

HOUSE FINANCE COMMITTEE
February 6, 2015
1:32 p.m.

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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

Mark Myers, Commissioner, Department of Natural Resources; Ed Fogels, Deputy Commissioner, Department of Natural Resources; Jeanmarie Davis, Director, Division of Support Services, Department of Natural Resources; Brigadier General Mike Bridges, Commissioner, Department of Military and Veterans Affairs; Michael O'Hare, Deputy Director, Division of Homeland Security and Emergency Management.

PRESENT VIA TELECONFERENCE

Mark Greby, President and Chief Operating Officer, Alaska Aerospace Corp, Department of Military and Veterans Affairs.

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 OVERVIEWS:

DEPARTMENT OF NATURAL RESOURCES
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

#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":

Co-Chair Neuman reviewed the agenda for the day.

^FY 16 BUDGET OVERVIEW: DEPARTMENT OF NATURAL RESOURCES

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MARK MYERS, COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES introduced his staff and introduced the PowerPoint presentation "FY16 Budget Overview: Department of Natural Resources": He explained that he would be reviewing some of the department's missions, his staff would go over key performance measures, and he would examine the details of the budget.

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Commissioner Myers began with slide 3: "Organizational Chart": He pointed out that the Department of Natural Resources (DNR) had approximately 1,100 employees, made up 2 percent of the state's general fund (GF) budget, and managed about 160 million acres of surface and subsurface lands. The department had two deputy commissioners: Marty Rutherford handled all things related to energy (except energy permitting) and Ed Fogels handled the other divisions including the Division of Agriculture, the Division of Mining, Land, and Water, the Division of State Parks and Outdoor Recreation, the Division of Forestry, and the Division of Support Services.

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Commissioner Myers discussed slide 4 "Core Services":

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

Commissioner Myers stated that DNR was viewed as the engine room of the state. The majority of development of natural resources occurred and most of the state revenue was generated within DNR. He furthered that for every \$1 added in GF, DNR had a return of \$36 to the state treasury. He believed that the department was very efficient relative to its small size. He equated DNR to the United States Department of Interior at the federal level with the exception of the Alaska Department of Fish and Game and the state's Division of Forestry.

Commissioner Myers explained that the department's core services included fostering commercial development and use of state lands and natural resources, and mitigating natural hazards such as forest fires. Fire-fighting funds made up a large portion of DNR's operating budget. He reported that through the Division of Geological and Geophysical Surveys the state conducted volcano and earthquake monitoring, and issued earthquake warnings. He also acknowledged that DNR worked diligently at understanding flood risk, landside risk, and coastal erosion. He alluded to the inherent risks of living in Alaska due to natural hazard occurrences. He informed the committee about the state's role in providing lands for Alaskans to use. He gave examples of recreational cabins, new subdivisions, and lands used for commercial development. He pointed out that DNR was also the leading agency in determining land selection. Department of Natural Resources was instrumental in selecting land in Prudhoe Bay. He conveyed that about 500 million additional acres needed to be selected in the final selection process. The state's selection provided economic development in mines, timber, oil and gas, sand and gravel, and access to infrastructure. He emphasized that the department was a data-driven science organization and that it coordinated state mapping, satellite imagery, and elevation modeling. He opined that Alaska's data was very important but that the state was under-mapped.

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Commissioner Myers advanced to slide 5: "Land Ownership":

Land Ownership:

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

DNR:

- Manages one of the largest portfolios of oil, gas, minerals, renewable resources, water, and land in the world

- Manages all oil and gas fields on state land, including two of the largest oil and gas fields in North America
- Oversees all activities that occur on state land

Commissioner Myers commented that Alaska's land ownership was widely distributed across the state. He also mentioned that Alaska had more coastline than any other state in the nation. In fact, he reported that Alaska had more coastline than all of the remaining states combined.

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Commissioner Myers turned to slide 6: "State Land Position/DNR Office Locations." He told of DNR's management responsibilities and about the locations from which it managed. He alluded to the magnitude of the area in which Alaska managed. He affirmed the use of advanced technology to manage remotely and opined that managing land in Alaska without the proper infrastructure was expensive.

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Commissioner Myers reviewed slide 7: "Division Overviews":

Division of Agriculture (DOA)

- Franci Havemeister, Director
- 40 full and part-time budgeted positions
- 4.2% of DNR's FY16 Operating Budget Request
- \$7,350.6 total budget request (\$3,149.0 UGF)
- Promotes and encourages development of an agriculture industry in Alaska

Division of Forestry (DOF)

- Chris Maisch, Director
- 254 full and part-time budgeted positions (does not include the hundreds of fire season crews)
- 25.9% of DNR's FY16 Operating Budget Request
- \$45,355.6 total budget request (\$26,251.0 UGF)
- 85.6% of Forestry's budget is Fire Suppression
- Serves Alaskans through forest management and wildland fire protection

Commissioner Myers explained the function of the Division of Agriculture. The division handled the quarantining of

invasive species. It also provided oversight of the agricultural loan program and managed Alaska's seed bank. He reported that additionally the division was responsible for issuing key certifications for Alaskan products necessary for commercial export or commercial consumption of the state's food resources.

Commissioner Myers moved on to discuss the Division of Forestry. He noted that the division's key responsibility was to protect the state's forests and to perform proactive management of fire. He also mentioned that Alaska's forests were a resource for biofuels and commercial timber.

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Commissioner Myers continued with slide 8: "Division Overviews":

Division of Geological & Geophysical Surveys (DGGS)

- Steve Masterman, Director
- 52 full and part-time budgeted positions
- 4.9% of DNR's FY16 Operating Budget Request
- \$8,622.2 total budget request (\$4,631.7 UGF)
- Determines the potential of Alaskan land for production of metals, minerals, fuels, and geothermal resources, the locations and supplies of groundwater and construction material, and the potential geologic hazards to buildings, roads, bridges, and other installations

Division of Mining, Land & Water (DMLW)

- Brent Goodrum, Director
- 210 full and part-time budgeted positions
- 15.2% of DNR's FY16 Operating Budget Request
- \$26,596.0 total budget request (\$11,795.6 UGF)
- Provides for the appropriate use and management of Alaska's state owned land and water, aiming toward maximum use consistent with the public interest

Commissioner Myers stated that the Division of Geological and Geophysical Surveys was the state's largest science arm. He mentioned that the division did geologic mapping, resource identification, and information publication. The division also did assessments of geologic hazards and risks, mapped information, and provided and worked on

construction materials. The division was a key provider of data used by information services by the state's industrial base, particularly by oil and gas mining and construction folks.

Commissioner Myers referred to the Division of Mining, Land, and Water as the state's work horse. The division handled land sales and did many things at the individual level as well as at the mega-project level with respect to mining or oil and gas development.

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Commissioner Myers turned to slide 9: "Division Overviews":

Division of Oil & Gas (DOG)

- Paul Decker, Acting Director
- 125 full and part-time budgeted positions
- 13.2% of DNR's FY16 Operating Budget Request
- \$23,095.2 total budget request (\$9,771.5 UGF)
- Responsible for the leasing of state lands for oil, gas, and geothermal exploration, and issuing and monitoring pipeline right-of-way leases.

Division of Parks & Outdoor Recreation (DPOR)

- Ben Ellis, Director
- 187 full and part-time budgeted positions
- 9.9% of DNR's FY16 Operating Budget Request
- \$17,326.1 total budget request (\$3,952.3 UGF)
- Provides outdoor recreation opportunities and conserves and interprets natural, cultural, and historic resources for the use, enjoyment, and welfare of the people

Commissioner Myers discussed the duties of the Division of Oil and Gas. He explained that the division did pre-sale evaluations of state land, managed the sub surface, managed royalty components, and provided down-hole surface information to protect correlative rights of all parties involved with oil and gas development. The state's royalty share from oil and gas was the major source of revenue for the state. He relayed that taxes were a derivative product of the work done through the division.

Commissioner Myers continued with his presentation by citing the role of the Division of Parks and Outdoor Recreation. He elaborated that the division managed the largest state park system in the United States, ran it inexpensively, and had seven to eight volunteers for every employee. He furthered that the division had become much more autonomous increasing its self-sufficiency from 35 percent in the previous year to 44 percent in the current year. The division anticipated a 50 percent level of self-sufficiency in the following year. He attributed improvement to creative marketing, volunteers, and increased fees.

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Commissioner Myers reviewed slide 10: "Division Overviews":

Division of Support Services (SSD)

- Jean Davis, Director
- 131 full and part-time budgeted positions
- 7.8% of DNR's FY16 Operating Budget Request
- \$13,709.1 budget request (\$5,867.8 UGF)
- Provides client-focused, efficient and cost effective financial, budget, procurement, human resource, information technology and recording services to DNR and the public

Commissioner Myers explained that the Division of Support Services was the state's backstop for administrative support and was the state's information technology (IT) backbone. The Recorder's Office with locations across the state was also part of the division.

Commissioner Myers continued with slide 11: "Office Overviews":

Office of the Commissioner

- Mark Myers, Commissioner
- 9 full-time budgeted positions
- 1.0% of DNR's FY16 Operating Budget Request
- \$1,828.2 total budget request (\$1,654.8 UGF)

North Slope Gas Commercialization (NSGC)

- Marty Rutherford, Deputy Commissioner
- 8 full-time budgeted positions

- 7.6% of DNR's FY16 Operating Budget Request
- \$13,225.2 total budget request (UGF)

Commissioner Myers affirmed that the North Slope Gas Commercialization (NSGC) office, housed within the Office of the Commissioner, stood out as one of the most important offices in the department. The office lead the coordination with the Department of Revenue, Department of Law, and Alaska Gasline Development Corporation (AGDC) on the big gas line.

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Commissioner Myers explained slide 12: "Office Overviews":

Office of Project Management & Permitting (OPMP)

- Sara Longan, Director
- 19 full-time budgeted positions
- 4.6% of DNR's FY16 Operating Budget Request
- \$8,134.6 total budget request (\$738.8 UGF, \$5,648.3 Industry Receipts)
- Coordinates the review of larger scale projects in the state

Alaska Mental Health Trust Land Office (MHTLO)

- Marcie Menefee, Executive Director
- 18 full and part-time budgeted positions
- 2.5% of DNR's FY16 Operating Budget Request
- \$4,321.9 total budget request (MHTAAR Receipts)
- Protecting and enhancing the value of Alaska Mental Health Trust Lands while maximizing revenues from those lands over time

Commissioner Myers reported that the state strongly identified a challenge with permitting large projects. The complexity, the number of organizations involved, the different points of view, and other various factors influenced the permitting process. The Office of Project Management and Permitting was created to provide a solid public process and a transparency of information. He conveyed the office's success in expediency and efficiency. He also relayed that primary funding for OPMP consisted of program receipts.

Commissioner Myers conveyed that the MHTLO reported to its own board of directors. He explained that the office provided the land services that brought in revenue to run mental health programs in the state.

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ED FOGELS, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES specified that he was asked to highlight four DNR performance measures. He discussed the chart in slide 13: "Key Performance Measures: Dollar Value (in thousands) of Agreements under MOU and RSA for Large Development Projects Permitting Coordination": He pointed out the dramatic increase of large scale projects over the past several years. He elaborated that the state had resources of interest resulting in significant permitting activity.

Representative Kawasaki asked about the larger projects that OPMP was currently handling. He also inquired about the permitting protocol prior to the creation of OPMP.

Mr. Fogels relayed that the coordination process started in the early 1990's with the Fort Knox Mine. The coordinator for the project was located within the Division of Mining, Land, and Water. He furthered that OPMP, created under Governor Frank Murkowski's administration, contained both the Coastal Zone Management Program and the large project coordination function. He indicated that there were two large mining projects; the Donlin Gold Project and the Chuitna Coal Project. On the oil and gas side he reported that OPMP had recently completed permitting for the Point Thomson Project and was currently coordinating the Greater Moose's Tooth Project. He also pointed out that OPMP was involved in state permitting for Shell Oil Company's Outer Continental Shelf activities.

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Mr. Fogels moved on to discuss the second performance measure as shown in slide 14: "Key Performance Measures: Mining, Land, and Water Permit Backlog." He explained that DNR was making considerable progress in reducing the permitting backlog in the Division of Mining, Land, and Water. He pointed to the progress shown on the chart reporting a 56 percent reduction in permit backlog. He expressed kudos to Brent Goodrum, Director, Division of Mining, Land and Water, Department of Natural Resources for

his efforts and organizational and operational efficiency skills. He also mentioned the budgetary support from the legislature to backfill some positions.

Mr. Fogels advanced to the bar graph on slide 15: "Key Performance Measures: Square Miles of Published Minerals-Related Airborne-Geophysical Data." He explained that the graph depicted the number of square miles of airborne geophysical data that the Division of Geologic and Geophysical Surveys had published. He reported that the division received capital monies to do further data gathering. He emphasized the amount of state-owned land that currently lacked data surveys. He contended that the state remained eligible to receive additional land through statehood land entitlement. The state needed additional data in order to select the entitlement land wisely.

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Representative Guttenberg asked about a possible correlation between what DNR has mapped, what has been staked, and what has been developed or produced. Mr. Fogels responded affirmatively. He referred to the Livengood prospect north of Fairbanks. The prospect was discovered, in large part, due to the assistance of DNR's airborne geophysical program. He conveyed that when the information was reported to the public a tremendous amount of staking activity in the area resulted. He relayed that DNR focused on areas that had high prospect potential. He believed that many of the large mining projects currently producing in the state proceeded DNR's airborne geophysical program surveys.

Representative Munoz remarked that specific efforts had been made by the state to reduce the permitting backlog within DNR. She wondered about the current wait time for an average permit within the Division of Mining, Land, and Water. She also asked if Mr. Fogels felt that the proposed budget changes would affect DNR's permitting backlog. Mr. Fogels was uncertain about specifying an average wait time due to variations in permit applications. He suggested that a temporary water use permit might be issued within a month versus a lease for a commercial operation that could take 6 months to a year or more depending on the complexity of the application. He asserted that wait times had been reduced. He also reported that DNR was receiving a greater number of incoming applications. The Department of Natural Resources

had input on the potential funding reductions. The department's first priority was to keep necessary functions in place that produced an economy for the state. The second priority was public safety. He remarked that the department made efforts to ensure that the permitting core remained intact.

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Vice-Chair Saddler asked if efforts made in the airborne geophysical and permitting areas within the department supported future development. Mr. Fogels responded in the affirmative.

Vice-Chair Saddler asked about a reduction of any of the expenditures and the potential for the value of investments to diminish in the future. Mr. Fogels responded, "In part, yes, and in part, no": He elaborated that the department had built up a staff of experts key to keep work moving within the department. He relayed that the department was in the process of developing an electronic permitting system. Currently, land use permits and water rights permits were processed via automation. He expressed his appreciation for capital appropriation monies that allowed for new automation. He assured the committee that if funding was limited, a system remained in place for permit application processing.

Vice-Chair Saddler clarified that anyone could access the airborne geophysical information well into the future. Mr. Fogels responded in the affirmative.

Representative Gara asked about funding for the permitting process for mines and other projects. He wondered if the funding was comprised mainly of program receipts. Mr. Fogels responded that major projects were funded through program receipts. However, the permitting cost of the smaller projects were typically absorbed by DNR's budget.

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Representative Kawasaki asked about the significant number drop in FY 12 depicted in slide 15. He suggested that a better metric would be to include the percentage of backlogged permits. He preferred to see the total number of permits versus the permits waiting to be evaluated. He also suggested including a time measure to know the processing

time for each permit. He relayed his difficulty in determining whether the state was more efficient in its processing efforts or if there were less permits to process based on the data provided in the chart.

Mr. Fogels appreciated Representative Kawasaki's points and confirmed that the department had the metrics he suggested. He stated that Director Goodrum could present case types in detail and provide other information. He relayed that the backlog was comprised of over thirty different types of applications. He was happy to supply the committee with additional information.

Co-Chair Neuman summarized that there had had been a 60 percent reduction in the number of backlogged permit applications since FY 11. He stated that in FY 11 the state had 2,659 permit applications to process and by FY 14 only 1,168 permits needed processing.

Mr. Fogels moved on to slide 16: "Key Performance Measures: Park Fee Revenues (in thousands)." He informed the committee that state park fees had gradually been increasing. Previously, the fees covered about 34 percent of the park's operating budget. The division recently instated fee increase bringing the percentage to 44 percent. He interjected that an additional fee increase was planned within the following two years which would make up about 50 percent of the operating budget for state parks. He mentioned that there were other innovative projects that would help to reduce the reliance on the state's GF for park operations. He concluded his portion of the presentation.

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JEANMARIE DAVIS, DIRECTOR, DIVISION OF SUPPORT SERVICES, DEPARTMENT OF NATURAL RESOURCES stated that she would be walking the committee through a series of slides that outline the governor's amended FY 16 budget. She commented that the first subcommittee meeting, chaired by Representative Pruitt, was held the previous evening with the department. She anticipated a detailed review of DNR's budget.

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Ms. Davis turned to slide 18: "DNR FY2016 Governor Amended Budget - Employees":

DNR will employ about 1,060 Alaskans in full-time and seasonal positions, in 29 locations, with main offices in Anchorage, Juneau, Fairbanks and Palmer, and regional offices throughout the state.

Ms. Davis explained that the small chart on slide 18 depicted the position counts for DNR since FY 12, a five-year period. She observed that the number of employees was relatively stable with only slight changes from year-to-year. However, the FY 16 proposed budget reflected a net reduction of 47 positions; a decrease of 48 positions and an increase of 1 new position. She furthered that of the 48 positions to be dropped only 34 were currently filled. She relayed that DNR would be working with its employees, the divisions, the Division of Personnel, and labor negotiators on any kind of layoff process after the final budget was approved. She reiterated that the department anticipated a number of layoffs based on the most current information.

Representative Wilson asked if information was available concerning specific division layoffs. Ms. Davis responded in the affirmative. She pointed to the information provided in the governor's budget that was released the previous day. She indicated that the information was provided to the finance subcommittee and could be provided to the full finance committee. Representative Wilson confirmed that she wanted the information.

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Ms. Davis advanced to slide 19: "Budget Growth Analysis (Prepared by Legislative Finance) - Department of Natural Resources' Share of Total Agency Operations (GF Only, in Thousands)":

DNR's GF budget grew by \$27,735.8 million between FY2007 and FY2016 Governor's Request - an average annual growth rate of 3.2%.

The department's total FY16 Governor's Request GF budget equals \$337,456 per resident worker (according to the Department of Labor, there were 333,283 resident workers in Alaska in 2012).

Ms. Davis stated that the annual growth rate of 3.2 percent was low compared to other departments. She pointed out that FY 07 and FY 08 DNR's budget remained stable. In FY 09 there was a slight jump in the budget due to an increased workload in the oil and gas division and an amplified amount of work on the Alaska Gasline Inducement Act (AGIA) project. She mentioned that in FY 12 there was an increase in the budget because of an influx of money provided by the legislature to assist with the department's permitting backlog.

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Representative Guttenberg asked if the growth rate was directly related to specific projects and to efforts to reduce DNR's permitting backlog. Ms. Davis responded that it was due, in large part, to an increase in resource development activities around the state. She indicated that the chart only reflected the GF portion of the budget. The growth rate was also related to labor contracts. She notified the committee that DNR would be conducting a detailed ten-year review in the finance subcommittee meeting on Tuesday of the following week.

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Representative Wilson asked about the reference made on the chart about the department's total FY 16 governor's request GF budget equaling \$337,456 per resident worker. She felt that the figure was high. Ms. Davis agreed with Representative Wilson that the number seemed high. She agreed to review it and report her findings to the committee. Representative Wilson replied that she appreciated Ms. Davis looking into the issue and commented that she did not want to be taxed at the suggested level.

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Ms. Davis continued with slide 20: "Budget Growth Analysis Without AKLNG - Department of Natural Resources' Share of Total Agency Operations (GF Only, in Thousands) without AKLNG":

Without AKLNG, DNR's GF budget grew by \$14,549.1 million between FY2007 and FY2016 Governor's Request - an average annual growth rate of 1.8 percent.

Ms. Davis reported that in FY 15 there was an increase of \$8.9 million to support AKLNG associated with the fiscal note for a bill that passed [during the 28th Alaska State Legislature]; SB 138 [Short Title: Gas Pipeline; AGDC; Oil and Gas Prod. Tax]. In DNR's FY 16 budget request the department asked that the funds for the AKLNG project be carried forward and additionally requested further funds for the project of \$4.2 million.

Ms. Davis explained that the chart reflected what core services within DNR would remain intact if \$13.2 million was removed from the FY 16 budget and \$8.9 million was removed from the FY 15 budget. The chart showed an average annual growth rate of 1.8 percent. She pointed out that the horizontal blue line reflected 1.54 percent of the state's GF.

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Ms. Davis discussed the chart on slide 21: "Budget Growth Analysis (Prepared By Legislative Finance) - Appropriations within the Department of Natural Resources (GF Only, in Thousands)." She explained that the graph depicted the growth of GF only for appropriations within DNR by appropriation unit based on the management plan in the governor's budget from FY 07 through FY 16. The top line [shown in grey] signified DNR's increased efforts in permitting. She pointed out the uptick on the dark blue line and attributed it to the AKLNG project. She also drew attention to the peak on the red line in FY 09 associated with the Alaska Gasline Inducement Act (AGIA) project. She stated that money had come into DNR's budget and subsequently gone back out with AGIA.

Ms. Davis advanced to the graph on slide 22: "Budget Growth Analysis (Prepared by Legislative Finance) - Appropriations within the Department of Natural Resources (All Funds, in Thousands)." She reported that the fire suppression budget showed an increase between FY 12 and FY 13 of \$8.5 million in federal authority added to the budget. She relayed that DNR continued to use more federal authority year-after-year as reflected in the chart.

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Representative Guttenberg commented that fire suppression typically correlated with fire activity in the summer

months. He asked about the jump in FY 13 and whether it indicated increased fire activity around the state. Commissioner Myers responded that the department had seen a dramatic increase in the amount of acreage burned over the previous ten years. He attributed the increase in fires in interior Alaska to the dry climate. He reiterated that naturally induced fires have increased dramatically. He also mentioned that Alaska's forests have been plagued by certain invasive species, such as the Spruce Bark Beetle, leaving dead timber behind. He relayed that there had been a significant amount of beetle kill identified.

Co-Chair Neuman asked Commissioner Myers if DNR had been doing more controlled burns to mitigate fire suppression. Commissioner Myers responded that fuel treatment definitely helped but was expensive. He reported that DNR did not fight all fires but fought fires that affected structures and communities such as the Funny River fire. He opined that preventative measures and decreasing fuel loads including back runs and timber harvests made sense.

Co-Chair Neuman asked about whether the department had expanded timber harvesting because of beetle infestation. Commissioner Myers responded affirmatively and spoke of trimming the Spruce Bark Beetle kills on the Kenai Peninsula. He also relayed that because of warm spring weather, snow was melting earlier and the White Spruce trees were not getting enough soil moisture. The trees became stressed and vulnerable to being attacked by invasive species. He indicated the department had seen a significant increase in the effects of invasive species.

Co-Chair Neuman asked about an open harvest of beetle kill on the Kenai Peninsula. Mr. Fogels responded that much of the beetle kill on the Kenai Peninsula was within the Kenai National Wildlife Refuge and Chugach National Forest on federal land. He believed the state had done its best to conduct timber sales to thin out the beetle kill on state land. He reported that DNR would be doing additional sales on the Kenai Peninsula. He specified that the majority of the beetle kill on the peninsula was on federal land.

Co-Chair Neuman mentioned open harvesting because the commissioner had spoken of it earlier in the presentation. He asked if areas of state land with issues such as beetle kill would be open for the timber industry to harvest. Mr. Fogels asserted that the state was offering timber sales on

the Kenai Peninsula. He mentioned the clearing activity done in the Tok area to remove fire load. He suggested that fires in the Tok area would be far less intense because of clean-up done previously. He added that the clearing provided a significant amount of biomass for many of the biomass projects such as the one at Tok's school.

Co-Chair Neuman wondered about the success of the state's timber sales. Mr. Fogels reported that timber sales had been successful, although the state had recently conducted a 25-year sale auction but did not receive any bids. He concluded that sometimes the state timber sales were successful and sometimes they were not.

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Vice-Chair Saddler asked if an area was less likely to burn again for an extended period after a fire. He asked if the time frame was 10 to 25 years and about a limit. Mr. Fogels stated that in a forest fire fuel was typically cleared out leaving an area less likely to catch fire again for a while. The type of forest and the ecosystem determined the time frame. He confirmed that fire danger decreased after a fire. Commissioner Myers added that there were other factors that influenced times between area fires.

Co-Chair Neuman commented about dead trees in the Big Lake area and the difficulty in fighting a fire once it started. He relayed that the trees in Big Lake were similar to Pixie Sticks.

Representative Guttenberg asked if there was a coordinated effort to make resources available from a fire. Mr. Fogels responded affirmatively. He referred to the Tok school example. He indicated that his staff was proactive in working with the private sector.

Co-Chair Neuman asked committee members to hold their questions until the conclusion of DNR's presentation due to time constraints.

Ms. Davis provided an additional statistic. The department had been looking at the ten-year average of fire suppression GF costs in preparing for the Division of Forestry overview. She reported that the ten-year average for UGF was \$30.8 million. Over ten years the state had one year that fire suppression costs reached a high of \$66

million and another year that the costs reached a low of \$7.8 million. She contended that over a ten-year period there were significantly different fire seasons from one year to the next.

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Ms. Davis advanced to the pie chart on slide 23: "Operating Budget by Division/Office." She explained that the picture depicted DNR's operating budget by divisions or major offices. It showed that the FY 16 governor's budget request was \$175.1 million compared to the FY 15 management plan of \$178.3 million. She pointed out that the Division of Forestry looked to have the largest piece of the pie but explained that 22 percent of the division's budget was designated for fire suppression preparedness and the base amount for fire activity.

Ms. Davis explained the pie chart on slide 24: "Operating Budget by Fund Type." She relayed that the slide showed DNR's budget by fund type. Funding for the operating budget was comprised of 49 percent unrestricted general funds (UGF), 12.4 percent federal funds, 23 percent other funds, and 15.6 percent designated general funds. She included callouts to clarify funding sources categorized as either "Other Funds" or "Designated General Funds." She read the callouts on the slide.

Ms. Davis discussed the pie chart on slide 25: "Operating Budget By Core Services." She stated that it reflected one additional picture of the operating budget. She reported that 48 percent of DNR's budget was allocated to fostering responsible development under core services. She continued to highlight that 24 percent of budget dollars were designated for mitigating natural hazard threats such as fire, earthquake and volcanic occurrences, and coastal erosion.

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Ms. Davis advanced to slide 26: "Operating Budget By Core Service." She referred to it as the "scary slide." She used the slide to explain how the department built its budget. She relayed that the governor's office built the budget using the FY 15 management plan as the base. She indicated that the upper left quadrant of the chart outlined the department's core services divided out by four funding

types: unrestricted general funds (UGF), designated general funds (DGF), other funds, and federal funds. She continued to explain that the right side [upper right quadrant] reflected the total for the [FY 16] adjusted base. She furthered that the Legislative Finance Division (LFD) then allocated the transactions in the governor's request into the adjusted base including one-time appropriations and union negotiated salary contract costs. The resulting numbers then became the FY 16 adjusted base figures. She indicated that the FY 16 adjusted base numbers were duplicated in the bottom left quadrant of the slide and that the bottom right quadrant showed the FY 16 governor amended budget numbers. She referred to the change column on the far right of the slide. A reduction of \$12.6 million from the management plan to LFD's calculated adjusted base was shown at the top of the page. An increase of \$9.4 million from the adjusted base to the governor's amended plan was displayed at the bottom of the page.

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Ms. Davis relayed that an easier way to look at the budget was shown on slide 27: "Summary Of FY2016 Governor's Amended Budget Development." She began by referring to the top of the slide at the FY 15 management plan. She reported that the total on the top line was \$178.3 million with 1107 positions. She continued that LFD's actions were outlined in the light blue area at the top of the slide. The FY 16 costs that were added in included the union contractual salary increases in the light blue area at the top. The reduction of one-time items were also shown in the same area of the slide and included \$8.9 million for AKLNG, \$4.0 million for the Mental Health Trust Land Office, and two additional items resulting in DNR's FY 16 adjusted base. The adjusted base was the starting point for comparing the governor's amended plan.

Ms. Davis moved on to explain the FY 16 governor amended budget increments in the light green portion of slide 27. She first pointed to the \$8.9 million added back into the budget for AKLNG. An additional request of \$4.2 million was seen below the AKLNG increment. She noted that the two items were the only UGF items increased in the department's budget. The department also added in the Mental Health Trust money and a small spending authorization increase in the pipeline and gasoline projects in the State Pipeline Coordinator's office.

Ms. Davis discussed the pink section that reflected the FY 16 governor amended budget decrements. The figures reflect budget reductions spread across all of DNR's divisions totaling \$8.6 million. The reduction of \$5.9 million in UGF equated to a reduction of 48 positions. She relayed that she would be providing a one-page information sheet about the position reductions to Representative Neuman's office for distribution.

Ms. Davis referenced the comparison towards the bottom of the slide in blue. The comparison included the FY 16 adjusted base (LFD's plan) to the FY 16 governor amended plan. It also showed the FY 15 management plan compared to the FY 16 governor amended plan. The comparison between the department's budget and the adjusted base reflected a 5.7 percent increase largely due to the AKLNG and Mental Health Trust monies being added back into the budget. She furthered that in looking at the comparison to the management plan the department showed a 1.8 percent decrease or a 2.5 percent decrease in UGF. She reported that the percentages matched the percentages provided by Pat Pitney, Director, Office of Management and Budget. She relayed that the last comparison, in the orange section on slide 27, excluded AKLNG as the addition to DNR's core services. The numbers reflected an overall 2.3 percent reduction in DNR's budget for all funding sources and a 7.6 percent reduction in UGF.

Co-Chair Neuman commented that he liked the chart.

[2:21:13 PM](#)

Ms. Davis continued to slide 28: "Department Comparison - FY2015 Management Plan Operating Budget (UGF only - in millions)." She explained that the slide was a department comparison based on the FY 15 management plan. Only UGF were compared in the slide. She reported that in FY 15 DNR represented 2 percent of the state operating budget. The slide provided a clear picture of where the state's UGF dollars were being spent. She furthered that in FY 16 the department decreased to 1.75 percent of the state's budget.

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Ms. Davis pointed to the pie chart on slide 29: "DNR Revenue Generation - DNR Generated Revenue Compared To

DNR's Unrestricted General Fund Budget Annual Average For FY2006 - FY 2014 (In Thousands)." She summarized that DNR generated an average of \$2.6 billion in revenue annually. She explained that the large blue section reflected what monies went into UGF. The orange section indicated monies going into the Permanent Fund. The two smaller pieces represented monies going into the Constitutional Budget Reserve Fund and into other funds such as the school fund, Agricultural Revolving Loan Fund (ARLF) interests, and excess program receipts collected in the recorder's office or through state pipeline coordinator lease fees. She pointed to the smaller blue circle in the upper right corner that showed DNR's average annual GF budget to be \$72.8 million from FY 06 through FY 14. She referred back to a statement made by Commissioner Myer that for every \$1 invested in DNR, the department's return was \$36. She noted that the revenue stream picture over the following two years was likely to decrease. She reported that in looking at FY 14 by itself compared to the nine- year average, FY 14 revenue was down approximately 2.7 percent. In comparing FY 13 to FY 14, FY 14 dropped by almost 10 percent in revenue collection. She wanted to present DNR's broader picture.

[2:24:12 PM](#)

Commissioner Myers reported on slide 30: "Revenue Actuals and Forecast." He included the slide to show DNR's two major sources of revenue; oil and gas royalties and oil and gas taxes. He relayed that the state's royalties were based on a percentage of production which made them much less volatile than a net profit share oil tax system. He continued that even though when the price of oil dropped the royalty value went down, the royalty value decreased proportionately much less than did the tax in a net profit system. He suggested that the state maintain the royalty share as a base for its budget, a less risky part of the state's investment. He emphasized that when prices were really high on a net profit system the state stood to make significant money. However, when oil prices were low, the state stood to lose money. Royalties offered some buffer from losing money. He claimed that royalty management was an extremely important factor in state revenue. He furthered that DNR's management of the resources and commodities was vital to the economy. He reiterated that historically royalties were not substantially volatile even with price change compared to a net profit share tax

system. He opined that without the royalty piece or without production the state would not have taxes. He suggested that taxes and royalties formed the basis of the current economy. He noted that as significant as the price drop was for FY 16, the state still had a strong stable base even though the effects on royalties were weighty.

Commissioner Myers made one other comment regarding Representative Wilson's observation of the cost per resident. He reported that the cost per resident was approximately \$37 per resident rather than \$336 thousand.

Vice-Chair Saddler referred to slide 24. He asked about the Permanent Fund receipts in the "other funds" category. Ms. Davis responded that the legislature looked at DNR's budget in both the Division of Oil and Gas and the Division of Mining, Land and Water. She reported that both divisions were generating revenues from leases, royalties, and mining that were deposited into the Permanent Fund. The legislature chose to fund a portion of each of the divisions' operating budgets from Permanent Fund earnings.

Co-Chair Neuman asked Ms. Davies about her comments regarding budget consistencies [by fund type] over the prior ten years. Ms. Davis stated that her comments applied generally across the board. She provided FY 06 numbers. She relayed that in FY 06 UGF was 50 percent, DGF was 15 percent, other funds were 22 percent, and federal funds were 13 percent.

Co-Chair Neuman asked if the dollars amounts were about the same. Ms. Davis confirmed that the numbers were very much the same. Co-Chair Neuman indicated that he was pleased that the increase in monies for electronic upgrades were paying off.

[2:28:37 PM](#)

Representative Wilson asked about fire suppression. She reported a large fire in the Fairbanks area having to do with the military. She wanted to know what happened to reimbursement funds from the military to compensate for lost state assets. She wanted to know if the funds were deposited into the state UGF. Mr. Fogels believed that the money would be deposited into the general fund. Ms. Davis confirmed that the funds would be deposited into UGF and were referred to as "prior year recovery":

Representative Wilson asked if there was a method of tracking the cost of fire suppression per year. She suggested that the fire suppression figures did not include any offsets received by the state. Ms. Davis confirmed that offsets were not part of the figures. However, she indicated that with some research she would be able to provide accurate numbers that included prior year recovery offsets received by the state for the previous ten years.

Representative Wilson did not request that Ms. Davis provide the numbers. She also asked about air quality. She wondered whether air quality was taken into consideration. Mr. Fogels responded that he would get back to her. He stated that the department had its fire plan that outlined where the state should focus on resource development. He expounded that property values and public safety were both considered in prioritizing. He was not sure if air quality was considered when fighting fires. Representative Wilson expressed her appreciation of Commissioner Folgers' willingness to get back to her.

Representative Gara referred to slide 30. He wondered about the potential of receiving negative credits for FY 15 and FY 16. He wanted to know which numbers were used to generate a forecast. Commissioner Myers relayed that DOR Commissioner Hoffbeck had informed him that there was a significant amount of credit not accounted for FY 14. He suggested that Representative Gara confer with Commissioner Hoffbeck.

Representative Gara asked about the anticipated revenues from the Shell development project. He suggested that currently the law was written such that the state would not receive production credits three miles off shore. The state would have to depend on getting a share of federal royalties. He asked if there had been or would be litigation to enforce the statehood compact's 90/10 split of offshore oil. Commissioner Myers responded that although it was a priority to the current administration and to previous administrations to get federal revenue sharing in the offshore for Alaska he was uncertain whether Alaska was entitled to receive federal revenue sharing under the Outer Continental Shelf Lands Act (OCSLA). He asserted that it was a legal question.

Co-Chair Neuman commented that the question might be one to pose to the state's Attorney General. Commissioner Myers added that there was another potential benefit from OCSLA. He explained that property taxes could be collected and there was also the potential to generate other revenues with oil flowing through facilities that are on state lands.

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^FY 16 BUDGET OVERVIEW: DEPARTMENT OF Military and Veterans Affairs

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BRIGADIER GENERAL MIKE BRIDGES, COMMISSIONER, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS introduced the PowerPoint presentation "FY2016 Budget Overview - Department of Military and Veterans Affairs":

[2:37:06 PM](#)

Brigadier General Bridges reviewed slide 2: "Mission":

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

Brigadier General Bridges turned to slide 3: "Core Services":

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

[2:37:48 PM](#)

Brigadier General Bridges reviewed the pie chart on slide 4: "DMVA FY2016 Budget by Core Service":

Defend and Protect Alaska and the United States

- \$31,646.2 all funds
- 165 PFT

Disaster Preparedness/Response and Recovery

- \$11,603.8 all funds
- 62 PFT

Youth Intervention

- \$12,831.8 all funds
- 91 PFT

Outreach to Veterans and Military Families

- \$2,261.7
- 4 PFT

Brigadier General Bridges pointed out that there were only four full-time positions for outreach to veterans and military families serving over 77 thousand veterans in Alaska. Many of the 77 thousand veterans were not currently registered to receive federal veterans' affairs (VA) benefits. The state's mission was to enroll every eligible veterans to receive benefits.

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Co-Chair Neuman asked about the current status of veterans having access to federal hospitals. Brigadier General Bridges responded that great strides had made across the country to provide veterans access to federal care facilities. He reported that due to outreach conducted in coordination with the Alaska Native health care system and corporate care providers around the state federal programs were now linked for reimbursement or direct cost benefit to the Alaska Native Tribal Health Care Trust programs. Also, he relayed that ongoing expansion efforts were being made to provide transportation to necessary care facilities for veterans short on funds or living in remote locations. Recently, the department was awarded a \$750 thousand, three-year grant (\$250 thousand per year) to help pay for ground transportation to VA care facilities for veterans living in very rural parts of Alaska on and off the road system. The grant monies could also be used to pay for transportation on the Alaska Marine Highway System (AMHS). The department previously attained funding for aerial transportation for veterans living off of the road system.

Co-Chair Neuman asked if veterans had access to rural health centers. Brigadier General Bridges responded affirmatively. He suggested that, for example, instead of flying a veteran into Anchorage from Bethel or from a remote village in the Bethel region, Yukon Kuskokwim Health Center was now able to provide a veteran's care and have it paid for with federal VA funds.

Co-Chair Neuman commented that health care was the largest concern brought to his attention by his veteran constituents. Brigadier General Bridges referred to a graph that showed the progress being made in veteran access to health care facilities.

Co-Chair Neuman wanted Brigadier General Bridges to provide the committee additional information on the location of health care facilities accessible to veterans within Alaska. He suggested that individual legislators could, in turn, share the information to their district communities. Brigadier General Bridges indicated that he was happy to provide Co-Chair Neuman with the information.

Representative Wilson asked about the number of doctors in each of the facilities. Brigadier General Bridges stated that he did not have the information for federal VA health care.

Representative Wilson wondered if the state kept track of how many doctors were available to care for veterans. She referred to going on post in Fairbanks. It was her understanding that Fairbanks lost one of its doctors. Brigadier General Bridges responded that the information Representative Wilson was asking for was not something the four-person office tracked. He suggested that she might be able to get the information from the federal branch. He offered to ask Mr. Bowen, the state's VA administrator, if the state had the information. He also offered to pursue the information.

Representative Wilson appreciated Brigadier General Bridges making the effort to provide the information. She understood that there were no doctors currently available to serve the area's veterans. Veteran patients saw physician assistants rather than physicians. She wanted to be able to convey exactly what services were available to veterans in her district.

Brigadier General Bridges reiterated that he would provide Representative Wilson the information. He stated that he was aware of information in the Mat-Su Valley because of recent hiring issues with providers.

[2:42:34 PM](#)

Brigadier General Bridges advanced to slide 5: "Top Level Organizational Chart." He explained that the slide contained the department's primary organizational chart and showed the divisions within the department. He drew attention to the stand-alone blue box representing the Alaska Aerospace Corporation which he would be discussing later in the presentation. The red box represented the federal Title 10 officer, working for the chief of the National Guard Bureau, who was the protector and oversight person for the federal government's property, funds, and equipment used by the Title 32 Alaska National Guard Forces. He clarified that the person was a representative of the federal government as an advisor to the adjutant general on behalf of the United States Department of Defense.

Brigadier General Bridges stated that the new commissioner for the department was Laurie Hummel, retired from the United States Army. She was in the process of reenlisting which accounted for her absence in the present Finance Committee meeting. He noted Mr. Bob Doehl, a retired Air National Guard Colonel and former Army soldier and officer, was the new deputy commissioner for the department. Colonel Doehl was coming into the position with substantial military experience.

Brigadier General Bridges identified the divisions within the department; the Army National Guard, the Air National Guard, the Division of Homeland Security and Emergency Management, the Alaska Military Youth Academy (a program established approximately 20 years previously to take care of the national security threat of the state's young people becoming drains on society versus productive members), and the Division of Veterans Affairs. The Veteran's Affairs office, operated by four staff members, was supported by the veterans' service officers around the state such as Veterans of Foreign Wars and the American Legion. He reported that the total force within the department was

approximately 4,000 uniformed members and over 300 non-uniformed employees.

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Brigadier General Bridges reviewed slide 6: "Alaska Air National Guard":

2 Wings with more than 2,120 members

- 168th ARW located at Eielson AFB
- 176th WG located on JBER

Primary Weapons Systems:

- KC-135 Tanker Wing at Eielson AFB
- Space Warning and Surveillance Squadron
- C-17 Associate Squadron on JBER
- C-130H Airlift Squadron
- Rescue Coordination Center
- HC-130, HH-60 & GA Rescue Squadrons
- Air Defense Squadron

Brigadier General Bridges elaborated that the slide was a description of the Alaska Air National Guard. He explained that there were two wings: the 168th Tanker Wing located at Eielson Air Force Base (AFB) and 176th Wing located at the Joint Base Elmendorf Richardson (JBER). The 168th Wing was home to KC-135 tankers, the in-flight area refueling tankers, and housed the Space Warning and Surveillance Squadron, an early warning watch unit that looked for incoming things from outer space. He pointed out that the 176th Wing was the most complex and operational wing in the Air National Guard across the country. The wing had a C-17 large cargo jet squadron and a C-130H small cargo airlift squadron. The wing was also home to the Rescue Coordination Center, the combat search and rescue squadrons, and the air defense squadron which was the North American Aerospace Defense Command (NORAD). NORAD's mission, run by Air Alaska Air National Guard, was to watch for interspace invasion by fixed-wing aircrafts from other nations.

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Brigadier General Bridges scrolled to slide 7: "Alaska Army National Guard":

Three major units with more than 1900 members:

Joint Forces Headquarters

297th Battlefield Surveillance Brigade

- Headquarters & Headquarters Co
- 1-297thCAV Reconnaissance & Surveillance
- 297thCombat Support Company
- 297thSignal Network Support Company
- B Company, 1stBattalion 143rdInfantry (ABN)

38th Troop Command

- 1stBattalion 207thAviation
- 761stMilitary Police Battalion
- 103rdCivil Support Team
- 207thMulti-Functional Training Regiment
- 49thGround Missile Defense Battalion

Brigadier General Bridges informed the committee that Alaska's 297th Battlefield Surveillance Brigade was one of nine brigades scheduled to be deactivated later in the current year. He reported that the Army decided that the battlefield surveillance brigades were no longer needed. The department was working on the replacement force structure from the Army as it downsized. He reported that the 38th Troop Command was the brigade equivalent administrative headquarters for the department's other units within the state.

Brigadier General Bridges briefly discussed the 49th Ground Missile Defense Battalion which was a ground-based missile defense based at Fort Greely. He relayed that it was a 24/7 operational national strategic mission made up of 210 Alaska National Guard members in full-time status in support of Intercontinental Ballistic Missile (ICBM) threats from rogue nations such as Iran and North Korea. He shared that there was a small full-time unit, a civil support team primarily for weapons of mass destruction such as chemical, biological, radiological hazards of accidental or deliberate release within the state. The support team was also deployable around the world to assist other states, territories, and other nations.

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MICHAEL O'HARE, DEPUTY DIRECTOR, DIVISION OF HOMELAND SECURITY AND EMERGENCY MANAGEMENT explained slide 8: "Division of Homeland Security & Emergency Management":

Critical services to protect lives and property from terrorism and all other hazards, as well as to provide rapid recovery from disasters.

Mr. O'Hare specified that there were 62 people in the division that helped Alaska communities prepare, respond, recover, plan, train, and exercise for any disaster that might occur. The division carried out its mission through partnerships with local, state, and federal agencies, non-governmental organizations, and faith-based organizations to help with recovery processes and some unique tactical communications. The division helped with alert and warning systems such as tsunami warning systems seen in the coastal communities. The division also does outreach in the schools including earthquake preparedness.

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Brigadier General Bridges turned to slide 9: "Office of Veterans Affairs":

The Office of Veterans Affairs continues to help Alaska's veterans and their families improve the quality of their lives by helping them file claims for education, medical, compensation/pension as well as assisting them in obtaining earned military awards.

Brigadier General Bridges reiterated that there were 77 thousand known veterans in Alaska, only 32 thousand of which were registered with the federal VA. One of the key missions of the Office of Veterans Affairs was to get the other 44 thousand veterans registered to receive the benefits they were entitled.

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Brigadier General Bridges advanced to the graph on slide 10: "Measures and Results - Federal Veterans Administration Benefits in Alaska by Type and Calendar Year (in Millions)." He reviewed the type of benefits veterans received in Alaska including medical care, insurance and indemnity, education and vocational rehabilitation, and compensation and pension. He pointed out the significant

growth that had resulted from the work performed by a staff of four people. Millions of dollars were brought into Alaska in the form of economic activity and earned benefits to individuals that served the nation since 2008.

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Representative Edgmon referred to the 32 thousand of the 72 thousand [Secretary's Note: The number was 77 thousand rather than 72 thousand] veterans registered. He suspected that there was a great number of veterans in rural Alaska that were not registered. He wanted Brigadier General Bridges' input. He also asked about the number of veterans that were not registered and were homeless. Brigadier General Bridges indicated that the homeless numbers that the office was aware of based on working with other entities was less than 1,000 in Alaska. He stated that the last number he had heard was approximately 600.

Representative Edgmon wondered about the disparity between registered and non-registered veterans. Brigadier General Bridges explained that a registered veteran had met with a veterans service officer, provided military discharge records, and supplied documentation to the federal VA system. He asserted that there were many different reasons that veterans did not register. Some veterans were embarrassed or did not feel they deserved to receive benefits based on the position in which they served or because of their length of service. The philosophy of the VA division was that it was one veteran at a time. Some people were discouraged by the bureaucratic process involved in registering.

Representative Edgmon thanked Brigadier General Bridges for his response.

Co-Chair Thompson relayed his personal experience in registering as a veteran in Alaska. At the end of the process he received his card and certification.

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Vice-Chair Saddler expressed his approval of the efforts of the division. He wanted to emphasize that the more veterans that sign up helped the state with its scores, which in turn, provided federal resources for things like clinics, hospitals, and staffing.

Brigadier General Bridges agreed with Vice-Chair Saddler's comment and furthered that there had been an amazing increase in federal dollar receipts in Alaska. He reported that the 32 thousand registered in Alaska were bringing in approximately \$660 million in federal dollars. He claimed that with a greater number of registrations being received there would be a greater number of federal receipts received by the state. He relayed that demographically Alaska had the most veterans of any state per capita. Also, Alaska had the highest number of military personnel currently serving per capita in the nation. He brought up the fact that family members sometimes were entitled to benefits based on the veteran's military service but were not always aware of their entitlement. He surmised that the benefits to the state could be extraordinary if all of Alaska's veterans were registered.

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Representative Wilson asked if DMVA was working with Department of Labor and Workforce Development (DLWL) regarding education and vocational rehabilitation for veterans. Brigadier General Bridges relayed that it was a combination of both the federal and state departments of labor and the federal and state VA divisions. The state had its own office in downtown Anchorage on DeBarr Road in the same building occupied by the state's [federal] vocational office.

Representative Wilson asked about the role of the education and vocational rehabilitation division within the department. Brigadier General Bridges confirmed that the division linked up the federal fund resources to pay for the educational component provided to veterans.

Representative Wilson asked if DMVA was working with the University of Alaska (UA) system. She indicated that there were counselors available specifically for Alaskan veterans to ensure an easy transition in enrolling in classes. Brigadier General Bridges responded that UA was sourcing the service with veteran service officers at the university level to assist with the veteran student population. He complimented the university president and his chancellors for working with DMVA, with the division's administrator, and with the federal VA office.

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Brigadier General Bridges discussed slide 11: "Alaska Military Youth Academy":

Mission

To meet the life coping skills and educational needs of 16 to 18 year old Alaskans who are at risk of not completing their secondary education, and to provide them with the values, skills, education and self-discipline to succeed as adults.

Brigadier General Bridges explained that the Alaska Military Youth Academy was not a constitutional or statutory component of DMVA. He conveyed that the academy was an additional program. He provided some historical background. The program was enacted by congress about 20 years prior because of the national threat of obesity and the high school drop-out potential for youth. Congress tasked, challenged, and funded the United States Department of Defense to implement the program through the National Guards of the states. Currently the program existed in 36 states. The program brought at-risk youths that were either on the verge of dropping or already dropped out of high school, or in trouble from other failure. The program served youth from the ages of 16 to 18. He specified that the program was voluntary and was provided in a residential military boot camp setting to steer participants in the right direction. He furthered that the program was held at Fort Richardson for 5.5 months. The program included academic, physical fitness, self-discipline, citizenship, and community service components.

Brigadier General Bridges pointed out that DMVA ran two residential courses per year with approximately 270 participants graduating annually. The department had a goal of 288 graduates per year. However, some participants chose not to complete the program. He noted that there was a 12-month aftercare component in which participants were required to maintain monthly contact with an adult mentor to ensure their success in one of the following: completing traditional high school, moving into an educational or vocational technology program, joining the military, working full-time, or working part-time while attending school. He asserted that following aftercare participants were likely to succeed as adults.

Brigadier General Bridges told of a grant program that added a 5-month leg of vocational training working with industry, similar to an apprenticeship. The end result was for participants to transition into an apprenticeship position with a civilian company. The program was not currently in place and was new to Alaska. The department had requested federal funding and was awaiting approval. He relayed that a state funding match was not required and signified that industry partners had already committed to partnering with DMVA.

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Vice-Chair Saddler stated he had been a participant as a parent and mentor. He surmised that the program was effective and supported the investment in young people. He commended Director Roses and his crew. He relayed that he would offer his continued support for the program. Brigadier General Bridges relayed his personal involvement with and appreciation for the program.

[3:02:38 PM](#)

Brigadier General Bridges turned to slide 12: "Measures and Results - Percent of Cadets Placed in Employment, Education, or Military as Graduation by Fiscal Year." He reported that at the conclusion of the current class which ends in February over 4,500 young people will have graduated from the program since its inception in 1993. He remarked that the percentage of cadets placed in employment, education, or in the military ebbed and flowed as seen in the chart. He commented that recruiting efforts were ongoing. However, he attributed a large group of participant self-referrals to the influence of past-graduate family members and friends. He continued to report that there had been multi-generational participation in some families.

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Brigadier General Bridges advanced to slide 13: "FY2016 General Fund Budget." He referred to the box chart on the far right of the slide. He explained that it depicted each agency's budget request. He emphasized that DMVA's budget was one of the smallest of the state agencies with the largest single workforce. National Guard members were

included in the department's workforce numbers. He disclosed that the majority of the revenue and operating funds for the department were federal dollars. The state provided some matching funds and funds to exclusively take care of business. He concluded that the DMVA's budget was relatively small compared to the state's overall budget.

Brigadier General Bridges reported that three weeks previously the governor's office requested that the department transfer GF from DMVA to a separate designated fund for the Alaska Aerospace Corporation. He relayed that the Department of Administration and the legislature would determine the future of the Alaska Aerospace Corporation which would be presented later in the presentation.

Brigadier General Bridges detailed that the department's GF budget grew overall by \$4.3 million between FY 07 and FY 16. The governor's request GF budget reflected an annual average growth of 3.1 percent. The department's total FY 16 governor's request GF budget equaled \$54 per resident worker. He provided information about changes to the department's Alaska Military Youth Academy (AMYA) fund. He explained that the same money was coming to the department in a different way.

[3:05:32 PM](#)

Brigadier General Bridges reviewed slide 14: "General Fund Look-Back: Appropriations within the Department of Military and Veterans Affairs (GF Only)." He reported that the [red] line on the chart reflected a change in pass through monies for the AMYA program. He pointed out that the large bump on the green line represented a change to the Alaska Aerospace Corporation zeroing out in the following two years. He referred to the administration's request to move monies from DMVA to a different fund for the Alaska Aerospace Corporation.

Brigadier General Bridges reported on slide 15: "All Funds Look-Back: Appropriations within the Department of Military and Veterans Affairs (All Funds)." He informed the committee that the slide uptick included \$1.3 million in federal funds for AMYA [red line] and \$250 thousand federal funds for the veterans' highly rural transportation grant [blue line]. He also noted the large drop in funding for the Alaska Aerospace Corporation on the green line.

[3:07:15 PM](#)

Brigadier General Bridges slide 16: "Status of FY2015 Changes":

Alaska Military Youth Academy (AMYA)

\$23.7 UGF

This increment was approved to partially off-set the cost of new GED testing requirements, which moved from a paper-based test to a computer-based format January 1, 2014. AMYA has completed a new GED testing center and has identified and purchased preparatory curriculum and software to transition testing for cadets to a computer-based format.

\$4,791.4 UGF / -\$5,654.7 I/A Receipts

This fund source change was the result of the passage of HB 180, which changed the funding methodology for AMYA to a direct appropriation instead of passing through the Department of Education and Early Development. This change has had no impact on the services provided by AMYA.

Vice-Chair Saddler asked about alternative testing locations. He wondered if all cadets were given the opportunity to take the General Education Development test (GED). Brigadier General Bridges responded that the GED was available to any cadet. He suggested that not all cadets were interested in taking the GED. The department preferred and encouraged participants to receive either a high school diploma accredited through the AMYA program or a diploma from a traditional high school.

Vice-Chair Saddler asked about the number of academy graduates. Brigadier General Bridges relayed that the academy anticipated having over 4,500 students at the end of the current class since 1993.

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Representative Guttenberg asked about the military's recognition of successfully completing the GED versus receiving a high school diploma. Brigadier General Bridges suggested that when the military downsized, as it was

currently doing, it automatically increased its standards for membership into the military services. An applicant had to be a close-to-perfect human specimen in all primary categories including physical fitness, medical health, academics (i.e. a high school diploma), and clear of moral and ethical legal issues. He continued to explain that in the current military climate, other than during a surge requirement, holders of high school diplomas were much more likely to be enlisted into the military than GED holders.

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Brigadier General Bridges turned to slide 17: "FY2016 Budget Highlights - Decreases in the Governor's Amended FY2016 budget":

Decreases in the Governor's Amended FY2016 budget

- \$350.0 UGF -Interior Veterans Cemetery operations
Construction of the Interior Veterans Cemetery has been delayed due to availability of federal funds. Therefore, operating funds are not needed in FY2016.
- \$300.0 UGF -Base Realignment and Closure Impact Assistance
DMVA will work with available resources and coordinate with other interested parties to advocate for sustainment of Alaska's military installations.
- \$350.0 UGF -Army Guard Facilities Maintenance
DMVA anticipates some cost savings due to changes in cost-sharing ratios with the National Guard.
- \$133.6 GF Match/\$75.5 Fed -Pre-Disaster Mitigation Activities
Pre-Disaster Mitigation activities will be reduced.

Brigadier General Bridges reported that \$350 thousand would be the annual operating cost the department would incur once the veterans' cemetery in Fairbanks was built and opened. He shared that the federal VA reappropriated the monies for the following year due to delayed construction of the cemetery.

Brigadier General Bridges moved to discuss funds used in conjunction with base realignment and closure impact assistance. He reported that retired senior military officials were contracted to examine the state's strategic messaging and preparations for base realignment and closure issues. He relayed that the reduction was only for FY 16. He suggested that the funds could be reinstated in the future if needed.

Co-Chair Thompson asked if the funds could have been used to address and offset some of the base realignments being done with just a reduction in force. Brigadier General Bridges responded that the department was already working with the community leadership of Fairbanks and Anchorage to reduce the potential threat of one or both of the brigade combat teams in U.S. Army Alaska. Co-Chair Thompson asked if any of the funds slated for the base realignment and closure impact assistance were being used to mitigate the reduction of Alaska's brigade combat teams. Brigadier General Bridges replied in the negative.

Vice-Chair Saddler announced that there would be listening sessions in Anchorage and Fairbanks within the following two weeks. He encouraged members in attendance to clearly express opposition to any reductions to active duty forces in Alaska including JBER and all of the bases in Alaska's interior. Brigadier General Bridges added that all of the new department leadership would be participating in the listening sessions.

Brigadier General Bridges continued to review proposed budget decrements. He stated that the department had benefited from other states not spending their facilities monies in the previous three years. Alaska received close to \$50 million of additional federal dollars to build, maintain, and modernize select Army Guard facilities. He offered that the department also received \$133 thousand GF match for pre-disaster mitigation activities which included conducting preparatory training outreach in communities for their own local emergency planning processes. For example, instead of spending money on travel the department was moving towards more video or teleconference training and using the mail system to disseminate training information to assist communities in refining their own emergency response plans. Also, the department intended to modify its twice-yearly consolidated training by expanding the training packages and information provided to participants.

He concluded that DMVA would be more creative in how training and messaging was delivered.

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Brigadier General Bridges continued with slide 18: "FY2016 Budget Highlights - Increases in federal authority in the Governor's Amended FY2016 budget":

Increases in federal authority in the Governor's Amended FY2016 budget

- \$1,300.0 Fed -Alaska Military Youth Academy (AMYA)
AMYA anticipates award of a 40-month grant to provide a job-training component to selected cadets who have completed AMYA's residential program.
- \$250.0 Fed -Office of Veterans Affairs
The Office of Veterans Affairs was awarded a federal grant to off-set the costs of ground or sea transportation of veterans in highly rural areas.

Brigadier General Bridges indicated that no state match was required for either item. The state only needed the authority to receive the federal funds.

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Brigadier General Bridges deferred to a colleague to present information about the Alaska Aerospace Corporation.

MARK GREBY, PRESIDENT AND CHIEF OPERATING OFFICER, ALASKA AEROSPACE CORP, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS explained slide 19: "Alaska Aerospace Corporation":

- Alaska Aerospace Corporation (AAC) was created in 1991 as a public corporation of the state within the Department of Military and Veterans' Affairs.
- AAC is an independent corporation with board of directors, appointed by the Governor
- AAC's mission is to develop aerospace related economic growth within the State of Alaska
- AAC employs approximately 50 personnel

- AAC's KLC is the United States' newest launch facility and holds an FAA Commercial Space Transportation license
- Kodiak Island has unparalleled access to the southern sky and poses a very low risk to public safety

Current Launch Vehicles

- Minotaur IV & Taurus XL (Orbital)
- Athena I and II (Lockheed)

Future Launch Vehicles

- Antares (Orbital)
- Athena III (Lockheed)

Mr. Greby clarified that the definition of aerospace did not include anything to do with airplanes, airports, or the airlines. He made a correction to the slide that AAC employed approximately 35 personnel rather than 50.

[3:17:46 PM](#)

Mr. Greby advanced to slide 20: "Alaska Aerospace Corporation - FY2015 Budget Changes":

- New Launch Contract
- New Global Imaging Services Contract
- \$2 Million Reduction of General Funds
- Deleted 3 Vacant PCNs (Program Analyst, Acct Tech, Watchman/Guard)
- Deferred Maintenance

Mr. Greby indicated that AAC's budget request in FY 15 was approximately \$6 million in GF. In FY 15 the corporation received and executed a launch contract. He reported that the initial launch went fine, although the customer flight did not go as well. Also, in FY 15 AAC became the sole distributor of satellite produced products of Alaska data upon the execution of a new Global Imaging Services contract. He added that AAC reduced its GF by \$2 million from the prior year, deleted 3 vacant positions, and planned to use deferred maintenance monies received in 2015.

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Mr. Greby reported on slide 21: "Alaska Aerospace Corporation - FY2016 Budget Highlights":

- Complete Damaged Facilities Rebuild
- Secure Additional Launch Contract
- Receive Federal Operations and Sustainment Funding
- Initiate Imaging Data Satellite Downlink Services
- Expand Launch Services Market
- Eliminate State Operations and Sustainment, and Deferred Maintenance Funding
- Position AAC to Become Independent of Future State Funding Needs

Mr. Greby reported that deconstruction was currently taking place. He elaborated that only insurance funds were being used to rebuild the damaged launch facility. He emphasized that state monies were not in any way being used for the rebuild. The facility was being reconstructed to the pre-mission condition and nothing further. He reported that AAC was working to secure an additional launch contract. He mentioned that AAC was on contract with another launch, but it had not been funded to date. The original contract specified that AAC would be able to launch again within 12 months.

Mr. Greby detailed that the Alaska Aerospace Corporation was in the process of obtaining federal operations and sustainment funding. The original request was in the amount of \$10 million but was decreased to \$7 million in committee then further reduced to \$6 million divided between all orbital launch sites that support the United States Department of Defense launches. There were only 2 launch sites that qualified, the Aerospace Corporation site and the Wallops Island launch in Virginia. Alaska Aerospace Corporation would be receiving about \$3 million.

Mr. Greby continued to review FY 16 budget highlights. He stated that AAC would be initiating imaging data satellite downlink services. Currently AAC received its data from an imaging company, but would be downloading and downlinking directly from the satellite. He conveyed that AAC was reaching out to a much larger market to expand its launch services.

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Representative Gara referred to page 20 regarding the new launch contract. He wondered about any remaining launches falling under the contract. Mr. Greby responded that AAC's contract was for a launch and required that the site be ready for another launch in twelve months.

Representative Gara asked if there was a commitment for a launch in twelve months. Mr. Greby confirmed that AAC had a commitment for a launch. However, the launch was not presently federally funded.

Representative Gara asked about securing an additional launch contract highlighted on slide 21. He wanted to know if a launch contract had been secured. Mr. Greby clarified that an additional launch contract had not been secured yet.

Representative Gara wondered about potential revenues from the new Global Imaging Services Contract. Mr. Greby clarified whether Representative Gara was asking about the line item on slide 21:

- Initiate Imaging Data Satellite Downlink Services

Representative Gara clarified that he was referring to a line item on slide 20:

- New Global Imaging Services Contract

Mr. Greby explained that there was no any infrastructure associated with the contract. He emphasized that the contract was purely a means to generate revenue.

Representative Gara asked about the cost of the contract and the estimated revenue potential that AAC stood to generate from the contract. Mr. Greby stated that he would be happy to provide the committee with the numbers Representative Gara was requesting.

Co-Chair Thompson mentioned that he was aware of a meeting scheduled the following week in which Mr. Campbell and/or Mr. Greby would be presenting a business plan to the committee. He suggested Mr. Greby provide the committee with the requested numbers at that time. Mr. Greby agreed that AAC could provide numbers to the committee. Also, he

stated that Mr. Campbell would be meeting with the governor in the following week. Co-Chair Thompson confirmed that he would also be meeting with Mr. Campbell.

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Vice-Chair Saddler asked about economic diversification. He wanted to know about the economic ripple effects of having a medium launch facility operating in Alaska. He specifically asked Mr. Greby to identify ripple effects for the University and for private businesses. Mr. Greby responded that medium lift was the new market for the majority of new satellite launches. Alaska was positioned to accommodate new constellations of satellites that had to go into polar, sun-synchronous types of orbits only reachable out of a United States launch site. The Kodiak Island and the Vandenberg Air Force Base launch sites were the only qualified locations. He relayed that the governor's order halted AAC's progress transitioning to medium lift status.

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Representative Kawasaki wanted further clarification regarding securing an additional launch contract in FY 16. He asked if it was in addition to the multi-year, multi-contract launch secured in the previous year. Mr. Greby responded in the affirmative. He specified that the additional launch contract was in addition to the multi-year contract.

Co-Chair Thompson asked if it was true that the governor had put everything on hold and was not presently moving forward.

Mr. Greby responded that AAC was not moving forward on medium lift but was advancing on the current launch capabilities on the current launch site in the existing configuration.

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

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

Co-Chair Thompson thanked the presenters and reviewed the schedule for the following day.

#

ADJOURNMENT

3:29:31 PM

The meeting was adjourned at 3:29 p.m.