

HOUSE FINANCE COMMITTEE
January 30, 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 Bill Stoltze, 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 David Guttenberg

ALSO PRESENT

Cora Campbell, Commissioner, Department of Fish and Game;
Kevin Brooks, Deputy Commissioner, Department of Fish and Game;
Major General Thomas H. Katkus, Commissioner, Department of Military and Veterans Affairs;
McHugh Pierre, Deputy Commissioner, Department of Military and Veterans Affairs;
Craig Campbell, President and Chief Executive Officer, Alaska Aerospace Corporation, Department of Military and Veterans Affairs.

SUMMARY

FY 14 GOVERNOR'S BUDGET OVERVIEWS:

Department of Fish and Game
Department of Military and Veterans Affairs

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.

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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."

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^FY 14 GOVERNOR'S BUDGET OVERVIEW: DEPARTMENT OF FISH AND GAME

CORA CAMPBELL, COMMISSIONER, DEPARTMENT OF FISH AND GAME (DFG), introduced department staff. She provided a PowerPoint presentation titled "Alaska Department of Fish and Game Overview" dated January 30, 2013 (copy on file). She pointed to the department's mission statement on slide 2; slide 3 included statutory sections the mission statement had been derived from. She highlighted the department's six core services on slide 4: (1) harvest management, which was measured by commercial harvests, the purchase of hunting and fishing licenses, angler days, and user success; (2) stock assessment, which was measured by whether or not escapement goals were met and the completion

of wildlife surveys; (3) customer service was measured primarily through angler-skills and hunter heritage programs, wildlife education, and information provided to the public; (4) public involvement was aimed at ensuring that the public participated in the Board of Fish and Board of Game regulatory processes and that the public was involved in decisions made by DFG; (5) state sovereignty, included the department's participation in federal land management planning processes, its support of the Department of Law (DOL) in lawsuits (e.g. DFG involvement in processes such as the Endangered Species Act, listings decisions, and the Federal Subsistence Board); (6) habitat protection, which was measured by ensuring that developers were in compliance with DFG permits issued through its Division of Habitat.

Commissioner Campbell pointed to several graphs on harvest management (slide 5) as an example of metrics DFG used to measure performance including sport fishing licenses sold, hunting and trapping sales, and value of commercial harvest. She turned to an organizational chart on slide 6 that showed the department's six divisions, one section, and two independent agencies that were attached to the department for administrative purposes. Slide 7 included a map of the department's permanent statewide offices; the map did not include the numerous seasonal locations.

Commissioner Campbell discussed that the Commissioner's Office accounted for approximately 1 percent of the department's operating budget. There were three large management divisions including Commercial Fisheries, Sport Fisheries, and Wildlife Conservation. The Division of Commercial Fisheries was the largest and accounted for approximately 34 percent of the DFG operating budget; it was responsible for the management of commercial fisheries and many personal-use and subsistence fisheries throughout the state, in addition to the permitting of aquaculture and mariculture operations. The Division of Sport Fish accounted for approximately 23 percent of the DFG operating budget (slide 10); it was responsible for managing the state's sport fisheries, the operation of the state's two sport hatcheries (located in Anchorage and Fairbanks), and for providing boater and angler access.

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Commissioner Campbell continued with her overview of the department's divisions (slide 11). The Division of Wildlife Conservation was responsible for managing wildlife populations, hunter opportunity, and three shooting ranges; it also provided a number of hunter education and safety programs. The Subsistence Division accounted for 4 percent of the DFG operating budget and was responsible for conducting research to document Alaskans' customary and traditional use of fish and wildlife resources. The division provided the information to decision makers, particularly to the Board of Fish and Board of Game. The Habitat Division was accounted for 3 percent of the total budget and was primarily a permitting office for activities in anadromous waters, other fish bearing waters, and in legislatively designated special areas (slide 13). The Administrative Services Division accounted for 6 percent of the budget and was responsible for accounting, budget, procurement, human resources, and other (slide 14). The Boards Support Section made up 1 percent of the DFG budget and primarily provided logistical support to the Board of Fish and Board of Game processes.

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Co-Chair Stoltze asked about the status of various questions he had listed in a DFG subcommittee meeting. Commissioner Campbell replied that the department was working on the questions and would follow up.

Commissioner Campbell highlighted the department's two independent agencies including the Commercial Fisheries Entry Commission and the Exxon Valdez Oil Spill Trustee Council (slide 16). She moved to slide 17 that showed the FY 14 budget by division and fund source. She reiterated her earlier testimony that the three large management divisions accounted for the bulk of the department's budget. Primary fund sources included the general fund, federal funds, and the Fish and Game Fund. She turned to slide 18 that showed FY 14 budgeted positions. There were 933 full-time and 1,719 total positions; DFG had a large number of seasonal and part-time employees due to seasonal fieldwork.

KEVIN BROOKS, DEPUTY COMMISSIONER, DEPARTMENT OF FISH AND GAME, relayed that slides 19 through 22 had been prepared by the Legislative Finance Division. Slide 19 included a bar chart that depicted General Fund (GF) growth from FY 05

through FY 14; the DFG budget had increased by approximately \$50 million during the time period and had remained at approximately 1.7 percent of the state's total agency budget. He explained that approximately half of the department's growth was due contractual increases resulting from salaries negotiated with collective bargaining units, health insurance increases, and other. The other half of the growth was made up of initiatives requested by the governor (29 percent) and by the legislature (16 percent).

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Mr. Brooks moved to slide 20, which showed the relative share of DFG budget fund sources; the FY 14 request totaled approximately \$215 million. He noted that federal funds had increased in dollar amount, but their overall budget share had decreased from 40 percent down to 30 percent whereas; the GF share had grown from 20 percent to approximately 40 percent. He discussed that the divisions of Sport Fish and Wildlife Conservation had not historically received GF; however, due to cost increases the budget request included approximately \$7 million in GF for each division (the total budget for Sport Fish was \$50 million and the Wildlife Conservation budget was \$45 million). He directed attention a line chart showing look at budget growth from FY 05 to FY 23. The green line showed the continuation of (9.6 percent) annual growth out to FY 23.

Mr. Brooks communicated that the dotted black line showed the department's projection with an inflation rate of 2.75 percent on non-personal services. He explained that the department's projection did not include any estimated growth on personal services because future cost of living allowances (COLA) were unknown. He elaborated that COLA increases accounted for a significant portion of growth in personal services. He noted that COLA would most appropriately be done on a statewide level. The department's estimate also included a potential loss of \$1 million per year in federal funds in the upcoming three years; DFG would need replacement funds. He discussed that there were numerous federally funded projects the department ended when funds were no longer available; however, some core functions were supported by federal funds. He relayed that one of the FY 14 budget requests was to replace federal funds that were ending for one of the department's core management projects. Based on historical data from the past 10 years the department's projection

included \$1.6 million in potential growth to account for any governor or legislative initiatives.

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Mr. Brooks briefly highlighted slide 22, which included a line chart representing continued budget growth (all funds). He noted that compared to slide 21, a much tighter convergence existed between the department's projection (dotted black line) and the continuation of 4.3 percent in annual growth (green line).

Commissioner Campbell looked at FY 13 department accomplishments on slide 23; the list included some items the department had requested funding for in the past. She discussed improvements to information available as a result of salmon research. The most notable improvement was the completion of the Western Alaska Salmon Stock Identification Program, which was the largest genetic stock identification program DFG had undertaken. She expounded that nine reports had resulted from the program for use by the Board of Fish to aid in its decision making process. She noted that the salmon research program had also been improved in other areas of the state. Another program supported by the legislature in the past was the DFG intensive management programs. The programs were currently being implemented in various game management units; subsequently, increases had been seen in caribou and moose populations that were available for harvest. She believed the programs were beneficial for Alaskans. She highlighted that the programs continued to be reviewed through the Board of Game process on a regular basis to ensure their effectiveness.

Commissioner Campbell communicated that in 2012 an appropriation had been made to assist subsistence harvest surveys. She explained that the Subsistence Division had been dealing with customary and traditional harvest data that was decades old. The department was working with the Department of Transportation and Public Facilities (DOT) and the Department of Natural Resources (DNR) when development projects or road proposals required subsistence data for permitting decisions. The department's involvement allowed for the updating of its database for use by the Board of Fish and Board of Game in determining amounts necessary for subsistence and simultaneously expediting the permitting process for some development projects. She

relayed that the division had made significant progress in surveying various communities that had not been surveyed in many years.

Commissioner Campbell continued to discuss FY 13 accomplishments on slide 23. She pointed to past funding for the Habitat Division used to keep up with permit requests and to enable the division's involvement in the pre-permitting design phase to make the process smooth going forward. She relayed that the Fairbanks and Anchorage sport fish hatcheries were producing fish, restocking them into lakes and streams, and providing angler opportunity at the historic levels that existed prior to the loss of heat from the old Elmendorf facility. She shared that DFG was happy with improvements in the size and quality of fish produced in the hatcheries.

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Commissioner Campbell addressed current issues and challenges (slide 24). She spoke to Chinook salmon abundance and productivity and the hardship that low returns and resulting fishery restrictions had caused throughout the state. Subsequently, DFG had spent considerable time and resources developing a Chinook salmon research plan; the plan implementation was included in the DFG FY 14 capital budget request. She detailed that the plan targeted 12 indicator stocks throughout the state and included juvenile and adult stock work, increased coated wire tagging, genetics work, and biometric support in order to help DFG determine causes for low populations. She communicated that the plan implementation was the department's largest capital request and one of its largest priorities (to ensure that the research program was robust and comprehensive).

Commissioner Campbell continued to discuss issues and challenges on slide 24. She highlighted the second item "increased fishing and economic opportunities." She detailed that due to the department's absorption of cost increases or the existence of inflationary pressures it may not have the resources to conduct a stock assessment that was as complete as it would like; the scenario could lead to more conservative management and a loss of opportunity. Subsequently, DFG had been looking for areas where a small investment could result in a large increase in opportunity for Alaskans. Some of the items had been funded in FY 13

and others were included in the FY 14 request, specifically in the salmon fisheries. Additional funding would help DFG to increase its understanding of how much salmon was available to harvest and the ability to provide opportunity. She spoke to the state's need to dedicate time and resources protecting its authority to manage fish and wildlife. She referred to a number of Endangered Species Act (ESA) issues facing the department and the staff resources needed to engage in the various processes. She relayed that the department had received funding in the past that was targeted at helping to increase research on stocks that were future endangered species candidates; the goal was to bring state science to the table to inform the decision making. She added that DFG worked closely with DOL on the issues. She stated that DOL had been successful on some ESA issues; however, DFG had tremendous concern that federal agencies were listing healthy, stable animal populations with no immediate threat in the near future. She relayed that the agencies were using future data that speculated on climate impacts that would affect animals. She believed that listing species based on speculation of what could happen in the future was not a very high bar; in some cases the federal government asserted control over a species that had been managed by the state or over lands that may be designated as critical habitat.

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Commissioner Campbell discussed that DFG had been spending an increased amount of time on invasive species (slide 24). The department had active programs working to eradicate various invasive species including the tunicate in Whiting Harbor near Sitka and Pike in Southcentral; it was working on prevention rather than reacting when a species was detected. The department also recognized that Alaska was very fortunate in the number of invasive species it was dealing with in comparison to other states. She noted the need for licensing modernization, which was reflected in the department's capital budget request. Paper was primarily used in the antiquated licensing system. The department sold approximately 700,000 hunting, fishing, and trapping licenses annually; all of the reporting from vendors was paper reporting, which included a tremendous amount of data entry. The goal was to develop tools to allow for online reporting for personal-use harvests, electronic logbooks, and other.

Commissioner Campbell moved to slide 25 to discuss highlights in the FY 14 operating budget. She explained that DFG had to react to shifts in the availability of federal funds. She elaborated that when federal funds were discontinued DFG looked carefully at projects to determine their necessity and whether they fell under its core mission. In some cases core services were federally funded including the Southeast salmon management programs (an operating budget request had been made for FY 14 due to a decline in the federal funds of these programs). She relayed that the Division of Sport Fish relied heavily on federal funding and income from license sales; non-resident license sales had decreased in recent years, but the trend was beginning to flatten most likely due to economic recovery in the Lower 48. A decline in federal funding had also impacted the division; therefore, DFG proposed shifting the Aquatic Resources Project to GF. She detailed that the project benefited many Alaskans far beyond the recreational angling sector; the project included water reservations to protect fish in the event of proposals for water withdrawal from streams.

Commissioner Campbell continued to provide an overview of slide 25. She addressed that the Division of Wildlife Conservation relied heavily on federal funding derived from excise taxes on sales of guns and ammunition; due to an increase in sales there was significantly more funding available than in the past. The division was hoping to access the funds to work on scientific programs, biometric support, and education programs. She noted that the \$2.5 million listed on the slide was comprised of \$500,000 in GF that would leverage \$2 million in federal funds. Federal funds under the Forest Resources Practices Act and the Alaska Coastal Management Program (ACMP) [ACMP ended on July 1, 2011] had been reduced for the Division of Habitat; therefore, GF funding was needed for work on Title 16 and 41 pre-project reviews and permitting (the funding had been included as a one-time increment the prior year). She discussed additional salmon projects where DFG believed additional knowledge would lead to increased opportunity and a better understanding of stocks; GF funding for each of the state's regions had been requested.

Commissioner Campbell reviewed FY 14 capital project requests on slide 26. She noted new projects she had previously mentioned including the Chinook Salmon Initiative, the sport fishing in Alaska survey, and

licensing modernization. Another new request was for aerial photo census equipment; the program was one of the Division of Wildlife's main tools for caribou stock assessment. The division could no longer get film for its 10-year old camera that the program relied on. She relayed that a digital system would improve the division's ability to analyze photographs. She pointed the department's funding request to conduct an economic impact sport fishing study for the 2012 fishing year. The previous study had been done in 2007; the study had been designed to reoccur every five years in order to track trends over time. She touched on recurring capital projects including sport fish recreational boating access; deferred maintenance (part of the governor's 5-year deferred maintenance plan); and repair and upgrades to facilities, vessels, and aircrafts.

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Co-Chair Austerman requested information that provided a basic look at the department's core services, federal funds provided for each of the services, and a historical look showing how the items had been funded. Commissioner Campbell agreed to provide the information.

Representative Costello noted that the department's rate of growth was approximately twice the rate of growth shown by other departments. She pointed to slide 21 and observed that under the current rate of growth the rate would have quadrupled from FY 05 to FY 23. She added that the figures did not include salary increases. She discussed the need to keep the budget growth to approximately 1 percent. She asked about the department's plan to arrest the department's rate of growth moving forward.

Commissioner Campbell answered that there was a very different picture prior to 2005, which she believed was true for a number of departments; there had not been much budget growth in prior years. She explained that prior to 2005, oil prices had been low and there had been pressure on budgets; therefore, some of the department's core responsibilities were shifted to federal funds. She believed there had been an over reliance on federal funding for core state responsibilities. The department made an effort to weed out projects for elimination when federal funds were no longer available. Another factor in the growth rate related to GF funds requested for the Division of Wildlife. The funds were necessary in part because the

administration, legislature, and public had an interest in the department doing intensive wildlife management; the management programs could not be completed with federal funding. She opined that some of the growth would not occur in the future because a portion of it was due to the funding of items that had not been funded in the past. She touched on work that was underway to increase hunter and angler license sales in order to help the department become self-supporting with the funds. She relayed that DFG was applying a careful, internal test before requesting a back-fill in federal funds.

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Mr. Brooks agreed that it was significant to note that FY 05 was the last year of flat budgets. He elaborated that the decade had been one of growth and that different environments dictated different decisions by the department and legislature. He believed that going back an additional ten years prior to FY 05 would change the dynamic and potentially the discussion. He stated that ultimately it came down to the department's responsibility to closely review projects it proposed to the legislature for funding.

Representative Costello asked Commissioner Campbell to give the department a letter grade for its overall activity, river and commercial fish management, and management of game.

Commissioner Campbell commented on the potential limitation of a letter grading system for understanding the subtleties of performance. She believed that the department was doing very well in its success on the wildlife side; it had increased heard sizes relied upon by Alaskans, additional opportunity was provided, and it was spending significant resources to increase hunter recruitment and retention. She believed that it was more difficult to talk about the management of fisheries as a success subsequent to the past fishing season. She remarked that it was important to recognize that DFG was not solely responsible for every aspect of salmon abundance; many times the department had to react to what was put before it related to management challenges. She did not believe that Alaskans would be as happy if they were asked to grade the department on fisheries management given increased restrictions that had been implemented the prior season. She opined that DFG

biologists were doing the best they could to protect the resource while balancing the need to provide opportunity.

Representative Costello guessed that the department's overall grade was perhaps an average of B-. She pointed to the department's capital request for Chinook salmon research; she struggled with the idea of funding core services with capital appropriations. She offered to discuss the issue at a later time.

Commissioner Campbell answered that there were a blend of projects in the Chinook salmon research plan. Some of the projects were short-term; however, at the end of the 5-year plan DFG may decide that others have value for continuation in the long-term. In the future there may be a request for the continuation of the long-term value projects in the operating budget.

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Co-Chair Stoltze wondered whether the department would categorize its performance as outstanding, satisfactory, or needs improvement. He noted that DFG was asking for large increments and should be able to assess itself.

Commissioner Campbell replied that the department had done an outstanding job on wildlife management. She believed DFG had done a satisfactory job in fisheries management related to its reaction to the prior fishing season.

Co-Chair Stoltze asked whether the department had any areas that fell under the "needs improvement" category. Commissioner Campbell replied that there were areas the department had identified that needed improvement. She added that DFG had worked to identify the areas in its budget process and the need to address them going forward.

Co-Chair Stoltze asked how the economic impact study for sport fish would be used if funding was provided. He wondered whether the study would influence improved economic related decisions by the department and the Board of Fish.

Commissioner Campbell responded that the study would be used in a variety of ways. Economics was one of the criteria considered by the Board of Fish when making decisions. Additionally, DFG used the study for planning

purposes for stocking and enhancement programs; the study showed the department where the angler interest was located and where angler activity would contribute to the economy if opportunity was boosted.

Co-Chair Stoltze asked whether economic impact and economic benefit should have a greater role in allocation decisions. Commissioner Campbell answered that the issue was one of the criteria considered by the boards. She believed that different weight was placed on the criteria based on the circumstance.

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Representative Kawasaki referred to the prior ACMP and asked if a particular GF increment for the Division of Habitat was related to assuming responsibility for some activities that had occurred under the previous program.

Commissioner Campbell replied that DFG had received documents from DNR for some of the work that went along with permitting projects in Alaska's coastal zone. She detailed that the process was slightly different; however, the work remained for DFG, which explained the funding increment.

Representative Kawasaki was happy that the Fairbanks hatchery had begun producing fish. He discussed an original plan to use heated wastewater from the power plant, which had not worked out. The facility was currently using oil heat and he wondered whether the operational cost was reflected in the budget. Commissioner Campbell replied that the sport fish budget included a separate component to easily identify the hatchery operating costs. She elaborated that there was not an increment in the FY 14 budget to account for increased operating costs. She offered to provide the information.

Representative Kawasaki affirmed his interest in receiving the budget information regarding hatchery operating costs.

Vice-Chair Neuman pointed to the 9.6 percent budget growth rate on slide 21. He understood that a growth rate of 3 percent to 4 percent was inevitable due to contractual obligations and inflation. He read the department's core mission statement from slide 2:

To protect, maintain, and improve the fish, game, and aquatic plant resources of the state, and manage their uses and development in the best interest of the economy and the well-being of the people of the state, consistent with the sustained yield principle.

Vice-Chair Neuman recognized that fish was a difficult area to manage and that the state did not have control of what went on in the ocean. He wondered whether the state had increased the total allowable harvest of game from 2005. Commissioner Campbell replied that she had not looked at the issue on an aggregate basis since 2005. She did believe there was an increased hunting opportunity available for Alaskans at present as a result of the department's activities. She pointed to the South Alaska Peninsula caribou herd that had been shut down in the past; the department had removed some predators in the area and the herd increased by 50 percent. Subsequently, the area had been reopened to hunters. She pointed to other elevated harvest levels that accounted for 27 percent of the total statewide harvest. She expressed confidence that the programs had resulted in increased hunting opportunities.

Vice-Chair Neuman asked for verification that Commissioner Campbell believed there was currently more game harvested [than in 2005]. Commissioner Campbell replied that she would have to look at total harvests from 2005 compared to current harvests. She strongly believed there was more game harvest currently based on the department's intensive management.

Vice-Chair Neuman asked about areas that could use improvement. He believed the intensive management was a significant factor in the increased harvest of game. He noted that the harvest of moose had declined for many Alaskans. He was interested in management decisions made by the department.

Commissioner Campbell replied that some of the management programs were reviewed and refined by the Board of Game on an annual basis. She pointed to Title 16(b), where wolf and bear control provisions were located and noted that even though the moose population was getting close to objectives, harvest objectives were not being met. She relayed that a discussion regarding how to refine and improve the program would take place at the upcoming Board of Game meeting. The department was in the process of

implementing additional work on habitat improvement projects to increase moose availability.

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Vice-Chair Neuman He wondered whether economics should be addressed when measuring how allocations were appropriated. He pointed back to the DFG mission statement. He discussed whether economics should play a larger part in management decisions made by the board. He addressed the interest of Alaska's economy and relayed that Mat-Su had seen a decrease in revenue of over \$100 million due to the lack of salmon; it had been devastating to the community, Kenai, and other locations.

Commissioner Campbell replied that DFG did consider economics in its decision making and in its budget process. She elaborated that the department was currently looking at areas where economic opportunity could be increased through better decision making. She detailed that better information would enable the department to make more informed decisions in order to increase economic opportunity. She elaborated that DFG worked within the allocation and management plan adopted by the board, but it still had the responsibility and opportunity to consider the economics of fisheries it managed.

Vice-Chair Neuman restated Commissioner Campbell's statement that the department did have the opportunity [to consider economics in DFG decision making process].

Representative Gara referred to slide 26 and addressed concern about dwindling stocks of King salmon statewide. The numbers were down in the Yukon, Kodiak, Southcentral, and other. He wondered whether the \$10 million requested for the Chinook Salmon Initiative would provide answers about why the state was in danger of losing the wild fishery in all areas or in particular areas.

Commissioner Campbell responded in the affirmative. The plan was designed to provide answers about why the predicament existed. She detailed that the initiative and research plan focused on 12 stocks throughout the state (from Southeast to the Yukon). She communicated the proposed increment would fund smolt out-migration work, which would provide a sense of what was going into the marine environment. The work was critical to understanding

whether the productivity problem was related to something occurring in freshwater (i.e. conditions, habitat, predators, or other) or something related to survival in the marine environment.

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Representative Gara wanted to ensure streams would not be left out. He noted that the Mat-Su area had been devastated and asked whether it along with the Susitna and Kenai Peninsula streams were covered under the research plan.

Commissioner Campbell responded that the plan included work on the Yukon, Kuskokwim, Chignik, Kodiak areas; and the Susitna drainage, Kenai Peninsula, Copper River, and Southeast.

Representative Gara asked what the department could do if the initiative pointed to high seas interception of salmon. Commissioner Campbell responded that it depended on whether the mortality was in domestic federal water fisheries between 3 and 200 miles, beyond 200 miles, or as a result of illegal fishing. In any of the cases DFG had a mechanism to address the issues. She was a member of the North Pacific Fishery Management Council, which managed the fisheries from 3 to 200 miles; the position allowed her to influence what occurred in federal fisheries. She added that the department was involved in a number of international bodies that negotiated on items such as high seas driftnet enforcement with other Pacific Rim countries. Additionally, there was an international commission that discussed management of Pollock fisheries (Pollock stock crossed the Alaska/Russian border). She relayed that the department had some ability to influence enforcement on the high seas and was involved in scientific exchange to understand activity taking place outside of the 200-mile border.

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Representative Gara thought that the answers for the initiative would take time. He stated that it was known that King salmon were being intercepted and dumped dead back into the water on the high seas level. He wondered whether DFG would be able to provide the number of King salmon that were intercepted and the locations the practice

was occurring. He asked for confirmation that the fish were thrown overboard.

Commissioner Campbell answered that the department the information for domestic fisheries (3 to 200 mile from shore range) and would provide it. She had been working on implementing caps and controls on bycatch in fisheries that had none (e.g. the Gulf of Alaska fisheries had no limits on Chinook salmon bycatch). The issue had been a major focus the North Pacific Fishery Management Council had been working on. She would provide information on areas where limits had been put in place versus areas the council was working to implement a limit.

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Representative Edgmon asked for comment on ocean acidification. He appreciated the commissioner's concise presentation. Additionally, he thanked the commissioner for her role in getting the Board of Fish out to Bristol Bay. He believed it was important for the Board of Fish and Board of Game to have a presence in outlying regions.

Commissioner Campbell responded that ocean acidification was of great concern to the fishing industry in Alaska. She detailed that specific concern related to how a change in the ocean's pH levels could impact shell-forming organisms and primary prey species for salmon. She communicated that the University of Alaska had taken the lead in developing research to monitor Alaska's ocean acidity levels that would provide baseline information and early detection of potentially harmful trends. She relayed that DFG had a cooperative relationship with the Alaska Ocean Observing System that provided sea conditions and some of the information.

Representative Wilson pointed to DFG testimony that hunting opportunities had increased. She wondered why the guide concession program was needed and why DFG should not be running it because it was about the number of animals and not necessarily the land. She understood the issue was complicated.

Commissioner Campbell answered that the development of the guide concession program had been primarily through DNR because it was related to access and use of state lands; however, the effort had been cooperative between DNR and

DFG. She agreed that a critical component of the program was related to wildlife harvest. She elaborated that DFG had been involved in the development of the program as it related to harvest opportunities and impacts on wildlife. She stated that although heard sizes and hunting opportunity had increased, every conflict that existed had not been eliminated. She noted that there were areas where there was not enough harvest opportunity for both resident and non-resident hunters. The Board of Game had determined that if there was not a program developed to regulate the guide industry and opportunity, an alternative way to limit non-resident hunting opportunity would need to be devised. The reaction from the guide industry was that alternative options could be extremely destabilizing (e.g. reliance on a draw permit or other). The department was working to support the process where it could.

Co-Chair Stoltze asked members to take advantage of working with the co-chairs offices on issues they would like to see addressed.

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^FY 14 GOVERNOR'S BUDGET OVERVIEW: DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

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MAJOR GENERAL THOMAS H. KATKUS, COMMISSIONER, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA), introduced his staff.

MCHUGH PIERRE, DEPUTY COMMISSIONER, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS, communicated that planned to share a video related to department activities.

Commissioner Katkus added that the video had been put together by young members of the military. The video titled "2012 Year in Review" was shown.

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Commissioner Katkus provided a PowerPoint presentation titled "Alaska Department of Military and Veterans Affairs

FY 2014 Overview" dated January 30, 2013 (copy on file). He shared the department's mission (slide 2):

To provide military forces to accomplish military missions in the state or around the world; provide homeland security and defense; emergency response; veterans services; and youth military style training and education.

Commissioner Katkus pointed to the department's Core Services (slide 3):

- Defend and Protect Alaska and the United States
- Disaster Preparedness/Response and Recovery
- Youth Intervention
- Outreach to Veterans and Military Families

Commissioner Katkus discussed measures and results on slides 4 and 5. He shared that the department had met all of its state and federal emergency response requirements for training and deployments. He discussed a significant number of at-risk youths who had graduated from the military youth academy; the graph on slide 4 showed a graduating class of approximately 300 students in 2012. He detailed that benefits outweighed the program cost, given that many of the youths could have ended up in the state's correctional system. He believed the program had been and continued to be very successful. He spoke to the one-time benefit payments for the state's veterans. He expounded that veterans were hard to track in Alaska because many felt that their need for services was not as great as others. The department continued its efforts to register every veteran, which drove additional federal resources for veteran support. He touched on the department's outreach programs to register veterans with the help of veterans service officers and community volunteers; he pointed to the significant increase in paid benefits from 2005 to 2012 (slide 5).

Commissioner Katkus addressed the department's general fund budget on slide 6. He shared that the DMVA budget accounted for 0.44 percent of the state's overall budget. He pointed to all of the actions shown in the video that represented work funded by state dollars.

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Commissioner Katkus moved on to discuss the department's budget by fund and source (slide 7). He directed attention to the left chart and noted that the general fund (GF) was the only fund source that had grown in the past two years. He explained that the GF increase had resulted from the department's new oversight of the Alaska Aerospace Corporation (AAC). The graphs on the right showed a breakout of the AAC budget and the department's budget without AAC, which illustrated that without AAC the DMVA general fund budget had remained consistent over time. He emphasized that DMVA had not expanded its programs. He believed the department used its general funds very well.

Commissioner Katkus turned to the department's 10-year plan (slide 8).

Mr. Pierre added that the projection on slide 8 pertained to the DMVA 10-year plan for all funds.

Commissioner Katkus continued to discuss slide 8. He pointed to large federal funding increases projected for future projects including a USPFO [United States Property and Fiscal Office] facility that would capture all control of federal equipment coming into the state, AAC projects, and the Fairbanks Armory. He relayed that the department's current level of service would remain constant. He addressed the 10-year plan general funds projection on slide 9. He pointed out that potential GF increases would occur to match federal funds if facilities were constructed in the future.

Commissioner Katkus pointed to priority issues on slide 10:

- Federal Funding and Sequestration
- Base Realignment and Closure (BRAC)
- Alaska Military Youth Academy Formula Funding
- Alaska Aerospace Corporation Contracts
- Fairbanks Cemetery Land

Commissioner Katkus elaborated that federal sequestration was the department's highest priority; it was working to evaluate how sequestration would impact the state and how

the DMVA would continue with its programs. He believed it would be very manageable for the state.

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Co-Chair Austerman looked at the chart's gray line on slide 8 reflecting the current level of service plus initiative. He surmised that the data partially incorporated ongoing AAC development. Commissioner Katkus agreed that the line included the projected anticipated development of AAC.

Co-Chair Austerman remarked that he did not see the same growth pattern reflected on slide 9. He believed there were anticipated GF requests and expenditures for AAC in the next few years.

CRAIG CAMPBELL, PRESIDENT AND CHIEF EXECUTIVE OFFICER, ALASKA AEROSPACE CORPORATION, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS, looked at the top right chart on slide 7, which included the \$8 million AAC request from the prior year and the current year. Subsequent slides showed the peak that DMVA was required to cover, which was created by the addition of AAC to the department. He explained that the addition of AAC skewed the DMVA chart.

Mr. Pierre added that DMVA was doing its best to reflect match requirements of GF to the projects on slides 8 and 9. He elaborated that goal was to show the anticipated [GF] spending that would be required in addition to the total federal and outside partner money. He relayed that the projected spending may change as AAC pursued the third launch pad for the medium lift rocket capability; if a change occurred DMVA would provide the legislature with updated information.

Mr. Campbell noted that the bottom line on slide 8 represented an AAC project baseline. He stated that \$25 million had been allocated the prior year, but only \$1 million had been spent to date; AAC was waiting on contract agreements with Lockheed Martin. The gray peaks represented projected funds for the USPFO and Fairbanks Armory.

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Co-Chair Austerman remarked that the \$25 million was a one-time expenditure. He did not believe the figure should be continued across the chart from FY 13 to FY 23. Mr. Pierre

replied that the figure was reflected in the fiscal year the department anticipated on spending the funds.

Co-Chair Austerman asked if DMVA anticipated spending the \$25 million until FY 23. Mr. Pierre replied in the affirmative.

Commissioner Katkus communicated that slide 8 showed a projected 10-year plan for all funds (including federal) whereas, slide 9 showed the data for GF only.

Co-Chair Austerman asked for verification that that the gray line on slide 9 did not include the \$8 million requested increment for AAC. Mr. Pierre responded in the affirmative. The \$8 million was not in the long-term spending plan and was not included in the long-term projection. He pointed to slide 9 and noted that projected GF decreased slightly as a result; however, moving farther out into the future the gray line increased due to large projects on the horizon.

Representative Kawasaki asked if data used in the graph on slide 9 had come from the Office of Management and Budget (OMB). Mr. Pierre responded in the affirmative.

Representative Kawasaki referred to a meeting he had attended earlier in the day on the AAC that had addressed anticipated future contracts and potential federal funds supplanting GF in the future. He did not believe the OMB 10-year projection included the data.

Mr. Campbell replied that the AAC data provided to OMB reflected \$8 million in GF for FY 14, \$6 million in FY 15, \$4 million in FY 16, and \$2 million in FY 17. The declining funding requests were based on a projection for increased contracts and other incoming revenues. The request flattened to \$2 million at the 5-year point due to anticipated launches and potential federal matching funds. He was comfortable with the 5-year projection, whereas the following 5-year period was less clear.

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Representative Kawasaki noted that the graph he had received in the budget subcommittee was zeroed out after FY 17. Mr. Pierre replied that the chart received in subcommittee may not reflect the most recent information.

He relayed that the department would provide additional detail on AAC to the budget subcommittee on February 18, 2013.

Representative Kawasaki asked about the \$75,000 request for maintenance and operation of the Fairbanks Cemetery. He wondered about the status of the cemetery and whether it was open.

Mr. Pierre responded that money had been included in the DMVA capital budget request that would allow for the purchase of land for the cemetery. The department had worked to get the land donated and had worked with the Department of Natural Resources, the University of Alaska, and private citizens. He explained that 32 out of 34 core samples taken from the land the department anticipated using had shown permafrost; therefore, the land was not usable. The goal was to find approximately 100 acres; Veterans Affairs (VA) required the land to be larger than 40 acres. The department had reached the point where purchasing land was the option; it had posted a request for information (RFI) on properties available for sale and pricing. The FY 14 capital budget request was \$2.5 million and DMVA anticipated the total land cost to be \$3 million. Once the budget increment had been approved DMVA anticipated posting a request for proposal in July; once the land was entitled the VA would provide the funds to build and the cemetery would open in the last quarter of FY 14. The \$75,000 reflected operations for the final quarter of FY 14. The department believed it would cost \$300,000 annually to maintain and operate the cemetery.

Representative Kawasaki referred to the \$2.5 million capital budget request for the purchase of land. He asked about who owned the land and what its current value was.

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Mr. Pierre replied that the department did not know. He elaborated that there had been multiple responses to the RFI that had ranged from \$800,000 to \$15 million depending on the location and the size of the property. The department believed it was best to work with the community, the Interior delegation, and with relator input. The department hoped to procure least 100 acres to fulfill its promise to veterans in the Interior region of Alaska.

Representative Gara recognized the importance AAC had for the community of Kodiak; however, he was concerned about the corporation. He asked for the total capital and operating funds that had been appropriated to AAC in FY 13.

Mr. Campbell replied that the FY 13 budget included \$8 million in the operating budget for operations and sustainment of the Kodiak launch complex and AAC for one year. Additionally, the legislature had funded the governor's \$25 million capital request for the development of a new medium-lift launch pad. The funding included several criteria specifying that the corporation could spend no more than \$3 million until a firm launch schedule was obtained from a customer (Lockheed Martin was expected to be the customer), once the launch dates were established AAC could spend \$10 million to begin the engineering design for the facility and it could move forward on a financing package (the total launch complex would cost approximately \$125 million), once the additional 100 million was secured the corporation could use the remaining \$12 million for the construction of the complex.

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Representative Gara wondered whether AAC would submit capital funding requests in addition to the operating requests Mr. Campbell previously mentioned.

Mr. Campbell answered that AAC had a capital request of approximately \$185,000 for the rebuilding of a weather station and slightly under \$1 million for the corporation's deferred maintenance backlog, which totaled approximately \$4 million to \$5 million.

Representative Gara asked for the current total operational cost for the facility (state GF and non-GF funds) and the income that had been generated.

Mr. Campbell answered that AAC had no launches scheduled and no contracts in the current or prior year; the corporation needed the state's support during the two-year period while it changed its business development plan and acquired new customers. He elaborated that the Kodiak launch complex had been built 15 years earlier; there had been 16 launches and the state had provided between \$30 million and \$35 million in support. Additionally, AAC had received \$145 million to \$150 million in federal funds to

build the complex and \$140 million to \$150 million in launch revenues.

Mr. Campbell summarized that AAC had received slightly under \$300 million against the approximate \$30 million contributed by the state. He expounded that the corporation had become complacent and relied on working with the Missile Defense Agency (MDA) between 2006 and 2009; the agency had been the corporation's only customer and had paid all of the bills. As a result, AAC had not marketed to other customers. Subsequently, when MDA moved its program to the Pacific, AAC had no other customer base. He explained that AAC had then requested state funds in 2010; it took two years to prepare for a launch; therefore, the corporation knew it would have no launch contracts for two years. He acknowledged that the onus was on the corporation. The corporation had asked for two annual appropriations of \$8 million; requests would begin declining the following year, given AAC's aggressive business development. He shared that the corporation was actively working with the space and missile defense command (U.S. Army command) and was close to signing a contract for a 2014 launch. Additionally, AAC was working with Lockheed Martin (in the past the company had told the legislature it had selected Kodiak as a launch site), which was close to completing contract work on a small launch in late 2014. The corporation was working with the U.S. Air Force and other agencies and believed it would have three to four launches per year in the future. He reiterated that as revenues increased due to launches, the corporation would reduce state funding requests. He relayed that the corporation was confident it would not need \$8 million the next year; fund sources were shifting away from the state and back to the private sector.

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Co-Chair Austerman asked for detailed information about the \$25 million request. He wondered about contracts that were in progress with Lockheed Martin or other.

Mr. Campbell replied that the \$25 million capital appropriation the prior year had been for the medium launch lift (launch pad 3), which had been designed to meet a potential customer need to launch larger rockets (twice the size of the rockets launched at the small lift); the facility was not yet available. He elaborated that Lockheed

Martin had been the first customer to approach AAC; it was working on a medium-lift program called Athena III. The company had hoped that AAC would begin construction during the current year, but AAC was waiting to spend money on the launch pad until the customer contract and launch dates were secured. The corporation had allocated a portion of the \$25 million to an environmental assessment and permitting; it was also looking at the initial medium-lift design. He furthered that AAC had been working with Lockheed Martin on what its rocket requirements would be. The plan was to spend less than \$1 million of the \$25 million until Lockheed Martin provided its launch schedule. He communicated that another company had visited AAC and was interested in a medium-lift launch. The company was currently in the process of an East Coast launch scheduled to occur in the spring (Antares rocket); it would also need a West Coast launch location and AAC anticipated that the company would visit to discuss using the Kodiak facility. He added that AAC wanted to optimize the launch complex in order to meet the needs of all customers. He relayed that AAC was slowing down on spending in the current year in anticipation of customer agreements and schedules; it would move forward with the full design and construction beginning in the following year.

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Co-Chair Austerman asked if the corporation had a time commitment from Lockheed Martin. Mr. Campbell responded in the negative.

Representative Gara asked for verification that the corporation did not have any firm customers. Mr. Campbell replied that AAC had a federal government customer that would launch in August 2014. Kodiak had been identified for small U.S. Air Force launch missions by Lockheed Martin and Orbital Sciences between 2013 and 2017. The missions had not been scheduled, but the \$1 billion contract had been awarded to Lockheed Martin and Orbital Sciences; Kodiak would be the launch site. He noted that the difference between AAC and a federal agency was that the corporation was working with private companies (e.g. Lockheed Martin, Orbital Sciences, Northrop Grumman, Aerojet, and other), which involved a multiagency plan (AAC, rocket builders, satellite builder, and a private or government customer). The corporation looked at the overall program, which in the current case was \$1 billion for small and medium launches

in a five-year period; the program had selected Lockheed Martin and Orbital Sciences, which had selected Kodiak as the launch site. He stressed that the plans to launch in Kodiak were real, but he did not know specifics on which missions would occur or at what time they would take place.

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Representative Gara pointed to the two \$8 million expenditures in the past two years with zero launches. He asked for the anticipated net revenue for the government launch in 2014 and what was expected out of the Lockheed Martin launches. He wondered whether the legislature would continue to subsidize the corporation when the launches occurred.

Mr. Campbell replied that the \$8 million was needed to operate and sustain the launch complex and AAC. He reiterated his earlier testimony that the onus was on the corporation for not obtaining another customer when MDA left. The company was building launches and would have a launch in 2014. He relayed that when the corporation reached four launches per year it would no longer need operation sustainment funds from the state. He discussed a chart the corporation would provide at the February 18 budget subcommittee meeting, which showed the costs per year. The corporation charged approximately \$4 million for a small launch and \$6 million for a medium launch depending on the needs of the mission. Four launches would bring in \$16 million; half of the money would go towards contractors and purchased services and the other half would go to the corporation's workforce and operations.

Representative Munoz asked how launching out of Kodiak would be more advantageous to a company than launching in a Lower 48 location. Mr. Campbell discussed East and West coast launches and relayed that the U.S. only conducted launches over water. Approximately 60 percent of the launches were equatorial and were conducted on the East Coast. Kodiak did not conduct equatorial launches; therefore it did not compete with the East Coast. West Coast launches were polar; AAC's only competitor on the West Coast was the Vandenberg Air Force base in California. He detailed that the base was federally controlled and had a high operational cost. The Kodiak site was owned by AAC had a lower cost of operations. He explained that the owner could determine the launch priority; the federally

controlled site prioritized government launches over commercial launches. He stressed that the Kodiak facility allowed customers to sign a contract to designate the timeframe of their choice; the method provided customers with great flexibility and assurance that their launch would occur at the time they specified.

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Representative Munoz asked whether the companies would locate any permanent employees in the Kodiak region. Mr. Campbell replied in the affirmative. He elaborated that Lockheed Martin wanted to develop an aerospace infrastructure in Alaska. He shared that AAC had partnered with Lockheed Martin on a contract for Fort Greely four years earlier; Lockheed Martin had planned to relocate approximately 150 full-time employees to Alaska; however, they had not been awarded the contract. Lockheed Martin wanted to develop a center of excellence in aerospace in Alaska, which could include light manufacturing, teaming with the University of Alaska, and workforce development training. Lockheed Martin had held a suppliers conference in Anchorage the prior year to determine how to best support its projects in the Alaska. The corporation was encouraging companies interested in contracting with AAC to look at ways that would increase aerospace employment in Alaska; Lockheed Martin had been forthright in its interest.

[3:30:02 PM](#)

Representative Kawasaki referred to his earlier comment and corrected that he did see the decline in undesignated GF funds after the next couple of years. He asked about polar orbiting and wondered if the corporation would compete on an international level.

Mr. Campbell replied that the U.S. had priced itself out of the commercial market in many cases. He elaborated that most of the truly commercial launches originated in French Guyana and Russia. He noted that U.S. companies manufacturing satellites purchased services overseas because it was cheaper. He explained that Kodiak could begin lowering launch costs and increasing its competitiveness in order to attract more of the U.S. commercial market.

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

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Co-Chair Austerman discussed the schedule for the following day.

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ADJOURNMENT

3:31:50 PM

The meeting was adjourned at 3:31 p.m.