:15 AM

DCCED is working with the Department of Transportation and Public Facilities (DOTPF) and the Department of Military & Veterans Affairs (DMVA) to encourage filming at Kulis Air Force

Base. A bill making its way through the House provides an incentive to film in rural Alaska.

Forty five states have a research and development tax credit to attract business and encourage it to stay. Alaska does not offer an R&D tax credit, but perhaps it should for the business community.

CHAIR WIELECHOWSKI recognized that Representative Hawker was in the audience.

[9:22:03 AM](#)

MR. THAYER said DCCED has also worked on revolving loan funds to help coastal communities in rural Alaska develop a shellfish industry. This type of program has been very successful in Canada. Another revolving loan fund is working to bring 300 commercial charter fishing operators back to work after being forced out of the charter industry due to federal regulations. The department wants Alaskans to own and operate charter boats. A third bill making its way through the process provides small loans, up to \$35,000, for small businesses struggling to operate. The banking association supports these bills because they don't compete with the private sector.

SENATOR PASKVAN joined committee.

MR. THAYER said DCCED did an inventory and found it had 25 outstanding pending regulations. All division directors were asked to review those and several have since been closed. The ones that need to move forward are being implemented into regulation.

SENATOR MENARD asked for examples of pending regulations that were closed.

MR. THAYER replied many of the older ones were with the Regulatory Commission of Alaska (RCA) dealing with electrical utilities and purchasing power agreements. He noted that some regulations for corporations haven't been updated for 30 years. The department is currently working with corporations to identify the process for complaints. That is out for a 30-day comment period. After that is complete they'll look further at the regulation package within the Division of Banking and Securities.

[9:25:46 AM](#)

CHAIR WIELECHOWSKI asked if legislation was needed to help the department become more efficient.

MR. THAYER replied he didn't have anything to suggest with regard to regulations but there is an issue with the travel budget for the 20 boards under the Division of Corporations, Business, and Professional Licensing. The various boards have projected a \$550,000 travel budget but the division only has \$275,000 to allocate to board travel.

[9:28:50 AM](#)

CHAIR WIELECHOWSKI asked if there's a reason that only nine programs within this division offer online licensing renewal.

MR. THAYER replied the division is trying to implement online license renewals for all boards.

SENATOR MENARD asked if DCCED is looking at consolidation to limit the number of boards.

MR. THAYER replied it's a worthwhile conversation to entertain with the Legislature.

[9:31:33 AM](#)

CHAIR WIELECHOWSKI asked if it's possible to use video conferencing or Skype for at least some of the meetings.

MR. THAYER replied video conferencing is done when possible, but some boards are required to meet in person. He added that he would look into whether those requirements are statutory or regulatory.

REPRESENTATIVE CISSNA questioned why there should be such a requirement when technology has taken such leaps and the state has worked so hard to ensure that new technology is used in state government and the Legislature.

MR. THAYER acknowledged that current technology wasn't contemplated when some of the regulations were implemented, but teleconferencing is encouraged whenever possible.

CHAIR WIELECHOWSKI asked if there is potential for the Alaska Office of Tourism and Development to redirect funds so that the 500,000 travel brochures it sends out annually target people that are more likely to visit the state. In some instances the return is as low as one percent.

[9:34:05 AM](#)

MR. THAYER replied it's worth looking at but those measures were made under different commissioners and administrations and it's probably time to develop different and stronger metrics.

SENATOR MENARD asked if he'd had an opportunity to look at the Save Alaska website that Senator Wielechowski mentioned earlier.

MR. THAYER answered no.

[9:35:43 AM](#)

CHAIR WIELECHOWSKI thanked Deputy Commissioner Thayer and announced that Commissioner Sullivan would deliver the next presentation.

[9:35:53 AM](#)

DANIEL S. SULLIVAN, Commissioner, Department of Natural Resources (DNR), thanked the committee for the opportunity to discuss efficiencies. He reminded the members that DNR's mission, which is embedded in the state constitution, focuses on maximizing resource development in the public interest. While the primary source of revenue comes from petroleum development, the department continues to look at the overall and vast resource development potential and it frequently looks at efficiencies and effectiveness.

COMMISSIONER SULLIVAN said he would discuss three areas: permitting, oil and gas leasing, and the GAP analysis regarding oversight of oil and gas activity in the state. He noted that DNR and the Legislature have a good working relationship and that the committee has probably already heard some of the information he will present.

[9:38:46 AM](#)

COMMISSIONER SULLIVAN said he and the Governor agree that the state permitting system could be improved in a number of ways. He noted his office has a "monster" poster board that illustrates the necessary steps with regard to local, state, and federal agencies in order to drill an oil and gas well. The department is looking at that cumbersome process and the backlog of permits that numbered 2,500 last winter. This is unacceptable and it's choking private sector development and jobs, both of which are critically important to the state.

Permitting efficiencies are focused in four areas: 1) ridding the backlog in three years; 2) new hires in mining, land and water; 3) evaluating the current system to improve efficiencies,

timeliness and certainty, then presenting a regulatory and statutory package of changes to the Governor and Legislature; and 4) improving permitting coordination with the federal government.

[9:41:16 AM](#)

SENATOR PASKVAN asked if it is DNR's policy to require permit applicants to pay for department staff travel and expenses in order for permits to be processed.

COMMISSIONER SULLIVAN replied the answer is complicated. The office of large project management and permitting (OPMP) is designed as a one-stop shop for permitting of major projects statewide. It has a single point of contact with representatives from different agencies and is considered to be an efficient model that could possibly be used for federal permitting, particularly for mining on federal lands. Currently the average time to permit a mine on federal land is 8-10 years compared to 2-3 years in Australia. Large companies can choose the OPMP model and those that make that choice pay a fee that relates to funding the OPMP activity. Companies that don't use the OPMP model don't have to pay a fee.

[9:43:29 AM](#)

SENATOR PASKVAN asked what DNR's standard policy is regarding applicants paying for staff travel.

COMMISSIONER SULLIVAN replied he would get back to him with more specifics with regard to questions about travel.

SENATOR PASKVAN said his concern is whether DNR has a sufficient budget to handle the permitting process without having to ask applicants to pay for travel expenses up front. He questioned whether there is a policy applicants can look to in order to know what the entire process will cost.

COMMISSIONER SULLIVAN replied he would get back to him with more details.

REPRESENTATIVE CISSNA said she'd like to see the state diversify from its oil and gas focus. Recalling that 40 years ago there was interest in developing park fringes for recreation, she asked if DNR had looked at featuring tourism and having concessionaires at the parks to attract more people.

COMMISSIONER SULLIVAN replied he told Ben Ellis, the new parks director, that DNR's goal is to make state parks the pride of

all Alaskans. The idea is to think outside the box and focus on public/private partnerships. There are no specific regulations in this regard.

[9:48:33 AM](#)

SENATOR MEYER asked him to comment on the success of the recent Cook Inlet lease and to discuss ideas for expediting the long permitting process.

COMMISSIONER SULLIVAN relied the Cook Inlet lease was successful because the tax structure is very competitive. He noted that the second area of his presentation relates to increasing participation in oil and gas leasing and accelerating development. Cook Inlet provides some examples. The Governor's goal for one million barrels of oil production per day through the Trans Alaska Pipeline System (TAPS) within a decade involves a comprehensive five-part strategy. The fifth part focuses on promoting Alaska. DNR can do a better job in this area than it has in the past, he said.

From a policy perspective there's been some progress, he said. He and the Governor have written letters and spent time in Washington D.C. emphasizing the importance of developing hydrocarbons in Alaska, and the Governor's million-barrel goal complements a goal that President Obama laid out to reduce U.S. oil imports by one-third.

COMMISSIONER SULLIVAN said he's also focused on telling the story about Alaska geology and its potential for oil and gas production. He met with some of the larger companies that bid on the Cook Inlet sale to talk about the lease terms and development potential and the USGS actually confirmed the state's aggressive view.

With regard to accelerating development, he said it's key to balance aggressive lease terms with shorter lag times. The lease terms on the Cosmopolitan Unit were very aggressive and accelerated and that was possible because it was well known that significant quantities of oil were under those leases. In this case DNR struck a decent balance and learned something in the process, he stated.

CHAIR WIELECHOWSKI noted that Representative Seaton was attending via teleconference.

[9:55:08 AM](#)

SENATOR PASKVAN asked what progress the state had made in the review of the terms and conditions for shale oil development in Alaska and the lease that's coming up this fall.

COMMISSIONER SULLIVAN replied DNR has formed an internal task force to look at the unique issues of shale oil development related to leases, terms, unitization, infrastructure, and water usage. He and his team have met with their counterparts in North Dakota on the regulatory issues that that state has had to deal with in an effort to get ahead of them. DNR hopes to be proactive in establishing regulations in order to achieve the goal of facilitating responsible development.

[9:58:46 AM](#)

CHAIR WIELECHOWSKI opined that DNR is a little different than other departments in that it gets what it needs because DNR helps provide 90 percent of the state revenue. He asked if the Legislature could do things to make DNR's permitting process more efficient and to encourage more responsible development throughout Alaska.

COMMISSIONER SULLIVAN said he didn't have specifics, but the goal on permitting would be to have a package of regulatory and statutory changes to present to governor's office and ideally present it to the Legislature next session.

SENATOR PASKVAN asked if permit applications are increasing or stable relative to prior years, and if they're increasing how the Legislature can potentially address the backlog through the budgeting process.

COMMISSIONER SULLIVAN explained that the backlog builds up because DNR is able to handle just 85 percent to 90 percent of incoming applications each year. To get rid of the backlog they'll have to increase that to 100 percent or 110 percent per year. Because of the budget increment, DNR will be able to hire 30 positions in mining, land, and water; 9 positions have been filled and the rest should be filled by September.

SENATOR MENARD asked if DNR hired any of the employees that lost their jobs when the Coastal Zone Management Program shut down.

COMMISSIONER SULLIVAN answered yes; some were hired, some went into other areas of state service, and some are still looking for another job.

CHAIR WIELECHOWSKI asked if there was any area in the department where spending could be reined in or cut.

COMMISSIONER SULLIVAN replied he didn't have specifics, but that's something that's consistently under review.

CHAIR WIELECHOWSKI asked him to coordinate with Michelle Sydeman to keep the committee informed.

REPRESENTATIVE SEATON asked what DNR's policy was with regard to allowing agencies to openly provide information and if the Legislature might have to begin to fund research and analysis independent of relying on the department.

COMMISSIONER SULLIVAN replied he initially told his directors and staff that a big part of their duty was to work closely with legislative offices and everyone has stuck by that commitment.

REPRESENTATIVE SEATON said he was concerned about the May 7 Fish and Game memo on external reviews and the June 10 statement from the Department of Health and Social Services (DHSS) about the change in policy that seems to prevent information gathering or analysis before checking to see that it supports an administration policy position. He asked to be informed if DNR has to change its method of operation with regard to the free flow of information.

COMMISSIONER SULLIVAN added that DNR has been trying to get the federal government to use more of the department's information, particularly in resource development issues.

[10:13:33 AM](#)

REPRESENTATIVE CISSNA said she'd like DNR to increase its use of videoconferencing so that local knowledge gets into the picture, particularly in light of the fact that the Coastal Zone Management Program was shut down. She asked what he's doing to ensure that that voice isn't lost altogether.

COMMISSIONER SULLIVAN said he agrees that local knowledge and input is extremely important. He added that he and his deputy commissioners have been to Barrow a number of times in the last six months, mostly to listen. They'll continue to do that, he said.

CHAIR WIELECHOWSKI thanked Commissioner Sullivan. He welcomed Commissioner Luiken and asked him to tell the committee about three to five ways to improve the efficiency and effectiveness

of the Department of Transportation and Public Facilities (DOTPF) and if any statutory changes would be needed to implement those improvements.

[10:16:22 AM](#)

MARK LUIKEN, Commissioner, Department of Transportation and Public Facilities (DOTPF), said this was one of the topics the DOTPF leadership team undertook in early June. Staff is currently looking at ways to find efficiencies in the maintenance and operation of the department's infrastructure.

CHAIR WIELECHOWSKI asked the size of the department's fuel budget.

COMMISSIONER LUIKEN estimated it was in the millions and offered to follow up to provide the exact number.

CHAIR WIELECHOWSKI mentioned legislation that passed two years ago and asked what progress the department had made to supply the state fleet with natural gas.

COMMISSIONER LUIKEN offered to follow up to provide details on whether or not the department had acquired any vehicles. He said they have learned that much of the fuel usage in state vehicles is spent idling. Where appropriate, they intend to use technology to automatically shut a vehicle off if it has idled more than 10 minutes. That alone could potentially save 30 percent on the fuel bills so that is an efficiency the department plans to implement.

CHAIR WIELECHOWSKI noted that legislation passed several years ago to increase efficiency in 25 percent of public facilities; he asked how much that might save and if he thought more savings might be achieved.

COMMISSIONER LUIKEN replied energy efficiencies are being designed into new structures and while 25 percent is the goal, there will likely be a cost benefit issue in trying to make the older facilities more efficient.

CHAIR WIELECHOWSKI asked if thermostats in public buildings are turned down at night.

COMMISSIONER LUIKEN replied the high efficiency systems are computerized and would be programmed to turn down at night.

CHAIR WIELECHOWSKI asked if automatic lights are used and if computers are turned off at night.

COMMISSIONER LUIKEN replied he hadn't looked at it recently but last year the department provided a report to the Legislature as to what policies would be implemented.

SENATOR MENARD asked if part of DOTPF's strategic planning included looking at what other states are doing to be more efficient.

COMMISSIONER LUIKEN replied he asked the leadership team to find and benchmark best practices from across the U.S.

[10:24:21 AM](#)

SENATOR PASKVAN referenced a slide that indicated that 29 miles of National Highway System (NHS) roads meet department standards and asked how many NHS miles do not meet standards.

COMMISSIONER LUIKEN explained that that was the number of miles that were added to the system in a single year. He added that the slide wasn't part of the presentation; it was an example of what DOTPF is doing to measure its progress.

SENATOR PASKVAN asked if a road that does meet department standards can be maintained more efficiency than if it doesn't meet department standards.

COMMISSIONER LUIKEN said yes.

SENATOR PASKVAN asked what the cost savings would be in terms of lower maintenance if all roads were brought up to department standards.

COMMISSIONER LUIKEN replied that is a good example of other measures the department could take that would ultimately save money.

[10:27:36 AM](#)

CHAIR WIELECHOWSKI asked if there's a way to improve the quality of asphalt to make the roads last longer.

COMMISSIONER LUIKEN replied DOTPF employees that work with materials are continually looking for the right mix to create a lasting surface. But the mix that works in one place won't necessarily work in another part of the state.

CHAIR WIELECHOWSKI asked if they're looking at other northern latitude countries like Sweden and Finland.

COMMISSIONER LUIKEN answered yes.

SENATOR PASKVAN asked if the DOTPF employees that work with materials had coordinated with Fairbanks city employees to look at the application of polymers for Alaska roadways.

COMMISSIONER LUIKEN replied was likely a coordinated effort with DOTPF if the City of Fairbanks was working with the university transportation center.

CHAIR WIELECHOWSKI asked if there's a bottleneck in the process that causes road projects to be delayed year after year. He noted that there are several project delays in his district.

COMMISSIONER LUIKEN replied there would be a partial answer farther along in the brief.

[10:30:35 AM](#)

COMMISSIONER LUIKEN said the slide titled Alaska Highway Trust Fund Receipts shows the total federal aid the state has received for highways since 2004. Looking beyond 2012 indicates that federal funding will be less in the future, perhaps as much as one-third less than in past years.

COMMISSIONER LUIKEN said statehood in 1959, the 1964 earthquake, and the [Fairbanks] flood of 1967 impacted the state's ability to build a transportation plan and infrastructure. Then the Environmental Protection Act passed in 1969 and federal regulations on the development of infrastructure grew exponentially nationwide. As a state, Alaska has been significantly burdened as it has worked through the federal process to develop its infrastructure, he stated.

CHAIR WIELECHOWSKI asked if DOTPF tracks and prioritizes the grants that leverage more federal dollars.

COMMISSIONER LUIKEN said basically yes, but ultimately it's a federal process in which the money comes through FHWA, the Federal-Aid highway funds. That being said, DOTPF is looking at its internal process and regulations in an effort to deliver projects more quickly. They've found that state general funding (GF) is the way to leverage for difficult road projects. This can save upwards of 60 percent on the time it takes to deliver a project and at least a third of the cost of permitting. He

displayed a graphic depicting the cost/time elements for the federal and state processes.

10:33:50 AM

COMMISSIONER LUIKEN said DOTPF is continuing to look at ways to increase efficiencies in the Alaska Marine Highway System and reduce the state contribution. For example, seven vessels use a fuel management system that reduces fuel consumption by as much as 12 percent on long transits and one more vessel will be outfitted with the control. This will result in a meaningful cost savings. A new marketing and reservation system is in process and will increase efficiency by standardizing ticket sales and optimizing routes based on demand. Finally, taking more time to plan and forecast the budget will result in a more accurate schedule prior to the upcoming season.

COMMISSIONER LUIKEN said that finding opportunities for efficiencies was one of the main themes when DOTPF put together its strategic plan. That plan will be posted on the department's website in the next week or so and everyone will be able to see what they're proposing.

10:38:01 AM

SENATOR PASKVAN pointed out that in the Interior the Alaska State Troopers (AST) and the Division of Motor Vehicles (DMV) are housed in facilities that are not handicap accessible. He asked how many other public facilities statewide are similarly inefficient in terms of accessibility.

COMMISSIONER LUIKEN offered to follow up and get the number, but new facilities, vessels, and all renovations are designed to meet federal mandates for handicap accessibility.

SENATOR PASKVAN asked when the public could expect the AST and DMV building to be retrofitted so that it is handicap accessible.

CHAIR WIELECHOWSKI said he too would like that information. He then asked if DOTPF measures the performance of entities that receive public funding to see that the state is getting the most bang for the buck.

COMMISSIONER LUIKEN answered yes; regularly measuring performance is part of the department's mandate and process for both state and federal funding.

CHAIR WIELECHOWSKI asked if anyone is following up on the February 2010 coordinated transportation taskforce recommendation to develop a statewide database to monitor funding and to evaluate effectiveness of state funding projects.

COMMISSIONER LUIKEN answered yes; before his tenure DOTPF asked for and received funding to do that.

[10:42:50 AM](#)

CHAIR WIELECHOWSKI asked if DOTPF has a similar process for harbors as the one it has for classifying roads and identifying maintenance needs.

COMMISSIONER LUIKEN replied he wasn't aware of one, but he would find out and provide a more complete answer.

SENATOR MENARD commented that the people of the MatSu Borough appreciate the attention that's focused on the highway safety corridors.

CHAIR WIELECHOWSKI thanked Commissioner Luiken. He welcomed Deputy Commissioner Tangeman and asked him to tell the committee about three to five ways to improve the efficiency and effectiveness of the Department of Revenue and if any statutory changes would be needed to implement those improvements.

[10:44:16 AM](#)

BRUCE TANGEMAN, Deputy Commissioner, Department of Revenue (DOR), said Jerry Burnett would address the question from the treasury perspective.

[10:45:55 AM](#)

JERRY BURNETT, Deputy Commissioner, Division of Treasury, Department of Revenue (DOR), informed the committee that the Permanent Fund Dividend Division has done a number of things to increase efficiency. Online filing and direct deposits have increased the past several years and last year because of increased automation all the direct deposits and regularly scheduled check payments were made at the same time. This year a phone queue was put in place so that callers can receive an automatic call back when a division employee is available rather than spending time on hold. Because of automation, fewer people work in the division, programs like "Pick. Click. Give." have been added, and there's been time to follow up on more cases in terms of fraud investigation. Employees are also being trained to maintain and improve the system, and hopefully provide more information thereby reducing constituent complaints to

legislators. To improve effectiveness, unsuccessful PFD applicants now get a personal phone call to help solve the problem. This has reduced the number of appeals by 70 percent from two years ago. Some training is needed each year, but improvements and automation are expected to continue.

[10:49:37 AM](#)

MR. BURNETT said about one in five Alaskans is affected by child support. The current system is federally approved and funded with two-thirds federal and one-third state dollars. The Child Support Services Division has begun planning for a new information system, which will take several years to go through the planning and federal approval process. He noted that over the next several years DOR will probably ask the Legislature to invest in this new system.

He said that while the child support caseload has remained relatively flat over the last 10 years, the number of employees has dropped from 339 in 2004 to 228 today. Collections have gone up year-after-year except FY10, and that's because collections were way up in 2009 when the PFD was \$3,200. As technology improves the division could possibly do even better, he stated.

[10:51:56 AM](#)

MR. BURNETT reported that over the past six years the Treasury Division has increased the money under its management from \$20 billion to \$40 billion. In the last two to three years treasury has usually had more money under management than the permanent fund. He predicted that ongoing training, continuing to certify financial analysts, and in-house management would continue to increase efficiency and effectiveness in the division. For example, five staff manages between \$18 billion and \$19 billion in the fixed income pool at a total cost of about \$1 million; whereas a typical fee for a large account, fixed income money manager would be \$15 million. At the same time the division is exceeding benchmarks nearly every year. In fact, the FY10 missions and measures and results show that nine of ten of the funds that were measured exceeded their benchmarks. In the future there are plans to bring some indexed equities in-house. This will provide the opportunity to save millions of dollars without reducing investment results.

[10:54:12 AM](#)

MR. BURNETT explained that at their custodial bank they've been getting monthly pricing of their assets and they're working toward true daily pricing so they can receive immediate feedback. The managers will then be able to measure their

performance in real time and work to get a better yield for the State of Alaska.

CHAIR WIELECHOWSKI asked if PFD fraud is increasing or decreasing and what steps the department was taking to address the issue.

MR. BURNETT said he believes that fraud has decreased, but he would defer to Mr. Tangeman to discuss that because investigators from the divisions of tax, child support, and the permanent fund now work as a cohesive unit that reports to him.

MR. TANGEMAN informed the committee that the goal of the new Criminal Investigation Unit was to bring the different investigators within DOR under one roof to find efficiencies. Although the responsibilities and duties of the divisions differ significantly, there are similarities and ways to assist each other. For example, an investigator in Anchorage who needs to check on someone in Juneau who is on his or her caseload can call the investigator in Juneau to run the check. The divisions were concerned that this would increase RSAs [Reimbursable Service Agreements] but that hasn't been the case. This was officially set up in the FY12 budget and hopefully there will be savings.

CHAIR WIELECHOWSKI asked what progress had been made to bring index equities in-house.

MR. BURNETT replied it's a slow and deliberate process but employees have been added, training is underway, and limited testing will begin in the next year. An S&P 500 index fund can be replicated in-house, but there are no plans to test emerging markets or a Small-Cap index fund in the near term.

[10:59:12 AM](#)

SENATOR PASKVAN asked how much the department has available to invest in in-house equities and if each of the funds has different investment time horizons such that an index fund might be different for individual funds.

MR. BURNETT replied DOR's equity exposure is in the \$20 billion range and each of the many funds it has under management has its own characteristics and its own time horizon. He explained that most of the funds under DOR management are invested in pooled investments so several funds may own a portion of an equity pool while some may be individually invested. For example, you might take a portion of what's in the CBR fund or the retirement funds

and manage the indexed portions in-house. He noted that the equities in the retirement funds are currently about 55 percent passive index funds and 45 percent actively managed funds. At this time DOR has over 40 unique asset allocations for different funds and over 100 different funds and accounts under management.

11:01:38 AM

SENATOR PASKVAN asked where the department looks to define fiduciary standard.

MR. BURNETT explained that the 329 page blue book on investment guidelines for the commissioner of revenue has a definition for acceptable investments and the standards.

CHAIR WIELECHOWSKI asked how much the state pays in fees to outside financial advisors.

MR. BURNETT replied this year the Permanent Fund Dividend Division budgeted \$96 million in outside custody and management fees and the Treasury Division budgeted about \$35 million, but it will probably spend less than \$30 million.

CHAIR WIELECHOWSKI asked if DOR had considered bringing more expertise in-house to try and save on fees.

MR. BURNETT replied that's where they're headed in working to index equities in-house. He added that in years past a large portion of the fixed income pool was managed externally at a cost of several million dollars and now it's managed in-house for under \$100,000 with the same results.

SENATOR PASKVAN asked how much is in the CBR main account and the CBR subaccount and questioned why the main account had such a significantly lower rate of return in FY10.

11:07:08 AM

MR. BURNETT replied each account has about \$5.1 billion. By statute the CBR subaccount is invested for maximum return with a five-year time horizon, whereas the main account is invested entirely in fixed income securities for protection against loss and for availability in a shorter range. He added that the policy on how each account is allocated is an ongoing discussion between the Office of Management and Budget (OMB), treasury staff, the commissioner of DOR, and the Department of Administration (DOA).

SENATOR PASKVAN asked who ultimately makes the decision on allocation and amount.

MR. BURNETT replied the statutory responsibility resides with the commissioner of revenue. He reminded the committee that in 2000 the Legislature set the subaccount in statute and appropriated \$400 million to it. In 2008 the Legislature appropriated additional money to the CBR, and relying on intent language in the budget the commissioner and then deputy commissioner agreed to move about \$4.1 billion into the subaccount. No additional money has been appropriated since that time.

SENATOR PASKVAN asked if the main account has bond exposure.

MR. BURNETT replied the CBR main account is invested in treasuries, cash, and corporate bonds.

SENATOR PASKVAN asked if they own the individual bonds or are invested in bond funds.

MR. BURNETT replied they own the individual bonds in all their fixed income investments.

[11:10:57 AM](#)

MR. TANGEMAN continued to explain that the Tax Division is currently working on two large projects that will lead to efficiencies and effectiveness for the staff. The first is the data gap analysis project. This is the outcome of a request by Senator Wielechowski to review the information that is gathered between DOR, DNR, and AOGCC. The purpose of the project is to provide a centralized, reliable, secure, and automated database of oil and gas production and tax information to DOR staff for the purpose of evaluating tax obligations, having efficient reporting, and full compliance from oil and gas producers within the state.

MR. TANGEMAN related that as DOR began meeting with the project contractor, it became abundantly clear that it would be more efficient if producers and taxpayers could use one portal to get the information to the state. Once the information is in a database, it will be divided according to who needs what. DNR is eager to cooperate with DOR on the project and hopefully an initial report in August will provide information about what's needed and how to move forward.

Completion of phase one will lead into the larger 3-5 year revenue management system project. Ultimately, everything that is gathered in the data gap analysis will be fed into the revenue management system. Ideally it will be a commercial off-the-shelf system that's 85 percent to 90 percent complete and then adjusted to fit the tax system within Alaska.

SENATOR MENARD asked the cost of the data gap analysis project if an in state or out-of-state firm was awarded the contract.

11:16:07 AM

MR. TANGEMAN replied it's under \$50,000 and the contractor is a former DNR employee who lives in Anchorage. DOR has begun the RFP [request for proposal] process to bring on an independent third-party project manager who will be the expert that helps the state put together the RFP to acquire the system. The goal is to have the [second] RFP out by the end of the calendar year. A number of other states have already gone through this process and there are a number of good systems from which to choose.

SENATOR PASKVAN said his concern centers on what Alaska will do in the 3-5 years it takes to get the system up and running in light of the fact that the October 2010 fast enterprise study said that DOR is not able to audit, examine, analyze, forecast, or manage its tax systems.

MR. TANGEMAN replied he understands but doesn't entirely agree with the report. The change from the antiquated gross tax system to a net tax system was significant because there was minimal information under the gross tax and a plethora under the net tax system. Being able to manage that information is the situation they're trying to address. It's a challenging and slow process, but DOR is doing audits on tax returns. DOR administers 22 tax programs and ideally the less complicated will be implemented before tackling the oil tax system. The data gap analysis will provide a more immediate return. The information will go into a database from which reports will be generated about what information is available and what information is needed.

11:20:43 AM

SENATOR PASKVAN said he's trying to understand what the Legislature should do now to get reliable consistent data to know what credits are being used for and to understand cause and effect on a tax basis.

MR. TANGEMAN replied they'd ideally like to begin generating useful information from the data gap analysis this fall so there will be usable information in advance of next session.

CHAIR WIELECHOWSKI said the critical question from his perspective is if in the next 3-5 years it will be possible to complete the audits under ACES to be assured that the state is getting the revenue it is owed.

MR. TANGEMAN replied DOR is completing audits within the statutory timeline right now and the hope is that this project will provide more information and make it easier to do this.

SENATOR MEYER reviewed the change to a net tax in 2006 under PPT, the current system under ACES, and the current discussion about other tax credits and changing taxes in general and observed that there really isn't any current information. He asked if the last audit was completed in 2006.

MR. TANGEMAN confirmed that the 2006 audits were complete and that DOR was currently working on the 2007 audits.

SENATOR MEYER observed that more current information would be more helpful if the Legislature decided to take up oil tax credits and production taxes in general.

MR. TANGEMAN said the current lag is more than he's comfortable with but it's shorter each month.

SENATOR MEYER said one of the frustrations is not knowing if the tax credits are being used to produce more oil or for maintenance purposes.

CHAIR WIELECHOWSKI asked what efforts DOR had made to attract and retain good staff because the fast enterprise report highlighted that as a problem in terms of audit turnover.

MR. TANGEMAN replied they had some turnover when some long-time auditors retired, but things have been fairly stable in the last six months. Since 2007 DOR has added audit masters and is now filling two commercial analyst positions, but the number of employees hasn't changed significantly despite the huge change in the tax structure.

He noted that Senator Stedman asked if more auditors were needed but he's hesitant to request additional employees at this time. Some contractual help will be needed to keep the current system

going while in-house staff works to stand up the new very complex system. He assured members that this was a short term problem.

SENATOR PASKVAN noted the unfilled audit positions within DOR and asked if the State of Alaska has a salary issue for these high-level audit positions.

MR. TANGEMAN replied it's a continuing challenge that DOR can't pay as much as private industry. Interviewing for the commercial analyst positions has gone on all summer long and while private sector analysts like the idea of a 40 hour week, they can't swallow the big salary cut. He conceded that even when the benefits are factored in, it's a big hurdle.

[11:30:29 AM](#)

SENATOR PASKVAN asked for specifics on the magnitude of the salary differential.

MR. TANGEMAN conceded that he didn't know what private industry was paying.

SENATOR PASKVAN observed that it's logical to think that the state would have some of the most competent and highly qualified employees working in this area because it's the main artery of revenue. If DOR is unable to attract highly qualified auditors, that issue needs to be addressed in order for the new system to be used effectively once it's in place. He asked Mr. Tangeman for his help.

MR. TANGEMAN replied he'd be happy to do some research on that. He added that DOR is fortunate to have the people that left private industry to fill the audit master positions.

CHAIR WIELECHOWSKI echoed Senator Paskvan's comment about the importance of attracting and retaining highly qualified financial auditors. This is a critical department and this area brings in 90 percent of the state revenue. He said he'd be open to changing the statutes if that's what it takes because billions of dollars are at risk.

[11:33:58 AM](#)

SENATOR MENARD concurred with both Senator Paskvan and Senator Wielechowski and opined that the pay range should be the same as for a commissioner. "It's time to stop talking and pay attention to what we're doing with the employees that need to be in place," she stated.

[11:36:04 AM](#)

REPRESENTATIVE SEATON said he hopes that Mr. Tangeman heard his comment about the effect of state biologists no longer serving on federal panels because current state policy prohibits them from analyzing things in a best-science regime, and the June 10 directive from the Division of Public Health that stated that the executive leadership team shall review scientific data presentations at the concept level for political and policy implications. He asked if DOR has a similar obligation or policy, because that would force the Legislature to get independent analyses of these issues.

MR. TANGEMAN replied with respect to tax information confidentiality a number-one issue so it's a matter of what DOR can provide and still keep that as a priority.

REPRESENTATIVE SEATON clarified he was talking about legislative requests for information, not confidentiality. For example, he said he requested information on HB 110 when it was in the House resources committee and he didn't get it until three days before the end of the session, and that information could have made a significant difference in the analyzing the data. He said he's trying to figure out if legislators' requests to DOR for information or analysis will have to be given in a way that it supports a policy position that the administration has taken instead of being information that can be used to generate what they believe is the best policy for the State of Alaska.

MR. TANGEMAN replied his perspective of that situation was that DOR answered the question, but the intent of the question may have been lost in translation. He stated that DOR is very responsive, particularly during session. He made that a specific priority to DOR's petroleum economists and that will not change this next session. "If responses take a little bit of time it's probably because we're erring on the side of being cautious as to what exactly we're releasing," he said.

REPRESENTATIVE SEATON said perhaps there was some misunderstanding but the policies that came out in May and June were a concern and he wanted to be assured that the Legislature would be made aware if DOR changes its policy in this regard.

[11:42:41 AM](#)

SENATOR PASKVAN asked how much money DOR expects to need for the next several years to hire contractors.

MR. TANGEMAN replied he didn't know how many full time equivalent contractual workers would be needed at this point, but the current staff was already working at full load and couldn't be asked to run two systems simultaneously.

SENATOR PASKVAN highlighted the need to be proactive with respect to the DOR budget and to hiring qualified people to ensure that a backlog doesn't develop in the next 2-3 years.

MR. TANGEMAN stated agreement.

[11:45:14 AM](#)

CHAIR WIELECHOWSKI recessed the meeting.

[12:06:35 PM](#)

CHAIR WIELECHOWSKI reconvened the meeting and announced the next order of business would be to take public testimony. He noted that people could also submit testimony at the website [savealaska.ak.senate.org](http://savealaska.ak.senate.org) or call in on the toll free line at (855) 463-5009.

[12:07:26 PM](#)

JOHN SPALDING, representing himself, said he's lives in Anchorage for 48 years. He expressed hope that the Legislature was serious saving money and suggested they forget about buying property in downtown Anchorage, sell the building that's currently used by legislators, and use the property that's on the south side of the airport. That would save money and provide easy access to the public.

[12:09:51 PM](#)

BREEHIA MITCHELL, representing herself, said she and her husband own a plumbing business in Juneau and they've had an unreasonably difficult time getting a mechanical license from the state. This license is required for the business and they've been renting one but her husband passed the test and is now qualified to receive the license. She outlined the difficulties she had had that highlight dysfunction within the system.

[12:14:02 PM](#)

CHAIR WIELECHOWSKI said his staff would contact the state office.

SENATOR PASKVAN asked which office received the application.

MS. MITCHELL replied it was the Department of Commerce, Community and Economic Development (DCCED), Division of Corporations, Business and Professional Licensing.

CHAIR WIELECHOWSKI said his office is looking at business licensing and agreed that there was room for improvement.

MS. MITCHELL added that it's confusing to the public that DCCED issues the mechanical licensing regulations, but Department of Labor and Workforce Development (DOLWD) enforces them.

[12:15:51 PM](#)

LYNN WILLIS, representing himself, observed that the Legislature spends whatever time it allots itself working on the budget process. He surmised that they could be more efficient by vetting and completing 80 percent of that process during the Interim.

[12:16:35 PM](#)

BARBARA WINLKEY, representing herself, expressed concern about the waste of money and resources associated with multiple phone books, the Anchorage Port Authority, and special legislative sessions. She offered to submit more ideas.

[12:19:38 PM](#)

JERRY LAVINE, representing himself, stated his belief that the Legislature is one of the inefficiencies of state government. More and more of state government should be privatized to get public pensions off the public payroll, he said. An example of efficiency is ongoing in the Anchorage area where a private company is working under contract to do maintenance work on the public water and sewer lines. This doesn't represent a loss of jobs; it's that government jobs are being transferred to the private sector. This same kind of efficiency is demonstrated in the spring when more private sweepers are on the road than those that are owned and operated by the government. Increased privatization will save the government a lot of money in the long run with regard to pensions and retirement plans. He added that he'd send more ideas to his senator's office.

CHAIR WIELECHOWSKI said he'd add the written comments to the record.

[12:22:44 PM](#)

PAUL D. KENDALL, representing himself, said he listed 33 points in the outline he prepared for his testimony, but some was probably not pertinent. He opined that more meetings of this

type were needed to provide time to go into detail and settle problems or gripe about government in a constructive manner.

MR. KENDALL explained that his philosophy is that everything is a manifestation of energy attempting to find a state of being and that without that as a priority this type of discussion isn't possible. Fundamental priorities include holding the family together, increasing accountability, improving access, open meetings and the free flow of data.

[12:28:38 PM](#)

MR. KENDALL directed attention to the points on his outline and said that ghost funding or nonspecific allocations, child support enforcement, and illegal aliens are additional inconsistencies and disconnects that are a concern.

Alaska has a chance to lead the world, he stated. It may be necessary to divide the society between the carbon-based people and the new technologists. Be proud of both and understand that each has a very important role. In conclusion, he said he'd like to ask for a job to lead a new energy technology scouting team for the residential sector.

[12:33:05 PM](#)

BARBARA LESSMEIER, representing herself, said she is a service-disabled veteran who spends a great deal of time advocating for veterans. Recently she visited the three job centers in Anchorage, which are managed by the Department of Labor and Workforce Development (DOLWD). She said she ultimately decided to no longer visit the Gamble facility because a state employee named Tom demeaned and was critical of people who were there for help, herself included. That facility eventually closed and the senior employees, including Tom, were reassigned to the other two job centers in Anchorage. Now these two facilities are uncomfortable because there are too many employees and there's not enough work.

MS. LESSMEIER asked that someone look into the situation because there were probably other instances in state facilities of too many people doing too little work.

CHAIR WIELECHOWSKI confirmed the locations of the Anchorage job centers and thanked her for her testimony.

[12:36:13 PM](#)

CHAIR WIELECHOWSKI announced an at-ease.

12:44:31 PM

CHAIR WIELECHOWSKI reconvened the meeting.

LEWIS DAVIS, representing himself, said he's a former state employee who has seen lots of waste and believes that many positions are overpaid. When he was working he supervised several people and learned that on a nationwide basis Alaska state employees were overpaid and underworked. He further commented on boom boxes that were loud enough to rattle the windows in his home and trash around buildings that the owners don't pick up. It doesn't take much money or time to take a picture of the trash, send the picture to the owner, and follow through and make them pick it up, he said.

12:48:01 PM

JOHN FARLEIGH, representing himself, said he's a multi-generational Anchorage resident and he believes that a long-term perspective can be important. He said that when he listens to the news about the budget he repeatedly hears that Medicaid costs will be a growing burden to states in the future. During the lengthy national debate on healthcare reform he was astounded that the U.S. Chamber of Commerce fought the reform because big business would probably benefit the most from a universal healthcare plan. National healthcare would relieve businesses of the burden of having to provide healthcare.

MR. FARLEIGH cited a 2004 university study of the healthcare delivery system in the U.S. that concluded that the nation spends enough to cover everybody, but the inefficiencies are ridiculous because of the multitude of government-funded health plans. For example, some people qualify for both Medicare and Medicaid (Medi-Medis), but the inherent regulatory conflicts between the two systems cost the country hundreds of millions of dollars a year.

MR. FARLEIGH pointed out that states are not obligated to be part of the exchange program if they can come up with a plan that, for no extra money, provides the required services. He noted that the State of Vermont was trying to do that and he surmised that it was trying to get the dollars the federal government would have ordinarily spent on Medicare, Medicaid, and other healthcare programs and roll that money in to one plan that would cover all Vermont residents. He suggested that Alaska at least look at that plan. The math is simple, he said; one program for all residents is the cheapest per capita to pay the premiums for the insurance.

MR. FARLEIGH pointed out that the private market does some things exceptionally well, but health insurance shouldn't be included in that roster. Corporations have a legal obligation to make a profit for their shareholders so there is an irreconcilable conflict of interest. Every time a person applies for a benefit, the insurance company's motivation is to deny the claim. He said he's heard that Medicare overhead ranges between one percent and three percent, whereas overhead for the insurance industry ranges between 20 percent and 30 percent. The reason for this inefficiency is that the health insurance industry spends a tremendous amount of money to figure out ways to turn claims down.

He summarized that legislators should try to find a way to get the federal government to pay the state all the money it provides for the various healthcare programs in the state. It seems that the state could provide healthcare services to everyone and save money in the process, he concluded.

[12:56:56 PM](#)

REPRESENTATIVE CISSNA thanked Senator Wielechowski for holding this hearing because listening to the public perspective about the cost/benefit of the things that government does is most important. She said she'd like to help work on ways to develop a legislative/citizen discussion group.

[1:00:50 PM](#)

THERESA OBERMEYER, representing herself, said she's known for years that Norway had a permanent fund and she was delighted when she learned that ten Alaska legislators were going to visit that country [to learn more about the Norway fund.] She said she'd like to hear that the entire body was going.

MS. OBERMEYER related that for years she had difficulty finding anything that was reported about the Alaska Permanent Fund that was fair, so she began attending the board meetings to find out what was going on. It's embarrassing, she said, to see that the Norway Permanent Fund that was started in 1991 is worth \$570 billion, whereas the Alaska Permanent Fund that was started in 1976 is, for the first time, worth just over \$40 billion. She surmised that the fund had gone up recently because the board was paying more attention now that it knew that Alaska legislators were going to Norway.

MS. OBERMEYER pointed out that Norway not only has a very successful permanent fund, it also provides free healthcare to all its citizens. She questioned why Alaska didn't have a

medical school and commended Representative Kawasaki for introducing a bill to build both a medical school and a law school. She reiterated that it would be enlightening for all legislators to go to Norway.

REPRESENTATIVE CISSNA related that she would like to go to Norway but the intensive screening at airports will keep her from traveling.

1:08:06 PM

There being no further business to come before the committee, Chair Wielechowski adjourned the meeting at 1:08 p.m.