

HOUSE FINANCE COMMITTEE  
February 3, 2014  
1:30 p.m.

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CALL TO ORDER

Co-Chair Austerman called the House Finance Committee meeting to order at 1:30 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 David Guttenberg  
Representative Lindsey Holmes  
Representative Cathy Munoz  
Representative Steve Thompson  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Major General Thomas H. Katkus, Commissioner, Department of Military and Veterans Affairs; McHugh Pierre, Deputy Commissioner, Department of Military and Veterans Affairs; John Kramer, Alaska Aerospace Corporation; Susan Colligan, Director, Division of Administrative Services, Department of Military and Veterans Affairs; Larry Hartig, Commissioner, Department of Environmental Conservation; Thomas Cherian, Director, Division of Administrative Services, Department of Environmental Conservation; Lynn Kent, Deputy Commissioner, Department of Environmental Conservation.

SUMMARY

FY 15 GOVERNOR'S BUDGET OVERVIEWS:

Department of Military and Veterans Affairs  
Department of Environmental Conservation

HB 266      APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 266 was HEARD and HELD in committee for further consideration.

HB 267      APPROP: MENTAL HEALTH BUDGET

HB 267 was HEARD and HELD in committee for further consideration.

#hb266

#hb267

HOUSE BILL NO. 266

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs, capitalizing funds, and making reappropriations; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund."

HOUSE BILL NO. 267

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

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^FY 15 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, presented the Department of Military and Veterans Affairs year-end review (video).

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Commissioner Katkus began the presentation, "Alaska Department of Military and Veterans Affairs FY2015 Overview, February 3, 2014. Commissioner Katkus spoke to Slide 1, "Mission":

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 turned to Slide 2, "Core Services":

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

Commissioner Katkus continued to Slide 4, "Measures and Results." The slide identified two significant measures and results that made an impact on society; one was the graduation rates of the military youth academy, which was comprised of drop-out, at-risk youth from civilian schools. He shared that the department had been working to raise the proportion of the number of people entering the school, to the number of graduates. In 2014 the graduation rate was 85 percent.

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Commissioner Katkus discussed Slide 5, "Measures and Results.", which was a bar graph detailing the number of requests for assistance by Alaska veterans and the number of request met by the Office of Veterans Services. He pointed out that the request for assistance in 2012 was over 20,000, in 2013 it was up 16 percent to 32,000. He noted that the department had increased outreach to veterans significantly.

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Commissioner Katkus discussed Slide 6, "General Fund Budget." He directed committee attention to the black line at the bottom of the chart on the right side of the slide. He stated that the line was the DMVA budget relative to all of the other departments. The chart on the left of the slide illustrated the DMVAs share of total agency operations. He said that the increase in numbers from 2012 through 2015 accounted for an increase in aerospace and the monies brought in due to the change in the funding mechanism for the youth academy; instead if interagency transfers of funds it is now general funds. He relayed that

the line would drop as funding to aerospace was reduced according to the department's plan.

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Commissioner Katkus discussed Slide 7, "Budget by Fund by Group." The slide depicted three bar graphs: DMVA percent of the total department budget by fund group (left), Alaska Aerospace Corporation (ACC) budget by fund group (top right), DMVA budget by fund group without ACC by fund group (bottom right). The percentage of general funds in the department's budget was 20 percent in FY06 and is 41 percent in the FY15 Governor's request. In FY08, \$22.8 million of Alaska Aerospace Corporation Receipts were changed to Federal Receipts to more accurately reflect federal contracts. The Alaska Aerospace Corporation received the following general fund increments for on-going maintenance and operation: FY12 - \$4 million (one-time), FY13 - \$8 million (one-time), FY14 - \$8.1 million (on-going). The legislature removed \$26.7 million of Federal Receipt authorization from the Alaska Aerospace Corporation's budget in FY13.

Commissioner Katkus turned to Slide 8, "10-year plan - All Funds." He noted that the plans in the distance for a new armory in the Fairbanks area in the outskirts of W

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Commissioner Katkus discussed slide 9: "10 year plan GF." He stated that the 2 significant that would see an increase were facilities, the first was the US Property and Fiscal Office, second was the Fairbanks Readiness Center. He turned to Slide 9, "10-Year Plan-GF. He relayed that the priorities for those fund would be the Alcantra 100-man Barracks and the Fairbanks Readiness Center.

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Commissioner Katkus discussed slide 10: "Priority Issues":

- Continuing Department of Defense budget and military force reductions as global was on terror subsidies
- Base Realignment and Closure
- Fairbanks Cemetery Land
- Arctic Disaster Response and Recovery

Commissioner Katkus discussed the priority issues.

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Co-Chair Stoltze asked what the graduation rate would have been for the students entering the academy this year.

MCHUGH PIERRE, DEPUTY COMMISSIONER, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS, replied that the graduation rate would have been zero as all of the students of the academy were drop-outs. He stressed that the academy was those students last chance to get back on track. He furthered the academy would do everything it could to establish small successes and teach the cadets how to build on those successes.

Commissioner Katkus added that academy was located on Joint Base Elmendorf-Richardson (JBER) which allowed for the support of on-sight mentors.

Co-Chair Stoltze praised the Challenge Academy.

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Co-Chair Stoltze asked about the food security appropriation in the capital budget of \$3 million.

Mr. Pierre stated that a year ago the department went out for an RFP to get an all-inclusive response to emergency food and food security in general. He said that the department was seeking shelf-stable food that would be reliable for the next 10 to 20 years. He relayed that the state had a robust agricultural communities with many stores and the food purchased for disasters it was not shelf-stable food, it was perishable food that communities were used to eating so that they felt like their regular routine was being met. He said that part of the governor's initiative to be better prepared over all was to assure that the state had water purification capabilities, electrical generation capability and an emergency food stash, with the goal of feeding 40,000 people for 7 days in the case of a dire emergency. He said that the original request had been broken down into sections. He relayed that the bid for the contract closed that day and it was expected that they would purchase the first amount of food within the next few weeks.

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Commissioner Katkus added that both the power generation and water purification resources had been utilized already. He stressed that the food element was meant for a catastrophic event.

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Co-Chair Stoltze asked if the large generator purchased by the American Legion/Lion's Club in Peter's Creek could be added to the inventory of emergency service facilities.

Commissioner Katkus stated that he was unaware of the issue.

Mr. Pierre commended the Lion's Club in Peter's Creek for being proactive. He explained that the way emergency response worked in Alaska was that each community designated shelters that were capable of taking care of people.

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Representative Gara asked if the department had the ability to expand the youth academy to accommodate more students.

Commissioner Katkus replied yes. He added that most of youth program in different states relied mainly on federal dollars. In Alaska more state dollars were put in to the program than federal dollars. He said that because federal dollars were involved there were very specific rules and regulations that needed to be followed. He stressed that within the resources that the department received, they were providing the results that they sought.

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Mr. Pierre added that there were several obstacles that would need to be addressed that would require a large general fund investment; a lack of barracks space and a lack of dining hall facility. He said that accommodating more kids would take more funding.

Representative Gara spoke to the 2000 foster children in the state. He anticipated that their graduation numbers were not great. He said that foster youth were occasionally

referred to the academy, and wondered whether the department actively reached out to the Office of Children's Services (OCS) in order to get foster youth into the program.

Mr. Pierre replied that the department actively worked with OCS and the Department of Health and Social Services to make sure that as many eligible applicants were found as was possible.

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Representative Thompson understood that some of the students at the academy were there not because they had dropped out, but because of discipline problems at home.

Mr. Pierre responded that by law the student must be a drop-out. He said that the parent had to register the student as a drop out before they could join the program.

Representative Thompson queried the accomplishments of the aerospace program.

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Mr. Pierre stated that he and Commissioner Katkus were heavily involved with making sure that the corporation performed to the expectations of the department and the legislature.

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JOHN KRAMER, ALASKA AEROSPACE CORPORATION, related that in 2013 the legislature had put some requirements on the corporation, one of which was to secure a commercial launch contract, multiple year, and prior to July 1, 2013. He relayed that failure to do so would result in the reduction of the general fund allocation. He shared that an agreement was in place that was multi-year and that there were other plans that were moving forward that were confidential.

Representative Thompson asked whether the next scheduled launch as offsetting the aerospace budget.

Mr. Kramer replied that the corporation took a 25 percent budget reduction in FY14, which was directly related to the contracts that they were able to secure.

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Co-Chair Austerman asked if the multi-year began with the 2014 launch. He recalled that the contract had been in place for some time.

Mr. Kramer replied that the contract had been signed in May 2013. He relayed that the work would be completed until FY 15.

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Co-Chair Austerman restated his question. He asked if there were other contracts for additional launches.

Mr. Kramer responded that there were negotiations going on for additional launches, but there were no signed contracts to date.

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Vice-Chair Neuman spoke of the Pentagon's decision to use Alaska as the site to launch an alternative fuels program, which AIDEA was working on. He asked how such a facility could protect from JBBER closing.

Commissioner Katkus stated that he could not talk about the active duty bases. He relayed that most of the current relevancy from the bases in the state was driven by operations their requirements.

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Mr. Pierre added that experimentation was not the leap to security. He said that once the fuel security was verified then the fuel security would be important. The Department of Defense would rank the base based on how well it could accommodate its needs. He asserted that having a lot of fuel was helpful to the state; however, currently that fuel was not as helpful because it had not been proven.

Vice-Chair Neuman stated that all platforms were certified.

Vice-Chair Neuman asked about the federal funded native hospital in Wasilla. He believed that it was large enough to provide better medical services for veterans.

Commissioner Katkus stated that the issue was one of the initiatives being worked on. He believed that the facility was perfect for accommodating veterans.

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Representative Gara asked about the contract for the multi-year rocket launch. He wondered how many years were under contract.

Mr. Kramer clarified that he had a multi-year contract in place, which had led to an upcoming launch. He furthered that within the next few weeks he would have another contract for additional services for a future launch. He said that one of the areas of pursuit, the range safety and telemetry system, was unique and state of the art. He relayed that there were a number of entities contracting with the corporation for the use of the system, one of which was SpaceX.

Representative Gara wondered was the next year that the corporation had a launch contracted for.

Mr. Kramer replied that he did not have another launch contract in place.

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Representative Gara understood that the corporation had a multi-year contract that had one definite launch. He asked how much money the corporation received in capital and operating monies in FY14, versus income; additionally, in FY15 what the proposed capital and operating budgets were as well as the anticipated income.

Mr. Kramer replied that the projected FY15 operating request was \$6 million; FY16, \$4 million; FY17, \$2 million. He said that the capital needs for FY15 was \$1.8 million and he believed that the number would decline in the out years.

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Representative Gara understood that for the coming year the corporation had \$7.8 million. He requested the anticipated income that would off-set the \$7.8 million.

Mr. Kramer estimated \$2.5 million.

Representative Gara surmised that there was a roughly \$5 million loss in 2014. He queried the difference between capital and operating grants versus what was off-set by income in 2013.

Mr. Kramer asked for the question to be clarified.

Representative Gara said that we wanted to know the difference between income and what the state had given the corporation in operating and capital dollars.

Mr. Kramer explained that state monies were used for operations and sustainment for the corporation. In addition to the money given by the state, all of the contract work done by the corporation off-set what it would normally cost to operate and maintain launch activities. He said if the budget were to be reduced by letting staff go they would not be able to meet the need of their customers. He said that the corporation saw approximately \$2.5 million in income in 2013, \$8.1 million in operating funds and \$500,000 in capital funds.

Commissioner Katkus pointed out to the committee that some of the sustainment costs were borne by the federal government on some of the launch complexes. He said that currently the aerospace directors had worked to level the costs. He stated that most of the contracts had a basis of support by a larger entity. He asserted that a black and white explanation of gains and losses could be used, but was not wholly accurate.

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Representative Thompson wondered whether the corporation had a public relations department that communicated with the City of Kodiak in order to assure that there was positive economic impact to their being there. He expressed that the people of Kodiak had characterized the corporation as less than friendly.

Mr. Kramer replied that the operation was lean as far as employees were concerned. He admitted that there was more that the corporation could do in the Kodiak community to show what was contributed through employment efforts. He said that Kodiak would see an influx 200 to 300 people a

month or so prior to the launch date. He added that more people would be brought prior to that for set up, roughly 75 to 100. He noted that all of the people coming in would spend money in the community.

Representative Thompson asked if the corporation prioritized buying and hiring local.

Mr. Kramer replied that they corporation purchased locally as much as they could.

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Co-Chair Austerman said that Chena Hot Springs had decided to build a housing facility in the area. He whether the corporation had paid a retainer for the private contractors to be available for the launch. Mr. Kramer replied yes.

Co-Chair Austerman asked how much the retainer was per month. Mr. Kramer said it averaged \$120,000 per year.

Co-Chair Austerman asked whether the corporation had been in discussions with the owner purchasing the facility. Mr. Kramer said that the contract had just been opened and that it was currently being renegotiated.

Co-Chair Austerman asked whether the contract was to continue to rent or to purchase. Mr. Kramer replied the contract was to rent.

Co-Chair Austerman understood that there was no negotiations underway for the purchase of the facility. Mr. Kramer replied no.

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Representative Guttenberg queried the history of past launches.

Mr. Kramer replied that there had been launch three years ago. He added that the complex had launched 16 successful launches.

Co-Chair Austerman stated that the corporation planned to get contacts for a long term facility or to faze themselves out. He hoped that there was a business plan that involved launches 3 to 5 times per year that made the facility

viable, but that at the rate things were going it seemed doubtful. He said that the corporation was on notice to make it work or get state money out of the business.

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SUSAN COLLIGAN, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS,

^FY 15 GOVERNOR'S BUDGET OVERVIEW: DEPARTMENT OF ENVIRONMENTAL CONSERVATION

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LARRY HARTIG, COMMISSIONER, DEPARTMENT OF ENVIRONMENTAL CONSERVATION, introduced department staff. He provided the PowerPoint presentation, "Department of Environmental Conservation: House Finance Overview" (copy on file). He spoke to Slide 2, "DEC's Mission":

- Protect human health and the environment.

Commissioner Hartig shared that the increasing lifespan of humans can be attributed to clean water, safe food and sanitation. He pointed to Slide 3, "Environmental Quality and Public Health":

Water and Sanitation is one of the primary drivers of public health. I often refer to it as "Health 101", which means that once we can secure access to clean water and to adequate sanitation facilities for all people, irrespective of the difference in their living conditions, a huge battle against all kinds of diseases will be won.

Dr. Lee Jong-wook,  
Director-General, World Health Organization  
November 2004

Commissioner Hartig turned to Slide 4, "What Alaskans Get for Their Money":

According to calculations by Legislative Finance, DEC's FY2015 general fund budget is equal to \$153 per year per resident worker: that's just 42¢ a day for clean air to breathe, clean water to drink, safe food to eat, responsible resource development, and pristine land and waters.

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Commissioner Hartig continued to Slide 5, "Responsibilities & Functions":

- Develop standards
- Issue permits
- Provide compliance and financial assistance
- Safeguard the quality of food and seafood
- Operate the State Environmental Health Lab
- House the Office of the State Veterinarian
- Respond to spills of oil and other hazardous substances
- Regulate pesticides and certain types of use
- Educate and assist the public
- Interact with our federal agency counterparts
- Investigate violations and enforce state law

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Commissioner Hartig spoke to Slide 6, "Divisions":

- Administration
- Air Quality
- Environmental Health
- Spill Prevention and Response
- Water

Commissioner Hartig turned to Slide 7, "Division of Administration":

Commissioner: Larry Hartig  
Deputy: Lynn Kent  
Director: Tom Cherian

**Components:**

- Commissioner's Office
- Administrative Services
- Information Services
- Financial Services
- Budget Services
- Procurement & Building Management
- Environmental Crimes Unit
- State Support Services

- Lease & Contracts

**Challenges & Opportunities:**

- Unfunded Administrative Cost Increases
- Succession Planning and Workforce Development
- Technological Advancements and Efficiencies

Commissioner Hartig explained that the Environmental Crimes Units consisted of two people who had gone through the trooper academy and who worked closely with the Attorney General's office on investigations. He said that there were sharp distinctions between constitutional rights and the procedures that existed under criminal and civil law, which made it important that the people in the criminal division be specially trained. He highlighted that the operating budget request proposed by the governor was completely flat.

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Commissioner Hartig turned to Slide 8, "Division of Air Quality":

Director:  
Alice Edwards

**Components:**

- Director's Office
- Air Quality
- State Implementation Plan
- Permitting
- Monitoring

**Challenges & Opportunities:**

- Fairbanks Air Quality
- Change to Federal Funding Formula
- New Federal Standards

Commissioner Hartig discussed the variety of areas monitored by the department. He said that the department was working on controlling air quality in Fairbanks, while still recognizing that people needed affordable ways to heat their homes. He spoke to the proposed change in the federal funding formula. He said that the money was going

to be reallocated among the states and that the northwestern states would be hit especially hard; a 42 percent decrease, spread out by 5 percent per year. He said that that the department was constantly struggling with new environmental standards set by the Environmental Protection Agency.

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Commissioner Hartig discussed Slide 9, "Division of Environmental Health":

Director:  
Elaine Busse Floyd

**Components:**

- Director's Office
- Food Safety & Sanitation
- Laboratory Services
- Drinking Water Oversight
- Solid Waste Management

**Also:**

- Building Maintenance & Operations -
- Environmental Health Lab

**Challenges & Opportunities:**

- Complex EPA Rules & Reduced Federal Funding
- High Risk Food Safety Inspections
- Unique Laboratory Technology & Equipment Needs

Commissioner Hartig spoke to the challenges of food safety and sanitation as it related to seafood.

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Commissioner Hartig continued to Slide 10, "Division of Spill Prevention and Response":

Director:  
Kristin Ryan

**Components:**

- Director's Office

- Industry Preparedness & Pipeline Operations
- Prevention & Emergency Response
- Contaminated Sites Program
- Response Fund Administration

**Challenges &  
Opportunities:**

- Declining Prevention Account Balance
- Increasing Workload Associated with Natural Resource Development
- Increasing Arctic Activity

Commissioner Hartig shared that companies had to provide proof of a financially backed, spill response plan. He relayed that spill drill were conducted several times per year. He related that under federal and state law the party responsible for spills wad the owner operator of the facility from where the spill occurred; the state oversaw the response to assure timely containment and clean-up. He noted that if the responsible party was doing an unacceptable job, or was financially incapable, the state would step in and assist in the response.

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Commissioner Hartig discussed Slide 11, "Division of Water":

Director:  
Michelle Hale

**Components:**

- Water Quality
- Facility Construction
- Village Safe Water Program
- Municipal Grants & Loan Program

**Challenges &  
Opportunities:**

- 404 Dredge & Fill Permitting Evaluation Pace
- Declining Federal Funding in the Village Safe Water Program

Commissioner Hartig relayed that water quality standards were set through a public process and that the 3 areas of

focus at the moment were: mixing zones, anti-degradation, and fish consumption values. He discussed ongoing research with the Department of Natural Resources concerning the pros and cons of state taking over the section 404 Dredge & Fill Permitting program.

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Commissioner Hartig spoke to the Village Safe Water program. He relayed that the program was 75 percent federally funded and 25 percent state match and municipal grants.

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Commissioner Hartig discussed slide 12, "FY2015 Budget Request." He reiterated that the request for FY15 reflected zero percent growth, zero percent general fund increase and no new PCNs. The operating request was \$88,587.5 million and the capital request was \$69, 347.7 million, the lowest capital request since FY06.

Commissioner Hartig discussed Slide 13, "FY2015 Operating Budget by Fund Source." The slide contained a pie chart that features a breakdown in funding percentages: DGF Oil/Hazardous Release Prevention and Response Fund (Representative Foster), 18 percent; Federal Receipts (FED), 28 percent; UGF (General Fund & General Fund Match), 27 percent; DGF (GFPR, OR Fees, CPVF), 13 percent. Additionally, the slide provided a bar chart that broke those percentages down into the divisions; Administration, Environmental Health, Air Quality, Spill Prevention & Response, and Water Quality.

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Commissioner Hartig turned to Slide 14, "Concerns and Updates":

- **Significant Concerns**
  - o Prevention Account Sustainability
  - o Village Safe Water
    - Federal Funding Decline
    - Alaska Challenge Project
- **Updates**
  - o Tsunami Debris Cleanup
  - o Federal Sequestration & Future Outlook

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Commissioner Hartig continued to Slide 15, "How the Response Fund Works":

- "It is the intent of the Legislature and declared to be the public policy of the State that funds for the abatement of a release of oil or a hazardous substance will always be available." (A.S. 46.08.030)
- **Response Account**
  - Funded by 1¢ surcharge on each barrel of oil.
  - Surcharge suspended when fund exceeds \$50 Million.
  - Pays for emergency response activities.
  - Department recovers costs from identified responsible parties.
- **Prevention Account**
  - Funded by a 4¢ surcharge on each barrel of oil.
  - Pays for operational costs and readiness activities within the Spill Prevention & Response Division.

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Commissioner Hartig discussed Slide 16, "Status of the Prevention Account", which contained a bar graph that illustrated Prevention Account revenues, expenditures, and balance projection. He relayed that the light green was the balance in the fund; at one point it had been above \$20 million. The purple bar in FY14 represented cost recovery against British Petroleum on an arbitration for several spills in 2006. He said that the red line that traveled across all of the bars was the total annual expenses, which was level in FY10 through FY13, dropped in FY14, and leveled out again. He said that the green bars went to zero in FY16 and were replaced by blue bars representing general fund increments. He explained that as oil production went down the response fund balance went down because there was not enough to cover the \$17 million per year of the spill prevention operating budget.

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Commissioner Hartig shared that Slide 17, "Status of the Prevention Account" provided the figures for the previous slide. He noted that going into the out-years the inputs

into the response fund, line items 3 thorough 5, were projections based on variable that were subject to change.

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Commissioner Hartig turned to Slide 18, "Prevention Account and Inflation." He hoped that the graph dispelled myths that the fund was down because of overspending. He asserted that the rate of inflation from FY05 through FY15 had risen more than the operating budget for spill prevention and response. He relayed that the surcharge on a barrel of oil had not changed with the per barrel price.

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Commissioner Hartig discussed Slide 19, "Rural Alaska Water and Sewer." The graph included 2 types of needs: First time service for homes without piped or covered haul and Upgrades or replacement to address significant health threats. He stated that the bars showed the federal and state funding for the program and that the decline over the last nine years was 66 percent or \$61 million. He stated there were harder to serve communities in the state that still did not have first-time service and some of the projects were decades old. He recalled that the capital budget proposal for FY15 was approximately 60 percent new projects and 40 percent existing facilities.

Commissioner Hartig discussed Slide 20, "Village Safe Water: The Alaska Challenge":

- \$667 Million = Current Cost of unfunded significant health related water and sewer needs in rural Alaska.
- State/Federal funding insufficient to construct new systems or ensure continued functionality of aging systems.
- Alaska Challenge Project
  - Innovative and new approaches are needed in Alaska villages in order to cut capital and operating costs of providing running water and sewer.
  - Issues a challenge to the private sector.
  - Three-Phased Approach:
    - Phase 1: Request For Proposals (RFP) and selection for funding.
    - Phase 2: Demonstration of projects, research and development.

- Phase 3: Initial pilot testing and refinement for implementation.
- The Legislature funded Phase 1 in FY2013, and the Department is working with stakeholders to try to secure funding for Phases 2 & 3

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Co-Chair Austerman stated that additional issues could be brought up during subcommittee work.

Vice-Chair Neuman asked about Slide 25, which listed appropriations within the department. He noted that the administration cost had increased by \$2 million over the last 4 years. He asked how much of the increase was a charge back from the Department of Administration for data storage and other services.

THOMAS CHERIAN, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF ENVIRONMENTAL CONSERVATION, replied that he would provide the information to the committee at a later date.

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Co-Chair Stoltze asked about Slide 10. He wondered whether increasing the tax or using general funds was a priority.

Commissioner Hartig replied that a large could occur at the end of FY 15. He said that there were cost recoveries that might extend the programs for another year. He offered that the option was finding another revenue source. He had laid out options for the cutting that had been looked at in the past. He noted that the potential options were listed starting on page 4 of the January 21st, 2014 response (copy on file). He said that many options were being explored.

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Commissioner Hartig said that one of the thing that the department had done to extend the life of the fund was to stop using money out of the provision account to pay for the clean-up of state owned or state managed contaminated sites. This began several years ago and the department had begun putting in capital requests of \$3 million per year to clean up the list of \$50 million worth of clean-up on state owned sites. He related that \$17 million had been spent on

state owned sites and one option would be for the legislature to replace those funds. He said that general fund appropriations had been the most recent way to fund the gap.

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Co-Chair Stoltze contended that the fund had risen to what was far from the agreed upon number sold during the legislative process at the fund's inception.

Commissioner Hartig replied that this year would be tight and without a change in the formula, the department would be back to the legislature next year for an appropriation.

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Representative Wilson asked about grant authority for programs dealing with air quality.

Commissioner Hartig replied that the grant authority for the Air Division had sunsetted. He said that grants had to be found through other state agencies, or were given directly to communities.

Representative Wilson asked about federal or EPA grants. She wondered about bush Alaska was missing out on funds.

Commissioner Hartig did not believe that the state would miss out on federal money. He thought it might be difficult for communities to realize the grants for themselves and that the department could provide guidance.

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Representative Holmes asked about Slide 16 and the \$5-\$7 million general fund request for FY16. She expressed concern that there would not be funds in the future to pay for oil spill and prevention given the state's current economic climate.

Commissioner Hartig echoed the same concern. He added that the issue should be of no surprise to the legislature or the department.

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Representative Gara opined that the state had the choice of \$7 million per year more out of the general fund or adding 4 cents of a surcharge on oil selling for \$105 per barrel. He asked whether the 4 cents could have an impact on investment or production.

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Commissioner Hartig replied that he had no opinion on the matter.

Representative Gara asked if the oil industry had been asked whether it would make a difference in their investment.

Commissioner Hartig said that the concept had been discussed.

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Co-Chair Austerman said that a refined products tax would need to be imposed to take care of cleaning up refined product. He wondered what would need to be done in order to get the department back into a positive cash flow.

Commissioner Hartig replied no. He felt that there were different ways to approach the problem. He said that with declining oil production the gap would increase over the years, which left two options: adjust the surcharge accordingly, or take a 10 year outlook. He shared that the surcharge on crude oil could be projected 10 years, but refined products would prove more difficult.

Co-Chair Austerman commented that for most cases the current administration had been anti-tax. He wondered whether the refined products tax would pass the veto.

[3:28:04 PM](#)

Representative Guttenberg asked about reimbursable in the clean-up account. He wondered why responsible parties were not charged in spill cases.

Commissioner Hartig replied that after the department responded to a spill, cost recovery was sought against the responsible party. He said that the money that was recovered went into a separate account which was

appropriated by the legislature back into the response account.

Representative Guttenberg spoke to Slide 17. He asked what the \$17 million in FY12 represented.

Commissioner Hartig stated that the \$17 million related to state managed sites. He noted that the department maintained that the clean-up was prioritized in terms of human health risk. He said that the sites represented were all sites where the state had the responsibility for clean-up.

[3:31:29 PM](#)

Co-Chair Stoltze asked what industry had been most responsible for the top 10 spills in the last 5 years.

Commissioner Hartig responded that the primary product that had been spilled was diesel. He stated that the spill could occur from multiple sources. He said that there were approximately 2000 spills per year and the number of spills from regulated facilities was declining. He shared that 2013 saw more spills of processed water from a mining operation. He thought that more money was spent on preventing oil industry spills. He offered to provide a breakdown of product and industry to the committee.

Co-Chair Stoltze looked forward to receiving the information.

[3:34:44 PM](#)

Co-Chair Austerman asked about 404 permitting. He asked how much money had been put in in 2013 to state the process.

Commissioner Hartig replied approximately \$300 thousand.

Mr. Cherian added that \$1.4 million had been appropriated for FY14, and had been divided among the Department of Law, the Department of Natural Resource and the Department of Environmental Conservation.

Co-Chair Austerman ask whether there was a request for 404 funds this year.

Commissioner Hartig replied no.

Co-Chair Austerman asked whether it would bring back a recommendation.

Commissioner Hartig responded that the department would be able to progress on the recommendation. He said that if the department did not come back for additional increments in line with the fiscal note the department would not be in a position to implement the program quickly.

[3:36:44 PM](#)

Representative Munoz said that she would report back to the committee on DEC sub-committee activities.

Representative Edgmon requested more information regarding the Village Safe Water Act and the Alaska Challenge.

[3:37:28 PM](#)

Representative Gara asked whether money paid to the state for spills went into the 470 fund.

Commissioner Hartig replied that the response account would see 1 cent and the prevention account would see 4 cents. He said that that oversight included more than crude oil facilities and that oversight of crude oil facilities benefitted the downstream users. He reiterated that cost recover was only on the 1 cent.

Co-Chair Austerman discussed housekeeping.

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ADJOURNMENT

[3:38:37 PM](#)

The meeting was adjourned at 3:39 p.m.