

HOUSE FINANCE COMMITTEE
February 4, 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 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

Representative Mark Neuman, Vice-Chair

ALSO PRESENT

Patrick Gamble, President, University of Alaska; Michelle Rizk, Associate Vice President, Statewide Planning and Budget, University of Alaska; Curtis Thayer, Commissioner, Department of Administration; Michael Barnhill, Deputy Commissioner, Department of Administration.

SUMMARY

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.

FY 15 BUDGET OVERVIEWS:
UNIVERSITY OF ALASKA
DEPARTMENT OF ADMINISTRATION

#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: UNIVERSITY OF ALASKA

PATRICK GAMBLE, PRESIDENT, UNIVERSITY OF ALASKA, introduced Gloria O'Neill, Regent, Board of Regents, University of Alaska (UA) and Courtney Enright, Student Regent, Board of Regents, UA who were in attendance. He provided a PowerPoint presentation titled "FY 15 Budget Overview: House Finance Committee" (copy on file). He communicated that the university was very budget conscious and had begun leveling its budget in the past two years. The university had increased the budget for academic programs 1.8 percent in FY 13, in FY 14 the increase was 1.7 percent over the prior year and the proposed FY 15 increase was 0.9 percent. He utilized the single budget appropriation granted through legislative authorization to sustain programs during the lean budget years by internally moving funding to priority items. He spoke to the university's internal work on the budget. He pointed out that the university was working to address and answer the questions about the university's operations in relation to the budget routinely asked by the committee members and regents. He highlighted the governor's proposed budget. The university was currently responsible for paying 50 percent of benefits. He noted that the split with the state was 60 percent paid by the

state and 40 percent paid by the university. The university was working to reign in contractual obligations and pay increases to very low levels. He discussed that the university received "good funding" in the past and the goal was to use the current amount of funding and "level the program expenses." He noted that even a slight increase in 50 percent of the personnel contractual obligations the university paid resulted in millions of dollars in budget increments and impacted the university's programs.

President Gamble continued to discuss the budget. He shared that his principal concern was related to the state's budget challenges in FY 16 and FY 17. In FY 15 the university's budget starting point was a \$14.9 million decrement from the FY 14 budget. The university had not received a cut of that size since sometime in the 1980s. He related that the university could absorb the cuts up to the current year, but it will become harder to achieve much more belt tightening and efficiencies in the coming years. He announced that he along with the chancellors were looking ahead and attempting to deal with what comes next. He moved to slide 2 that included the university's mission statement:

The UA Mission

"The University of Alaska inspires learning, and advances and disseminates knowledge through teaching, research, and public service, emphasizing the North and its diverse peoples."

President Gamble turned to slide 3 that depicted the campus locations, and facilities throughout the state. He relayed that the campuses' operations were a "fixed cost." The multiple locations offered Alaskans the "opportunity" to attend classes on a campus. Electronic learning and increased bandwidth was changing the paradigm. How the changes would affect the needs of a fixed campus would be revealed in the future. He cited slide 4:

Shaping Alaska's Future ...

A major institutional push toward increasing enrollment, retention, and graduation in higher education and workforce development
President Gamble discussed slide 5:

Shaping Alaska's Future

A solid, balanced university system is crucial to a state's healthy growth and development.

As a university system, the value we bring to Alaska depends on the number and quality of our graduates at every level.

UA's reputation for offering a premier education and a world-class research opportunity will substantially drive Alaska's future. To a large degree that is a choice we can make and an outcome we can control.

President Gamble expounded that the objectives were established two years ago. The result identified a "polished draft" of 22 issues comprising academics, facilities, and services system wide and 22 effects that the "university would like to create as outcomes." The issues and questions were addressed and answered and the "prospects for change were better than they had ever been." He emphasized that Shaping Alaska's Future was a very important initiative.

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President Gamble turned to slide 6:

FY15 Budget

UA is in year three of a continuous improvement plan... a comprehensive and collaborative system wide initiative to:

- expand student access;
- improve student outcomes;
- create greater academic and research value;
- gain a reputation for institutional excellence at every level.

Accordingly, the FY15 budget is directly aligned with the UA mission and the anticipated improvements and outcomes of the system wide change initiative we call Shaping Alaska's Future.

President Gamble spoke to the FY 15 budget in relation to the Shaping Alaska's Future initiative outcomes. He remarked that the goals were achieved internally and budget increments were not necessary. He shared that in the past

decision making among the university system was "almost impossible" and often deferred or avoided. He referred to the university's Summit Team that included the chancellors and provosts of the three universities, the vice-president for academic affairs (the president's principal academic advisor), and President Gamble; the group was meeting to address system wide issues. He believed that the cooperation and collaboration between the team had never been better; objective system wide decision making was in progress. He discussed that the 22 objectives from Shaping Alaska's Future was a new foundation for the university's future. The Summit Team's ability to make decisions facilitated the implementation and progress of the goals defined in the initiative. He explained that the team utilized "governance" and decision making to move forward towards the goals. He stressed that the change was significant.

President Gamble briefly addressed slide 7;

Inspiring Opportunity

- Access, institutional excellence and affordability are guiding principals
- 33,000 students; 50 nationalities
- More than 500 degree programs, 125 completely on-line
- 4,491 degrees, certificates and endorsements
- Research expenditures of \$129.8 million

President Gamble pointed to the "FY 13 Report Card" on slide 9. He communicated that funding appropriated for advising was delivering results. He informed the committee that a social education national agenda and major initiatives for higher education was about to be revealed by the White House. He did not know if some of the items needed Congressional approval; however, some items did not require the approval for implementation and would come through the federal Department of Education. The university would be accountable for a certain level of performance measureable by a set of metrics. He guessed the changes would occur prior to the next legislative session. He looked at the university's challenges on slide 10:

Challenges

State and Federal budget reductions
Federal performance expectations
Dynamic higher education environment
Aging infrastructure and need for appropriate, modern
teaching and lab facilities
Online competition
Enrollment growth

President Gamble turned to slide 11:

Commitment to Improvement.

Higher education paradigm shift:

greater value and accountability
less tuition and fees
compete, stay relevant, embrace institutional
excellence Important partnerships:
commercial organizations
non-profits
other universities, K-12 school districts
state and national leaders

Innovative solutions to difficult UA issues likely to
transcend Alaska and gain recognition nationwide

President Gamble discussed that what motivated the cooperation between the Summit Team was the commitment to improvement. He wanted to "raise the bar" with regard to the university system which went beyond a commitment to improvement. He stressed the university's goal to take "center stage" in terms of Arctic research and Arctic policy and related issues: fisheries research, resource security, Law of the Sea regarding melting ice, climate change science, and the social impact of climate change on Alaska. He reported an increased interest in Alaska from individuals and organizations that want to implement national Arctic policy but had no expertise. The university was being asked to facilitate the policy making process and bring Alaskan experts together to help create the policies and build a "national focus" on the issue. The university was contacted by the White House Office of Science and Technology and the State Department requesting assistance in expertise to help build Arctic policy. The university wanted to be "center stage" in Arctic policy creation, especially in relation to Alaska's federal land and federal offshore issues. If the university was not proactive other universities would "rush in" to fill the gap. He emphasized

his desire to develop the university's reputation as the country's Arctic and Circumpolar experts.

President Gamble discovered that the university was not well known nationally. He wanted to attract more students to UA in order to create an alternative source of income. He stated that the demographics in Alaska were changing and the potential Alaskan student pool was decreasing. The university wanted to attract students, who had not decided to attend college, to its 2-year program and eventually matriculate the students into the four year degree program. In addition, another goal was retaining students in the four year degree program where the dropout rates were high. He stressed that going forward; the university would not depend on receiving increased funding to accomplish its goals.

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MICHELLE RIZK, ASSOCIATE VICE PRESIDENT, STATEWIDE PLANNING AND BUDGET, UNIVERSITY OF ALASKA, spoke to slide 12:

The Model: Eliminate Cost + Generate Revenue
Reallocating and prioritizing resources
Space utilization, reducing leased space, consolidation
Systemwide collaboration
Mitigating energy expense
Commercialization and investment opportunities...unmanned aerial systems, alternative energy, arctic research, climate research, fisheries, oceans, natural disasters...have never been better
Long-term facility management plan... Sightlines, university building fund

Ms. Rizk moved to slides 13:

FY15 Program: Reduced to just the basics

Completes UA mandatory comprehensive advising
Increases high school graduate readiness for college/workforce through dual credit programs
Strengthens Alaska's teacher education program
Meets strong demand for expanded health/biomedical education
Responds to requests for greater workforce professional development from Alaska's major

industries

Engages in badly needed instate research work

Ms. Rizk addressed slide 14. She explained that the university's FY15 Program GF Increment was \$90,000 for the UAS mining program. The request was included in the budget last year as one time funding. The increment this year moved the funding into the base funding in order to continue the program. She turned to slide 15 that included a summary of the Governor's proposed FY 15 operating budget requests. She cited the \$14.9 million budget reduction that represented 4 percent of unrestricted general funds (UGF). She highlighted the 50 percent split between state appropriations and university receipts for employee compensation. One significant item included in the \$2.1 million for facility costs was for the University of Alaska Anchorage (UAA) new sports arena. One other increment that was included in program requests was \$51.8 thousand for the Technical Vocational Education Program.

President Gamble addressed the capital budget on slide 16:

FY15 Capital Request

Deferred Maintenance No. 1 overall priority
UAF Heat and Power Plant Upgrade No. 1 deferred
maintenance project
Engineering Buildings Completion No. 1 academic
project
Research for Alaska UAF's Alaska Earthquake Center
Arctic oil spill response
Statewide Digital Mapping Initiative

President Gamble briefly spoke to two items in the capital budget. He moved to slide 17:

FY15 Capital Request

DM \$37.5

Engineering vs. Heat and Power Plant Upgrade

President Gamble reminded the committee that the governor requested \$37.5 million per year for the previous 5 years for UA deferred maintenance. The funding had a tremendous impact on the university. He pointed to projects under construction that fell into two categories. The funding was reduced to \$30 million last year and FY 15 was the last

year of the governor's program. The university was not currently planning projects for future large construction. After the FY 15 deferred maintenance appropriation was spent, the university planned "a tremendous drop-off" in capital budget request. The university planned to renovate and maintain the existing structures and focus on purchasing new high tech equipment for the engineering program. He remarked that the program was "doing well" with a high number of graduates. The demand was high for UA engineering graduates for jobs on the North Slope. Two engineering buildings were currently under construction that would cover the demand. He worried that capital budget funding would be insufficient for both completing the engineering buildings and constructing the University of Alaska Fairbanks (UAF) heat and power plant. He thought that the two projects intersecting at the same would be a difficult issue during a "contentious" capital budget process. He trusted that the legislature was aware of the importance of both projects.

Ms. Rizk turned to slide 18 that included a summary of the FY 15 governor's proposed capital budget requests. The requests included state appropriations of \$37.5 million for deferred maintenance, \$10 million for completion of the engineering buildings and \$20 million in receipt authority for capital projects. She noted that the final slides contained graphs from the Legislative Finance Division. She explained that slide 20 depicted the percentage of general fund received by the university, which steadily declined [15.85 percent in FY 06 to 13.22 percent in FY 15]. Slide 21 showed a decline in unrestricted general funds over time [10.89 percent in FY 06 to 8.25 percent in FY 15]. She pointed to slide 22 that depicted the funding mix for the university that included federal receipts at 16 percent of the total budget, designated general funds at 34 percent of the total budget (including tuition), other state funds at 9 percent of the total budget, and unrestricted general funds at 40 percent of the total budget. Slide 23 included a summary of the 10-year fiscal plan. The average rate of general fund growth had been 3.4 percent in the past; the university was looking to reduce the growth in the future. She addressed slide 24 that portrayed the overall annual growth of the university budget at 2.8 percent, which the university planned to reduce in the future.

Co-Chair Austerman surmised that attracting more students and retention had been a problem for the university. He

referred to the governor's scholarship program designed to attract and retain students. He wondered whether something was amiss in the entire education system that created the problem.

President Gamble replied in the affirmative and stated that the problem was a national issue. He elaborated that students were bypassing college because of the expense, debt, and time investment of a degree program. Alaska had highly paid [non-degree] jobs available, which contributed to the problem. The argument was; what point was college if a person could get a good job without a university degree. The other national issue was that graduation from high school did not mean readiness for college. The university was working with members in the state's educational community to shift the focus on "readiness" instead of graduation. Youths needed to be ready to go into a vocational program or into higher education. The issue needed further work in Alaska. The university provided workforce training and could expand it; if mines, dams and pipelines were going to be built in the state it would take an increased skilled workforce. The university wanted to be the "significant source" of the workforce. The high schools and workforce development in the university was the only path to workforce readiness. The university was not currently in the position to make enough people ready but wanted to confront the issue.

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Representative Gara offered that the university had a range of students across the achievement spectrum. He understood that one of the university's problems was student retention through graduation. He referenced budget appropriations for student advising and wondered if the advising was aimed at helping students graduate.

President Gamble answered in the affirmative and explained that the focus was on "comprehensive advising." The university had stretched the advising funding throughout much of the university system and had already experienced retention and graduation improvement. He noted that completion rates were low in two year programs where he believed much of the workforce would come from. Through comprehensive advising the university had discovered that students left for a variety of reasons. He exemplified a story about an Alaska Native engineering student who was a

high achieving student the first couple of semesters. Through the advising computer system his advisor discerned that the student was about to drop out due to his father's job loss. The student was eligible for many types of scholarships, the advisor was able to help, and the university retained the student.

Representative Gara asked whether the advising was not available at all university locations.

President Gamble replied in the affirmative.

Representative Gara asked whether the university had data regarding graduation and retention rates due to comprehensive advising. President Gamble replied that he could provide data, but was uncertain how accurate it was so early in the program. National data proved comprehensive advising worked and he believed that it was working in Alaska.

Representative Wilson cited slide 15 and surmised that the university budget was approximately \$913 million. She wondered how much it cost the state for each graduate based on the number of graduates.

President Gamble replied that it cost more in Alaska than in the Lower 48 and significantly more for the two year programs than the four year programs. Tuition for the two year programs cost the same as the four year programs. Community colleges in the lower 48 cost approximately 50 percent less than UA. He wished to reduce the two year program tuition. He relayed that employee benefits consumed 60 percent of the university's total budget, which was consistent with the national trend. The university was the largest owner of facilities in the state. Paying the bills for the facilities at each location was very expensive. The various campus locations offer higher educational opportunities throughout the state, but at a high cost that other universities do not have. He concluded that UA was "more expensive than our counterparts."

Representative Wilson remarked that K-12 education cost the state \$1.4 billion and the university cost almost another \$1 billion. She questioned whether the state education funding was going to be appropriated based on outcomes. She wondered what the appropriate measures should be to weigh the cost of keeping students in Alaska against the total

cost per student and whether it was possible for the state to afford offering the variety of degree programs in order to retain students.

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President Gamble replied that it would be impossible. One of the issues facing the state dealt with program review. He communicated that it was difficult to determine the value of a program. He related that the university "could not be all things to all people." The university needed to define what programs were necessary for workforce development and degree graduates and avoid "mission creep." He stated that the accelerated program review process was currently underway and programs were being consolidated or dropped. He referred to the report card on slide 9 related to measurable outcomes. He thought that indicators such as the rise in Baccalaureate Engineering degrees, in Bachelor degree students completing 30 credits each year, and completion times decreasing were important markers of efficiencies. The changes were a recent occurrence and important to watch as quality outcomes.

Representative Wilson requested numbers instead of percentages on slide 9.

Representative Costello informed the committee that she had met with Dr. Helena Wisniewski from UA on growing Alaska's economy. She was intrigued by the Seawolf Fund and subsequently held a hearing where she invited Dr. Wisniewski to testify. She asked for details on the university's work on the fund.

President Gamble replied that the fund was an example of innovation at work. He shared that other universities had been successful in commercialization of patents and wondered why the university was not engaged in the work. He initiated the concept and both UAF and UAA, with the support of the Board of Regents and the President, developed the "offices of innovation." The office was a mechanism that had the capacity to commercialize intellectual property either through patents or investors with seed money to start a business and share a portion of the profits with the university. A large number of patents had been advanced through both offices and huge potential existed. He pointed to the University of Wisconsin as a successful example. In Wisconsin, the venture created jobs,

additional revenue and tax base to the communities, additional revenue to the university and provided incentive for growth in the venture fund. The venture brought attention to the university and would raise the university's reputation.

Representative Costello believed that innovation was the number one way to grow the economy and that the university was an economic driver. She supported the university's encouragement of innovation.

Co-Chair Stoltze related a prior year's committee meeting concerning discussions with the three chancellors about charitable giving and non-governmental private sector initiatives to the university. He believed that UAS was lacking in both. He had heard that UAS recently made a charitable contribution. He wondered whether UAS was giving money instead of asking for it.

President Gamble replied that he was generally familiar with the issue. The community event that UAS contributed to raised \$300,000 of charitable giving. He believed that the contribution was not out of the ordinary and was entirely reasonable.

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Co-Chair Stoltze asked about the announcement from the Board of Regents regarding a more rigid entrance requirement in the university. He wondered about the potential impacts.

President Gamble answered that the discussion centered on meeting a certain academic requirement to be admitted into a degree program such as engineering. An unprepared student could not advance. He related that the university's approach was to work with unprepared students and place them into the system where they would succeed and eventually move them into four year programs. The university wanted to attract as many students as possible into the system and help them succeed. Raising academic standards would not decrease opportunities but actually increase opportunities with the new approach.

Co-Chair Stoltze asked whether the university had a committee on community fundraising.

President Gamble answered that the Vice-President for Advancement system-wide or the advancement office through a chancellor would decide whether the university wanted to donate money for a cause.

Co-Chair Stoltze did not believe that the university or quasi-governmental organizations should be allowed to spend on charity. He wanted to determine how widespread the issue was. He was concerned over "appearances." He thought that the issue warranted further examination.

President Gamble replied that he would look into the issue.

Representative Munoz appreciated the Co-Chair's concerns related to private events. She clarified that the fundraiser that UAS contributed to was related to a publicly and privately funded institution that was involved in Native language preservation and cultural heritage. She noted that the committee did approve two separate budget appropriations for the same project.

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^FY 15 GOVERNOR'S BUDGET OVERVIEW: DEPARTMENT OF ADMINISTRATION

CURTIS THAYER, COMMISSIONER, DEPARTMENT OF ADMINISTRATION, introduced Michael Barnhill, Deputy Commissioner, Department of Administration, and Cheryl Lowenstein, Director, Division of Administrative Services, Department of Administration. He provided a PowerPoint presentation titled "Alaska Department of Administration Department Overview" (copy on file). He noted that the mission of the Department of Administration (DOA) was to provide efficient and consistent support services to state agencies to better serve Alaskans. He listed the department's core services: legal advocacy, regulatory services, family support, and enterprise support services.

Commissioner Thayer discussed slide 2: "Organization Chart." He reported that DOA organization consisted of two deputy commissioners (one currently vacant), two special assistants, ten divisions, and five commissions. Services

to the public included the Division of Motor Vehicles (DMV) and Public Defenders and services to the state agencies included General Services. The services the department provided were diverse.

Commissioner Thayer continued with slide 3: "Service across Alaska." He related that the department provided services and had offices throughout the state, primarily for DMV and the Public Defender's office. The offices were located all over the state from Barrow to Ketchikan.

Commissioner Thayer turned to slide 4: "Legal, Advocacy and Regulatory Services." He discussed performance measures. One target measure for DOA was to serve DMV customers within 20 minutes of arrival and had met the target 71.8 percent of the time. A second measure was the Public Defender Agency's cost per criminal case and cost to represent a client. The costs were continuing to grow even with attempts to contain the costs. He moved to slide 5: "Family Support" that addressed family support services. He noted that the department attempted to shelter public wards 100 percent of the time. Public guardian clients had shelter 100 percent of the time in 2012 and 99 percent in 2013. He discussed the average personal services cost per child in need of aid (CINA). The department attempted to hold down costs but the number had increased since the prior year. He looked at slide 6: Enterprise Support Services. The department measured its five year budget growth trend which was 4.3 percent in 2013 and 3.66 percent in FY 2014. He added that the current overall increase from the FY 15 governor's proposed budget to FY 14 management plan cost growth trend was 1.7 percent. The customer satisfaction graph measured the department's internal services. The satisfaction level dipped to 76.6 percent in 2013.

Commissioner Thayer continued with slide 7 "Department Level Results" which depicted the satisfaction level for the following departmental agencies: Division of Finance (DOF), Division of General Services, Division of Personnel, Enterprise Technology Services (ETS), and Division of Risk Management. He noted that the satisfaction level fluctuated depending on the service or task. He addressed slide 8: "Share of Total Agency Operations" generated by the Division of Legislative Finance (LFD), which represented the department's share of general funds relative to other agencies. The department received 2.2 percent of total

general funds in FY 15 which increased .01 percent since FY 06. General Funds represented one-third of the department's budget. The bulk of the unrestricted general funds went to the Office of Public Advocacy and the Public Defenders Agency followed by DOF, ETS. He noted that DMV consumed the largest portion of restricted general funds at \$16.429 million followed by the Alaska Oil and Gas Commission (AOGC) at \$7.2 million. He turned to slide 9; "Line Items" prepared by LFD. He explained that as a service provider the department's largest expense was contractual service line items followed by personal services. The total FY 14 budget was approximately \$343 million.

Commissioner Thayer pointed to Slide 10: "Total Funding Comparison by Fund Group" prepared by LFD. He detailed that most of the items shown on slide 10 were paid for with other funds. He listed the other funds: Division of Retirement and Benefit Trust Funds, ISF, and Interagency Receipts Division of General Services. The majority of UGF was appropriated to the Office of Public Advocacy and the Public Defender Agency followed by DOF. The Division of Motor Vehicles expended the majority of designated general funds (DGF). Federal funds comprised a very small portion of the department's budget and were appropriated to the Office of Public Advocacy (OPA), AOGC, DMV, and the Victims Compensation Board.

Commissioner Thayer moved to slide 11: "Continued Budget Growth Compared to 10-Year Plan" prepared by LFD. He expounded that the graph depicted the growth of all budget funds but did not include personal services growth. The budget grew 4.7 percent since 2005 compared to 5.5 last year. He summarized that the graph underscored the department's challenges in attempting to reduce the budget growth rate. He declared that the department made progress in growth reduction. He discussed slide 12: "Continued Budget Growth Compared to the 10-Year Plan" prepared by LFD. He reported that the slide graphed the growth in general funds and grew 5.6 percent since 2005 compared to 7.3 percent last year. In prior years, the general fund supported divisions grew faster overall. The costs were "somewhat" contained. He noted that the largest two general fund supported agencies were the Office of Public Advocacy and the Public Defender Agency; both agencies had experienced significant growth. Since 2006 the department added 80 new positions of which 69 were hired for OPA and the Public Defenders Agency. He examined slide 13:

Focus on Cost Avoidance

- Labor Contracts - reasonable contracts
- Health Care Spend - reduce the rate of growth
- Reduction of Unfunded Liability - lower future costs
- Utilization of Space - better use our space
- Procurement Savings - lower costs for what we already buy

Commissioner Thayer indicated that the department was currently negotiating five labor contracts: Public Safety, Alaska Vocational Technical Center (AVTEC), and the marine unions. The marine unions were asking for a 30 percent increase and the department planned to reduce their expectations through sharing the results of a cost study. In addition, the state leased or owned over 5 million feet of office space and was employing space standards to create potential savings. The department was also attempting to reduce procurement costs.

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Commissioner Thayer pointed to slide 14:

"Average Yearly Base Salary for FY 13."

Yearly Average Pay*

AVTECTA - Alaska Vocational Technical Teachers Association - \$75,876.24
IBU - Inlandboatmen's Union of the Pacific - \$51,334.92
MEBA - Marine Engineers' Beneficial Association - \$73,228.68
MMP - Masters, Mates and Pilots - \$85,077.00
PSEA - Public Safety Employees Association - \$84,632.40 (AA), \$70,169.52 (AP) AA - DPS; AP - DOTPF
ACOA - Alaska Correctional Officers Association - \$61,716.48
LTC - Public Employees, Local 71 - \$54,697.80
TEAME - Teachers' Education Association of Mt. Edgecumbe - \$64,363.20
ASEA - Alaska State Employees Association - \$57,087.72
APEA - Alaska Public Employees Association - \$82,825.68
CEA - Confidential Employees Association - \$58,096.20

Non-Covered - Exempt, Partially Exempt and Excluded -
\$99,474.48

Average employee benefits percentage is 49%

* Includes geographic differential

SOURCE: Bargaining Unit Profiles, collected June 30,
2013

Commissioner Thayer related that AVTECTA, IBU, MEBA, MMP, and PSEA were paid very well. The current benefit package added 49 percent to the base salary. The department was currently negotiating \$100 million in salaries with the five contracts. He pointed out that 90 percent of Inland Boatman's Union members resided in Alaska. Thirty-eight percent of MEBA employees resided out of state and almost 20 percent of the MMP membership resided out of state.

Commissioner Thayer addressed "Benefits" on slide 15. The graph showed contributions to active employee health plans. The cost of healthcare continued to rise. Alaska was only one of seven states that fully funded family premiums. The department was looking at strategies to reduce the rate of growth in health plans. He mentioned that some strategies utilized were the implementation of the employee wellness program, improved consumerism, appropriate utilization of services, plan design changes, new contracting strategies, and procurement of AETNA as the new third party administrator.

Commissioner Thayer moved to slide 16:

NEW TPA - AETNA and MODA

- AlaskaCare -- 84,000 covered lives (active + retiree)
- FY13 claim costs: \$600mm
- RFP split into 4 major components awarded 3 to Aetna and one to Moda
- New networks: estimated savings of \$50mm/yr.
- Introduction of a dental network
- Revising and updating plan booklets
- Use of data warehouse to inform plan decisions
- Single point of contact concierge team
- Goal: high quality health care at sustainable and reasonable cost

Commissioner Thayer discussed that when the department released a request for proposal (RFP) for a new third-party administrator the goal was to determine which administrator

could save the state the most money in claims costs instead of which administrator cost less. Aetna believed they could save the state potentially \$50 million. The third-party contract totaled \$100 million and was divided into four major components. Three of the components had been awarded to Aetna and one had been given to Moda for dental health care. He mentioned that the department revised the plan booklets for active employees and retirees and were accepting comments. He reported that over 50,000 calls had been placed by beneficiaries to Aetna and any issues had been resolved easily thus far. The department's goal was high quality healthcare at sustainable and reasonable costs.

Commissioner Thayer moved to slide 17: "Benefits: PERS/TRS" related to Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) benefits payments. The graph depicted benefit payments totaling \$140 billion over the next seventy years. He reported that the Division of Retirement and Benefits was undergoing reorganization due to an expected surge in retirement. The current PERS and TRS account balance was \$19.9 billion. He spoke to the \$11.9 billion unfunded liability. The graph on slide 18: "Benefits: PERS/TRS" showed what a payment under the percentage level of pay plan would be, which grew to over \$1 billion in 2026. The governor's proposal was depicted on slide 19: "Benefits: PERS/TRS." The governor's proposal reduced the overall liability in FY 15 and capped yearly payments at \$500 million through FY 35. He identified Slide 20:

New Universal Space Standards

Why space standards?

Save the state over \$125 million the next 20 years in reduced lease costs.

Through WSCA contract the state saves significantly on systems furniture

New space will be better for teamwork and collaboration among "neighborhoods"

Better airflow with fewer walls

Natural light for everyone with private offices toward core of building

Shared printers, scanners and copiers reduce the cost of individual units

Employees can move from one office to another and have the same working experience in any department

Clean desk policy addresses need for document privacy
in agencies

Commissioner Thayer commented that the department believed that approximately \$137 million or more could be saved through universal space standards in reduced lease costs. The clean desk policy had been implemented in order to avoid leaving out confidential documents. He pointed to the images on slide 21: "What We Use To have" showing a before and after of the new space standards. He photographs depicted the Department of Corrections (DOC) occupying three floors in the Atwood building in Anchorage and how it looked before and after. He informed the committee that the space consolidation, through the new space standards, reduced DOC's space to one floor. He shared that many employees had been apprehensive, but many liked the changes and felt the standards had made a tremendous difference.

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Commissioner Thayer turned to slide 21:

Purchasing - FY 13 Savings

The Division of General Services (DGS) awards multi-department contracts for use by all Executive Branch agencies and various political subdivisions of the state.

The total savings realized by DGS for FY13 is \$56,691,337, with \$43,258,568 being saved by state agencies and the remaining \$13,553,567 being saved by political subdivisions of the state.

Some examples of state savings:

PC Contracts (WSCA-NASPO) - annual savings
\$7,918,550

Office Supplies - annual savings \$7,276,928

Travel - annual savings \$6,994,179

Software - annual savings \$5,613,726

Fuel: Heating, Diesel, Unleaded, Jet A, etc. -
annual savings \$5,031,115

Systems Furniture - annual savings \$2,727,574

Commissioner Thayer reported that the Division of General Services strove to achieve savings each year. He pointed to Slide 23:

Operating Increments

APOC: Program receipts for lobbyist registration,
\$75.2 GF/PR
AOGCC: Petroleum Measurement Technical Support, \$750.0
AOGCC receipts
DRB/HPA: Third Party Administrator Contract Costs,
\$5.5M DRB Funds
DGS Lease Admin: Transition from GF to I/A, \$130.4 GF
--> I/A
DGS Facilities: Transition from I/A to GF, \$130.4 I/A
--> GF
DGS Facilities: Transfer Nome SOB from DOT, \$201.1 GF
DGS NPBF Facilities: Transfer I/A receipts for General
Services Facilities Maintenance Component, \$39.7 I/A
DGS Facilities Maintenance: Transfer out I/A receipts,
-\$39.7 I/A
DMV: Vehicle Identification Number Decoder, \$28.0
GF/PR
DMV: Knowledge Test System Maintenance, \$50.0 GF/PR
OPA: Training for Defense Attorneys, \$15.0 MHTAAR
PDA: Social Services Specialist, \$138.8 MHTAAR

Commissioner Thayer understood that any budget increase was discouraged and would discuss the increments in subcommittee. He Moved to slide 24:

Deferred Maintenance

- DGS: Deferred Maintenance Public Building Fund, \$3,250.0 GF, \$3,000.0 other
- DGS: Deferred Maintenance Non-Public Building Fund, \$1,000.0 GF
- ETS: SATS Deferred Maintenance year 5 of 5, \$3,000.0 GF

Capital Requests

- DMV: Replace Outdated information Technology Infrastructure, \$900.0 GF/PR
- DMV: Real Time Driving Records, \$350.0 GF/PR
- ETS: UPS Replacement for Juneau Data Center, \$1,200.0 GF

Commissioner Thayer relayed that DOA had \$80 million in internal deferred maintenance and capital requests and reduced the amount to \$10 million. He looked at slide 25:

Other Issues

Bargaining Unit Negotiations Marine Units Masters,
Mates and Pilots (MMP)
Inlandboatmen's Union of the Pacific (IBU)
Marine Engineers' Beneficial Association (MEBA)

Public Safety Employees Association (PSEA)
Alaska Vocational Technical Teachers Association
(AVTECTA)
Legal & Advocacy Appropriation
- Plea Policy Change
IRIS Transition
Broadband Access in Rural Alaska

Commissioner Thayer qualified that the Department of Law's (DOL) change in plea policy affected DOA via the Public Defenders Agency and OPA. He added that the Integrated Resource Information System (IRIS) transition cost \$80 million and replaced the statewide integrated systems of accounting and payroll and a new procurement system and was scheduled to begin on July 1, 2015. The transition was on budget and on time. The department through ETS continued to look at bandwidth concerns in rural Alaska. Other ETS issues were security, mobile device strategy, identity management, the enhanced base rate and base rate setting in the budget process, and merging ETS facilities into one state of the art facility in Anchorage.

Representative Gara discussed foster youths. He stated that the number of fostered youth had increased and he wondered whether the number of guardian ad litem increased.

MICHAEL BARNHILL, DEPUTY COMMISSIONER, DEPARTMENT OF ADMINISTRATION, explained that he did not have the data to answer the question. The primary way OPA managed case growth load in the past was through the CASA program where volunteers serve as guardian ad litem. He supported the idea of utilizing volunteers whenever possible. He offered to follow up with more specific data.

Representative Gara requested the follow up.

Representative Edgmon discussed the problems with bandwidth in rural Alaska and encouraged the department to continue its work.

Commissioner Thayer replied that he would follow up with bandwidth statistics across the state. The department had been watching Dillingham specifically and thought the information would be useful.

Representative Costello understood that the commissioner had a tough job. She commended the commissioner and his staff on the innovative way they approach the work of creating efficiencies in state government. She asked about the customer service survey and wondered if other departments could employ the survey.

Commissioner Thayer replied that the department relied heavily on the use of surveys for feedback.

Mr. Barnhill replied that the department used Survey Monkey. He believed it was important for any service based organization to touch base with customers to determine what the department was doing right, wrong, and could be improved.

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

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

ADJOURNMENT

[3:09:58 PM](#)

The meeting was adjourned at 3:09 p.m.