

HOUSE FINANCE COMMITTEE
January 28, 2013
1:31 p.m.

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CALL TO ORDER

Co-Chair Austerman called the House Finance Committee meeting to order at 1:31 p.m.

MEMBERS PRESENT

Representative Alan Austerman, Co-Chair
Representative Mark Neuman, Vice-Chair
Representative Mia Costello
Representative Bryce Edgmon
Representative Les Gara
Representative Lindsey Holmes
Representative Scott Kawasaki, Alternate
Representative Cathy Munoz
Representative Steve Thompson
Representative Tammie Wilson

MEMBERS ABSENT

Representative Bill Stoltze, Co-Chair
Representative David Guttenberg

ALSO PRESENT

Ed Fogels, Deputy Commissioner, Department of Natural Resources; Joe Balash, Deputy Commissioner, Department of Natural Resources; Jean Davis, Director, Support Services Division, Department of Natural Resources; Pat Kemp, Acting Commissioner, Department of Transportation and Public Facilities; Mary Siroky, Director, Division of Administrative Services, Department of Transportation and Public Facilities;

SUMMARY

FY14 GOVERNOR'S BUDGET OVERVIEW:

Department of Natural Resources
Department of Transportation

HB 65 APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 65 was HEARD and HELD in committee for further consideration.

HB 66 APPROP: MENTAL HEALTH BUDGET

HB 66 was HEARD and HELD in committee for further consideration.

#hb65

#hb66

HOUSE BILL NO. 65

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs, capitalizing funds, amending appropriations, and making reappropriations; and providing for an effective date."

HOUSE BILL NO. 66

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

Co-Chair Austerman stated that the House Finance Subcommittee on Health and Social Services had met as a committee as a whole on January 23 for the Department's budget overview. He related that because all the members of the House Finance Committee sat on the Health and Social Services (DHSS) Subcommittee, the overview would not be repeated; however, the minutes from the House Finance Subcommittee's DHSS Budget Overview would be included in the current meetings minutes. [Note: Minutes from the January 23, 2013 Department of Health and Social Services Subcommittee DHSS Budget Overview are attached at the end of this meeting.]

^FY 14 GOVERNOR'S DEPARTMENT OVERVIEW: DEPARTMENT OF NATURAL RESOURCES

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ED FOGELS, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, began the budget overview, "State of Alaska

Department of Natural Resources"(copy on file).discussed slide 4 "State of Alaska Department of Natural Resources." The slide detailed the department's core services and included the mission statement:

Article 8, Section 1 of the Alaska Constitution provides:

•"It is the policy of the State to encourage the settlement of its land and the development of its resources by making them available for maximum use consistent with the public interest."

DNR Mission Statement:

•Responsibly develop Alaska's resources by making them available for maximum use and benefit consistent with the public interest.

DNR Core Services:

1. Foster responsible commercial development and use of state land and natural resources, consistent with the public interest, for long-term wealth and employment
2. Provide access to state lands for public and private use, settlement, and recreation
3. Ensure sufficient data acquisition and assessment of land and resources to foster responsible resource development
4. Mitigate threat to the public from natural hazards by providing comprehensive fire protection services on state, private, and municipal lands, and through identifying significant geological hazards

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Mr. Fogels spoke to slide 5, which provided the department's land management details:

Land Ownership

- Federal Land: More than 200 million acres
- State Land: Approx. 100 million acres of uplands, 60 million acres of tidelands, shore lands, and submerged lands, and 40,000 miles of coastline
- Native Corporation Land: 44 million acres

DNR:

- Manages one of the largest portfolios of oil, gas, minerals, renewable resources, water, and land in the world
- Manages all oil and gas fields on state land, including two of the largest oil and gas fields in North America
- Oversees all activities that occur on state land

Mr. Fogels pointed to slide 6, "Alaska as a Storehouse: Hydrocarbons." Compared to most basins, Alaska is relatively underexplored, with 500 exploration wells on the North Slope, compared to Wyoming's 19,000. The slide further detailed:

North Slope

USGS estimates that Alaska's North Slope has more oil than any other Arctic nation

- **OIL:** Est. 40 billion barrels of conventional oil (USGS & BOEMRE)
- **GAS:** Est. over 200 trillion cubic feet of conventional natural gas (USGS)
- Alaska has world-class unconventional resources, including tens of billions of barrels of heavy oil, shale oil, and viscous oil, and hundreds of trillions of cubic feet of shale gas, tight gas, and gas hydrates
 - Positive methane hydrate test production

Cook Inlet

USGS estimates that significant undiscovered volumes of hydrocarbons remain to be found in the Cook Inlet:

- 19 trillion cubic feet of natural gas
- 600 million barrels of oil
- 46 million barrels of natural gas liquids

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Mr. Fogels discussed slide 7, "Alaska as a Storehouse-Strategic & Critical Minerals":

The State of Alaska Ranks in the Top Ten in the World for Important Minerals, Including:

- Coal:** 17 percent of the world's coal; 2nd most in the world
- Copper:** 6 percent of the world's copper; 3rd most in the world

- Lead:** 2 percent of the world's lead; 6th most in the world
- Gold:** 3 percent of the world's gold; 7th most in the world
- Zinc:** 3 percent of the world's zinc; 8th most in the world
- Silver:** 2 percent of the world's silver; 8th most in the world USGS estimates

According to the USGS, Alaska has over 70 occurrences of Rare Earth Elements (REE).

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Mr. Fogels spoke to slides 8 through 11, "State of Alaska-DNR has 7 divisions":

1. Division of Agriculture (DoA)

- Franci Havemeister, Director
- 47 full and part-time budgeted positions
- 4.6% of DNR's FY14 Operating Budget Request
- \$7,760.8 budget request (all sources)
- Promotes and encourages development of an agriculture industry in Alaska

2. Division of Forestry (DoF)

- Chris Maisch, Director
- 276 full and part-time budgeted positions (does not include the hundreds of fire season crews)
- 27.5% of DNR's FY14 Operating Budget Request
- \$46,737.3 budget request (all sources)
- Serves Alaskans through forest management and wildland fire protection

3. Division of Geological & Geophysical Surveys (DGGS)

- Bob Swenson, Director
 - 55 full and part-time budgeted positions
 - 5.6% of DNR's FY14 Operating Budget Request
 - \$9,468.5 budget request (all sources)
 - Determines the potential of Alaskan land for production of metals, minerals, fuels, and geothermal resources, the locations and supplies of groundwater and construction material, and the potential geologic hazards to buildings, roads, bridges, and other installations
- State of Alaska
DNR has 7 Divisions

4. Mining Land and Water

- Brent Goodrum, Director
- 227 full and part-time budgeted positions
- 16.8% of DNR's FY14 Operating Budget Request
- \$28,631.2 budget request (all sources)
- Provides for the appropriate use and management of Alaska's state owned land and water, aiming toward maximum use consistent with the public interest

5. Oil & Gas

- Bill Barron, Director
- 100 full and part-time budgeted positions
- 10.1% of DNR's FY14 Operating Budget Request
- \$17,138.5 budget request (all sources)
- Responsible for the leasing of state lands for oil, gas, and geothermal exploration

6. Parks & Outdoor Recreation

- Ben Ellis, Director
- 185 full and part-time budgeted positions
- 9.6% of DNR's FY14 Operating Budget Request
- \$16,399.1 budget request (all sources)
- Provides outdoor recreation opportunities and conserves and interprets natural, cultural, and historic resources for the use, enjoyment, and welfare of the people

7. Support Services

- Jean Davis, Director
 - 130 full and part-time budgeted positions
 - 7.7% of DNR's FY14 Operating Budget Request
 - \$13,162.6 budget request (all sources)
 - Provides client-focused, efficient and cost-effective financial, budget, procurement, human resource, information technology and recording services to DNR and the public
- State of Alaska DNR has 7 Divisions

Office of the Commissioner

- Dan Sullivan, Commissioner
- 10 full-time budgeted positions
- 1.00% of DNR's FY14 Operating Budget Request
- \$1,712.3 budget request (all sources)

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Mr. Fogels pointed to slides 12 and 13, "State of Alaska-DNR Offices":

Gas Pipeline Project Office

- Eric Hatleberg, Acting Director
- 7 full-time budgeted positions
- 1.8% of DNR's FY14 Operating Budget Request
- \$2,997.8 budget request (all sources)
- Monitors efforts by the Alaska Pipeline Project (APP) to design, develop, construct and operate a 48-inch natural gas pipeline to commercialize North Slope natural gas

State Pipeline Coordinator's Office

- Mike Thompson, State Pipeline Coordinator
- 30 full and part-time budgeted positions
- 4.6% of DNR's FY13 Operating Budget Request
- \$7,870.1 budget request (all sources)
- Issues leases of state land for pipeline rights-of-ways and implements the state's policy set forth in Alaska Statute (AS) 38.35.010 concerning the development, use, and control of a pipeline transportation system within the state

Office of Project Management & Permitting

- Tom Crafford, Director
- 16 full-time budgeted positions
- 4.7% of DNR's FY14 Operating Budget Request
- \$7,964.3 budget request (all sources)
- Coordinates the review of larger scale projects in the state

Alaska Mental Health Trust Land Office

- Greg Jones, Executive Director
- 18 full and part-time budgeted positions
- 2.4% of DNR's FY14 Operating Budget Request
- \$3,996.1 budget request (all sources)
- Protecting and enhancing the value of Alaska Mental Health Trust Lands while maximizing revenues from those lands over time

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Mr. Fogels addressed slide 14, "Key Performance Measures." The slide showed the increase in the Dollars that were committed to memorandums of understanding with the Office of Project Management and Permitting for large project

coordination. With each year that passed by there was more activity in the state and the department served a useful and valuable service in coordinating the permitting of projects.

Mr. Fogels spoke to slide 15, "Key Performance Measures." The slide illustrated the monetary value of agricultural products sold in Millions. The Division of Agriculture was not directly responsible for the performance measure; however, the department looked to it in order to increase awareness of Alaska Grown products and market options, as well as to expand gross product sales.

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Mr. Fogels discussed slide 16, "Key Performance Measures." The slide charted Alaska boating fatalities. The boating safety program had reduced the number of boating fatalities in the state.

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JOE BALASH, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, discussed slide 18, "Secure Alaska's Future: Oil." He related that declining oil through TAPS was the most critical economic issue facing the state:

- TAPS has transported over 16.3 billion barrels of oil and natural gas liquids since June of 1977. Production peaked at 2.2 million barrels per day in the late 1980s, representing 25% of U.S. domestic production
- Since its peak, however, throughput has steadily declined; today, TAPS is 2/3 empty and declining at 6% per year
- TAPS throughput decline threatens economic disruption and the very existence of our pipeline
- We must encourage industry to invest in exploration and development of conventional and unconventional resources on state and federal land, onshore and offshore
- TAPS has plenty of capacity for increased throughput

- Most near-term critical economic issue facing the state

- Less oil in the pipeline year after year takes away revenue from future generations—the ultimate giveaway

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Mr. Balash addressed slide 19, "Secure Alaska's Future: Oil." The slide listed the state's comprehensive strategy to increase TAPS throughput to one million barrels per day:

I. Enhance Alaska's global competitiveness and investment climate

II. Ensure the permitting process is structured and efficient

III. Facilitate and incentivize the next phases of North Slope development

IV. Promote Alaska's resources and positive investment climate to world markets

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Mr. Balash pointed to slide 20, "Cook Inlet, NS & Beaufort Sea Lease Sales." He related that the strategy was proving successful:

Cook Inlet, 2011 & 2012 Lease Sales

- In June 2011, the state received the highest number of Cook Inlet lease sale bids in 28 years, totaling over \$11 million

 - oTotal tracts sold: 108

 - oTotal high bonus bids: \$10,986,826.20

- In May 2012, Cook Inlet lease sale bids totaled more than \$6.8 million

 - oTotal tracts sold: 44

 - oTotal high bonus bids: \$6,865,835

NS & Beaufort Sea, 2011 & 2012 Lease Sales

- In December 2011, the Division of Oil and Gas received more than 300 bids from more than 15 bidders, totaling more than \$21 million, signifying one of the most successful sales in recent Alaska history

 - oTotal tracts sold: 239

- oTotal high bonus bids: \$18,712,945.98
- In November 2012, bids for all areas totaled more than \$14 million with tracts sold in the Foothills area for the first time since 2009
 - oTotal tracts sold: 122
 - oTotal high bonus bids: \$14,240,333.73
- State needs billions of dollars in new investment to meet the Governor's one-million-barrels-a-day goal

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Mr. Balash discussed slide 21, "North Slope: Recent and Proposed Activity." The slide illustrated North Slope oil and gas activity in 2012. He relayed that the state had parties looking into the full range of resources on the slope, both in the legacy fields and in new areas. He pointed out that a very small improvement in a legacy field far surpassed the arrival of new production in new fields. He stressed that the state's legacy partners were important and should not be forgotten.

Mr. Balash pointed to slide 22, "Next Phases & New Areas of Exploration for NS Oil and Gas." He noted that while some fields were maturing, the basin itself was relatively underexplored. The slide listed opportunities for the future:

- Shale oil exploration - ongoing
 - oJuly 31st conference in Anchorage on Shale Oil
- Shell finally was able to drill its first exploratory wells in the Beaufort and Chukchi Seas
- Record of federal permitting delays should be a continued source of concern for the State
- Eastern North Slope open, PT settled
 - oPT permits issued by the State and the Corps of Engineers
- Linc Energy drilling operations at Umiat are moving forward
- New players, operators and exploration on state land
 - oShell, Repsol, Brooks Range, Great Bear, Savant
 - oExxon Mobil, Conoco Phillips

•These developments, while positive, are just scratching the surface of our overall potential

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Mr. Balash spoke to slides 23 and 24, "Cook Inlet-Oil and Gas Activity":

- Legislative tax and investment incentives are working
- Old and new players exploring and investing: Apache, Hilcorp, Armstrong, Linc, Buccaneer, Nordaq, Furie, Cook Inlet Energy, ConocoPhillips, CIRI
- Hundreds of millions invested in 2012
- Dramatic increase in number of drill rigs in inlet - either idle, available or stacked
 - oIn November 2006, 9 rigs
 - oIn November 2009, 12 rigs
 - oIn November 2012, 17 rigs (includes 2 jack-up rigs)
- Companies shooting major 3-D seismic over large areas of the basin
 - oNever previously done at this scale with this sophisticated technology
 - oPresents huge opportunities for development
- New gas storage project on line; important for supply security and more steady year-round production, and peak availability
- Attractive price for gas relative to Lower 48 markets - but challenged by a relatively small market
- State continues to focus on safe, responsible development and operations

Mr. Balash stated that the state owed a lot to Cook Inlet Sedimentary Basin; it paved the way to statehood and was a hotbed of activity during the 1950's and 1960's, until the discovery of Prudhoe Bay in 1968. Consequentially, all of the attention was redirected to the North Slope and for three decades Cook Inlet was forgotten. In recent years a consolidation had been seen in the existing assets with the

arrival of new and credible players attracted by incentives created by the legislature.

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Mr. Balash addressed slide 25, "Commercializing NS Gas: 2012 State of the State and Benchmarks":

Key principles for any project

- Gas to address Alaska's in-state needs for abundant supplies of low-cost energy and economic growth
- Gas that will maximize the value of the state's massive resource base through high-volume and export markets
- A project that incentivizes exploration and investment in continued oil and gas development

Governor's Roadmap to Gasline

1. Resolve Point Thomson
2. Align during the first quarter of 2012
3. Two projects—under AGIA and AGDC—complete discussions by third quarter of 2012 determining what potential exists to consolidate projects
4. Harden numbers on an Alaska LNG project by the third quarter of 2012, and identify a pipeline project and associated work schedule
5. If milestones are met, the 2013 Legislature takes up gas tax legislation designed to move the project forward

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Mr. Balash discussed slides 26 through 29, "Commercializing NS Gas Significant Progress." Slide 26 showed a letter from the Chief Executive Officers of ExxonMobil, ConocoPhillips and British Petroleum. He noted the call out box on the slide which highlighted key points:

"Serious discussions between our companies have taken place over the past several months, along with the Alaska Pipeline Project (APP) parties who are supporting the AGIA License. We have aligned on a structured, steward able and transparent approach with the aim to commercialize North Slope natural gas resources within an AGIA framework. As a result of the rapidly evolving global market, large-scale liquefied

natural gas (LNG) exports from south-central Alaska will be assessed as an alternative to gas lone exports through Alberta. In addition to broadening market access, a south-central Alaska LNG approach could more closely align with in-state energy demand and needs. We are now working together on the gas commercialization project concept selection, which would include an associated timeline and an assessment of major project components including in-state pipeline routes and capacities, global LNG trends, and LNG tidewater site locations, among others."

Mr. Balash spoke to slide 27, which contained a second letter from the same three companies. He noted key points:

"On March 30, 2012, ExxonMobil, ConocoPhillips and BP submitted a letter informing you of progress in working together on the next generation of North Slope resource development. Since that time, the three producer companies and TransCanada, through its participation in the Alaska Pipeline Project (APP), have maintained momentum and executed important early work to select leading concepts for a potential project. We are writing to update you on the progress that has been made to date.

We have narrowed the broad range of alternative development concepts and assessed major project components, including that gas pipeline, gas treatment to remove CO2 and other impurities, natural gas liquefaction, LNG storage, and marine terminal facilities as described on Attachment 2. Individually, each of these components would represent a world-class project. Combined, they result in a mega-project of unprecedented scale and challenge; up to 1.7 million tons of steel, a peak construction workforce of up to 15,000, a permanent workforce of over 1,000 in Alaska, and an estimated total cost in today's dollars of \$45 to \$65+ billion."

Mr. Balash continued to Slide 28 which discussed the key factor of commercializing the development of Point Thomson:

The State of Alaska has made significant progress on commercializing North Slope gas

- Much of the upstream infrastructure is in place

- There is a renewed focus from key stakeholders on monetizing the massive reserves of North Slope gas
- Hundreds of millions of dollars have been spent on critical engineering and environmental regulatory and commercial work required for a gas project

WSJ: Alaska, Gas Firms Clear Way For Pipeline

Point Thomson settlement "...paves the way for a pipeline project to ship natural gas from the North Slope, unleashing the state's massive gas reserves." - WSJ, 3/30/12

FT: Oil Groups Agree on \$40bn Alaska Gas Project

"ExxonMobil, BP and ConocoPhillips have reached agreement with the state of Alaska to take a significant step forward on a \$40bn-plus project to export liquefied natural gas to Asia, resolving a long-running lease dispute that had been holding up progress.

In a joint letter, the chief executives of the three companies said they were "aligned" on a plan to develop the huge gas reserves of Alaska's North Slope, which until now have been stranded without a route to market." - Financial Times, 3/30/12

Mr. Balash continued to slide 29, which further detailed the progress that had been made in commercializing North Slope gas. He turned to slides 30 and 31, "Commercializing NS Gas Point Thomson":

- Point Thomson is a multi-billion dollar project
- Beginning construction now
- Producing Point Thomson liquid condensate into TAPS as part of Phase 1
- Big prize - gas commercialization for LNG
- Significant portion of infrastructure being built for Phase 1 is applicable to a gas line or LNG project
- Three phases of development in 2012: explaining/defending settlement; permitting; and getting to work

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Mr. Balash spoke to slide 32 titled "Commercializing NS Gas Comparative Advantages." He said that the department believed that these were advantages that positioned the state well in the marketplace:

- The North Slope of Alaska is estimated to have over 200 trillion cubic feet of conventional gas
- Conventional gas is not controversial—unconventional gas in the Lower 48 U.S. states remains controversial
- 35 trillion cubic feet of known reserves
- Prudhoe Bay reinjects 8 billion cubic feet of gas per day, which is enough to meet Canada's daily gas needs
- These numbers do not include the trillions of cubic feet of shale gas, tight gas, and gas hydrates estimated for the North Slope
- This is an almost inexhaustible supply of gas with new technology
- North Slope gas is "wet" gas with a high energy content (BTU value)
- An Alaska LNG project has complete certainty of supply; not all other projects do

Mr. Balash stressed that it was important that Alaska LNG be in high demand in the global market. He listed other comparative advantages of Alaska LNG:

- Existing oil and gas infrastructure on the North Slope can be utilized for a large-scale LNG project
- The route for a large-scale LNG project would be the same or similar to the existing Trans-Alaska Oil Pipeline route, which will save on costs and have a limited impact on the environment
- Alaska has a longstanding tradition of reliably exporting LNG to Asia
 - Alaska has been exporting LNG to Japan for over 40 years

oAlaska has transported 2.5 trillion cubic feet of gas to Asia (the majority to Japan) over this time
oAlaska has never missed a LNG cargo shipment to Asia

- Alaska is the only place in the United States exporting LNG
- Alaska does not use gas supplies for political purposes
- Avoids strategic shipping choke points that other sources of LNG must traverse
- Benefits from American legal and political stability and the rule of law
- No looming conflicts in the region
- Proximity/shipping costs are very low
- Use of existing infrastructure and pipeline routes reduces costs
- Cold weather efficiencies significantly decrease processing costs compared to warmer climates

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Mr. Balash addressed slide 34, which highlighted the difference in distance on the water between Alaska and potential LNG customers.

Co-Chair Austerman noted for the record that Representative Gara and Representative Wilson had joined the committee.

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Mr. Fogels addressed slide 35, "Secure Alaska's Future: Strategic and Critical Minerals":

Objective: To highlight Alaska's potential for exploration, development, and processing of strategic and critical minerals, including Rare Earth Elements (REEs)

"Secure Alaska's Future: Strategic Minerals" is a comprehensive strategy that will:

I. Undertake a statewide assessment of Alaska's strategic mineral potential—millions budgeted for this project

II. Provide support for the development of known or highly prospective strategic mineral occurrences throughout Alaska through infrastructure partnerships and incentives

III. Improve the structure and efficiency of permitting processes in order to expedite mineral development, including strategic minerals

IV. Deepen partnership and cooperation with the federal government, local governments, Native corporations, and other potential new entrants to encourage domestic exploration, development, and processing of REEs and other strategic minerals

V. Attract new investment and markets for Alaska's abundant mineral resources

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Mr. Fogels discussed slide 36, "Strategic and Critical Minerals: Recent Mining Activity":

In 2011, the gross mineral production value from Alaska totaled \$3.8 billion, up 16% since 2010. Mineral ore production had an export value of \$1.8 billion in 2011, nearly 40% of Alaska's total exports.

•Producing Mines in Alaska

- **Red Dog:** one of the world's largest zinc mines, produced over 555k tons of zinc and 78k tons of lead in 2011
- **Greens Creek:** among the world's top 10 silver mines, produced over 9.48 million ounces of silver, 56k ounces of gold, and 73k tons of zinc in 2011
- **Pogo:** produced 356k ounces of gold in 2011
- **Fort Knox:** produced 289.8k ounces of gold in 2011

- **Usibelli:** produced a record 2.2 million tons of low sulfur coal in 2011, exporting half of its production
 - **Nixon Fork:** gold and copper mine re-opened in 2011 and still in pre-commercial production phases
 - **Kensington:** 2011 was first year of production for this new gold mine—produced 88,420 ounces of gold
- Mr. Fogels spoke to slide 37, "Strategic and Critical Minerals: Recent Mining Activity":

In 2011, mineral exploration investment in Alaska totaled \$365 million - accounting for about one-third of the total spent on exploration in the U.S.

- Advanced exploration projects include:
 - **Donlin:** ~ 42.3 million ounces of gold (the only project currently in the permitting phase)
 - **Pebble:** ~ 80.6 billion pounds of copper, 107.4 million ounces of gold, and 5.6 billion pounds of molybdenum
 - **Bokan Mountain:** enriched in yttrium, dysprosium, and critical heavy Rare Earth Elements
 - **Money Knob:** ~20.6 million ounces of gold
 - **Niblack:** ~7.3 million tons of polymetallic (copper, gold, silver, and zinc) volcanogenic massive sulfide project
- 30 exploration projects spent over \$1 million each in 2011
- \$2.8 billion has been spent on mineral exploration in Alaska since 1981

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Mr. Fogels discussed slide 38, "Strategic and Critical Minerals: Statewide Assessment and Outreach":

- State is undergoing a statewide assessment for strategic and critical minerals - \$2.7M appropriated in FY2013 budget (and \$2.7M requested to continue in FY2014)
 - One of largest undertakings in the country
 - Looking to work with other public and private groups

- Information will be made available to public
- Held first "Alaska Strategic & Critical Minerals Summit" in Fairbanks in 2011. The event had:
 - Huge turnout
 - Very favorable national press

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Mr. Fogels addressed slide 39, "Strategic and Critical Mineral: Statewide Assessment and Outreach":

- Held second annual "Alaska Strategic & Critical Minerals Summit" in Fairbanks on November 30, 2012, at the Fairbanks Princess Riverside Lodge
- Speakers included:
 - State and Federal Government Officials and a representative from Japan Oil, Gas and Metals National Corporation (JOGMEC)
 - University of Alaska
 - Native Corporation leaders
 - Private Industry

Mr. Fogels announced that the summit would be an annual event.

Mr. Fogels spoke to slide 40, "Permitting Reform: Statewide Strategy":

Objective: Improve the State of Alaska's permitting processes in order to advance the public interest by ensuring projects are permitted in a timely, predictable and efficient manner while safeguarding the environment.

DNR has been working with a team from DNR, DEC, ADF&G, and LAW to develop and advance strategies that aim to:

I. Improve agencies' internal permitting structure to create a more efficient, timely, and certain process

II. Enhance coordination within different state departments and with different entities and stakeholders throughout the state

III. Seek input from the public about the permitting process including input from municipalities, industry and non-governmental organizations

IV. Improve coordination between the state and the federal government—federal permitting issues have a strong influence on state projects

V. Anticipate and plan for permitting the next phases of resource development, e.g. the Shale Oil Task Force

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Mr. Fogels spoke to slide 41, "Permitting Reform: Significant Progress":

- In FY12, the Legislature provided approximately \$2.7 million in operating funds for the Division of Mining, Land & Water to create efficiency, timeliness and certainty in the permitting process
- We are utilizing capital funding from FY12 (\$2.5M for the Unified Permit Project and Document Management) to focus on business management software and services
- In FY13, the Legislature approved the continuation of FY12 operating funds as part of the ongoing base for permitting and an additional \$950.0 to cover increased personnel costs and fill vacant positions focused on permitting
 - FY13 capital budget included \$3.3M to continue work on the Unified Permit Project, including the continuation of IT strategies and Business Process Management
- Permitting Reform Significant Progress
- We have filled and trained new and vacant positions
- We reclassified and updated over 50 position descriptions
- Since the beginning of FY12, the backlog has been reduced by 38.2% (1,015 authorizations)
- We have conducted public meetings statewide for input on state permitting processes
- We are evaluating internal processes to identify and fix inefficiencies

Mr. Fogels discussed slide 42, "Permitting Reform: Statutory Changes":

2012 Legislature - HB361

- The Division of Mining, Land and Water identified over 30 statutory changes that would help reduce applicant costs, create efficiencies, reduce redundancies, and reduce opportunities for legal challenges

- During the 2012 Legislative session, the Governor introduced HB 361, which included the highest priority changes related to leasing and disposal programs that would help reduce the permitting burden on the applicant and free more time for staff to work on processing applications

- HB 361 was passed and signed by the Governor

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Mr. Fogels addressed slide 43, "Agriculture: 2012 Overview of Accomplishments":

The Division of Agriculture continues to be very busy promoting and encouraging development of the agriculture industry in Alaska

- Worked to increase the demand for Alaska grown products; created strong advocacy for the Alaska grown program throughout the state

- Deepened DNR cooperation and coordination with the farming community

- Explored new marketing ventures to promote Alaska Grown program; instituted Restaurant Rewards Program to encourage the use of local produce

- Provided support and promotion to over 40 Farmers Markets throughout the state, which continue to grow in popularity

- Farm to School Program is recognized as a national leader

 - oProgram is actively engaged in 47 out of 54 school districts; 100% of the school districts have received the Alaska Seasonal Availability Chart. Five recipes utilizing Alaska Grown

products have been developed that meet federal school meal requirements.

- Sold 1,327 acres of agricultural land in the Northern Region
- Added 52 new farms to the Alaska Grown user list
- Published the Alaska Forage Manual (2012) and was nationally recognized for the following publications: Alaska Coastal Revegetation and Erosion Control Guide (2010) & Interior Alaska Revegetation & Erosion Control Guide (2012)

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Mr. Fogels discussed slide 44, Parks and Outdoor Recreation: 2012 Overview of Accomplishments":

Serves the Alaska public through outdoor recreation, educational programming, and access to public lands

- Recruited, hired and trained more than 700 park volunteers who donated more than 95,000 hours to the park system—a cash value of more than \$2 million
- Permitted 1,104 individuals to provide commercial recreational services in state park areas, which resulted in millions of dollars in direct and indirect economic benefit to the state
 - oIn 2011 (the most recent data available), sportfish guide businesses operating in 10 different state park areas generated approx. \$7.7 million in revenue; businesses that offered guided hikes in 14 different park areas generated approx. \$790,000 in revenue
- Lower Chatanika SRS was reinstated into active management thanks to local and legislative support
- 3 new public use cabins in Southeast (2 Eagle Beach SRA, 1 Juneau Channel Islands SMP); PUC occupancy increased 9% and overnight camping increased 3%
- 4 "Arts in the Parks" events statewide

- National honors, including: Joe McCullough, National Boating Safety Educator of the Year, and Judy Bittner, Dept. of Interior National Partners in Conservation Award

Mr. Fogles addressed slide 45, "Forestry-Timber Resources: 2012 Overview of Accomplishments":

Alaska has 17% of the nation's forest land

- Finished final report for Governor's Alaska Timber Jobs Task Force per AO 258; report makes 35 specific recommendations that span 8 substantive areas of the industry sector

- Sold 18,786,000 board feet of lumber to 34 Alaskan businesses

- Provided direct and indirect support to over 80 woody biomass projects - this is important work that is assisting many small, remote communities and larger roadside communities that are struggling with high energy costs for space heating and electrical needs

- Continue to work through the State Tongass Team to provide coordinated comments to USFS in regard to federal timber sales in the Tongass National Forest—a continual challenge

- Worked with Department of Law to support their efforts in appealing the invalidated Tongass National Forest exemption from the Roadless Rule in the 9th Circuit

- New marketing tag line: "Triple Bottom Line: Environment, Economy and Communities"

[2:09:15 PM](#)

Mr. Fogels spoke to slide 46, "Forestry - Wildland Fires: 2012 Overview and Accomplishments":

- Contained 95% of the fires in Critical and Full Protection Options at 10 acres or less during the 2012 season

- Responded to late-season wildfires in Dillingham and the Mat-Su Valley
- Provided assistance to Municipality of Anchorage in response to extreme wind and rain events and to the Mat-Su Borough in response to flooding
- Played a major role in providing firefighting assistance to the lower 48 states during a particularly difficult fire season for the Nation
- Provided a critical tactical asset for use by wildland fire managers in the form of fire retardant air tankers to supplement the USFS national air tanker fleet that has shrunk to an inadequate fleet
- Instructed 40 rural students in basic fire-fighting and 34 students in advanced fire-fighting at the Tok Wildland Fire Academy

Mr. Balash spoke to slide 48, "2013 Legislative Session & Beyond: Oil Tax Reform":

- The Governor has been encouraged by the consensus that has emerged over the past year
- Alaska should be in the forefront of this American energy renaissance rather than watch oil production continue to ebb
- Alaskans agree that something needs to be done
- Implementing comprehensive plan-tax reform remains key

Core Principles of Tax Reform:

- Must be fair to Alaskans
- Encourage new production
- Simple so that it restores balance to the system
- Durable for the long term

Status quo favored by some is unfair to Alaskans and unacceptable.

Mr. Balash addressed slide 49, "2013 Legislative Session and Beyond: Other Efforts":

Gas Commercialization

- Governor's new benchmarks in 2013 State of the State
- We will work to accelerate gas line development because of our urgent need for in-state energy
- The window of opportunity to sell Alaska LNG to Asian markets will not be open indefinitely
- Global competition is fierce
- Continued work on demand-pull

Permitting Reform

- Progress has been made but we will again pursue significant legislative efforts to create efficiencies by streamlining processes, reduce redundancies, and reduce opportunities for legal challenges
- Introduction by Governor of HB 77 builds on our comprehensive reform efforts; critical to state's future

Promoting the State

- Mineral Exploration Roundup Conference, Vancouver, January 28-31, 2013
- North American Prospect Expo, Houston, February 5-8, 2013
- "Alaska Grown" produce
- Alaska State Parks hosting "Arts in the Parks" throughout the summer
- Example: Oil & Gas Journal feature on Alaska

[2:12:38 PM](#)

JEAN DAVIS, DIRECTOR, SUPPORT SERVICES DIVISION, DEPARTMENT OF NATURAL RESOURCES, discussed slide 51, "DNR FY 2014 Budget: Employees and Budget Structure":

- DNR currently employs about 1,100 Alaskans in full-time and seasonal positions, with main offices in Anchorage, Juneau, Fairbanks and Palmer, and regional offices throughout the state

- The budget structure reorganization implemented by the Legislature in FY2012 has simplified the reporting and presentation of the budget. The FY2014 Governor's budget retains this structure.

[2:13:48 PM](#)

Ms. Davis discussed slide 52, "DNR FY 2014 Budget: Budget Growth Analysis (Prepared by Legislative Finance)", which contained a bar graph that reflected DNR's share of total agency operations, general fund only. Between FY 05 and FY 14 DNR's general fund budget grew by \$40 million, an average growth rate of 5.3 percent. The share of general fund for DNR when compared to all state agency budgets was 2 percent, down from 2.63 in FY 06.

[2:14:29 PM](#)

Ms. Davis spoke to slide 53, "DNR FY 2014 Budget: Budget Growth Analysis (Prepared by Legislative Finance)", which contained a bar graph reflecting DNR's percent of the total department's budget by funded group, all funds. General funds were 61 percent of the total budget in FY 05 and were 63 percent of the FY 14 Governor's budget.

Ms. Davis spoke to slide 54, "DNR FY 2014 Budget: Budget Growth Analysis (Prepared by Legislative Finance)", which was a line graph that illustrated the department's continued budget growth, general fund only, compared to 10 - year plan. The dark black line was the annual management plan, the green dotted line was the continuation of 5.3 percent annual growth, and the dotted black line charted DNR's 10 - year plan with initiatives.

Ms. Davis discussed slide 55, "DNR FY 2014 Budget: Budget Growth Analysis (Prepared by Legislative Finance)", which contained a line graph that detailed the department's

continued budget growth, all funds, compared to 10 - year plan.

Ms. Davis addressed slide 56, "DNR FY14 Budget: Operating Budget by Core Services," which contained a pie chart offering the percentages of core service distribution: foster responsible development, provide access to state lands, sufficient data acquisition and assessment, and mitigate natural hazard threats.

[2:16:55 PM](#)

Ms. Davis spoke to slide 57, "DNR FY 2014 Budget: Operating Budget by Division/Office." The slide contained a pie chart that broke down the operating budget funds by division. The FY 13 authorized operating budget was \$167, 522.5; the request for FY 14 was \$169,952.3. She noted that Fire Suppression was contained within the Division of Forestry.

Ms. Davis pointed to slide 58, "DNR FY 2012 Budget: Operating Budget by Core Services," which showed a breakdown of core services by the four funding source groups. She shared that Legislative Finance Division characterized the governor's request into two scenarios: adjusted base and the governor's new request items. The chart showed the comparison from what the department was currently operating under and the adjusted base. The key differences were outlined at the bottom of the slide. One-time items had been backed out of the adjusted base and would be considered a new request if reinstated.

[2:18:55 PM](#)

Ms. Davis discussed slide 59, "DNR FY 2014 Budget: Operating Budget by Core Services." The slide showed the adjusted base on the left side and the governor's budget on the right. The middle portion showed a 5.1 percent increase in general funds from the adjusted base to the governor's request. She noted the key changes in the bottom portion of the slide. The first five were a restoration of one-time items and amounted to approximately \$3.4 million. Below that line were the new items requested by the department for FY 14.

[2:20:07 PM](#)

Ms. Davis addressed slide 60, which listed the operating budget highlights, or the critical changes in the budget. The changes were listed by initiative; Secure Alaska's Future-Oil, Strategic Minerals, Gasline, Permitting, and Forestry/Agriculture/Parks.

[2:22:40 PM](#)

Ms. Davis pointed to slide 61, which listed the same initiatives as capital budget highlights.

Mr. Fogels concluded with slide, 62:

- The FY2014 Budget reflects our focus on DNR's core services and the Administration's major statewide initiatives
- Many challenges and opportunities
- Opportunities far outweigh the challenges, in large measure due to our abundant natural resource wealth
- Partnerships are key: public, stakeholders, legislature, private sector, Administration

[2:23:22 PM](#)

Representative Wilson discussed the graph on slide 57. She asked whether "Fire Suppression" meant what the state paid to put out wildfires.

Mr. Fogels responded that managing the forests was probably a component to preventing forest fires, but that it was dependent on where the fires broke out.

Representative Wilson queried whether DNR communicated with other agencies to explore better forest management.

Mr. Fogels responded that the wildfire fighting force in the state was a combination of local, municipal, and state agencies. He offered a more thorough briefing at a later date.

[2:25:10 PM](#)

Vice-Chair Neuman noted the increase in the department's budget size. He queried whether the department had projected any revenue streams to the state in anticipation of developed resources.

Mr. Balash replied that the department did have estimates on increased oil royalties due to the oil tax reform effort. He stated that the 5 percent growth figure was being knocked down significantly in the current budget. He related that the department's budget growth was at just over 2 percent.

[2:27:45 PM](#)

Vice-Chair Neuman asked if the department had estimated out the opportunities for the state to diversify income revenue streams.

Mr. Fogels responded that the department had taken a look at all the different divisions in order to determine revenue streams. He said that the department work further with the committee on the issue.

[2:29:24 PM](#)

Representative Kawasaki queried the amount of the request for the Hunting Guide Concession. He asked whether statutory language would be needed to make a change.

Mr. Fogels replied that the department, along with DF&G, was working to craft a guide concession program for the state. The states past exclusive guide area system had been deemed illegal by the Supreme Court. The department had been working on the program for many years and were working to create regulations for the program.

[2:32:02 PM](#)

Representative Kawasaki noted that he had expected to see an impact in DNR's budget from the dismantling of the Coastal Zone Management Program.

Mr. Balash replied that the program had been directed through the department and had been part of the FY 12 budget. The adjustments were made in the FY 12 budget cycle and had no specific increment or decrement associated with the program for the FY 13 budget. The division that formerly ran the program had been responsible for grants that were not being administratively run through the Office of Project Management and Permitting.

Representative Gara asked about how the number of exploration wells compared over the last 5 years.

Mr. Balash answered that it depended on how you counted the wells. He offered to get the numbers to the committee.

Representative Gara asked whether there was an expectation about when the maximum would be reached for hydrocarbon liquids and if projection could be found in the revenue forecast.

Mr. Balash replied that the pipeline would have a capacity of 70,000 barrels per day; in 2016 the expectation was that there would be 10,000 barrels per day of condensates recovered at Point Thomson and shipped through the pipeline.

[2:37:52 PM](#)

Representative Munoz wondered whether the department had improved due to the closure of the Coastal Zone Management Program.

Mr. Balash responded that one of the losses with the demise of the program was the loss of the coordination function. The department had been able to pick up some of that slack through the Office of Project Management and Permitting. With regard to local governments specifically, the department had executed a memorandum of understanding with the North Slope Borough and involved quarterly meeting with the borough mayor and the commissioner's offices, with monthly meetings at the staff level. Issues of concern and importance to the borough were kept in mind as the department made decisions. He said that the coordination had resulted in several jointly signed letters between the borough mayor and the commissioner; one on the federal permitting of Point Thomson, another was a request to the Department of the Interior for a seat at the table to undertake reviews of Shell's OCS program.

[2:41:16 PM](#)

AT EASE

[2:42:47 PM](#)

RECONVENED

[2:43:28 PM](#)

^FY 14 GOVERNOR'S BUDGET OVERVIEW: DEPARTMENT OF
TRANSPORTATION AND PUBLIC FACILITIES

[2:43:38 PM](#)

PAT KEMP, ACTING COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, related that he would be giving a brief overview of the department. He introduced staff.

Commissioner Kemp discussed slide 2, "Mission":

"Get Alaska moving through service and infrastructure."

To do this we:

- Provide for the safe and efficient movement of people and goods
- Provide access to state services
- Open opportunities for exploration and development of Alaska's resources

[2:45:10 PM](#)

Commissioner Kemp spoke to slide 3, "Statutory Requirements":

- AS 44.42 Department of Transportation and Public Facilities
- AS 44.68.010 Use of State-owned Vehicles
- AS 44.68.210 Highway Equipment Working Capital Fund
- AS 35 Public Buildings, Works, and Improvements
- AS 19 Highways and Ferries
- AS 19.10 State Highway System
- AS 19.10.300 Commercial Motor Vehicle Requirements
- AS 19.25 Utilities, Advertising, Encroachment and Memorials

- AS 19.65 Alaska Marine Highway System
- AS 19.65.050 Alaska Marine Highway System Fund and Budget
- AS 19.75 Knik Arm Bridge and Toll Authority
- AS 2 Aeronautics

Commissioner Kemp addressed slide 4, "Organization", which showed the organization flow chart of the department.

Commissioner Kemp discussed slide 5, "DOT & PF Assets":

- 3,186 full time positions
- Own and maintain 5,601 miles of roads/highways
- 84 Maintenance Stations
- 254 State Airports
- 2 International Airports
- 700 Facilities (4 million + sq. ft.)
- 11 ferries
- 35 Ferry Terminals
- 24 Harbors
- 805 State Owned Bridges
- 7 Weigh Stations

[2:47:40 PM](#)

Commissioner Kemp spoke to slide 6, "Core Services":

- Construction of transportation infrastructure & facilities
- Maintenance & operations of the state transportation systems
- Measurement standards/commercial vehicle enforcement

Commissioner Kemp discussed slide 7, "Priorities":

- Operate and maintain safe and reliable roads, airports, ferries & facilities
- Ensure Alaska has the transportation infrastructure necessary to grow the economy
- Develop and implement efficiencies in both the operating and capital budgets

Commissioner Kemp addressed slide 8, "Challenges":

- Moving Ahead for Progress 21st Century Act (MAP-21)
- Balancing budget against public needs, changing conditions and expectations
- Congestion in Anchorage and MatSu
- Safety corridors
- High cost of commodities
- Getting our resources to tidewater
- Federal oversight

[2:50:45 PM](#)

MARY SIROKY, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, discussed slide 9, "Measures & Results." Moving clockwise from top to bottom; the first graph illustrated the 3 - year moving average percentage change in traffic fatalities per 100 million vehicle miles traveled. She noted that the number of fatalities had been consistently low up until 2011. The uptake was considered random and the preliminary numbers for 2012 were expected to go back down. Graph two showed the increase in highway safety roads that met department standards. The goal of the department was to have the national highway system roads meet the national standards and had been making steady progress towards that end. The bottom left slide showed the reduction of rural airports that were seasonally closed. Shared that 82 percent of Alaska's communities were served primarily by air service and to not have air service resulted in a

significant impact on those communities. The department was working to reduce the number of seasonal airport closures. The final slide charted the Alaska Marine Highway System Vessel car deck capacity utilization. She stated that the department hoped to better utilize the car deck by marrying service to capacity. The department had made steady progress towards that end; when the department was able to marry the right vessel to the right service, the best utilizations were a result.

[2:54:13 PM](#)

Ms. Siroky spoke to slide 10 titled "FY2014 Operating Budget." The operating budget request was \$635,658.8 and consisted of \$359,391.4 of general funds, \$272, 422.8 of other funds and \$3, 844.6 of federal funds. Of the total request 63 percent of the budget was for personal services and 35 percent was services and commodities. The department spent a significant amount on contracts for professional to take care of rural airports, hauling snow, street sweeping and road maintenance.

[2:55:17 PM](#)

Ms. Siroky pointed to slide 11 titled "FY2014 Operating Budget Funding Sources." The significant portion of the operating budget came from general funds, 46 percent. Funds were also brought in from the Whittier Tunnel Toll Receipts, Vehicle Rental Tax Receipts, Marine Highway System Fund, Federal Funds, Inter-Agency Receipts (other), International Airport Revenue Funds, and the Highway Equipment Working Capital Fund.

Ms. Siroky addressed slide 12 titled "FY2014 GF Operating Allocations." The Alaska Marine Highway System (AMHS) used 46 percent of the general funds dollars in the operating budget. The second largest portion of the usage was for highways and aviation. The department built a large amount of infrastructure with federal dollars but could not use federal dollars to maintain the marine highway system. She noted that administrative support was a significant piece of the pie and included the Commissioner's Office, the Division of Administrative Services, Equal and Civil Rights enforcers, Internal Auditors, Transportation Management, Statewide Aviation Division and the Administration and support services for each of the department's regional offices.

[2:59:42 PM](#)

Ms. Siroky discussed slide 13, "FY2014 Operating Budget Changes." The operating budget request of \$14.182 million could be broken down into the following:

- Salary and Health
\$2,925.7

- New Initiatives
\$450.2

- Impacts to Highways & Aviation
\$5,274.3

- Maintain Current Level of Service (Baseline)
\$5,812.5

- Technical Adjustments
(\$164.8)

- One Time Items
(\$115.2)

[3:03:42 PM](#)

Ms. Siroky spoke to slide 14, "FY2014 DOT & PF Capital Budget." The FY 14 capital budget request was \$984,113.5, 79 percent of which was made up of federal funds. The funds supported both surface and aviation transportation programs.

Ms. Siroky addressed slide 15, which offered a look back at the department's funding over the last 10 years. She shared that the federal funding had become less and less in terms of the operating budget over the years. She stated that a change occurred from FY 05 to FY 06 in undesignated and designated general funds. The change was due to a shift in the budget structure with regard to the AMHS subsidy. Starting in FY 06, undesignated general funds were placed directly in the AMHS budget. Previously, the funds were placed into the AMHS funds and the budget expended the AMHS fund as designated general funds. The percentage of general funds was 49 percent in FY 05 and was now 58 percent in the FY 14 budget.

[3:06:00 PM](#)

Ms. Siroky spoke to slide 16, which illustrated that the department was 17 percent of the general funds operating budget. She related that the yellow boxes represented the fuel trigger.

Ms. Siroky discussed slide 17, "10-Year Projection Graph." She asserted that the department was diligently working to become a "flatline" agency. She noted that some small growth was expected due to the gasline. Slide 18, "10-year Projection Graph", offered the general fund component.

[3:07:11 PM](#)

Ms. Siroky addressed slide 19, "Information." She listed the current information on Alaska's roadways:

- Weather Cameras
- Weather Watches
- Road Construction
- Future Construction
- Incidents
- Driving Conditions
- Available by Phone or on the web

Ms. Siroky relayed that the Statewide Transportation Improvement Program (STIP) was searchable online. Additionally, the public could sign up to receive notices from the department on "Gov Delivery" or 511.Alaska.gov.

Co-Chair Austerman requested further discussion on the first bullet of slide 8 of the presentation.

Commissioner Kemp responded that the department would designate between \$70 million and \$100 million dollars to the Community Transportation Program; many projects in the mill were located within the program and the department did not have the funding for construction. The funding would go to the National Highway System and there was a set of performance measures that were being crafted on the federal level that the department would have to abide by. The department was concerned by several measures; for example, pavement ride. He opined that nowhere else in the nation were there roads constructed on permafrost; the state could not match pavement smoothness on the national level. The department had been promised a seat at the table during the rule making, but there were still concern. He said that by

the time the rules were written there would be a new highway bill.

Co-Chair Austerman understood that the standards had yet to be imposed because the rules had not been written.

Commissioner Kemp replied in the affirmative.

[3:10:36 PM](#)

Vice-Chair Neuman asked about the \$171 million for Community Transportation Programs. He believed that if the state did the projects they would cost considerably less because the federal funds were tied to so many rules. He understood that with MAP-21 if the state was to receive federal dollars the money would have to be spent on federal projects; state projects would require state funds.

Commissioner Kemp replied that he was unsure that he understood the question. He relayed that the department used general funds for all categories within the STIP. He related that under the federal guidelines, a project worked in steps; a project could not be designed until the process had been gone through incrementally. A way to leverage a project was to interject state funds; there were many ways that a project could be accelerated using state funds.

[3:13:09 PM](#)

Representative Holmes noted the increase in the de-icing program and inquired if any alternative technologies for de-icing had been considered.

Ms. Siroky responded that the requirements for de-icing were based on the number of landings per years. Not all of the state's jet airports required de-icing. She had not heard of any other means of de-icing than the chemical solution currently being used.

[3:15:02 PM](#)

Representative Munoz inquired how the municipal airports were handling the de-icing obligation.

Ms. Siroky restated that airports without jets landing were not required to de-ice. She said that the airport would

need to have 1,000 jet landings per year in order for de-icing to be required.

Representative Munoz inquired how the Juneau and Ketchikan airports would absorb the additional costs. She understood that the material was brought in in liquid form. She stressed that the requirement was a difficult one and wondered if the department had pursued an exemption for the Alaska.

Ms. Siroky replied that she would look in to.

Representative Gara said that in the past he had seen roads that had been torn up and resurfaced that hadn't seemed in disrepair. He wondered whether there was a way to implement a standard for resurfacing roads on an as-needed basis.

Commissioner Kemp replied that resurfacing should be based on need and rut depth as well as problems with the pavement. He shared that the department was working to implement hard aggregate into the pavement. He shared that Egan Drive, in Juneau, used to need to be paved every 5 years. Hard rock was brought up from Haines which bumped the repaving up to every 17 years. He stressed that hard aggregate should alleviate the issue.

[3:19:15 PM](#)

Representative Gara pointed out that the section of road between Cooper Landing and Talkeetna was very dangerous. He queried why the signs that used to be there were gone. He noted that drivers were unaware of where the pullouts were and requested that signs be added to that section of highway.

Commissioner Kemp replied that he would be happy to look into it.

[3:21:28 PM](#)

Representative Kawasaki spoke to slide 11. He understood that the AMHS was funded by receipts.

Ms. Siroky replied that the revenues were derived from passenger and car fares. She added that the system received and infusion of general fund dollars as well.

[3:22:41 PM](#)

Representative Kawasaki inquired if how the AMHS fares were identified.

Ms. Siroky replied that she would back to the committee with more details, but that she did not think that the fares had changed significantly in the past several years.

[3:24:14 PM](#)

Co-Chair Austerman discussed housekeeping.

HB 65 was HEARD and HELD in committee for further consideration.

HB 66 was HEARD and HELD in committee for further consideration.

[3:24:32 PM](#)

ADJOURNMENT

The meeting was adjourned at 3:24 p.m.

HOUSE FINANCE SUBCOMMITTEE
HEALTH AND SOCIAL SERVICES
January 23, 2013
8:33 a.m.

8:33:06 AM

CALL TO ORDER

Chair Neuman called the House Finance Health and Social Services Subcommittee meeting to order at 8:33 a.m.

MEMBERS PRESENT

Representative Mark Neuman, Chair
Representative Alan Austerman
Representative Bill Stoltze
Representative Mia Costello
Representative Bryce Edgmon

Representative Les Gara
Representative David Guttenberg
Representative Lindsey Holmes
Representative Cathy Munoz
Representative Steve Thompson
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

William Streur, Commissioner, Department of Health and Social Services; Sarah Woods, Deputy Director, Finance Management Services, Department of Health and Social Services; Amanda Ryder, Fiscal Analyst, Legislative Finance Division; Pete Ecklund, Staff, Representative Alan Austerman.

SUMMARY

OPERATING BUDGET OVERVIEW: DEPARTMENT OF HEALTH AND SOCIAL SERVICES

8:33:41 AM

Chair Neuman introduced committee staff. He welcomed the commissioner of the Department of Health and Social Services (DHSS) and relayed that the committee would hear an overview of the governor's proposed FY 14 budget for the department.

8:34:20 AM

WILLIAM STREUR, COMMISSIONER, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, introduced department staff.

Chair Neuman asked Commissioner Streur to follow up with additional detail on the areas staff specialized in. Commissioner Streur agreed.

Commissioner Streur provided a Power Point presentation titled "Innovation and Change: Department of Health and Social Services 2013." He shared his intent to provide a high level overview of the department's budget. He addressed a DHSS organizational chart on slide 2. He noted

that there were currently two vacancies including the assistant commissioner for Finance Management Services and the deputy commissioner for Medicaid and Health Care Policy; he elaborated that department staff were providing great support in both locations. He stated that the department had gone through many changes in the past year, which he planned to address throughout the presentation.

Commissioner Streur explained that DHSS had moved to a results based budgeting and management model; any funded items would be measured for effectiveness and efficiency going forward. He noted that the change would not be instantaneous, but the department was working hard on moving towards the measurement model. He listed the department's three priorities on slide 3:

- I. Health and Wellness across the Lifespan
- II. Health Care Access, Delivery, and Value
- III. Safe and Responsible Individuals, Families & Communities

8:39:06 AM

Commissioner Streur discussed Priority I on slide 4:

Priority I: Health and Wellness Across the Lifespan:

- A. Promote and protect the health of Alaskans
- B. Provide quality of life in a safe living environment for Alaskans

Commissioner Streur communicated that he had asked each of the divisions to define how they fit into Priority I. The divisions had determined the priorities and core services; therefore, each division would have its own set of core services and outcomes expected. He provided an example related to the department's mission to promote and protect the health of all Alaskans. He explained that the associated efficiency measure focused on the cost for percentage of improved health; each division would respond to the measure (e.g. Children's Services, Senior and Disability Services, Healthcare Services, and other).

Commissioner Streur pointed to Priority II on slide 5:

Priority II: Health Care Access, Delivery and Value

- A. Manage health care coverage for Alaskans in need
- B. Facilitate access to affordable health care for Alaskans

Commissioner Streur highlighted Priority III on slide 6:

Priority III: Safe and Responsible individuals, families and communities

- A. Strengthen Alaskan families
- B. Protect vulnerable Alaskans
- C. Promote personal responsibility and accountable decisions by Alaskans

Commissioner Streur emphasized the importance of making sure Alaskans had personal responsibility to ensure they had "skin in the game" and felt that they were a part of decisions made around their healthcare and social service needs. He used a "three legged stool" analogy for the role of the consumer, provider, and payer; it was important for all three groups to be a part of improving health in the state.

Chair Neuman asked Commissioner Streur to discuss work that had been done to encourage medical groups to use generic versions of prescription drugs. He provided a context of patients wanting new drugs before the generic version was available.

Commissioner Streur answered that the department had been working with the provider system. He had met with the Alaska State Medical Association and Alaska Physicians and Surgeons about their role related to prescriptions. He furthered that DHSS was moving back towards a primary care driven model; the goal was to push the management of health care to the primary care area and to have a "health home." The purpose of the health home would be to ensure that an individual was given sound advice and the capability to make some decisions about their healthcare. Additionally, the department would work with providers to locate areas that could be operated more effectively (e.g. to determine if repeating expensive procedures such as an MRI or CT scan was really necessary, whether high-cost brand name medication was necessary for first line medication, and other). He had been told by physicians that patients had torn prescription drug advertisements from magazines to show doctors what prescription they wanted. He stressed

that brand name drugs were expensive. The goal was to encourage medical providers to prescribe generic medication.

8:44:08 AM

Commissioner Streur continued to discuss generic medication. He explained that for every 1 percent increase in the use of generic medications, \$1 million was saved in the Medicaid budget. He shared that several million dollars had been saved in the current fiscal year and \$8 million had been saved the prior fiscal year. He expounded that the state had begun to fall behind on generic drug prescriptions in the past; Blue Cross was currently at 83 percent through Northwest America; Alaska was in the mid-70 percent range and had a long way to go. He reiterated that DHSS was working with the provider community on the issue.

8:45:06 AM

Representative Costello asked Commissioner Streur to repeat the savings statistic related to generic drug prescriptions. Commissioner Streur reiterated that \$1 million was saved in the Medicaid budget for each 1 percent increase in the use of generic medications.

Representative Guttenberg understood that it was important that consumers not "shop" for prescription drugs. He asked about the pharmaceutical community's influence on doctors related to prescribing medication. He wondered whether DHSS discussed the topic with the medical providers in Alaska.

Commissioner Streur replied in the affirmative. He complimented the federal government and the pharmaceutical industry for their efforts to prevent excessive influence on doctors related to prescriptions. He acknowledged there would continue to be some influence as pharmaceutical industry budgets were huge; however, some items had been curtailed (e.g. free lunches were not showing up in doctor offices from pharmaceutical companies any longer). He believed the problem had decreased substantially in the past five years. He relayed that doctors were willing to work with the department when they understood their personal role in the cost of health care. He added that providers were incentivized to work with the department given that that the alternative to increasing efficiency was reducing provider rates.

8:47:46 AM

Chair Neuman pointed out that there was a finite amount of money available for Medicare and Medicaid reimbursements.

Representative Holmes observed that specific individuals were responsible for driving a significant portion of the costs (e.g. individuals with chronic illnesses who went to a variety of providers). She wondered whether the department was moving towards a care coordination model in order to rein in costs.

Commissioner Streur answered in the affirmative. He elaborated that DHSS was moving toward high-cost case care management; its prior and retrospective authorization contract had been revitalized. The department was working to identify high-cost individuals who needed to be managed (e.g. diabetes and asthma patients who made emergency room visits because they were not making physicians' appointments or taking their prescriptions).

Representative Munoz stated that pharmacy benefit managers acted as the middlemen between manufacturers and retailers. She wondered whether the department reviewed contracts or state policies related to the managers to determine how costs were affected.

Commissioner Streur replied that DHSS had a pharmacy benefit manager for the Medicaid program. He believed the managers operated in 26 states and were under constant scrutiny; DHSS and its pharmacists did review the contracts. He added that the manager did meet most industry standards and was responsible for some prior authorizations, informing pharmacies of an individual's insurance coverage, if a person was filling a prescription too soon, and other.

8:51:22 AM

Representative Munoz pointed to legislation addressing the practices of pharmacy benefit managers in Alaska. She encouraged the department to review the legislation and believed there were opportunities to save costs.

Representative Guttenberg asked whether pharmaceutical management was conducted by the private sector. He stated

that the cost would go down as the size of the pool of buyers increased. He observed that Veterans' Assistance and Native healthcare both provided inexpensive pharmaceuticals. He was interested in driving costs down for all buyers and wondered whether DHSS was coordinating a larger pool of buyers with Medicaid or other in order to reduce costs.

Commissioner Streur answered that he and Becky Hultberg, Commissioner of the Department of Administration had been meeting with providers, insurers, and the medical industry to talk about the state's buying power. He emphasized the need for state departments to work together (e.g. Department of Corrections, Worker's Compensation, retirees, unions, and other) to look at buying power, innovation, and standardization across the industry. He would be happy to provide additional detail at a later time.

8:53:43 AM

Representative Gara shared that he had experienced significant savings through a Canadian pharmacy. He wondered whether the option could be given to Medicaid patients. Commissioner Streur answered in the negative. He noted that the practice was on the edge of being illegal.

Representative Gara explained that the prescriptions were imported through U.S. customs and sent to consumers as long as they met U.S. law.

Chair Neuman shared that he had asked Commissioner Streur to avoid the use of acronyms to provide clarity for the public. He shared that the DHSS subcommittee would be meeting year-round.

8:55:41 AM

Commissioner Streur addressed the department's service philosophy on slide 7. He stressed the importance of integrating and coordinating services. He shared that one of the department's greatest challenges was that it saw many of the same people in different divisions; it was important to begin focusing on the person. He explained that one of the budget increments was a master client index, which would enable staff to look online to determine other areas in the system a client was involved in. He believed the change would be important for the interest of

the clients and for fiscal reasons. He did not believe it did any good to sign an individual up for public assistance if they were not also signed up for Medicaid. He reiterated that the department needed to better coordinate and integrate its services.

Commissioner Streur continued with slide 7 related to strategically integrated technology. The department had distributed approximately \$34 million in federal funds to hospitals, physicians, and clinics for technology expansion to date. He communicated the department's mission to achieve results-based budgeting and management. The department was working to practice fiscal responsibility to be held accountable to Alaskans and the legislature; the goal was to ensure that the accountability was measurable. He addressed the department's efforts to measure and improve performance. He believed in the quality circle "plan, do, check, act"; improvement was a constant process. He stressed the importance of delivering "the right care to the right person at the right time for the right price."

8:58:22 AM

Representative Wilson wondered if coordination existed between programs such as Denali Kidcare and Medicaid for recipients of the Childcare Assistance Program. Commissioner Streur responded in the affirmative. He remarked that it was a work in progress and would keep the committee updated.

Commissioner Streur looked at DHSS major accomplishments on slide 8. He shared that one of the department's greatest challenges was obesity; the Play Every Day obesity prevention campaign was providing a benefit. He elaborated that telling parents to how to feed and get their kids outside daily was not the solution; however, results had been shown when kids encouraged other kids to eat healthier. The program had been in operation for 18 months and there were over 7,000 students in 110 schools across Alaska participating.

Commissioner Streur shared that the department's Senior and Disability Services Division had received a \$1 million award in Elder Services Case Management (one of only eight awards in the nation). He relayed that a Comprehensive Mental Health Integrated Plan had been established and was moving forward. Additionally, the department continued to

monitor radiation health support during Fukushima nuclear disaster (slide 8).

9:01:24 AM

Representative Guttenberg asked whether the state was receiving federal assistance related to Fukushima. Commissioner Streur replied that the federal government was responsible for the majority of the cost, but DHSS was the primary conduit for communication with Alaskans on the issue.

Commissioner Streur turned to slide 9 related to major accomplishments in health care access, delivery, and value. He relayed that there had been 75,000 health care visits provided by public health nurses across Alaska in FY 12. He believed that public health nurses were at the forefront of much of what the department did and that it went largely unrecognized; he acknowledged their role in community disasters (e.g. floods or earthquakes). He communicated that Aging and Disability Resource Centers had expanded to four regions and served 10,367 individuals in FY 12. He remarked that the figure was not huge, but that it was increasing quickly. He furthered that the centers were available to serve as a referral and information source for the rapidly growing senior population. There were 30 new community-based mental health programs expanding access for earlier interventions. He detailed that the mental health system in the past had been focused on when a person presented a severe mental health or substance abuse related issue. He opined that it was important to begin intervening earlier.

Commissioner Streur discussed that the Division of Public Assistance had received the U.S. Department of Agriculture performance award for being number one in the nation in payment accuracy rate (slide 10).

9:03:54 AM

Commissioner Streur read additional department accomplishments on slide 10:

- State maximum allowable cost pricing type for pharmaceuticals yielded nearly \$5 million in savings

- New training model for Public Assistance - Equips staff in 12 weeks. Former training program took nearly 2 years

Commissioner Streur expounded that the shorter Public Assistance training model was providing just as much knowledge as the prior program. He moved continued to discuss accomplishments on slide 11:

- Domestic Violence and Sexual Assault Rural Pilot Project (Dillingham, Bethel, Kodiak, Sitka)
- Suicide prevention training "Kognito At-Risk" 3-Year Pilot. High school teachers, administrators and staff
- Juvenile Justice Quality Assurance Unit allows for continual assessment and timely address of service gaps

Commissioner Streur detailed that the Domestic Violence and Sexual Assault initiatives had come from the department as a "waterfall" down from the governor's initiatives. He turned to a graph on slide 12 that depicted the \$1.8 billion cost of healthcare in Alaska including Department of Corrections, Medicaid, Workers Compensation, Teachers' Retirement System (TRS), Public Employees' Retirement System (PERS), and AlaskaCare. He noted that Medicaid accounted for \$1.6 billion of the total. He stressed that the state had a significant amount of buying power and that it needed to begin to assert that leverage. He opined that the closer the department could bring its programs together, the better off the system would be.

Chair Neuman pointed to a substantial healthcare cost increase on the tail-end [2009 through 2010] of the graph on slide 12. He wondered how the department saw the cost playing out in future years. Commissioner Streur answered that the cost had flattened significantly in 2011 and 2012, primarily because Medicaid costs were flattening considerably. He acknowledged decreases in other programs, but noted that they had continued to grow by 6.3 percent in the past two years. The growth was down from 9.1 percent in Medicaid and for PERS/TRS retirees. He stated that the curve was bending but had not been bent.

9:06:36 AM

Co-Chair Austerman asked whether the proposed FY 14 budget contained funds for Medicaid expansion. Commissioner Streur responded in the negative.

Commissioner Streur looked at key department challenges that included managing quality assisted living services for the rapidly aging population (slide 13). He stressed that the state's senior population was increasing at a significantly greater rate when compared to the Lower 48. The 65 years of age and older population had grown by 15 percent in the Lower 48 and by 70 percent in Alaska.

Chair Neuman asked the department to provide additional detail at a future meeting on services provided to seniors in Alaska. He noted that concern had been expressed by members related to some of the programs. Commissioner Streur responded in the affirmative.

Commissioner Streur pointed to another department challenge listed on slide 13:

- Chronic disease - three of every five deaths in Alaska are linked to chronic diseases. Primary risk factors are obesity, poor diet, lack of exercise and tobacco use.

Commissioner Streur added that great strides had been made towards curtailing tobacco use.

Commissioner Streur discussed additional challenges on slide 14. He shared that the Medicaid Management Information System (MMIS) design, development, and implementation had been a work in progress for many years. The system would be implemented in the fall of 2013. He explained that MMIS would allow the department to track and pay for services provided in the Medicaid system. He relayed that the current system was 27 years old; generating reports currently required 40 to 60 hours of programming. He added that the majority of the reports could not be saved and had to be redone if they needed to be updated in the future. The new system would allow for electronic payment and many other features that had not been available in the past. He stated the good news was that he "quit paying them at the two-year mark" and that "it has been entirely on the back of the bender up until we go live." He furthered that "it had not been without paying for us...but it's not been without paying for them and not getting paid."

Chair Neuman asked how MMIS would help the department reduce fraud cases and save money.

9:10:16 AM

Representative Gara referenced the chart on slide 12 and surmised that the state could save money if it had a list of preferred Medicaid providers. He felt that he had the best and least expensive physical therapy clinic in Anchorage. He wondered whether the state could create a list of preferred general practitioners based on clinics that charged reasonable rates.

Commissioner Streur answered that the state had a preferred provider network that included the majority of providers in Alaska; however, it did not have a best practices preferred provider network. The primary focus had been ensuring that Medicaid recipients had access to clinics.

Representative Gara asked whether creating a list of preferred providers that charged lower rates would help the state save money.

Commissioner Streur believed the question was difficult to answer. He furthered that he and Commissioner Hultberg were working to identify best practices; however it was a slippery slope in Alaska. He elaborated that providers that provided the best access did not necessarily provide the best care. The new system would allow DHSS to look at referral patterns, repeat visits, wellness, medication reviews, and other.

Representative Gara repeated his question related to any savings potential that could be obtained through the creation of a list of inexpensive preferred providers. Commissioner Streur did not believe the issue was relevant at present.

Chair Neuman observed that Medicaid fraud cost several hundred million dollars per year. He asked how MMIS would help track and reduce fraud.

9:13:59 AM

Commissioner Streur answered that MMIS and the Eligibility Information System would allow for greater detail in fraud cases. Additionally, management of the Medicaid Fraud Control Unit under the Department of Law had been revamped; it had become much more aggressive and more cooperative in

working with DHSS. He added that the majority of fraud cases provider cases, not individual cases.

Commissioner Streur continued with key department challenges on slide 14:

- Insufficient provider capacity to meet the needs of a rapidly aging population. Increase in senior population in Alaska from 26,000 in 1993 to over 90,000 by 2015

Commissioner Streur expounded that Medicare clinics in Anchorage had greatly enhanced access for recipients. He was proud that accomplishments had been made.

Representative Edgmon asked whether Alaska's senior population was growing in specific regions or throughout the state. Commissioner Streur replied that the growth was occurring statewide. He could provide the committee with additional census data.

Representative Edgmon asked if the senior population included individuals who were 65 years of age and older. Commissioner Streur answered in the affirmative.

Co-Chair Stoltze communicated that Medicare clinics had been funded through less conventional capital budget appropriations and voluntary donations from health care providers. He observed that the clinics had proven to be effective in addressing access to care. He pointed to competitiveness for funds and wondered whether the clinics would be integrated into an eligible funding source. He noted that the capital budget would not be a sustainable way to support the facilities.

9:17:21 AM

Commissioner Streur replied that the issue had been a challenge largely because of Medicare restrictions on integration. He had offered to work with the private Medicare clinic in south Anchorage to ensure that it was maximizing reimbursement through Medicare and Medicaid. He noted that the issue was a work in progress and agreed that it needed to occur.

Co-Chair Stoltze observed that government help was sometimes a mixed blessing.

Commissioner Streur continued with challenges on slide 14:

- Affordable Care Act (ACA) opportunities and challenges to all Medicaid Service

Commissioner Streur emphasized that ACA was a significant effort. There were many questions, concerns, and moving parts related to ACA that had not been addressed including Medicaid expansion and the Health Insurance Exchange. He was happy to provide further detail at a subsequent meeting.

Chair Neuman pointed to a recent study by Northern Economics related to ACA. His office would provide the study to members to show a different view point.

Commissioner Streur discussed that recruitment and retention of qualified employees in a time of workforce shortages was a constant challenge for the department (slide 15). He pointed to significant turnover in the Office of Children's Services (OCS) where experience was important. He read from slide 15:

- Promoting self-sufficiency, assisting families to move off public assistance and leave poverty thru employment. 30 percent of Temporary Assistance families require intensive services

Commissioner Streur expounded that the department's master client index and coordination of services within DHSS would greatly impact success in assisting families to move off of public assistance. He stated that keeping families intact through preventative, in-home services, and avoiding entry into child protection system was a "wish and a dream." He stressed that the issue was extremely challenging and would be a work in progress for years to come.

Representative Gara discussed the burnout rate among workers in OCS. He referenced the study of a proposal to hire social worker assistants as a way to save costs in the department and wondered about its status.

Commissioner Streur replied that the study was a work in progress. He shared that Christy Lawton, Director of OCS would be able to provide more detail. The social worker cost study had been conducted; one of the increments in current year would go towards funding the item. He

furthered that changing the "mix" of frontline people was a work in progress.

9:21:45 AM

Chair Neuman asked committee members to specify key areas that they would like more detail on at a later date.

Commissioner Streur read the definition of a formula funded program on slide 16:

A program with specific eligibility standards which guarantees a specific level of benefits for any qualified recipient. The eligibility standards and benefits must be based in statute.

Commissioner Streur detailed that formula funded programs included Medicaid, public assistance, food stamps, and other. He turned to slide 17 related to non-formula funded items:

Grants

Components with major grants to other organizations or major contracts for service delivery, such as Residential Child Care, Energy Assistance Program, Community Health Grants and various treatment programs.

Program Services

Administration and delivery of direct services, such as public health nursing and social services, and the program management of entitlements and grants.

Commissioner Streur communicated that grants could be either federal or general fund only. He continued with non-formula items on slide 18:

Administration

Departmental administrative oversight and support programs, including the Commissioner's Office and Administrative Services.

Facilities

The department manages and operates 24-hour facilities and institutions. These include youth correctional facilities, the Alaska Psychiatric Institute and Alaska Pioneer Homes.

SARAH WOODS, DEPUTY DIRECTOR, FINANCE MANAGEMENT SERVICES, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, discussed slide 19. The slide showed a comparison of the DHSS general fund budget compared to the entire State of Alaska general fund operating budget. She pointed out that across the span of nine years DHSS had become approximately one-quarter of the state's general fund budget (it had started at 21 percent in FY 05); the DHSS budget had increased from approximately \$600 million in FY 05 to approximately \$1.3 billion in the past couple of years. She looked at a dip in the middle of the chart resulting from federal stimulus funding and a more favorable ratio of federal funding provided for the general fund match designated for the Medicaid program. She noted that the last two years showed a small increase department's budget in the amount of \$13.7 million; the funding was relatively flat in comparison with the entire budget.

Ms. Woods pointed to a chart that showed Medicaid's portion of the total DHSS general fund budget (slide 20). Across the span of nine years Medicaid general funds had increased from \$227 million to approximately \$688 million. She briefly touched on other formula programs on slide 21. The slide included a pie chart of all formula programs: Medicaid at 86 percent; public assistance at 11 percent including Alaska Temporary Assistance, Adult Public Assistance, Childcare Benefits, General Relief, Tribal Assistance, Senior Benefits, and the Permanent Fund Dividend Hold Harmless Program that enabled recipients of care to remain eligible for their benefits; Children's Services at 3 percent (foster care and subsidized adoption guardianship payments); and Health Care Services at under 1 percent for catastrophic and chronic illness. She shared that the eligibility for public assistance programs and Medicaid was determined through the department's aging eligibility information system. The department was working to build a new system; Medicaid eligibility was the first component of the work. She noted that tight federal timelines existed and the department was invested in getting the new system up and running as soon as possible.

9:27:34 AM

Co-Chair Austerman asked whether there was an equal split between total general funds for Medicaid and non-Medicaid programs. He asked for more detail related to the \$688 million for Medicaid. Ms. Woods answered that in FY 05 Medicaid general funds accounted for approximately 38 percent of the DHSS general fund budget; it had gradually risen to 52 percent.

Co-Chair Austerman surmised that funds for Medicaid and non-Medicaid programs each accounted for approximately 50 percent of the DHSS general fund budget. Ms. Woods answered in the affirmative.

Representative Gara wondered whether it was possible for a lower public assistance payment to be provided to recipients with higher income eligibility levels. He asked whether the change would it make much of a dent in savings.

Ms. Woods responded that formula funded programs required eligibility criteria and benefits to be stated in statute. The change was not impossible, but it would require a change in statute.

9:29:25 AM

Representative Gara asked what the maximum income level was that allowed individuals to qualify for public assistance. Ms. Woods would get back to the committee with an answer.

Representative Edgmon referred to testimony that the DHSS general fund budget was growing by 9.1 percent. He queried whether the largest drivers of the budget growth were the aging senior population and cost shifting from federal to state dollars. He was interested to learn why the DHSS budget continued to increase substantially when the overall state population was not growing by 9.1 percent annually.

Commissioner Streur responded that in addition to items listed by Representative Edgmon the rising cost was based on Federal Medical Assistance Percentage (FMAP) participation compared to state participation on Medicaid. Rising costs were also related to increasing fees, utilization, and population accessing care (the annual number of individuals accessing care had risen from 110,000 to 136,000). He communicated that Alaska had experienced "waterfall" from the recession in the Lower 48. He added that FMAP had declined from a high of 67 percent down to 50

percent based on the economy of the state; it was related to unemployment, overall economy, budget, and other.

Representative Edgmon surmised that the FMAP change was the most significant driver of the budget increase. Commissioner Streur answered in the affirmative.

9:32:35 AM

Representative Wilson wondered if it was true that Alaska provided more funding for better services to individuals compared to the Lower 48. Commissioner Streur responded in the affirmative.

Representative Wilson commented that individuals who move to Alaska because of its high quality services may not be aware that the cost of living is also high.

Commissioner Streur agreed that costs in Alaska were different. For example, 47 of the 50 states paid a Medicaid reimbursement rate that was less than Medicare; Alaska paid at 140 percent of Medicare.

Representative Munoz asked whether the state had any discretion in how much it contributed to Medicaid. She asked whether the state's contribution would correspond equally if the formula automatically went up a certain level.

Commissioner Streur responded that FMAP was established at the federal level; if the state did not provide its set percentage it would not receive the total federal match. He explained that if a state decided to contribute \$500 million instead of its designated \$600 million, the federal match would be \$500 million.

Ms. Woods added that FMAP rates for the various Medicaid programs were different. For example, there was a higher federal participation rate for breast and cervical cancers; Indian Health Services was at a 100 percent participation rate.

9:34:54 AM

Ms. Woods addressed a chart that showed the department's total budget growth for formula versus non-formula items (the non-formula portion was shown in red and the formula

portion was shown in blue). She communicated that DHSS formula funding overall had risen gradually from 69.5 percent to 72.3 percent; the relative proportions of formula and non-formula were close to the same even though total costs for the department had been rising. She pointed to a slight dip in the FY 08 and FY 10 budgets that had been driven by the elimination of formula funded programs including the longevity bonus, senior care benefits, and DSH [Disproportionate Share Hospital] payments. The department had been asked to accept a \$23 million unallocated cut at the department level in FY 10 that it chose to take in two of its Medicaid components; therefore, the formula portion of the budget had dropped slightly.

Commissioner Streur clarified that DSH stood for Disproportionate Share Hospital; it was federal funding received by the department that was matched by the state or the hospital to offset the cost of charity care.

Ms. Woods communicated that approximately one-quarter of the DHSS budget was not formula funded. She pointed to a pie chart on slide 23. Program Services made up the largest non-formula portion of the budget at 14 percent, which included administration and delivery of direct service, public health, social services, and management of formula and grant programs. Other non-formula budget costs included grant payments at 7 percent; facilities costs for the Alaska Psychiatric Institute, Juvenile Justice, and the Alaska Pioneer Homes at 5 percent; and Administration at a lean cost [2 percent].

Ms. Woods addressed a graph generated by the Legislative Finance Division (LFD) on slide 24. The graph demonstrated the changing proportions of fund sources within the department's total budget. She pointed to a steady increase in the general fund portion of the budget from FY 05 to FY 09; it had increased from 36 percent of total funds in FY 05 to approximately 50 percent in FY 09. She relayed that percentages were much more stable from FY 09 going forward; there was a slight dip in FY 10 and FY 11 due to ARRA [American Recovery and Reinvestment Act] funding.

9:38:35 AM

Commissioner Streur turned to slide 25 that showed a view of the proposed FY 14 budget compared to the FY 13 budget. He detailed that the budget had increased by approximately

\$20 million from \$2.637 billion in FY 13 to \$2.657 billion in FY 14. He remarked that the amount was substantial but that it was relatively small in a large budget. He stated that the increase was representative of the department's continuing drive to manage its funding.

Ms. Woods added that budget growth shown on slide 25 represented a 1.5 percent increase in formula funding and a 1.2 percent decrease in discretionary or non-formula funding. She stressed that the dollar value increase represented a dramatic drop from the prior year's figures. She remarked that the budget was "careful and conservative."

Commissioner Streur directed attention to slide 26, which compared the DHSS proposed FY 14 budget with the FY 14 adjusted base provided by LFD. He explained that the comparison was reflective of the \$9 million that had been appropriated the prior year from alcohol tax; DHSS recorded the data slightly differently than LFD. He provided proposed budget highlights on slide 27. Medicaid growth was approximately \$11 million; he observed that the amount was relatively small compared to the \$1.6 billion Medicaid budget. Other formula program growth included \$4 million for public assistance, and \$900,000 for children's services.

Representative Holmes asked whether the [\$11 million] Medicaid growth was realistic or if a future supplemental request could be expected. She understood that the governor was working to determine whether Medicaid expansion would make sense for Alaska and wondered when the administration planned to come forward with a recommendation.

Commissioner Streur responded that he did not anticipate needing to request supplemental funds for the current Medicaid population. He believed DHSS could operate on the budget it had presented; he would be happy to discuss it further during the Medicaid presentation. He communicated that DHSS continued to evaluate studies related to Medicaid expansion; he was not entirely pleased with studies thus far. He pointed additional studies the department was evaluating including the Northern Economics study. He needed to identify the population currently covered under grants to determine how many would qualify for the 50 percent Medicaid "woodwork effect" or the 100 percent Medicaid expansion if it were to be done. He furthered that

if the state could save \$80 million in state general funds in grants by enrolling the individuals in Medicaid at a cost of \$36 million, the decision would be a "no-brainer"; however, there had been some difficulty in establishing whether that would be the case.

9:43:12 AM

Representative Holmes asked when the department expected to complete and share the detailed study. Commissioner Streur did not have an estimated date at present; he believed it would be later in the current year.

Chair Neuman requested a copy of any information the governor was examining related to Medicaid expansion under the ACA.

Representative Costello shared that the legislature had discussed addressing childhood obesity in schools the prior session. She stated that 3 out of every 10 children in Alaska's schools were considered to be obese. She wondered whether any studies had been conducted to determine the costs of childhood obesity to the state. She believed the department's Healthy Futures program was wonderful and queried whether DHSS had considered expanding it to all schools throughout the state.

Commissioner Streur replied that schools had to be willing to join in the Healthy Futures program. He elaborated that the department would continue to work with DEED to enlist its support. The program had primarily been voluntary, which he believed had contributed to its success. He communicated that DHSS had identified \$1 million in the current budget for fighting childhood obesity. He noted that Kerre Fisher [director of the Division of Public Health] and Dr. Ward Hurlburt [chief medical officer for the Division of Public Health] would be able to expound on the topic. He acknowledged that more could be done on the issue. He believed that the state needed to be more aggressive on the issue, but that successful results of the state's efforts needed to be shown. He added that effective programs existed and he anticipated that the \$1 million in the proposed budget would help demonstrate their value, which would allow DHSS to request a higher amount the following year.

9:46:08 AM

Representative Costello was interested in pursuing how departments could work together to share their expertise. She wondered whether there had been a recommendation to DEED on the amount of physical education (PE) that children should have in schools. She was concerned that administrations were increasing the number of classroom hours and decreasing PE time when schools failed to meet adequate yearly progress. She stated that research showed a mind-body connection and that children benefited by being active.

Commissioner Streur answered that DHSS was cautiously communicating with DEED on the issue. He stated that Commissioner Hanley was very involved in supporting the program and others; however, he did not want to force the issue on DEED. He relayed that the governor strongly encouraged all departments to work more closely together. He could provide a multitude of cooperative efforts that were currently underway between departments; working with DEED was one of the department's most significant efforts.

Representative Gara communicated that he had been on a task force in the past that worked to expand PE. He shared that some schools without space for PE had implemented daily walks for students. He asked if the department believed it was doing enough on the issue or if another task force should be developed to determine how to maximize more PE at the lowest cost.

Commissioner Streur deferred the question to Dr. Hurlburt who could provide an answer during a future presentation on public health. He communicated that he would like to see an expansion of PE services because they worked, but he could not currently provide a suggestion on legislation.

Representative Gara asked whether the type of food served in schools was encouraging obesity problems. Commissioner Streur answered that the topic was probably beyond his expertise; however, he believed there was significant room to build the school lunch program. For instance, he pointed to the 10-year effort to reduce sodium in school lunches by 40 percent and stated that it could be done overnight.

Representative Gara suggested the introduction of committee legislation for a task force (or other) on school nutrition and PE.

Chair Neuman replied that the committee would see what Commissioner Streur could go forward with.

9:49:51 AM

Commissioner Streur continued to highlight proposed budget items on slides 28 through 31. The budget included \$2.25 million for the governor's Domestic Violence and Sexual Assault initiative; \$1.5 million for the Child Abuse Prevention and Treatment Act (CAPTA) integration; and \$1.185 million for the Social Worker Class Study, which would "shore up" salary levels. Additionally, the budget included money for juvenile justice facility health services to address increased costs; he discussed a potential solution for significant savings that would entail enrolling the kids in Medicaid to pay at a Medicaid fee schedule with general funds. Other funding items included the Energy Assistance Program, and health information security/privacy compliance and remediation. He emphasized the importance of security and relayed that DHSS had been fined \$1.7 million from the Office of Civil Rights for a lost hard drive. The fine had resulted from the department's failure to develop a corrective action plan to prevent the problem from occurring in the future. He mentioned deferred maintenance budget items that would be elaborated on by DHSS divisions at a later time. He concluded with two final budget items including phase two of the Electronic Vital Record Registration System and the second \$10 million increment for phase two of the Bethel Youth Facility Renovation.

9:52:20 AM

Chair Neuman thanked Commissioner Streur for his presentation. He emphasized the importance of the issues, which accounted for more than one-quarter of the state's total operating budget. He noted that the subcommittee would operate as a Committee of the Whole on a year-round basis. The subcommittee would spend a considerable amount of time on each of the items including school nutrition, health centers, foster care, Medicare, Medicaid, prescription drugs, and other. He observed that the subcommittee would look at what it could accomplish related to formula and non-formula funding prior to budget closeouts. Additionally, the subcommittee would look at members' specific requests.

Chair Neuman asked Amanda Ryder with LFD to address the committee. He communicated that Ms. Ryder would provide a 10-year look-back that would help illustrate where large increments resided in different areas of the department. He believed the data would be helpful if it was necessary to begin looking at budget restraints.

AMANDA RYDER, FISCAL ANALYST, LEGISLATIVE FINANCE DIVISION, provided a packet of graphs from LFD (copy on file). The presentation addressed funding for DHSS from 2005 forward. The series of graphs detailed management plan and supplementals regarding Medicaid. She pointed out slide 1: "Department of Health and Social Services Share of Total Agency Operations." She agreed that the department's budget increased by \$717 million in general funds. She informed the committee that LFD was asked to create a comparison of resident workers. The department's budget was \$4,014 per resident worker using Department of Labor and Workforce Development figures from 2010. She highlighted that LFD created two comparisons, one for management plan and another from adjusted base. Growth for management plan for the department was 1 percent and 1.8 percent in adjusted base.

9:55:32 AM

Ms. Ryder moved to slide 2: "Department of Health and Social Services (All Funds)." She explained that personal services or position costs comprised the largest portion of an agency's budget. She pointed out that the orange colored portion of the bar on the graph signified grants, which were the majority of the department's budget. The majority (80 percent) of the grants/benefit were categorized as Medicaid.

Chair Neuman asked the commissioner for a list of grants and the amounts. Commissioner Streur agreed to provide the information to the committee.

Ms. Ryder turned to slide 3: "Salary Adjustment Increases and Personal Services Costs." Personal services increased by \$144 million between FY 05 and FY 14. She emphasized that the information provided included all funds as opposed to general funds alone. The last bar on the graph summed the change or increase due to salary adjustments (\$105

million) and non-contractual personal services costs (\$40 million).

Representative Gara asked for clarification regarding the percentage of state funds and Medicaid. Ms. Ryder replied that Medicaid comprised 80 percent of total funds.

Representative Gara asked about state funds. Ms. Ryder replied that she did not have the exact figure, but would imagine a "hefty proportion" of the department's general fund budget was Medicaid.

Representative Gara explained that he asked the question because the legislature could not control federal funds. Ms. Ryder responded that she would provide another graph detailing the growth in Medicaid by appropriations later in her presentation.

9:58:27 AM

Representative Wilson asked whether growth resulting from contracts could be tracked. Ms. Ryder replied that LFD did not have the requested information in its budget system. She recommended asking the department.

Ms. Ryder detailed slide 4: "Department of Health and Social Services Budgeted Positions." She noted that 280 positions had been added between FY 05 and FY 14 (an increase of 8 percent). She discussed various position additions.

Chair Neuman compared slides 3 and 4. He asked if the costs associated with the position increases included contractual positions and benefits. Ms. Ryder responded that the vast majority of the \$144 million increase in position costs was due to salary contractual adjustments or bargaining unit agreement increases.

Chair Neuman surmised that the increase was 3 percent to 4 percent per year. Ms. Ryder replied that the figure was approximately 2 percent, but the exact figure depended on the bargaining unit. She pointed out that FY 14 displayed minimal increases, because most bargaining units had not been negotiated. Following a settlement, the governor would submit salary transactions to pay for the increases.

10:03:02 AM

Chair Neuman queried the average salary of the department's employees. Ms. Ryder did not have the information, but offered to provide it at a later date.

Chair Neuman guessed the amount was \$70 thousand or \$80 thousand.

Ms. Ryder explained slide 5: "Appropriations within the Department of Health and Social Services Formula and Non-Formula." She informed Representative Gara that the chart might answer the questions he posed earlier in the meeting about Medicaid costs. The chart displayed the portion of Medicaid in comparison to that of behavioral health, public health, and children's services.

Chair Neuman discussed grants. He understood that many of the grants were provided to drug and alcohol abuse treatment facilities. He wondered what the facilities provided to the state. He advocated for a discussion regarding the treatment facilities' practicality.

Ms. Ryder continued with slide 6: "Appropriations within the Department of Health and Social Services Formula and Non-Formula." Medicaid displayed the fastest growing piece of the budget. The department's total fund budget had grown by approximately \$1 billion.

Representative Gara understood that the cost of Medicaid services and new applicants resulted in the increase documented in past years. He wondered if the newly flattened curve was expected to continue.

Commissioner Streur responded in the negative. He noted that Medicaid tended to flux in four-year cycles.

Representative Gara opined that Medicaid services costs would not decrease, as unemployment was presently low. He wondered about obtaining lower medical services costs.

10:08:31 AM

Commissioner Streur replied in the affirmative. He agreed that the rate of unemployment was at an all-time low. He pointed out that the income levels of the employed Alaskans were most important in relation to Medicaid. He stated that many military personnel enrolled in Medicaid because of

their eligibility. He contended that Medicaid and unemployment were not connected.

Chair Neuman stated that the unemployment levels were low because of the large capital budgets. He opined that state income levels would decrease with less oil production in the future.

Ms. Ryder turned to slide 7: "Department of Health and Social Services Total Funding Comparison by Fund Group Formula and Non-Formula." She stated that total funds increased by \$979 million.

Ms. Ryder discussed slide 8: "Department of Health and Social Services Percent of the Total Department's Budget by Fund Group." She explained that the percentage of federal funds was 56 percent in FY 05 and 47 percent in the FY 14 DHSS budget. The percentage of general funds was 36 percent in FY 05 and 50 percent in the FY 14 budget.

10:11:26 AM

Ms. Ryder moved to slide 9: "H&SS Budget Comparisons (by Appropriations). The graph displayed a separation of the non-formula programs to exemplify growth. Behavioral Health increased by \$47 million or 99 percent. Public Health increased by \$48 million or 199 percent and Senior and Disabilities Services increased by \$23 million or 120 percent.

Ms. Ryder explained that LFD provided two comparisons. She highlighted the term "adjusted base." She explained that LFD created a column that included salary adjustments and transfers between appropriations. The column was best described as the "cost of doing business." When funding was added to the budget, the subcommittees would "go" from adjusted base forward. She noted that it was best to have a statewide decision made by the full finance committee. The request was actually 1 percent greater for the Behavioral Health budget, when a one-time \$9 million was removed. The comparisons provided such information.

10:14:21 AM

Ms. Ryder moved to slide 10: "Non-Medicaid Formula Appropriations." She noted that only three appropriations were classified as non-Medicaid formula appropriations. She

turned to slide 11: "Total Formula Appropriations." She explained that supplementals must be included in discussions regarding Medicaid; the previously discussed reports were without supplementals. The governor's proposed budget did not include supplementals, so LFD compared "management plan." She furthered that Medicaid encompassed large supplementals. Slide 11 detailed \$100 million in supplementals for FY 05 and FY 06. The 9.1 percent growth rate from FY 05 through FY 14 was the result of one-time fund source changes. She did not predict a comparable growth rate to continue. She clarified that Medicaid had grown at \$360 million (110 percent) between the FY 05 final budget and the FY 14 governor's request; \$134.8 million of the increase was attributable to FairShare/ProShare, \$75.2 million was attributable to FMAP changes, and \$32.5 million was attributable to rate rebasing.

10:17:48 AM

Ms. Ryder addressed slide 12: "Department of Health and Social Services Continued Budget Growth Compared to 10-Year Plan." She explained that the black dotted line displayed the department's projections. The green line displayed the projection with a continuation of the 9.1 percent annual growth rate. The graph included general funds only. She repeated that many one-time funds occurred in the time period. She opined that the department's ten-year plan was reasonable.

Ms. Ryder concluded with slide 13: "Department of Health and Social Services Continued Budget Growth Compared to a 10-Year Plan (All Funding)." The department's estimates and the LFD's continuation of the 5.2 annual growth were closely aligned.

Representative Gara understood that the department succeeded in flattening the increase. He asked if the future increase was due largely to population growth. He asked about the "driver" for the increase curve in the future years.

Commissioner Streur asked for question clarification.

Representative Gara observed that the flat curve segued into an increased spending curve. He asked if the increase was driven by population growth. Commissioner Streur suspected that the growth was inflation and potentially

population related. He anticipated that much growth would occur in the social services arena. He pointed out the aggressive actions taken by the department to improve performance and "corral Medicaid."

10:21:18 AM

Chair Neuman believed that the hearing had identified many important issues for the subcommittee.

PETE ECKLUND, STAFF, REPRESENTATIVE ALAN AUSTERMAN, pointed out a couple of slides that would help clarify questions regarding adjusted base. He informed the committee that all subcommittees were to start the budget review from adjusted base. He pointed to slides 25 and 26 of the DHSS presentation. He pointed out the total funds and management plan in the amount of \$2.637 billion (slide 25). The governor's request was \$2.657 billion, which represented a difference of approximately \$20 million. The comparison was valid, but he clarified that subcommittees began evaluation on slide 26, which detailed adjusted base. He noted that LFD added contractual increases and subtracted from management plan. The subcommittee would observe a governor's increase of \$37 million. He stated that the commissioner's comparison was valid, but the subcommittee would view the comparison differently.

HB 65 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

10:23:41 AM

The meeting was adjourned at 10:23 a.m.