

HOUSE FINANCE COMMITTEE
February 5, 2015
1:32 p.m.

[1:32:55 PM](#)

CALL TO ORDER

Co-Chair Neuman called the House Finance Committee meeting to order at 1:32 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair
Representative Steve Thompson, Co-Chair
Representative Dan Saddler, Vice-Chair
Representative Bryce Edgmon
Representative Les Gara
Representative Lynn Gattis
Representative David Guttenberg
Representative Scott Kawasaki
Representative Cathy Munoz
Representative Lance Pruitt
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Fred Parady, Acting Commissioner, Department of Commerce, Community, and Economic Development; Catherine Reardon, Director, Department of Commerce, Community and Economic Development; Hannah Lager, Budget Manager, Department of Commerce, Community and Economic Development; Pat Pitney, Director, Office of Management and Budget, Office of the Governor; Margaret Brodie, Director, Division of Health Care Services, Department of Health and Social Services; Sana Efird, Assistant Commissioner, Department of Health and Social Services; Representative Chris Tuck.

SUMMARY

HB 72 APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 72 was HEARD and HELD in committee for further consideration.

HB 73 APPROP: MENTAL HEALTH BUDGET

HB 73 was HEARD and HELD in committee for further consideration.

FY 16 BUDGET OVERVIEW: DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT

FY 15 GOVERNOR'S SUPPLEMENTAL BUDGET OVERVIEW

#hb72

#hb73

HOUSE BILL NO. 72

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

HOUSE BILL NO. 73

"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."

[1:33:38 PM](#)

^FY 16 BUDGET OVERVIEW: DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT

[1:33:52 PM](#)

FRED PARADY, ACTING COMMISSIONER, DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT (DCCED), introduced department staff. He provided a PowerPoint presentation titled "Department of Commerce, Community and Economic Development Department Overview," dated February 5, 2015 (copy on file). He discussed the department organization on slide 2. The department's six corporate entities included the Alaska Energy Authority (AEA), the Alaska Industrial

Development and Export Authority (AIDEA), the Alaska Gasline Development Corporation (AGDC), the Alaska Seafood Marketing Institute (ASMI), the Alcoholic Beverage Control Board, and the Regulatory Commission of Alaska (RCA). The department's six core divisions included Administrative Services; Banking and Securities; Insurance; Community and Regional Affairs; Economic Development; and Corporations, Business and Professional Licensing. He noted that the department's mission was to promote strong communities, a healthy economy, and to protect consumers in Alaska. He described the department as a conglomerate, which had a set of functions centering on its mission statement.

Acting Commissioner Parady turned to a pie chart on slide 3 showing the department's funding distribution by agency and division in the governor's FY 16 amended budget. The chart illustrated that the six corporations accounted for \$123 million of the budget and the six core divisions accounted for \$83.5 million. He remarked that of the department's \$207 million budget, \$41 million resided in Power Cost Equalization (PCE) funds. He briefly highlighted a pie chart on slide 4 showing the DCCED budget by core services; 40 percent of the chart was allocated to sustainable energy, 28 percent went to economic growth, 18 percent went to consumer protection, and 14 percent went to strong communities. He addressed economic growth, which included the Division of Economic Development, AIDEA, and ASMI (slide 5).

[1:36:45 PM](#)

Acting Commissioner Parady continued to speak to economic growth, specifically in regards to the Division of Economic Development (slide 6). The division processed 261 loans for \$29.1 million across 10 loan programs, the majority included 237 in the Commercial Fishing Revolving Loan Fund. He discussed that funds supporting tourism marketing resided within the division; the prior year the legislature had created the Alaska Tourism Marketing Board, which acted as an advisory board to the division. He added that the contracts for tourism marketing roughly totaled \$15 million and resided in the division. Tourism marketing generated 800,000 information requests, 220,000 trips, and 700,000 visitors. He noted that the data was based on follow up surveys. Additionally, the Division of Economic Development conducted partnerships with industry and the University of Alaska (UA) to support resource development efforts to

develop new industry. As an example he referenced a January 1, 2015 report on unmanned aircraft systems and economic development strategy for Alaska, which had been developed in conjunction with UA-Fairbanks. The concept was to take advantage of Alaska's airspace in the context of research on commercial applications of unmanned aerial vehicles. Another example included a report from the prior fall by the Alaska Maritime Industrial Support Sector; the report assessed the age of the fishing fleet and how to rebuild the fleet in Alaska-based shipyards. He noted that the division was also responsible for generating the mining/minerals report.

[1:38:16 PM](#)

Co-Chair Neuman recognized that Representative Edgmon joined the committee.

Co-Chair Neuman had spoken with members of the tourist industry and had suggested including links to the state parks website on Alaska tourism advertisements. He stressed that state parks were a significant part of the state's attraction. He asked the department to help develop the idea.

Acting Commissioner Parady appreciated the suggestion and would follow up on it.

Co-Chair Neuman referred to the brand "Made in Alaska." He thought there should be shirts, hats, and other items for the Alaska state parks. He thought there should be further marketing for the state. He believed ASMI should do the same.

[1:40:42 PM](#)

Acting Commissioner Parady made note of the suggestion. He remarked that the prior fall a Made in Alaska home had been constructed in Anchorage; the predominant materials had been manufactured in Alaska, including the wood floors, cabinets, windows, etcetera. He turned to slide 7 and discussed AIDEA on slide 7:

- \$17.6 million FY2016 dividend approved
- Nearly \$700 million in private sector investment leveraged (projected)

- Projects and investments will create or retain nearly 1,500 construction jobs and over 1,000 permanent jobs (projected)

Co-Chair Neuman noted that Representative Pruitt had joined the meeting.

Acting Commissioner Parady spoke to ASMI on slide 8. He communicated that ASMI was the "heartbeat" of Alaska's primary employment industry; the fishing industry generated 63,000 jobs. He noted that the fisheries export value had been increased to almost 85 percent to \$3.2 billion in the past ten years. He addressed the Responsible Fisheries Management Initiative and explained that Alaska's seafood had been "held hostage" to a third-party entity (the Maritime Stewardship Council) that was certifying the sustainability of the state's fisheries. Consequently, when the entity had certified that Russian Pollock was sustainable, the value of the Alaska Pollock catch dropped by 25 percent. He reasoned that no one was more capable of certifying the sustainability of Alaska's fisheries than Alaska. He relayed that the Responsible Fisheries Management designation (generated by ASMI) was recognized in the market. He explained that the sustainability designation was necessary to enter certain large procurement chains (e.g. Walmart and others).

Co-Chair Neuman asked if ASMI verified that fish coming from Alaska were caught in sustainable fishery environments. Acting Commissioner Parady replied in the affirmative.

Co-Chair Thompson asked if other entity continued to increase the fees it charged to certify Alaska's fisheries as sustainable. He asked if the entity had classified Alaska's fisheries as unsustainable because Alaska had not paid the fee. Acting Commissioner Parady replied that the entity had withdrawn its certification, which had resulted in the state losing market share. However, the department had created an alternative; the brand of wild caught Alaska fish was immensely valuable to the state.

Co-Chair Neuman spoke to his concern that the Yukon Kuskokwim region had to stop subsistence fisheries due to problems. He noted that 8 out of 12 stock of concerns came from the Susitna River Valley. He wondered how the issue impacted the sustainable fishery certification. Acting

Commissioner Parady would speak to ASMI and would follow up with an answer.

1:45:26 PM

Representative Gara asked how many visitors the state had in the year referenced on slide 6. Acting Commissioner Parady replied that he did not know the specific figure. He added that the information shown on slide 6 reflected additional tourism generated from the state's marketing effort based on a series of follow-up surveys.

Acting Commissioner Parady returned to slide 8 and noted that the voluntary fish tax was established at 0.5 percent of ex-vessel value, which generated roughly \$12 million. He moved to slide 10 related to affordable energy. He communicated that AEA had dispersed nearly \$40 million in PCE grant payments to 188 communities in FY 14. He discussed that PCE subsidized the first 500 kilowatt hours of energy into a home. He elaborated that the RCA was responsible for certifying the utilities as meeting required criteria and being eligible for a subsidy. He read from slide 10:

- 53 of 114 rural power system upgrades completed
- 22 projects funded through the Emerging Energy Technology Fund program
- Annual fuel savings from the Renewable Energy Fund projected to be 20 million gallons of diesel equivalent in 2016

Co-Chair Neuman noted the absence of a list of the 22 projects funded through the Emerging Energy Technology Fund that had been completed and how much it could cost to complete the remaining projects. He stressed that the slide did not contain any financial information. Acting Commissioner Parady replied that he would provide a spreadsheet with the detailed information.

Representative Edgmon noted that the Emerging Energy Technology Fund had not been funded the prior year; therefore, he reasoned that the 22 projects went back at least two years. He relayed that he sat on the advisory committee for the Renewable Energy Grant Fund and explained that the fund had done some great things, but with a decreasing amount of funding; prior funding had been \$22

million, and the funding recommendation for the current year was \$15 million.

Representative Gattis requested a list of projects that were not on the list of 22 projects that were needed. She wondered which projects had been funded that had not been successful. She used an emergency generator situation in Tuluksak, Alaska as an example.

[1:49:22 PM](#)

Acting Commissioner Parady would follow up. He spoke to the AGDC on slide 11. He relayed that AGDC continued on work to synchronize the timing of the AKLNG [Alaska Liquid Natural Gas] and ASAP (Alaska Stand Alone Pipeline) projects. He noted that the state had completed the ASAP Class 3 cost estimate (+/- 20 percent), which had produced new burner tip estimates of \$11.50 to \$14.00 for Fairbanks and \$11.50 to \$14.50 for Anchorage. He communicated that the synchronization of the two projects was ongoing.

Co-Chair Neuman noted that the agencies would present to the committee in the future regarding their individual budgets.

Acting Commissioner Parady turned to slides 12 and 13 pertaining to strong communities and the role of the Division of Community and Regional Affairs. He shared that state statute (Article 10 Section 14) required the existence of a state agency to support the development of capacity in local government. He detailed that the division had 40 local government specialists and grants personnel located in six regional offices; the division visited 150 to 170 communities annually and provided rural utility business advisor services, bulk fuel loans, local boundary commission, municipal land trust, Quick Books training, and other for rural communities. He shared that the local boundary commission approved the incorporation of Edna Bay, creating Alaska's first new city in ten years. He noted the supplemental request of \$75,000 for Edna Bay's organization, which was statutorily required (\$50,000 in year one, and \$25,000 in year two). The division had distributed \$85 million to 307 communities through revenue sharing and other programs (i.e. payment in lieu of taxes (PILT), national forest receipts, shared fisheries, business tax, and fisheries resource landing tax). The division was working to cross-train its staff to deliver

secondary information and assistance to local governments. For example, the trained staff could assist communities with arrearages in their Public Employees' Retirement System (PERS) accounts by connecting them with the appropriate person.

Co-Chair Neuman discussed that revenue sharing had not been funded in the governor's proposed budget. He believed there was a good possibility that revenue sharing would be eliminated altogether given the deficits facing the state. He wondered how the state would pay for assistance provided to communities for essential services. He remarked on the \$87 million distributed to 307 communities that may not be receiving any money in the future. He wondered how the department would help communities prepare for the loss in funds.

Acting Commissioner Parady replied that it would depend partially on the actions of the legislature as to what options would be available. He recognized that all of the budget decisions the legislature was considering were tight and interconnected. He reasoned that the community revenue sharing funds were distributed based on the balance on June 30. He detailed that the draw had been \$57 million the past year; if the amount could be replenished, the draw would continue at the same rate; however, if it was reduced it would lead to reduced community revenue sharing funds. He recently learned that the community revenue sharing funds were distributed to each community and then on a per capita basis, which meant the impact of the reduced funding level would be felt in the more populated areas first.

Co-Chair Neuman remarked that the governor's proposed budget did not include revenue sharing funds. He wondered if the department would assist communities in dealing with the loss of funds.

[1:56:23 PM](#)

Acting Commissioner Parady replied that he would follow up on the question.

Co-Chair Thompson remarked that without any funding there would be \$54 million to distribute in the current year, around \$30 million the following year, \$17 million the year after, and would then go down to zero. He referred to a list showing that revenue sharing accounted for as much as

94 percent of the budget in some small communities. He believed that without the funding many communities would have to close their doors. He remarked that there were no bankruptcy laws for a community; there was nothing in statute showing what would happen to the assets or outlining who would take care of them. He added that some of the communities had bond payments the state would have to take over. He stressed that there were many consequences that would result from an absence of revenue sharing funds, which required consideration.

Acting Commissioner Parady responded that he had studied the spreadsheet on the percentage of each community's budget was funded by revenue sharing. He agreed that some communities depended on revenue sharing for over 90 percent of their budget. He had not recognized the bankruptcy complications and believed the issue needed further study.

Representative Edgmon relayed that for his district, revenue sharing fell into the core services category. He clarified that revenue sharing was funded at \$57 million in the governor's current budget, even though no money was being added to the fund itself. He noted that the prior year it had been funded at \$52 million.

Representative Wilson believed there had been a point in time when revenue sharing had not existed. She wondered how communities had become reliant on the funds. She asked if there had been federal funds communities had received in the past that were no longer available, which had increased reliance on revenue sharing.

Acting Commissioner Parady replied that Edna Bay was the first new community incorporated within the past ten years and revenue sharing had returned within that period. He did not believe there had been communities forming for revenue sharing in the past decade.

Co-Chair Neuman also questioned whether the Local Boundary Commission had planned on having revenue sharing as part of its governmental organization funds.

Representative Gara noted that revenue sharing would be a conundrum for all legislators. He agreed with Co-Chair Thompson that the issue was especially important for small communities. He thought it would be useful for the department to provide a history of revenue sharing to the

committee. He stated that it had been over \$100 million at one point in time. He surmised that communities that could afford it the most would have to take some of the hits. He believed a significant discussion was necessary on the issue.

Co-Chair Neuman referred to a recent meeting he had with the commissioner about communities and the budget. He remarked on DCCED's mission statement, which included strong communities. He discussed an example of a community where the school was the nucleus that provided a place for exercise and all types of community gatherings. He wondered if the department was working on a plan to deal with the situation given the budget deficit. He stated that the legislators were citizen-based and depended on the department's recommendations to the committee. He had not heard a plan as of yet.

Acting Commissioner Parady shared that in the past he had worked as the chief operating officer for a school district. He agreed that schools were a hub for wedding receptions, funerals, sporting events, Head Start, meals, and other. He remarked that one of the conundrums that would face legislators was related to school financing and the loss of federal receipts for communities. He believed the question was well placed and needed answering by the department. He relayed that the department would follow up on the question.

Co-Chair Neuman relayed that there was a limited amount of funding to distribute between all departments, which made receiving the information important.

[2:02:45 PM](#)

Acting Commissioner Parady returned to slide 13 and relayed that the Division of Community and Regional Affairs had 1,929 capital grants open with a total of \$2 billion in awards. He detailed that the named-entity legislative grants resided in the division and were administered efficiently and effectively. He added that the grants were administered with a passion for helping people solve problems. He noted that the grants had a five-year lifetime and he expected the numbers to be shrinking. He concluded that the current grants were still in the pipeline to do good work.

Representative Guttenberg addressed broadband access. He spoke to the broadband task-force DCCED had formulated, that had come out with a \$1 billion price tag. He stated that salmon fishing, marketing, school districts, AEA, remote energy projects, and everything the state touched on was helped or hindered by broadband. He believed broadband was in an abysmal state in Alaska. He noted that his broadband capability was marginal at best in his home outside of Fairbanks. He stated that broadband needed to be strengthened to build a strong state and community. He remarked that much of what was needed was currently in place due to the telecommunication industry, but much of it needed a link to make the chain longer. He urged the department to work on a plan. He stated that it was pointless to provide students with technology if they did not have the ability to access the internet. He emphasized the importance of more reliable and faster internet. He understood that it may not be possible to implement a strategy at present, but he believed it was needed for the future.

Acting Commissioner Parady linked back to Representative Gattis's comments on the Tuluksak generator. He stated that in a more ideal broadband world it would be possible to remotely monitor various power systems. He shared that in Nuiqsut, Alaska there had been a project to distribute gas in the community, which had a remote capacity. He continued that Alaska was working to achieve 10 megabits per second (mbps) when the rest of the country had speeds of 100 mbps. He agreed that Alaska was woefully behind related to broadband speed. He would continue to address the issue.

[2:06:43 PM](#)

Acting Commissioner Parady discussed consumer protection on slide 14. He detailed that consumer protection activities were regulations that were applied to protect the consumers of Alaska. He spoke to the Alcohol Beverage Control (ABC) Board on slide 15; its mission was to protect the public from alcoholic beverage abuse by enforcing state laws regulating alcoholic beverage commerce. There were nearly 1,900 active liquor licenses in 2014. He believed that since the board's transition to DCCED, the agency was doing a good job straddling the divide between public health substance abuse concerns and the responsible industry concerns. He spoke highly of the board's current director Cynthia Franklin. He addressed a two-year effort to rewrite

Title 4 (with 60 or 70 stakeholders); the rewrite would be before the committee later in the day. He relayed that the timing would provide a useful foundation and transition into the upcoming marijuana regulations.

Vice-Chair Saddler asked if there was any diminution of the effectiveness of the ABC Board as a public safety function since its transfer from the Department of Public Safety. Acting Commissioner Parady replied in the negative. He believed the transition had gone well. He remarked that there had been some "sweat equity" amongst people with differing views throughout the process, but he believed the result had been strengthening.

Vice-Chair Saddler asked if there was a stronger function in collaboration with the industry (i.e. increased support for the industry's business operations). Acting Commissioner Parady replied that there were some compromises represented in the Title 4 legislation. One compromise was related to the consumption of alcohol by minors; the penalty was lessened, but it was more universally enforceable. He explained that the penalty under current statute was difficult for officers to implement; therefore, there was not always follow through. He furthered that by decreasing the offense and making it easier to implement, the accuracy of the record of minors and adults providing minors with alcohol would increase. He noted the department's excitement at bringing the Title 4 rewrite before the committee.

Vice-Chair Saddler remarked that there had been some concern about the transfer of the ABC Board to DCCED; therefore, he was glad to hear things were going well from a public safety standpoint.

Representative Gara recalled a presentation by several pipeline companies. He remarked that one company's representative had told the committee that the state would be rich if their company was chosen. He stated there had been a similar tenor in some of the marijuana debate; if the marijuana initiative became law, the state would be able to levy taxes on the substance. He asked if the administration anticipated presenting marijuana tax legislation in the current year.

Acting Commissioner Parady replied in the negative. He detailed that the department was in a nine-month regulatory

writing process. He furthered that the bill draft to develop the marijuana control board had opened that day. He detailed that conceptually the department was working to house an alcohol and a marijuana board under the ABC Board agency. The department was also considering reassigning its experienced alcohol examiners to marijuana and hiring new alcohol examiners, given that the alcohol functions were well established. He communicated that the department was beginning to think its way through the regulatory and operating process. He could not speak to the tax component, which was under the purview of the Department of Revenue.

2:11:40 PM

Representative Gara asked if commercial sales of marijuana would begin with no tax implemented. Acting Commissioner Parady replied in the negative. He stated that work was in progress.

Co-Chair Neuman asked for the amount of the supplemental PSUM request (slide 15). Acting Commissioner Parady replied that the request was for \$785,000. Co-Chair Neuman asked for the meaning of PSUM. Acting Commissioner Parady replied that the acronym stood for the production, sale, and use of marijuana. He wondered what would happen if the supplemental was not approved. Acting Commissioner Parady replied that a denial of the funds would essentially be an unallocated cut to the department. The department would have to perform the functions; therefore, he would cross that bridge when he came to it down the road if the funds were not approved.

Co-Chair Neuman replied that the administration could introduce legislation that would go through the committee and public process to determine the need, how it would be implemented, and who would be on the board.

Acting Commissioner Parady was aware of a bill draft regarding a [marijuana] board. He added that the issue was governed by the [voter] initiative. He stated that there were issues in the area that he had never dreamed of. He turned to slide 16 pertaining to the RCA. He communicated that the RCA had significantly improved processes and minimized costs to ratepayers and companies by enabling e-filing. He noted that e-filing was currently being extended to small rural telephone companies. He relayed that the RCA collaborated with the Regulatory Assistance Project to

lower costs and to certify utilities for compliance for the PCE Fund, which led to distributions. He discussed the Division of Banking and Securities on slide 17:

- Contributed \$13.2 million of licensing fee and fine receipts to the general fund
- Facilitated \$95.0 in restitution payments to Alaskans
- License, register, charter and examine:
 - Investments and Securities firms, registrations and filings
 - ANCSA proxy filings and inquiries
 - Mortgage broker/lenders
 - Money service businesses (e.g., money transmitters, currency exchangers)
 - State depository and non-depository institutions
- Sponsored the Anchorage Fraud Summit in September 2013

Vice-Chair Saddler referred back to slide 16 and asked for information about the Regulatory Assistance Project. Acting Commissioner Parady replied that the project was a national effort.

Vice-Chair Saddler asked if the project came at no cost to the state or had associated federal funding. Acting Commissioner Parady replied that the project was federally funded. He offered to provide additional detail.

Vice-Chair Saddler asked how well the RCA was doing. He referred to work on the pipeline reauthorization. He wondered if the agency was working efficiently and if it had any needs. Acting Commissioner Parady replied RCA was stable. The agency had a range of rate filings and other cases before it, but the chairman had not indicated any deficit.

[2:15:51 PM](#)

Acting Commissioner Parady discussed the Division of Corporations, Business and Professional Licensing (CBPL) on slide 18. He detailed that there were 68,000 business licenses, 67,000 professional licenses, slightly over 6,500 corporation licenses, and 43 licensing programs. He noted that the agency generated fees. He relayed that the number of professional licenses were up 5 percent since 2013, its open-to-close case time had decreased by half, and it had worked hard to control internal costs to reduce legal

expenses by 34 percent. The issues had been before the Legislative Budget and Audit Committee; by controlling the indirect costs there was a strong effort to control the rate of increase in professional licenses, which represented a success for the division.

Representative Wilson asked if all of the state's boards were under CBPL. Acting Commissioner Parady replied in the negative. For example, teachers were not included.

Representative Wilson thought there were a couple hundred boards. Acting Commissioner Parady replied that there were 43 boards, 3 of which were new including massage therapists, behavior analysts, and contractors.

Representative Wilson asked if the 43 boards were all self-sufficient. Acting Commissioner Parady replied in the negative; however, substantial progress had been made. He added that the department was awaiting further scrutiny of the issues by Representative Pruitt and the legislative budget subcommittee for the department.

Vice-Chair Saddler communicated that there were regulatory and professional licensing boards and approximately 170 advisory boards.

Representative Wilson asked if the other advisory boards fell under a specific agency. Acting Commissioner Parady replied that the boards were housed across state government. He noted that the 43 professional licenses were housed in CBPL.

[2:19:05 PM](#)

Acting Commissioner Parady turned to the Division of Insurance on slide 19:

- Over \$3.4 billion in total premium written in CY2013
- Collected \$64 million in taxes and fees in FY2014
- Issued 47,376 licenses, an increase of almost 8 percent over FY2013
- Opened and closed 245 of 300 complaints, a closure rate of 85 percent
- \$216.0 returned to consumers in FY2014
- Opened 79 and closed 115 investigations

- Conducted first joint investigation with the Division of Banking and Securities

Acting Commissioner Parady elaborated that the department was working diligently to synergize investigative resources across its divisions. He spoke to challenges for the department on slide 20:

- High cost of energy impacts residents, businesses and economic development efforts
- Gaps in critical infrastructure including roads, ports, communications, processing facilities
- Uncertainty hampering private investment
- Maintain awareness in national and international markets about Alaska products and services
- Geographic scale impacts logistics and transportation costs
- New program responsibilities (PSUM)

Acting Commissioner Parady provided a lookback of the department's budget on slide 21. The FY 16 governor's amended budget was slightly below \$207 million, which represented a decrease of approximately \$7.5 million. There was a decrease in unrestricted general fund from \$40.5 million to \$35.5 million, which represented an 8 percent decrease. He provided a lookback of the DCCED share of total agency operations from 2007 to present (general fund only) on slide 22. The department accounted for between 2.16 and 3.06 percent of total agency operations; it accounted for 2.37 percent in the current year. He moved to another lookback on slide 23 showing DCCED appropriations (general fund only) by division. He pointed to a spike in the purple line representing AEA in 2009 where PCE had been fully funded with an additional \$23 million. A spike in the blue line representing ASMI indicated the reclassification of its funds from general fund.

CATHERINE REARDON, DIRECTOR, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, clarified that the ASMI funds were reclassified from general fund to statutory designated program receipts.

Acting Commissioner Parady addressed a historical chart slide 24 representing DCCED appropriations (all funds). He noted that similar spikes in appropriations occurred for similar reasons. He discussed economic growth on slide 25.

The department's target was to create or retain 500 jobs annually. He expressed dissatisfaction with the chart because the target did not move; he did not believe it was aggressive enough. He noted that the chart represented an artifact of past choices, which he believed the department needed to revisit.

[2:22:58 PM](#)

Acting Commissioner Parady addressed slide 26 related to the department's ability to support municipal governments in their ability to provide essential public services. The percentage of local governments providing essential public services had moved up towards 100 percent, which remained the department's target. The chart data included basic life services such as clean drinking water, power plants, and other.

Vice-Chair Saddler pointed to slide 25 related to retaining jobs. He wondered how to measure how well the department was retaining existing jobs. He believed it would allow the department to claim credit for the vast majority of the jobs that would remain. Acting Commissioner Parady agreed and believed the chart was ill founded. He relayed that the chart data stemmed largely from AIDEA and was correlated to the agency's loan programs, which a subset of a more specific target.

Representative Gara saw a gap in some of the numbers on slide 6. He looked at the bullet indicating that tourism marketing had generated 700,000 visitors. He stated that a person doing an internet search about travel to Alaska could end up on a car rental, fishing guide, hotel, or private website. He reasoned that just because a person visited the state's travel website did not mean the website was responsible for the person's decision to visit the state. He wondered if the department could convince the committee that the 700,000 visitors would not come to Alaska if they did not visit the state's website.

Acting Commissioner Parady answered that the data was not website generated. He explained the department sent follow up surveys of the 800,000 individuals who requested information. The survey looked at how many of the individuals came to the state and how many trips they took. He believed the information was germane directly to the information requests. He agreed that people may take a

multi-pronged approach, which could also include internet searches. He offered to follow up with additional detail.

Co-Chair Thompson noted that the state was putting \$15 million to \$16 million into tourism marketing. He remarked that the tourism industry claimed that one of the cruise lines was spending \$50 million to bring people to Alaska. He wondered if there was anything showing other advertising that brought people to Alaska and how much those industries spent on top of what the state spent. Acting Commissioner Parady replied that he would follow up on the question.

Representative Munoz asked for detail on proposed cuts to the department. Acting Commissioner Parady replied that the department's budget had just been published. The department had worked to reduce vacant positions and to reduce program funding when possible; some of the reductions were included in various components of the department's funding streams, but were not generally associated with staff reductions.

HANNAH LAGER, BUDGET MANAGER, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, replied that the department had focused on general fund cuts to reach the target requested by the administration. Additionally, DCCED had looked at places where the budget was over inflated by things like receipts that it was not actually collecting. The department had focused on where it had absorbed costs and duties performed by positions it was not filling; some had not been filled in quite some time and had been deleted. She relayed that more detail was published online. The strategy had been to make reductions while minimizing the impact on existing employees and maximizing services provided to the public.

Representative Munoz asked how many positions Ms. Lager was speaking about. Ms. Lager replied that four full-time positions had been deleted from the budget and there were many the department was planning to hold vacant.

Representative Munoz asked for the anticipated ASMI and tourism marketing increments in the governor's amended budget. Ms. Lager replied that the tourism budget had initially been \$15.2 million (general funds), which had been reduced to approximately \$12.5 million. The proposed ASMI budget had been reduced from \$7.3 million to \$6.3 million.

Co-Chair Neuman thanked the department for its presentation.

[2:29:39 PM](#)

AT EASE

[2:33:16 PM](#)

RECONVENED

^FY 15 GOVERNOR'S SUPPLEMENTAL BUDGET OVERVIEW

[2:33:22 PM](#)

PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET (OMB), OFFICE OF THE GOVERNOR, provided a chart titled "FY2015 Supplemental Bill" (copy on file). She addressed page 1 and relayed that the most significant item was on line 6 for the production, sale, and use of marijuana under the Alcoholic Beverage Control (ABC) Board for \$785,000. The page included three smaller increments on lines 2, 4, and 5 related to Affordable Care Act reporting compliance and caseload for the Public Defender Agency and Office of Public Advocacy.

Co-Chair Neuman noted that some additional money had been allocated to caseworkers in a bill sponsored by Representative Gara. He noted that money had been allocated to foster care recipients aged 16 to 21; there had been additional costs associated due to the caseload backlog and litigation.

Representative Kawasaki remarked that the DCCED commissioner had testified that if the increment for the ABC Board was not approved it would be an unallocated cut to the department. He noted that the increment related to the production, sale, and use of marijuana did not show the revenue side of the equation. He wondered if revenue would be reflected in the FY 16 budget. Ms. Pitney indicated that revenue had not been estimated for FY 16. Revenue would not be reflected in the chart currently before the committee because it pertained only to the FY 15 supplemental budget. The potential revenue had been estimated at \$2 million to \$20 million. The administration was assuming that the first year of implementation would not be cost neutral; it was anticipated that much would be learned in the first four to six months of the implementation. She hoped that the FY 16

supplemental would show a \$20 million revenue line item [related to marijuana revenue].

[2:38:17 PM](#)

Representative Wilson pointed to lines 4 and 5 on page 1 related to the Office of Public Advocacy and Public Defender Agency caseload backlogs. She asked if any headway had been made on the backlog or if it continued to increase. She presumed an increment would be included in the budget the following year. She requested additional information.

Co-Chair Neuman believed a backlog had been created because there were new applicants in the foster care program that had been expanded via legislation. He stated that Representative Gara would know more about the situation.

Ms. Pitney relayed that she would follow up on Representative Wilson's question.

Representative Gattis asked about a \$2 million education increment on page 1, line 7. She wondered how the \$2 million figure had been derived. Additionally, she wondered how the money would be distributed (e.g. based on Average Daily Membership). She wondered how and where the increment would fit in the budget.

Ms. Pitney answered that the Public School Trust Fund contained earnings, which were reinvested back into the fund; the money was spent first from the trust and then from the general fund for any additional amount. She explained that when \$2 million was put into the trust, it meant \$2 million less would be taken from the general fund. The increment accounted for the earnings that were currently accrued into the trust.

Ms. Pitney moved to page 2, line 8 that contained an increment for the wood bison transport. She detailed that legislation had been worked on the prior session to allow receipt of federal funds to conduct the wood bison transport. She looked at lines 9 through 11 related to the growing number of children in foster care due to legislation that increased the maximum age children were allowed to remain in care. The request was based on program changes and in the acceptance of social security income associated with clients involved.

Representative Gara asked for verification that the increment was based on an increase in the number of kids coming into care. Ms. Pitney replied in the affirmative. She detailed that line 9 represented additional revenue collected as well and the ability to accept the revenue.

[2:42:34 PM](#)

Representative Gara spoke to the purpose of the supplemental budget. He addressed foster care and discussed that social workers with caseloads that were 50 percent higher than they could handle, could not get their jobs done. The social workers could not get kids into adoption, which would save the state money. He wondered why there was never supplemental money to help with the issue.

Ms. Pitney replied that line 11 related to the growing number of subsidized adoptions and guardianships.

Representative Gara remarked that there were currently 849 kids waiting for adoption.

Representative Wilson stated that the state was providing funds to parents once a child was adopted and the number was increasing. She wondered at what age in a child's life the state stopped paying the funds. She wondered how many children were included in the category. She believed it should be possible to ascertain a more accurate cost figure. She remarked that the cost was another \$1.7 million in the current year. She noted the cost was for children who had been adopted. She assumed the state would still pay the amount annually.

Ms. Pitney replied that she would follow up on the question. She moved to page 3, line 12 that contained the largest supplemental item, which totaled \$92 million for Medicaid advanced payments. She detailed that the item related to charges incurred in FY 14 as a result of system limitations at the time. She elaborated that the expenditures had not been booked or charged relative to the financial statement; therefore, the charges had rolled over to FY 15 and \$114 million in general fund for Medicaid had lapsed in FY 14. She explained that the money had existed in FY 14 if the state had been able to finalize and record the payments and charges, but the Division of Legislative Budget and Audit had determined there had not been a sufficient record to close the items in FY 14.

Vice-Chair Saddler asked for confirmation that the state would depend on the system for processing Medicaid claims in the future. Ms. Pitney replied in the affirmative.

Vice-Chair Saddler wondered if it would be wise to expand Medicaid before the system problems were rectified in order to avoid similar issues in the future. Ms. Pitney replied that the Department of Health and Social Services (DHSS) was working diligently on ensuring the system was up and running. She stated that an efficiently running system was central to business and to the state's medical providers; ensuring the system was running correctly well in advance of the expansion date was of the highest priority.

[2:47:12 PM](#)

Vice-Chair Saddler wondered if from a budget perspective it would be helpful to avoid Medicaid expansion until the state was positive the system was working correctly. Ms. Pitney answered that the savings the state would receive through Medicaid expansion and the service delivery provided made it a smart and critical option from the administration's policy standpoint. She detailed that the system was a critical point of need and the agency was working to ensure it was running correctly. She had confidence DHSS would have the system up and running.

Vice-Chair Saddler wondered if Ms. Pitney would advocate for expansion if the system was not up and running. Ms. Pitney would follow up on the question.

Representative Kawasaki spoke to the Medicaid advance payments. He asked for verification that an error by Xerox (when the system had been adopted 1.5 years ago) had led to a significant number of late payments to providers. He wondered if the situation involving Xerox was part of the problem. Ms. Pitney answered in the affirmative.

Representative Kawasaki wondered if money would potentially come back to the state in some form as a result of ongoing discussions with Xerox. Ms. Pitney replied that she did not know about the potential of money being returned to the state or about the current status of discussions with the company. She relayed that the discussions were ongoing and noted the urgency of the situation.

Co-Chair Neuman added that separately from the line item under discussion, there were some lawsuits underway through DHSS. He noted the line item included money that had been approved by the legislature for Medicaid expenditures through payment reimbursement. He detailed that there had been an accounting problem; the money had still been deposited into the bank. He furthered that because of the accounting problem it had become an FY 15 issue. The item entailed money coming out of the bank to cover the costs.

2:50:08 PM

Representative Gara discussed that there had been a number of computer systems that had not worked. He asked Ms. Pitney to let the committee know if there was an indemnity provision to protect the state when the systems did not function correctly. He remarked that committee members were aware of providers that could potentially sue the state because they had gone out of business as a result of nonpayment. He opined that the state's programming contracts should include indemnity provisions to provide protection when systems did not work.

Co-Chair Neuman relayed that the DHSS subcommittee would hear about the Medicaid Management Information Systems updates and contracts.

Representative Munoz noted that the item description stated that the expenditures were not eligible for a federal match. She wondered if it was due to the problems with the computer system or other issues. Ms. Pitney deferred the question to DHSS.

MARGARET BRODIE, DIRECTOR, DIVISION OF HEALTH CARE SERVICES, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, replied that DHSS had worked with the Centers for Medicare and Medicaid Services (CMS) to claim the advances federally and to receive the federal share. She explained that DHSS had worked everything out with CMS and the Department of Administration and had made the claim federally; however Division of Legislative Budget and Audit had told DHSS that it did not meet the level in a new fiscal year; therefore, the entries had been reversed. The state would receive federal match for all of the claims.

2:53:04 PM

Representative Gara asked Ms. Brodie if there were indemnity agreements to keep the state off the hook if problems were caused by programs it purchased. Ms. Brodie replied that the state did not have indemnity clauses. Alternatively, it had liquidated damages; there was a hearing in front of an administrative law judge on February 17 [2015] to determine whether the liquidated damages applied. She explained that it was a way to get some of the state's money back and it would not prevent the state from its ability to claim the actual damages. She had outlined all of the actual damages, which far outweighed the liquidated damages.

Ms. Pitney returned to page 3, lines 13 through 16 pertaining to management fees associated with investment earnings on particular funds. She classified the items as "good news" payments. The increase in fees for management under the Department of Revenue (DOR) had resulted from a positive earnings year. She turned to page 4, line 17 associated with the Alaska Municipal Bond Bank Authority (AMBBA). She detailed that there were additional regulatory environment expenses associated with the oversight of the municipal bond market; the item was to account for the costs within AMBBA's funding authority. Lines 18 through 20 were technical adjustments related to the Alaska Retirement Management Board and a year-end balancing of the retirement systems; all of the items were net-zero technical adjustments. Line 22 reflected that Edna Bay had become an organized community; an organizational grant was provided to the newly formed city to help with the cost of formation.

Co-Chair Neuman asked if the grant was provided by statute. Ms. Pitney replied that the organizational grant specification for a newly formed city was included in AS 29.05.180.

[2:56:56 PM](#)

Ms. Pitney turned to page 5, line 25. She explained that Division of Legislative Budget and Audit had done the single audit for the federal programs until the present year. The division had requested that the administration hire a third-party audit firm to do the single audit for DHSS's federal programs. The request represented the cost of the single audit. She relayed that she had mistakenly

reported to the Senate Finance Committee that the item was for a three-year contract.

Co-Chair Neuman asked for verification that the item represented the cost for a single year. Ms. Pitney replied in the affirmative.

Vice-Chair Saddler asked if it was less expensive to contract out for the audit versus doing the work in house. Ms. Pitney replied that she would have to consult with the Division of Legislative Budget and Audit to determine whether contracting out was less expensive. She relayed that the division felt the audit needed a level of attention and expertise that had been hard to achieve under the former system.

Vice-Chair Saddler would enable the division to catch up on the backlog of audits and allow it to take on the audit for DHSS's federal programs again in the future. Ms. Pitney would replied that she would follow up on the question with DHSS and the Division of Legislative Budget and Audit.

SANA EFIRD, ASSISTANT COMMISSIONER, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, replied that the backlog would be in the Division of Legislative Budget and Audit and not DHSS. She asked for clarification on the question.

Vice-Chair Saddler wondered if outsourcing the audit for a while would allow the work to be brought back in house once the backlog had been addressed. Ms. Efird believed the backlog was for the Division of Legislative Budget and Audit. She added that the line item would give DHSS the opportunity to work with a contractor with expertise in all of the department's large federal programs.

Representative Kawasaki understood that Division of Legislative Budget and Audit would typically perform the audit; therefore, he wondered why the request was not being requested through the legislature. Ms. Pitney replied that it could be. The Division of Legislative Budget and Audit had asked the administration to manage the contract and its funding. She stated that the presumption was that the cost of the audit would be the same; essentially it was a transfer of costs.

[3:01:13 PM](#)

Representative Wilson surmised that the state was auditing federal programs to ensure the money was spent appropriately. She stated that in the past there had been money in the federal funds designated specifically for audits. She wondered why the money would not come from federal funds.

Ms. Efird replied that she did not know the percentage of compliance for each of the federal grants or what would be available for audits in each grant. The department was able to collect some federal funds through its (DHSS) cost allocation public assistance plan. She believed the line item represented the amount of money it had cost the Division of Legislative Budget and Audit based on the hours it had spent on the audit.

Representative Wilson thought that a portion of federal funds was supposed to be reserved for audits. For example, a certain percentage of a \$1 million grant was reserved for audits. She wondered where the money went. Ms. Efird would follow up with the information.

Ms. Pitney briefly highlighted the cost associated with a recent settlement agreement with the Alaska Correctional Officers Association on page 5, line 26.

Co-Chair Neuman asked for further detail. Ms. Pitney replied that the item represented cost incurred from a previous case that had been brought to the state and settled. She explained that the Senate Finance Committee had requested information on lessons learned in order to avoid a similar settlement in the future.

Co-Chair Neuman noted that the issue went back to labor negotiations between 8-hour and 12-hour shifts. He believed DOA had concerns about vacation time that was accrued with over time; therefore, it had gone to arbitration.

Vice-Chair Saddler wondered if it was a settlement or a result of arbitration. Ms. Pitney would follow up on where it had been in the process. She detailed that it had been a settlement versus a judgement or claim. She did not know if there had been court hearings or other.

Co-Chair Neuman asked Representative Edgmon to look into the issue.

3:05:15 PM

Ms. Pitney moved to item 27 on page 5 related to the Emerging Energy Technology Project. She detailed that the \$345,000 in federal funds was receipt authority for additional federal funds that were available, but could not be used without additional receipt authority. She looked at item 28 related to the repeal two pieces of the Ormat Nevada, Inc. Mount Spurr Geothermal Project. She elaborated that the general fund portion was reappropriated in the FY 16 capital budget; the other portion related to designated general funds.

Co-Chair Neuman asked for the total funds that had gone out in the grant. He believed there had been \$20 million to \$25 million. Ms. Pitney replied that the total had been \$25 million.

Co-Chair Neuman observed that \$23 million had been used. He wondered if anything had been learned. Ms. Pitney answered that quite a bit had been learned, but the cost of getting to the energy site and of transmitting the energy to consumers was past the point of being economical.

Co-Chair Neuman noted that the cost was \$0.17 per kilowatt to get the energy to Beluga, Alaska, which was what he already paid in Big Lake.

Representative Guttenberg discussed that when he had first read the line item he had surmised that a grant had been awarded, but no hot water source had been located. He now understood that an economical source of hot water had not been found.

Ms. Pitney answered that promising geothermal sources had been located. She reasoned that if there had been something else the company wanted to do on top of the geothermal source, it would probably have been worth the cost. She moved to page 6, line 29. The line item was a net zero and was a reappropriation on the bill associated with the Interior gas project. She elaborated that in the original bill the money had been specific to a North Slope gas solution; the item expanded the scope of the project to allow for in-state gas solutions.

Co-Chair Neuman asked why the increment was included in the supplemental as opposed to introducing legislation to

address the issue. Ms. Pitney replied that the development was relatively new. The administration believed the item was appropriate for the supplemental. She noted that amended language would also be necessary. She explained that the item had been included in the supplemental due to the timing. She stated that it was possible additional legislation could be needed.

[3:09:32 PM](#)

Representative Wilson asked for verification that the line item was outside of legislation passed by the legislature. Ms. Pitney replied that the amount had been included in legislation that had passed and had been reflected in the overall budget.

Representative Wilson believed that if the increment was associated with the legislation, the legislation needed to change to reflect what the project may have to be instead of including the item in the supplemental.

Representative Kawasaki referred to the line item description, which listed the section and SLA2013 related specifically to the Alaska Industrial Development and Export Authority (AIDEA) Sustainable Energy Transmission and Supply fund and the reappropriation. He stated that the only controversial language was related to North Slope natural gas. He wondered if the \$57.5 million balance would hinder AIDEA's ongoing due diligence project if the item was not included in the supplemental budget. He wondered if it was necessary to provide the funds early because the \$57.5 million was part of the language.

Ms. Pitney replied that the administration recognized that the supplemental budget ran at approximately the same pace as the capital budget. She elaborated that including the project within the supplemental was a transparent way to get the information out. The administration also expected it to take a revision of the legislation. The timing had been anticipated that it would be at the end of session before the legislation was passed; the project was moving forward, but no action would be taken outside of the existing authority.

Representative Kawasaki wondered if the language speaking to the North Slope in particular in SB 23 [legislation passed by the legislature in 2013 related to AIDEA and

Liquid Natural Gas project financing] and in the capital budget section hampered AIDEA's ability to discuss the ongoing negotiations on the purchase of Pentex [Pentex Alaska Natural Gas Company, LLC]. Alternatively, he asked if AIDEA could act on its own.

Co-Chair Neuman noted that AIDEA acted as a separate entity and had its own board.

Ms. Pitney would follow up on the question at a later date.

Representative Wilson asked about the last time legislation had been changed in a supplemental budget. She did not recall the situation occurring in the past. She did not want to start something they could be sorry about in the future. Ms. Pitney replied that she would follow up on the question.

Co-Chair Neuman believed the occurrence may happen on a regular basis. He reasoned that the legislature approved reappropriations frequently.

Ms. Pitney moved to a repeal of the Alaska Digital Teaching Initiative on line 30, page 6. She relayed that the existing program could be managed without adding an additional program. The administration believed it would be good to stop the program before it got started. Lines 31 and 32 (pages 6 and 7) related to the Department of Environmental Conservation (DEC). She detailed that DEC provided several grants for sewer and water projects; there were currently grants out to a few communities. Line 31 was a reappropriation of funding remaining from completed projects. The remaining funds were pooled and deposited into the Spill Prevention and Response (SPAR) account. She explained that the account ran on a \$0.05 per barrel of oil surcharge on oil running through the Trans-Alaska Pipeline System (TAPS). She furthered that when there had been 2 million barrels of oil running through TAPS it had been sufficient to cover the program; however, production had declined and 500 thousand barrels was not sufficient to cover the program. The reappropriation would buy time to develop a more holistic approach to manage SPAR duties. She added that the increment would only provide temporary solution.

[3:16:32 PM](#)

Co-Chair Neuman remarked that the SPAR fund was currently empty due to a decline in oil throughput. He explained that the surcharge had not been changed in a number of years.

Representative Wilson wondered if the funds had matched federal funds for sewer and water for small communities. She specifically mentioned that funds had been allocated to North Pole for sewer upgrades. She wondered if the state was sweeping only state dollars into the SPAR account and if some federal matching funds had been lost.

Ms. Pitney replied that the line item represented the unspent, unobligated balance of general funds that had been designated to projects. She explained that if there was a match, it was garnered based on the cost of the project.

Representative Wilson asked if some federal matching funds had remained after the completion of the projects. She wondered what had come of any remaining federal funds.

Ms. Pitney answered that federal matching funds were given when the state spent its portion of the funds; if the state funds were not spent, the match was not received. She relayed that traditionally (under more positive financial environments) communities asked for remaining funds (i.e. \$25,000 to \$50,000) to be reappropriated to another project in their area, which may or may not have any federal opportunity. An alternative policy option would be to pool the remaining funds for use on a water and sewer project in the next community. She explained that the increment was a way to use existing resources to cover the SPAR account shortfall at present, which would give the state more time to determine a more holistic solution.

Representative Wilson asked if federal funds would have been available for a water and sewer project in another community if the state elected to use remaining project funds for that purpose. She was curious how much money could have been utilized for the purpose. She understood it had been a choice, but she thought the state had given up federal funds that were not reflected on the handout.

[3:21:03 PM](#)

Co-Chair Neuman noted that there was additional background material available for members to review.

Ms. Pitney pointed to judgments and settlements on lines 33 and 34 (page 7); line 33 related to actual judgments and settlements and line 34 was for any judgements and settlements prior to the end of FY 15. Line 35 expanded the scope of Department of Public Safety funds for the Alaska Public Safety Information Network to other information technology. Line 36 was a \$3 million increment for any additional fire suppression funding for FY 15. Line 37 allowed for movement in the percentages called for in the fuel trigger mechanism. She explained that the fuel trigger mechanism set a percent for each agency; sometimes the bounds of the percentages did not accommodate the actual costs faced by an entity. The line item would allow an expansion of the boundary of percentages to most closely align the distribution of the fuel trigger mechanism to the entities with the costs associated.

Ms. Pitney addressed line 38, which reflected funds leftover from redistricting costs that would be deposited back into the general fund. Lines 39 through 43 included funds that would be deposited back into the general fund. Line 39 reflected leftover funds from school debt reimbursement projects that had been paid off; overall, school debt reimbursements had decreased by \$5.4 million.

Representative Pruitt asked what caused the debt reimbursement to go down.

[3:24:38 PM](#)

Ms. Pitney replied that under the school debt reimbursement program a community passed a school bond. She explained that if a community began paying debt service 20 years back, the debt service was completed and had therefore the project had fallen off the list of required debt service. She explained that subsequently the obligation for school debt reimbursement had decreased by \$5.4 million.

Representative Pruitt asked for verification that the \$5.4 million decrease was associated with one project. He noted that Anchorage continued to add school debt; therefore, it did not make sense to him that there was money left over. Ms. Pitney would follow up with the data. She believed there would be a downward trend; schools that had been built 20 years earlier would drop off the list.

Representative Pruitt asked if the change in statute implemented the prior year impacted the reimbursement rate. He hoped the downward trend would continue because nothing was being added. Ms. Pitney answered that she would provide further information.

Ms. Pitney pointed to an interest transfer from the Alaska Marine Highway System stabilization fund. Lines 42 and 43 represented significant policy calls and reflected the repeal of one-time education funding that had been passed in legislation the preceding session. She explained that the \$32 million in FY 16 would result in a 2.5 percent decrease in K-12 funding (line 42). The reduction of \$19 million in FY 17 was closer to a 1 percent reduction (line 43).

Co-Chair Neuman remarked that the two education funding items would have additional discussion going forward.

Ms. Pitney addressed ratifications on lines 48 through 63. She explained that the ratifications were prior year expenses that had been accounted for; the lines reconciled the expenses to the budget that had passed from an accounting perspective and represented necessary technical adjustments.

HB 72 was HEARD and HELD in committee for further consideration.

HB 73 was HEARD and HELD in committee for further consideration.

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

ADJOURNMENT

3:30:08 PM

The meeting was adjourned at 3:30 p.m.