

**ALASKA STATE LEGISLATURE**  
**HOUSE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE**

April 4, 2013

8:03 a.m.

**MEMBERS PRESENT**

Representative Gabrielle LeDoux, Co-Chair  
Representative Benjamin Nageak, Co-Chair  
Representative Neal Foster  
Representative Bob Herron  
Representative Lora Reinbold

**MEMBERS ABSENT**

Representative Kurt Olson  
Representative Harriet Drummond

**COMMITTEE CALENDAR**

HOUSE BILL NO. 193

"An Act relating to the joint administration of tobacco taxes by the state and a municipality."

- MOVED HB 193 OUT OF COMMITTEE

HOUSE BILL NO. 174

"An Act requiring each municipality with a population that decreased by more than 25 percent between 2000 and 2010 that participates in the defined benefit plan of the Public Employees' Retirement System of Alaska to contribute to the system an amount calculated by applying a rate of 22 percent of the total of all base salaries paid by the municipality to employees of the municipality who are active members of the system during a payroll period; reducing the rate of interest payable by a municipality with a population that decreased by more than 25 percent between 2000 and 2010 that is delinquent in transmitting employee and employer contributions to the defined benefit plan of the Public Employees' Retirement System of Alaska; giving retrospective effect to the substantive provisions of the Act; and providing for an effective date."

- MOVED CSHB 174(CRA) OUT OF COMMITTEE

PRESENTATION: FY 2014 STATE PLAN FOR THE COMMUNITY SERVICES BLOCK GRANT PROGRAM

- HEARD

**PREVIOUS COMMITTEE ACTION**

BILL: HB 193

SHORT TITLE: MUNICIPAL TAXATION OF TOBACCO PRODUCTS

SPONSOR(S): REPRESENTATIVE(S) PRUITT

04/01/13 (H) READ THE FIRST TIME - REFERRALS  
04/01/13 (H) CRA, FIN  
04/04/13 (H) CRA AT 8:00 AM BARNES 124

BILL: HB 174

SHORT TITLE: PERS CONTRIBUTIONS BY MUNICIPALITIES

SPONSOR(S): COMMUNITY & REGIONAL AFFAIRS

03/18/13 (H) READ THE FIRST TIME - REFERRALS  
03/18/13 (H) CRA, L&C  
03/28/13 (H) CRA AT 8:00 AM BARNES 124  
03/28/13 (H) Heard & Held  
03/28/13 (H) MINUTE(CRA)  
04/04/13 (H) CRA AT 8:00 AM BARNES 124

**WITNESS REGISTER**

DIRK CRAFT, Staff  
Representative Lance Pruitt  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Presented HB 193 on behalf of the sponsor,  
Representative Pruitt.

DAN MOORE, Treasurer  
Treasury Division  
Municipality of Anchorage  
Anchorage, Alaska

**POSITION STATEMENT:** Provided information on HB 193.

GREG MOYER, Interim Manager  
City of Galena  
Galena, Alaska

**POSITION STATEMENT:** Testified on HB 193.

SCOTT RUBY, Director, Division of Community & Regional Affairs  
Department of Commerce, Community & Economic Development  
Anchorage, Alaska

**POSITION STATEMENT:** During hearing of HB 174, answered questions.

JIM PUCKETT, Director  
Division of Retirement and Benefits  
Department of Administration  
Juneau, Alaska

**POSITION STATEMENT:** During hearing of HB 174, answered questions.

PAUL LABOLLE, Staff  
Representative Foster  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** During hearing of HB 174, answered questions on behalf of the sponsor, Representative Foster.

PAULETTA BOURNE, Grant Supervisor  
Fairbanks Regional Office  
Division of Community & Regional Affairs  
Department of Commerce, Community & Economic Development  
Fairbanks, Alaska

**POSITION STATEMENT:** As the administrator of the Community Services Block Grant (CSBG) Program, reviewed the program.

DAVID HARDENBERGH, Executive Director  
Rural Alaska Community Action Program (RurAL CAP)  
Anchorage, Alaska

**POSITION STATEMENT:** Provided a presentation regarding the Community Services Block Grant.

SARAH SCANLAN, Deputy Director  
Rural Alaska Community Action Program (RurAL CAP)  
Anchorage, Alaska

**POSITION STATEMENT:** Provided a presentation regarding the Community Services Block Grant within RurAL CAP.

#### **ACTION NARRATIVE**

[8:03:00 AM](#)

**CO-CHAIR GABRIELLE LEDOUX** called the House Community and Regional Affairs Standing Committee meeting to order at 8:03 a.m. Representatives Herron, Foster, Reinbold, Nageak, and LeDoux were present at the call to order.

## HB 193-MUNICIPAL TAXATION OF TOBACCO PRODUCTS

[8:03:56 AM](#)

CO-CHAIR LEDOUX announced that the first order of business would be HOUSE BILL NO. 193, "An Act relating to the joint administration of tobacco taxes by the state and a municipality."

[8:04:14 AM](#)

DIRK CRAFT, Staff, Representative Lance Pruitt, Alaska State Legislature, began by informing the committee that HB 193 was brought forward by Anchorage to help create a more efficient process to collect tobacco taxes. He clarified that HB 193 isn't an increase or decrease in the tobacco tax rather it's creating a more efficient process by partnering with the Department of Revenue (DOR) to help municipalities that collect tobacco taxes. Section 1 amends AS 43.05.230 under the administration of revenue laws such that it allows the state to share tax information it collects with municipalities for the purposes of tax collections. Section 2 amends AS 43.50.150, the administration of the Cigarette Tax Act, that allows municipalities in the state to jointly collect both state and municipal tobacco taxes and also allows for the joint auditing and distribution of stamps and collection of money on those stamps.

[8:06:21 AM](#)

DAN MOORE, Treasurer, Treasury Division, Municipality of Anchorage, agreed that Section 1 of HB 193 would allow information sharing that would allow the state to coordinate and be more efficient and effective with taxes that are common to both state and local jurisdictions, which are the tobacco tax and the rental vehicle tax. Although there is information sharing from discovery or audits in relation to tax evaders, the information remains confidential on the state and municipal side. This sharing of information allows the full enforcement of the tax at the state and local level. The principle of Section 1 is based on a similar one that exists in the statute of many states that allow the state to share information with the local jurisdiction. Section 2 is focused on the tobacco tax and the use of the tobacco tax stamp. He noted that other jurisdictions in the nation, particularly in larger jurisdictions with major populations, use what he referred to as a "joint/combo tobacco stamp." The Municipality of Anchorage

doesn't currently have a tobacco tax stamp, but may want one in the future. Discussions with private industry have made it clear that it would be very problematic to have two separate stamps, a city stamp and a state stamp, on a single pack of cigarettes. Discussions with a major stamp vendor revealed, however, that it is possible to create a single joint stamp representing that the tax has been paid to both the state and the city. In this situation in which part of the goal is to gain efficiency, besides just a single joint stamp, Mr. Moore requested that the state DOR be the central administrator of a joint tobacco tax stamp program. Therefore, the private industry would have a one-stop shop in terms of acquiring the stamps and remitting the funds. The state would then collect funds on behalf of local jurisdictions and then pay the local jurisdictions each month. Section 2 requests authority for DOR to enter into individual agreements with local jurisdictions so that the terms can be laid out in advance, before a joint tobacco tax stamp is even considered. A key provision within a memorandum of understanding (MOU) would be the cost reimbursement from the local jurisdiction that would ask the state to issue tobacco stamps and collect money on their behalf. He pointed out that the fiscal note is focused on Section 2 and shows the cost impact if there were no reimbursement. However, page 2 of the fiscal note specifies that if there is a formal agreement in which jurisdictions agree to reimburse costs, there would be no costs to Section 2. He related that the Municipality of Anchorage is fully committed to reimbursing any incremental cost that is caused by the request to partner with the state on a joint tobacco tax stamp, and thus the legislation would be cost neutral to the state.

8:11:15 AM

REPRESENTATIVE HERRON inquired as to how much additional revenue Anchorage would realize if this MOU was entered into.

MR. MOORE pointed out that the MOU is particular to the tax stamp program in that it's a matter of more efficiently collecting the money. Section 1, he stated, provides more of an opportunity for increased revenue because with information sharing the city or the state can talk about things they have found in terms of tax evasion and that can be shared because the tax is owed on both the state and city side. In terms of quantifying Section 1, Mr. Moore estimated that if there was 5 percent tax evasion with cigarettes in Anchorage and \$22 million a year is collected from the cigarette tax, 5 percent of that is about \$1 million per year of revenue that could be recovered or

realized as a result of joint audit information sharing. Furthermore, it sends a message that the state and cities are more coordinated and effective in enforcing the tobacco tax law. Although it's more difficult to estimate or quantify leakage or abuse, the same can be said about car rental taxes. In fact, in recent years the state had a major finding in a rental vehicle agency in Anchorage that amounted to \$600,000 of unpaid state tax. Unfortunately, since the information sharing statute didn't exist, Anchorage couldn't recover what was found in the state's audit. The [Municipality of Anchorage] performed its own audit, albeit it didn't cover as broad a range as the state's audit, and thus the municipality lost out on the collection of revenue legally due to it. Mr. Moore then mentioned that the information sharing is reciprocal, such that if the state agrees to share with a local [municipality] its local code includes sharing with the state.

[8:14:20 AM](#)

REPRESENTATIVE HERRON inquired as to how many wholesalers would apply this tobacco tax stamp.

MR. MOORE answered that there are five or less entities that do stamping of which three to four do their own direct stamping and one to two that do stamping on behalf of many entities.

[8:15:51 AM](#)

CO-CHAIR LEDOUX, upon determining no one else wished to testify, closed public testimony.

[8:16:03 AM](#)

CO-CHAIR NAGEAK moved to report HB 193 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, it was so ordered.

The committee took an at-ease from 8:16 a.m. to 8:18 a.m.

#### **HB 174-PERS CONTRIBUTIONS BY MUNICIPALITIES**

[8:18:52 AM](#)

CO-CHAIR LEDOUX announced that the next order of business would be HOUSE BILL NO. 174, "An Act requiring each municipality with a population that decreased by more than 25 percent between 2000 and 2010 that participates in the defined benefit plan of the

Public Employees' Retirement System of Alaska to contribute to the system an amount calculated by applying a rate of 22 percent of the total of all base salaries paid by the municipality to employees of the municipality who are active members of the system during a payroll period; reducing the rate of interest payable by a municipality with a population that decreased by more than 25 percent between 2000 and 2010 that is delinquent in transmitting employee and employer contributions to the defined benefit plan of the Public Employees' Retirement System of Alaska; giving retrospective effect to the substantive provisions of the Act; and providing for an effective date."

[8:19:35 AM](#)

CO-CHAIR LEDOUX reminded the committee that public testimony had remained open.

[8:20:05 AM](#)

GREG MOYER, Interim Manager, City of Galena, reminded the committee that in 2008 the largest industry in Galena, the military, 600 airman, left and June 30, 2008, the salary floor for the Public Employees' Retirement System (PERS) was set in law. Therefore, the population of Galena decreased significantly and is still reeling from the aforementioned circumstances. Although it's a blessing to have the infrastructure from the base, Galena doesn't have the population to support it as the population has dropped from around 800 to under 500. As the interim manager, he said his job is to save Galena from not being a first class city. The salary floor in Galena is \$1.5 million, which are the salaries Galena has to have otherwise it is penalized plus interest. Galena, he emphasized, will never met that salary floor as Galena is almost half of that now and is looking to gain more efficiencies by cutting more in the next budget. Mr. Moyer opined that Galena is looking for a legislative fix [without] re-opening all the PERS issues. Although he understood that it's difficult to help a couple of communities when other communities also fall [in arrears with the salary floor]. This legislation, HB 174, is structured such that communities have to have had a population change in 2000-2010. He noted that there has been discussion of changing the floor amount for Galena to June 30, 2012, which would help. However, a legislative fix is necessary to save Galena so that other steps can be taken to move on and survive.

[8:24:53 AM](#)

CO-CHAIR LEDOUX inquired as to what happens if this legislation isn't passed and the communities don't pay what is required under existing law.

[8:25:19 AM](#)

SCOTT RUBY, Director, Division of Community & Regional Affairs, Department of Commerce, Community & Economic Development, explained that similar situations have happened to smaller municipalities, which have basically become nonfunctional and any revenue that they have received has been used to pay off their debt. For example, several cities in the Yukon-Kuskokwim Delta dissolved in the early 1990s. The tax debt of those municipalities, including Tuluksak, Newtok, and Tununak, was not on the scale of what is being targeted with HB 174. The aforementioned municipalities maintained the minimum amount of government by having a budget and holding a council meeting and elections each year, but stopped providing services. These municipalities only existed in order to continue to qualify for the revenue sharing program until the debt was repaid at which point they were allowed to dissolve. Mr. Ruby explained that prior to dissolving any corporation, whether it be a nonprofit, for-profit, or municipal corporation, it must be free of debt or have an entity that is willing to accept liability for that debt. The issue with Galena is that it has much more debt, such that the revenues from revenue sharing and other sources wouldn't outpace the rate at which they're accumulating those debts. Therefore, the most likely scenario [without HB 174] would be for Galena to stop functioning as a municipality and the school would likely return to a Rural Education Attendance Area (REAA). Although Galena would likely try to dissolve, it would legally exist until it resolved all of its debts. Mr. Ruby pointed out that Galena can't declare bankruptcy because there is no such statute allowing municipalities to go bankrupt, which is a requirement of the Internal Revenue Service (IRS) code.

[8:28:05 AM](#)

CO-CHAIR LEDOUX inquired as to what the state would do if a municipality continued to function but didn't pay.

MR. RUBY deferred to the PERS Board.

[8:28:50 AM](#)

JIM PUCKETT, Director, Division of Retirement and Benefits, Department of Administration, stated that the only tool available to intercept funds is through revenue sharing.

[8:29:26 AM](#)

REPRESENTATIVE HERRON inquired as to the administration's position on this specific circumstance.

MR. PUCKETT answered that the administration has no position on HB 174, but clarified that's not to say that the administration doesn't recognize that these communities that have lost population simply don't have a means to address their situation. He said a fix will have to come from the legislature.

[8:29:55 AM](#)

REPRESENTATIVE FOSTER highlighted that Galena's salary floor was set at \$1.5 million in 2008 while today its total salary base is \$700,000-\$750,000. He further highlighted that Galena is paying 22 percent on the about \$750,000 difference; these are salaries that they don't even have. Therefore, Galena is going to get farther and farther behind with no way in which to catch up. The legislation before the committee, therefore, attempts to rectify a situation that wasn't foreseen in 2008 and is no fault of Galena.

[8:31:18 AM](#)

CO-CHAIR NAGEAK asked whether HB 74 is limited to only those municipalities with operations that decreased by more than 25 percent.

[8:31:52 AM](#)

PAUL LABOLLE, Staff, Representative Foster, Alaska State Legislature, replied yes, HB 174 only applies to municipalities that have lost more than 25 percent of their population between census years 2000 and 2010. The committee packet should include a spreadsheet listing all the PERS municipalities and their population loss or gain during the 2000-2010 census period.

[8:32:29 AM](#)

CO-CHAIR NAGEAK inquired as to whether HB 174 addresses municipalities that experience a 25 percent population decrease in the future.

MR. LABOLLE answered that the legislation only speaks to a 25 percent reduction in population during the 2000-2010 census period, and thus future population loss would have to be revisited by the legislature.

[8:33:06 AM](#)

REPRESENTATIVE HERRON asked what the catalyst was for the 25 percent designation.

MR. LABOLLE responded that it was a bright line that reached [the goal].

[8:33:29 AM](#)

REPRESENTATIVE HERRON noted that the debt will remain, and asked whether there should be a way to ratify the debt that can't be paid off.

MR. LABOLLE pointed out that HB 174 includes a retroactivity clause that goes back to 2009 such that the 2008 would no longer apply and basically erode the existing liability. He directed attention to the fiscal note that includes a large supplemental payment in fiscal year (FY) 13, which is the retroactivity portion of the legislation.

[8:34:28 AM](#)

REPRESENTATIVE HERRON questioned whether it would make more sense to ratify, forgive, an amount than to pay an amount.

MR. LABOLLE deferred to PERS, but speculated that the goal is to make the system whole because if no [municipality] pays [their debt] it would contribute to the unfunded liability that PERS already has. In response to Co-Chair LeDoux, if the municipality continues to function without paying, the system continues to get an unfunded liability. Therefore, it's not a good solution for the system. If a municipality becomes a nonfunctioning government and only revenue sharing is collected as an intercept, then [the system] misses out on the current/existing salaries on which the municipality is paying. Currently, Galena is unable to pay on \$1.5 million but is able to pay on the approximately \$750,000 in existing salaries.

[8:35:57 AM](#)

REPRESENTATIVE FOSTER recalled a question from the last meeting regarding how many communities are close to the threshold provided in HB 174.

MR. LABOLLE, referring to a spreadsheet, pointed out the column specifying the population percentage decrease and noted that those over 25 percent are highlighted. If the committee wanted to use another percentage, say 20 percent, then Angoon, Kake, Nulato, and Tanana would qualify.

[8:37:57 AM](#)

CO-CHAIR LEDOUX inquired as to why 25 percent was chosen when there are other communities that just miss that cut off.

MR. LABOLLE responded that 25 percent was a placeholder to start the discussion.

REPRESENTATIVE FOSTER interjected that the percentage is a policy call for the committee.

MR. LABOLLE encouraged the committee to obtain input from the department before changing the percentage because he understood the department's neutral position on HB 174 is due to its narrow focus and limited fiscal impact.

[8:39:48 AM](#)

REPRESENTATIVE HERRON opined that there has to be recognition that Anderson, Galena, Pelican, and even St. George lost population because of major industry [withdrawal]. He expressed the need to have sideboards [with regard to the population change] in order to avoid including cities experiencing natural attrition.

[8:41:33 AM](#)

CO-CHAIR NAGEAK reminded the committee that HB 174 is limited to [population changes] during the 2000-2010 census period and any [population] changes in the future would have to be revisited.

MR. LABOLLE confirmed that anything in the future would have to be revisited by the legislature.

[8:42:25 AM](#)

CO-CHAIR LEDOUX commented that even those communities that lose population slowly will be in the same position. Although HB 174 fixes things for four communities, she said she wasn't sure it gets to the real problem that may be a systematic problem.

MR. LABOLLE mentioned that there is termination study legislation that is reviewing the system as there is lots of agreement that the system needs work. However, HB 174 isn't targeting the system but rather attempting to save a couple of communities.

[8:43:46 AM](#)

The committee took a brief at-ease.

[8:44:40 AM](#)

CO-CHAIR NAGEAK moved to adopt CSHB 174, Version 28-LS0656\U, Wayne, 4/1/13, as the working document.

REPRESENTATIVE REINBOLD objected for purposes of discussion.

[8:45:03 AM](#)

MR. LABOLLE explained that Version U is the result of Representative Herron's previous discussion regarding obtaining a new snapshot. The legislation is now simpler such that the following language is added to Section 1(a)(2):

**", or, if the employer is a municipality in which the population decreased by more than 25 percent between 2000 and 2010, according to the decennial census conducted by the United States Census Bureau, the corresponding payroll period for the fiscal year ending June 30, 2012.**

[8:46:33 AM](#)

REPRESENTATIVE REINBOLD withdrew her objection.

There being no further objection, Version U was before the committee.

[8:46:39 AM](#)

CO-CHAIR LEDOUX commented that she wasn't sure HB 174 totally solves all the problems with the system, but noted that it has another committee of referral.

[8:46:59 AM](#)

CO-CHAIR NAGEAK moved to report CSHB 174, Version 28-LS0656\U, Wayne, 4/1/13, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 174(CRA) reported from the House Community and Regional Affairs Standing Committee.

[8:47:36 AM](#)

The committee took an at-ease from 8:47 a.m. to 8:49 a.m.

**Presentation: FY 2014 State Plan for the Community Services  
Block Grant Program**

[8:49:25 AM](#)

CO-CHAIR LEDOUX announced that final order of business would be a presentation on the fiscal year 2014 state plan for the Community Services Block Grant (CSBG) Program.

[8:49:53 AM](#)

PAULETTA BOURNE, Grant Supervisor, Fairbanks Regional Office, Division of Community & Regional Affairs, Department of Commerce, Community & Economic Development, paraphrased from the following written testimony [original punctuation provided]:

Thank you, Co-Chairs and other members of the Community and Regional Affairs Committee.

I am pleased to participate in this hearing concerning the Draft State Plan for the Community Services Block Grant Program for Federal Fiscal Year 2014.

The Department of Commerce, Community, and Economic Development would like to accept comments from the public on the proposed use and distribution of these funds.

Community Services Block Grant funds are allocated to the Department from the U.S. Department of Health and Human Services. Federal requirements restrict the

grantees to Community Action Agencies. Rural Alaska Community Action Program, better known as RurAL CAP is the only recognized Community Action Agency in the state of Alaska. We anticipate receiving approximately \$2M in FFY 2014 although that number could increase or decrease slightly. By statute, ninety five percent of CSBG funds received are granted to RurAL CAP. The Department is authorized to keep 5% funds to cover administrative costs.

The purpose of the Community Services Block Grant is to impact the causes and conditions of poverty. The Draft State Plan, on which we are accepting comment today, outlines how the Department administers the CSBG program and the activities which RurAL CAP proposes to undertake during fiscal year 2014. Because the State Plan is lengthy, I will briefly outline the major components which the Department and RurAL CAP have identified for the program.

RurAL CAP will utilize CSBG funds to serve low-income people throughout the State in several program components. These include Administrative Services; Supportive Housing; Child Development; Community Development; Planning and Construction; and Public Policy and Advocacy. Each of these components is described in detail in the State Plan.

Also included in this year's Plan are Outcome Measures for each of the program components. Program results are tracked and reported on a quarterly basis in terms of the number of clients who achieve a given milestone. Progress is reviewed by staff who use it to evaluate results and make changes when necessary.

Both the Department and RurAL CAP place a strong emphasis on promoting maximum participation by rural residents in the elimination of the causes and conditions of poverty. I have personally worked with RurAL CAP in the daily administration of the CSBG grant for two years. They have demonstrated a sincere interest in helping low income Alaskans and are recognized nationally as a leader in providing not only innovative programs which meet the needs of their clientele, but also in developing commendable Outcome Measures. They are to be applauded for their hard

work and their success. I recommend when you have the time to read the Village Voice newsletter.

Thank you for your time today. My purpose today is to educate the public about the program and to accept comment on the proposed use and distribution of funds. If you have any questions, I would be happy to answer them.

[8:53:41 AM](#)

DAVID HARDENBERGH, Executive Director, Rural Alaska Community Action Program (RurAL CAP), paraphrased from the following written testimony [original punctuation provided]:

Good morning, Co-Chairs LeDoux and Nageak and members of the Community and Regional Affairs Committee. My name is David Hardenbergh and I am the Executive Director of the Rural Alaska Community Action Program, also known as RurAL CAP. Thank you for this opportunity to present this information with our state partner about the Community Services Block Grant, a federal funding source that supported critical services in 81 communities throughout Alaska last year.

RurAL CAP is a private, statewide, 501(c) (3) non-profit organization. It is one of more than 1,000 Community Action Agencies in the nation which all work to build self-sufficiency and empowerment among low-income people who desire to pull themselves up out of poverty.

[8:54:33 AM](#)

CO-CHAIR LEDOUX requested clarification regarding the statement that RurAL CAP is a private 501(c)(3) rather than a state agency.

MR. HARDENBERGH confirmed that RurAL CAP is a private 501(c)(3). In further response to questions, Mr. Hardenbergh related that originally RurAL CAP was created as a 501(c)(4) nonprofit and was converted to a 501(c)(3) in the 1980s.

[8:55:11 AM](#)

CO-CHAIR LEDOUX inquired as to the funding streams for RurAL CAP.

MR. HARDENBERGH explained that the majority of the RurAL CAP funding is from state and federal grants and contracts, but the organization also receives private funding, individual donations, private foundation funding, and program income.

[8:55:28 AM](#)

MR. HARDENBERGH continued his testimony [original punctuation provided]:

RurAL CAP is governed by a 24-member Board of Directors representing every major region of the state. The tripartite board is a balance of representatives from target area communities, elected public officials and private sector organizations. The board meets quarterly, identifies major issues affecting low-income people, and sets agency policy. The staff implements board policy through a strategic plan and the oversight of programs and services.

Some of you may be aware that as RurAL CAP nears its 50<sup>th</sup> anniversary in 2015; we have had the honor of past leaders in the positions of Board Presidents or Executive Directors that include Marlene Johnson, Gordon Jackson, Ben Nageak, Andy Ebona, Byron Mallott, John Shively, and Jeanine Kennedy, among others.

These leaders and current Board members and staff have built RurAL CAP into the organization it is today: a \$40 million a year nonprofit with a \$10 million per year for-profit subsidiary and a private foundation. Our employees provide services as determined by community needs assessments that include early childhood education, weatherization, self-help housing, affordable housing, energy burden reductions, health, youth resiliency and leadership development, solid waste management, substance abuse prevention and other improvements in local communities.

The goal of the CSBG funds to the State of Alaska is to reduce poverty through community-based activities which lead to a greater degree of self-sufficiency for low-income people. CSBG funding comes to the Division of Community and Regional Affairs in the Alaska

Department of Commerce, Community and Economic Development and is administered by Grant Manager Jill Davis. RurAL CAP has had a long and healthy partnership with the State which is responsible for preparing and monitoring the State Plan.

As the only Community Action Agency in Alaska, RurAL CAP is the single eligible recipient for state CSBG funds. For FY 2014, RurAL CAP has applied for Alaska's formula-based **\$2.5** million in CSBG funds to support programs and services for low-income people. We expect there will be revisions to this amount with sequestration cuts.

[8:58:09 AM](#)

SARAH SCANLAN, Deputy Director, Rural Alaska Community Action Program (RurAL CAP), began by noting that each year a legislator has served on the [RurAL CAP Board] and this year the legislator is Representative Nageak. Each year after the board endorses the plan it is brought before the legislature for approval. She then paraphrased from the following written testimony [original punctuation provided]:

Good morning and thank you again for the opportunity to speak with you. As mentioned earlier, CSBG's funds leverage approximately **\$40** million in other public and private sector resources to benefit low-income Alaskans. RurAL CAP employs more than **400** people annually in **regular** positions in rural and urban communities across Alaska through Head Start, Early Head Start, Parents as Teachers, Child Development, Child Care, AmeriCorps, VISTA, Housing, Energy Conservation, and Weatherization programs. We also employ more than **600** Alaskans annually in locally-hired temporary positions.

One of my responsibilities is oversight of the Community Services Block Grant. RurAL CAP's mission is to improve life for low-income Alaskans throughout the state, with most of our resources directed to rural communities where poverty rates are typically three times higher than in urban Alaska. Yet as the only community action agency in Alaska with a mandate to serve people statewide, RurAL CAP also provides:

- Head Start services to pre-school children and their parents in Ketchikan;
- Home weatherization to qualifying low-income residents in Juneau and Anchorage;
- Affordable and self-help housing opportunities to families in Anchorage and on the Kenai; and
- Child care and housing first services in Anchorage.

The State Plan before you today contains detailed examples of outcome measures for each of RurAL CAP's CSBG-supported programs. This system of Results Oriented Management and Accountability, or ROMA, has received national recognition within the network of social service and community action agencies as a model of comprehensive outcome evaluation.

With attention focused on identifying and documenting measurable changes in the conditions of the people we serve, RurAL CAP's system of program evaluation and accountability focuses on producing measurable results.

Here is a sampling of the difference we made last year through a variety of programs we hope to continue this year and next.

- Employed **1,023** Alaskans in **81** communities with a total payroll of more than **\$16 million**.
- Purchased a larger **Child Development Center in Anchorage** that doubles the number of children that can be served to **64**.
- Renovated the Stebbins Teen Center to an Early Learning Center to provide space for a more functional early education facility.
- Served **1,465** children in child development programs, birth through preschool in **29** communities.
- Through a private-public partnership funded primarily by NANA Regional Corporation, **573** homes and residents in **6** northwest Alaska rural communities received energy-efficiency upgrades

and education through the Energy Wise Program that employed **50** rural Alaskans with a minimum documented savings of **\$600** annually per home.

- Among the many healthy communities' initiatives, the first year of a **3-year partnership with Kawerak** to address underage and binge drinking through local wellness coalitions was completed, as well as a successful Rural Providers Conference (RPC) in Dillingham with over 300 attendees. This and next year's RPC will be hosted by the Tanana Chiefs Conference in Fairbanks.
- **1,188** homes (up from 488 last year) were weatherized in **11** communities that increased the safety, energy-efficiency and comfort of the homes providing employment to **nearly 300** locally-hired carpenters and weatherization workers and field supervisors that included two of the typically highest unemployment regions, Western and Northwest Alaska, as well as Anchorage and Juneau.
- **Nine** families in Kenai became home owners through the Self-Help Housing program, bringing the total to **36** homes constructed, with **18** more homes funded for the next two years.
- Housing First's Karluk Manor opening in December, 2011 in Fairview added **46** units of safe and secure rental housing for long-term chronically homeless, increasing affordable housing units in Anchorage to **118**—it has seen good results in its first year of operation.

In closing I would like to reiterate that RurAL CAP strives to be a responsible steward of public funds. We run some of the most scrutinized federal and state programs in the nation including Head Start, Alaska Housing Finance Corporation programs, AmeriCorps, and CSBG. We pride ourselves on being a grantee in good standing for all of our programs and services. We place a high value on getting clean financial and program audits, and we strive to provide cost-effective services that get results.

This concludes our testimony for the FY 2014 Community Services Block Grant State Plan.

Thank you; we are happy to answer any questions.

[9:04:35 AM](#)

REPRESENTATIVE REINBOLD inquired as to the total budget for Rural CAP.

MR. HARDENBERGH answered that the total budget for the nonprofit portion of Rural CAP is \$40 million a year.

[9:05:21 AM](#)

REPRESENTATIVE REINBOLD asked if all the employees of Rural CAP are nonunion.

MR. HARDENBERGH replied yes. However, he noted that a year ago, Rural CAP competed for and was awarded the weatherization program in Anchorage that had formerly been administered by the Municipality of Anchorage with union employees. Many of those [union employees] remained with the weatherization program and became Rural CAP employees at which point they became nonunion employees.

[9:06:02 AM](#)

REPRESENTATIVE REINBOLD expressed interest in whether [Rural CAP] brings savings to the state. She then inquired as to the number of employees of Rural CAP and the benefit packages for them.

MR. HARDENBERGH informed the committee that for the 2012 calendar year just over 1,000 W2s were distributed of which about 600 were considered temporary employees who worked up to six months and worked mostly in seasonal construction jobs with the weatherization program. Rural CAP also has about 400 employees on a typical payroll of which those who are full-time employees are eligible for regular benefits. The benefit package for regular employees offers much less than the state in terms of retirement. He explained that employees have to remain employed for a certain time in order to be eligible for the health insurance, which has a \$2,000 deductible. Rural CAP employees also receive dental benefits with a cap. Mr. Hardenbergh related that Rural CAP tries to find a balance between providing decent pay and benefits and remaining

competitive; to that end RurAL CAP has a federally approved indirect rate of 11 percent, which is fairly competitive in the nonprofit arena.

[9:08:32 AM](#)

REPRESENTATIVE REINBOLD remarked that she didn't realize RurAL CAP was doing all that it is. She then inquired as to where in the audits does it show that RurAL CAP is doing well with programs such as Parents as Teachers and early mentorship programs. Such information regarding outcomes wasn't available to the [House Finance Subcommittee on Education & Early Development] when it was cutting some of programs Rural CAP administers.

MR. HARDENBERGH offered to provide members with copies of RurAL CAP's audits. There is a large, agency-wide annual audit that is conducted by an independent CPA firm. The audit committee on the Board of Directors of RurAL CAP oversees the audit process. Technically, the auditors work for the board. When an annual audit is referred to as clean it means there are no findings, no areas of disagreement with management, and no material weaknesses in RurAL CAP's accounting/finance system. In addition to the annual audit, which generates the financial statements for the entire organization for an entire fiscal year, there are a number of program audits. Program audits can include an audit of the Head Start program, which would be a team of more than 30 national auditors traveling to all of the state's Head Start communities and rural sites to go through the 1,700 performance standards for administering the Head Start program.

[9:11:19 AM](#)

REPRESENTATIVE REINBOLD clarified that she's really interested in how many kids learned how to read and how much were energy costs lowered for residents. She highlighted that the state has 194,000-197,000 people on public assistance and that's not sustainable, which is why the legislature needs to do all it can to make these folks on public assistance as independent as they can be once the [state] has taken care of them. She then asked whether RurAL CAP makes any policy decisions.

MS. SCANLAN informed the committee that under the Parents as Teachers program 377 families in 20 communities were served. She offered to provide to the committee the data RurAL CAP has in terms of real outcomes for programs such as Parents as

Teachers and Head Start as well as the Energy Wise program. Some of that data is included in the annual report.

9:12:51 AM

REPRESENTATIVE REINBOLD said she would appreciate such data as she doesn't want to make the wrong cuts. She noted that such data wasn't provided to the [House Finance Subcommittee on Education & Early Development]. Representative Reinbold, regarding policy decisions of RurAL CAP, asked whether RurAL CAP is trying to encourage economic development, such as resource development, in order to avoid leaving people, once programs are cut, without support.

MR. HARDENBERGH specified that technically the RurAL CAP Board of Directors approves agency policies or a strategic plan. The staff implements those policies and approves procedures and writes funding proposals for new programs. He then provided an example of economic development when years ago the board approved RurAL CAP exploring a for-profit subsidiary. That private for-profit venture has become a small company called Rural Energy Enterprises, a wholly owned subsidiary of RurAL CAP the nonprofit. Rural Energy Enterprises has 12 or so employees and \$10 million in annual sales of energy efficient heating and lighting projects supports about 350 small businesses, retailers. Rural Energy Enterprises is a wholesale distributor that provides training to the retailers and support for parts and service. Rural Energy Enterprises sells wholesale products for items such as Toyo Stoves across 350 small businesses in Alaska, Western Canada, and the Pacific Northwest. However, most of the customers, the retail businesses, are based in Alaska with the majority being in rural Alaska. The retail business ranges in size from large heating and plumbing distributors, such as Spenard Building Supply, to small mom and pop operations in very remote rural communities. Although those employees may not be employees of [Rural Energy Enterprises], employment opportunities are provided because [Rural Energy Enterprises] supports those businesses. Therefore, RurAL CAP encourages economic development. He then complimented Representative Reinbold on her line of questioning in terms of reviewing measurable outcomes from the low income individuals who are being served. Through the Results Oriented Management and Accountability (ROMA) system, RurAL CAP measures such things as how many four- to five-year-olds are ready for kindergarten in terms of reading levels and health and dental screenings. The ROMA evaluation system, he explained, breaks down the experience of those being served from their perspective. For a

homeless person in Anchorage, for example, ROMA would measure when the first contact with an outreach person was made, when the individual walked through the door of the Homeward Bound program, what are their personal goals for becoming self-sufficient, and when did they succumb to an addiction. Tracking various milestones includes the goal of eventually achieving employment, that is a sustainable source of income and moving into independent living. The cost of getting a homeless individual off the street, the cost to achieve 50 percent energy efficient for a home heating, and the cost to move three- to four-year-old children through a Head Start program prepared for kindergarten are the types of outcomes tracked with the ROMA system.

[9:17:41 AM](#)

REPRESENTATIVE HERRON inquired as to the amount of state general fund (GF) dollars RurAL CAP receives.

MR. HARDENBERGH clarified that RurAL CAP receives no state funds for the Community Services Block Grant. However, as a private nonprofit, RurAL CAP competes for other grants and has other state grants, such as those to support substance abuse prevention services. He then noted that under the Alaska Housing Finance Corporation (AHFC), RurAL CAP competes for state funds to run housing or weatherization programs. Again, he emphasized that there are no state funds for the Community Services Block Grant.

[9:18:30 AM](#)

REPRESENTATIVE HERRON highlighted that the legislature doesn't cut federal programs and other than the \$55,000 that DCCED takes, it's all federal dollars for which [RurAL CAP] is responsible. In conclusion, Representative Herron said RurAL CAP is doing a good job.

[9:19:01 AM](#)

CO-CHAIR NAGEAK mentioned that he has been involved with RurAL CAP for a very long time. RurAL CAP is so thorough and tracks everything. He applauded all of RurAL CAP that has committed staff who have been there for a long time and noted his pride in it. He noted that as a member of the Bush caucus, he is a member of the RurAL CAP Board of Directors.

[9:21:32 AM](#)

REPRESENTATIVE HERRON shared that as a member of the Bush caucus he is a former member of the RurAL CAP Board of Directors. He opined that the Community Block Grant system within RurAL CAP is a good system that takes care of a lot of Alaskans, whether they are in rural or urban areas.

[9:22:26 AM](#)

CO-CHAIR LEDOUX recalled hearing that while the results for students in Head Start at kindergarten level looked good, by the time they reached third grade there was no discernible difference between those who had and those who had not been through Head Start. She inquired as to whether that study is correct.

MR. HARDENBERGH said he didn't have an answer because there are many conflicting studies. That study, which he noted he has read, directly conflicts with other studies purporting to be researched independently that for every \$1 invested in Head Start and other high quality preschool or early education, there is a \$7 savings to society that carries on through high school. This takes into consideration incarceration, high school dropout rates, teenage pregnancy, and other performance standards. Mr. Hardenbergh likened this debate to that on research on both sides of climate change and global warming. One can find a study on the Internet that supports their particular point of view with regard to Head Start or early childhood preschool programs. He said although he doesn't know how long the benefit lasts, he knows the measurable results of three- to four-year-olds in [RurAL CAP's Head Start] program and believe they are better prepared to enter the public school system than their peers in communities that don't have Head Start.

MS. SCANLAN recalled that her mother was in the first batch of people trained in the mid-1960s to teach Headstart. This was a time of many changes in rural Alaska, such that life was becoming easier with running water, electricity, and snow machines while alcohol and substance abuse were coming into play. She characterized Head Start during that time as a safe haven for many, a good meal and a source of care, attention, love, and learning. She said she always felt Head Start was the program that made a difference for many children in many ways. While there may not always be measurable differences, she opined that the Head Start program made a huge difference in the lives of many children in the late 1960s.

[9:26:50 AM](#)

REPRESENTATIVE REINBOLD emphasized that the [House Finance Subcommittee on Education & Early Development] did make cuts to Headstart and Parents as Teachers programs. Therefore, she urged RurAL CAP to go before [the subcommittee] with the data because it was asked for a number of times. She then noted some of those [on the subcommittee] questioned the cuts made, which she attributed to the lack of data. In conclusion, Representative Reinbold said she was amazed with how many programs with which RurAL CAP is involved and expressed interest in the data-driven results.

MS. SCANLAN referred Representative Reinbold to Debbie Baldwin, Director, Child Development Division, who was present at the aforementioned [subcommittee] meetings, although the opportunity for her to provide the data did not present itself. She said she would contact Ms. Baldwin regarding providing the data.

[9:28:41 AM](#)

**ADJOURNMENT**

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 9:28 a.m.