

HOUSE FINANCE COMMITTEE
February 11, 2015
1:33 p.m.

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CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 1:33 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

Pat Pitney, Director, Office of Management and Budget,
Office of the Governor.

SUMMARY

HB 71 BUDGET: CAPITAL

HB 71 was HEARD and HELD in committee for further consideration.

#hb71

HOUSE BILL NO. 71

"An Act making appropriations, including capital appropriations and other appropriations; making

appropriations to capitalize funds; and providing for an effective date."

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PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, addressed capital project summaries for all departments printed in green (copy on file). She explained that the packet only included items added by the administration as amendments to HB 71.

Co-Chair Thompson asked members to hold questions until the end of the presentation.

Ms. Pitney began with a \$3 million deferred maintenance, renewal, repair, and equipment increment for the Department of Administration on page 1. The increment included projects for the Public Building Fund (PBF). The packet encompassed four deferred maintenance, renewal, and replacement projects. She detailed that deferred maintenance requests were significantly less than in prior years. The administration aimed to keep providing a small amount of money for deferred maintenance. She highlighted a listing of projects the \$3 million increment would fund on page 3. She turned to a \$15 million request for the Alaska Energy Authority (AEA) Renewable Energy Fund on page 4. She explained that the Renewable Energy Fund had been capitalized in the operating budget. The increment would provide the capital project authority to use the fund for the Renewable Energy Grant Recommendation Program. The funding was smaller than it had been in the past; the projects included had a good return on investment going forward.

Ms. Pitney moved to a reappropriation to the Alternative Energy and Energy Efficiency Programs on page 6. She noted that pages 9 and 11 included additional reappropriations from the same project (Mount Spurr Geothermal Project). The project had stalled for various reasons, primarily because the cost relative to the benefit made it less feasible for the private company that had been moving the project forward. The reappropriation on page 6 was \$2.2 million through AEA.

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Ms. Pitney addressed a \$1.070 million increment for a Kake Rural Power System Upgrade Project on page 8. The increment would allow a few of the rural power system projects to continue forward. Page 9 included the Port Heiden Rural Power System Upgrade Project that was not to exceed \$4 million (funded by the same reappropriation from Mount Spurr). Page 10 included the Tuluksak Bulk Fuel Upgrade, which was not to exceed \$3.9 million (also funded by the Mount Spurr project reappropriation). The last AEA reappropriation from the Mount Spurr project was for the Electrical Emergencies Program in the amount of \$330,000. Page 13 included a reappropriation of \$10 million with a net increase of \$3.4 million for projects related to the Education Deferred Maintenance Fund. She relayed that the project was one of the four deferred maintenance components in the package.

Ms. Pitney remarked on page 15 that included a continuation of school deferred maintenance projects. Page 17 included a \$500,000 shooting range deferred maintenance request for the Department of Natural Resources (DNR); \$375,000 was federally funded and \$125,000 was funded with fish and game receipts. Page 19 included a small amount of funding for Alaska's Arctic Policy leadership to take advantage of the U.S. chairmanship of the Arctic Council that began in the present year and continued into the following year. She relayed that there was a short timeframe in which to take advantage of the council chairmanship. She stated that the goal was to put Alaska's policy priorities at the top of the agenda for the U.S. chairmanship in conjunction with the legislative Arctic Policy Commission that had done excellent work in the past several years to help develop policies.

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Ms. Pitney advanced to page 21 that included a reappropriation for the Alaska Vocational Technical Center (AVTEC) information technology systems and equipment. She detailed that there was an unexpended balance of \$530,000 from a dormitory replacement. Page 23 included a DNR request for \$1 million from the Exxon Valdez Oil Spill Trustee Council. Funds would be used to purchase a subsurface estate and occupancy agreement for Northern Afognak Island. Page 25 included funding in the amount of \$800,000 (\$400,000 general funds and a \$400,000 federal match) to implement and populate a statewide energy

database. The database would help with development and would take advantage of the federal matching funds. Page 28 included a \$500,000 request from DNR to upgrade and repair existing volcano monitoring equipment. The equipment would be used for volcanic activity and to alert flights from flying through nearby airspace in the event of an eruption.

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Ms. Pitney addressed page 31 that included a reappropriation of \$1 million from DNR shale oil environmental data to DNR unified permit automation and document management. She communicated that the project had been in existence for several years. The status and progress was shown on pages 31 through 34. She turned to an \$850,000 request from the Department of Public Safety (DPS) for the Alaska Domestic Violence and Sexual Assault Intervention Program to be funded by the Permanent Fund Dividend Criminal Fund. Page 36 included a \$2 million DPS increment for rental assistance for victims funded with the Permanent Fund Dividend Criminal Fund. Page 38 contained a \$350,000 reappropriation from DPS video arraignments to trooper video equipment and storage.

Ms. Pitney turned to a \$4.6 million request from the Alaska Housing Finance Corporation (AHFC) Dividend Program for two housing programs (page 40). She detailed that \$3.6 million would fund the AHFC Teacher, Health Professional, and Public Safety Housing Program. The remaining \$1 million would go to housing for Village Public Safety Officers (VPSO)(detail was included on page 45). The amount was slightly reduced from the past several years. Page 47 included an \$11.1 million increment for AHFC energy programs; the amount was significantly below prior year requests. The item proposed the use of several funding sources including \$3 million from AHFC dividends, \$1.5 million in federal receipts, and \$6.6 million in general funds. She relayed that the funds would keep two programs moving. First, the AHFC Weatherization Program was detailed on page 49. Second, the AHFC Home Energy Rebate Program was detailed on page 51. She noted that both requests were significantly smaller than in prior years. She added that prior year funding would continue as well, which would keep the programs robust in the upcoming fiscal year. However, a similar low investment would change the nature of the program in a future fiscal year.

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Ms. Pitney advanced to an increment on page 54 for the AHFC Cold Climate Housing Research Center. She noted that the program had previously been called Energy Efficiency Monitoring; the appropriation was similar to past years. She addressed a Department of Transportation and Public Facilities (DOT) request on page 56 in the amount of \$29.6 million for fleet replacement. Funding was made up of \$5 million in Capital Improvement Project Receipts and \$24.6 million in Highway Capital Funds (a DOT fund that allowed for replacement of various heavy equipment and vehicles that had reached the end of their useful lifecycle).

She turned to page 60 that included an \$8 million deferred maintenance request from DOT; the increment was significantly lower than prior year appropriations. The funding would allow for the continuation of the program at a limited basis. Page 61 included a \$12 million reappropriation for the Alaska Marine Highway System (AMHS) annual maintenance program. Funds would be appropriated out of a \$22 million increment funded to the Alaska Aerospace Corporation for construction of a medium lift launch pad in 2012. She detailed that the maintenance program had traditionally been funded in the capital budget. She noted that the items could easily be separated; there could be a repeal of the \$22 million and a \$12 million request could be made for AMHS. She stated that the important thing was that the annual maintenance get done.

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Ms. Pitney addressed page 64 that included an \$8 million increment for another year of work on the University of Alaska Fairbanks (UAF) engineer building. The total funding needed to finish the building was \$31.3 million. She explained that the walls and floors had been installed. She remarked that the project funding had been piecemealed over the past several years. The final request was an \$8 million increment for University of Alaska deferred maintenance (page 65). She relayed that the increment was small relative to prior years; funds would keep the program moving, but at a limited basis.

Representative Kawasaki recalled that the committee had been told the prior year that if all of the money was not put into the UAF engineering building that construction would stop in April 2015. He wondered about the total cost

to finish the building if it was completed in one year and what \$8 million would achieve.

Ms. Pitney replied that the total amount needed was \$31.3 million. She shared that \$8 million would pay to complete the floor with labs; the goal was to achieve usable space.

Co-Chair Thompson believed the increment included funding to connect the facility with another building. Ms. Pitney replied that the new building had connected the old engineering building and the business building. She noted that the entryway that connected the two buildings was part of getting the building walls up.

Representative Kawasaki wondered if the \$31.3 million represented current dollars. He asked what it would cost in the future if the full amount was not appropriated. Ms. Pitney replied that \$31.3 million was slightly above what it would have cost if the project had been funded in full the prior year (between \$2.5 million to \$3 million). Every month the project was delayed represented an additional cost.

Representative Kawasaki asked for verification that the added cost was \$2 million to \$3 million. Ms. Pitney responded in the affirmative. Representative Kawasaki asked if the increases would occur annually. Ms. Pitney replied that the increases would be less each year because the unfunded total would be reduced.

Representative Gara believed there was usually \$9 million or \$10 million for homeless shelters in the capital budget. He noted that the funds also leveraged federal funds. He asked where the funds were.

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Ms. Pitney answered that the absence of the funds related to an unintended consequence of a stripped down capital budget. The administration intended to address the item in the near-term.

Representative Gara pointed to the reappropriation of \$12 million to AMHS from \$22 million previously designated for the Alaska Aerospace Corporation (page 61). He wondered what the remaining \$10 million would be used for. Ms.

Pitney directed attention to page 13 [funding would go to school district major maintenance grants].

Representative Wilson remarked that several of the projects listed on page 13 had already been completed. She wondered if it was normal to pay back a school district after it had done a capital project. She could not remember a time when that had happened; it had never occurred in Fairbanks.

Ms. Pitney would get back to the committee with an answer.

Representative Wilson referred to the increment on page 19 for the governor's advisor on the Arctic. She thought the \$500,000 increment appeared to be an operating expense. She wondered why the increment was included in the capital budget instead of the operating budget.

Ms. Pitney responded that the request was a one-time increment to take advantage of the U.S. Arctic chairmanship. She stated that the decision to include the item in the capital budget had been a choice; it could have been in the operating budget as well. She would be happy to have the increment included in either budget.

Representative Wilson believed the increment would be more appropriate in the operating budget. She looked at a reappropriation for troopers on page 38. She wondered if there were sufficient funds in the budget to maintain the equipment. She wondered if the maintenance funds were in the current operating budget.

Ms. Pitney replied that the concept of equipment and information technology refresh was a constant struggle with agencies. Choosing to have upgraded equipment had to be balanced with the knowledge that the equipment would require replacement and server support. The hope was that upgraded equipment would reduce other costs, but it was a constant struggle and balance that would be weighed against other operating obligations. The use of a reappropriation was due to a lack in operating funds. She added that operating reductions in all agencies would necessitate moving to reappropriations for upgrades in the future.

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Representative Wilson asked if the increment was for an upgrade or for new equipment for troopers who did not

currently have it. Ms. Pitney replied that the increment would fund new equipment to replace a slightly different technology that was currently used by the agency.

Representative Wilson believed that in the past the state had been guilty of purchasing items or constructing buildings without considering how to pay for future maintenance.

Representative Pruitt also remarked on the increment on page 38. He cited language in the project description that current in-car video systems were limited, antiquated, and failing at an increasing rate. He wondered if the \$350,000 was sufficient for the purchase of the in-car systems, body cameras, and storage of the data. He observed that several data storage servers would be repurposed, but he wondered if it would be enough. He wondered if there would be requests in the future to continue funding the technology.

Ms. Pitney would have DPS follow up with more detail. She reiterated that keeping up with increased technology demands while reducing agency operating budgets was always going to be a struggle. She confirmed that there would be additional equipment and storage requests in the future either as a separate request or in the form of a reduction to another area in the DPS trooper budget. The item represented a new operating need that was more efficient than past practices.

Representative Pruitt noted that the increment was only for troopers. He wondered if there had been similar requests from local police departments. If so, he wondered why every police department would have its own server or if they would utilize the state's servers. He asked about costs to the state associated with facilitating the service. He asked Ms. Pitney to pass the question on to DPS. He moved to page 23 related to a purchase of the Afognak Island surface estate. He noted that Parks and Recreation had done a phenomenal job on limiting costs to them by raising their fees. He wondered if the state was required to fund the associated costs. He believed it was a larger discussion about how many times something was purchased and then given to the state, leaving the state responsible for facilitating payment. He noted that the practice occurred quite a bit. He wondered about the overall costs to the state.

Ms. Pitney would follow up on the question.

Vice-Chair Saddler turned to a renewable energy grant program on page 4. He referred to Ms. Pitney's testimony that the return on investment was high. He wondered what the return had been for the program. He asked about the program's success in generating power for Alaskans.

Ms. Pitney answered that she would follow up with the committee. She did not know if the data was available for the program as a whole, but there was significant information available at an individual project level.

Co-Chair Thompson asked for the information to be provided to his office for distribution to committee members. Ms. Pitney replied in the affirmative.

Vice-Chair Saddler remarked that the goal of renewable energy was positive. However, he surmised that locating heating efficiencies and providing AHFC weatherization may provide a more direct application of limited funds. He appreciated any information Ms. Pitney could provide.

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Representative Kawasaki looked at a \$400,000 request with a \$400,000 federal match on page 25 for a statewide Cook Inlet energy database. He observed that the project date went through 2020. He wondered whether there would be funding over the upcoming five years or if the increment would be spread out over the time period.

Ms. Pitney would get back to the committee with an answer.

Representative Kawasaki referred to page 25 and noted that positions were listed as existing. He wondered if the cost was further reflected in the DNR budget. Ms. Pitney answered in the affirmative. She elaborated that the fund source would pay for the expertise of the particular positions within DNR. She noted that if no project existed necessitating the expertise it would require a reduction in staffing.

Representative Kawasaki referred to the energy weatherization and rebate programs. He commented that the state was fortunate to invest \$300 million into the programs in 2008 or 2009. He noted that the number had

subsequently been whittled down in the following years. He wondered what the total encumbrance was for the current year. He wondered about the difference in the anticipated funding versus actual funding in the current budget. Ms. Pitney replied that there were balances in both programs from prior years. The relatively small increments requested would continue the programs at a similar level to prior years; however, the funds would be spent out in the coming year. She detailed that either the programs would be much smaller in FY 17 if funds were not increased or a policy decision would be required to reinstate funds at the traditional level. The administration's recommendation was to limit the funding to allow the programs to run at their current level and to make a conscious decision about their level of continuation in the FY 17 budget.

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Representative Wilson referred to the renewable energy project grants. She relayed that she had heard concerns that the state was competing with private business using state funds. She asked if the state used a system to ensure that it was not competing with entities that were privately funding energy projects. Ms. Pitney replied that she would follow up on the question.

Co-Chair Neuman thought there had been \$10 million appropriated into the capital budget to mitigate unforeseen issues. Ms. Pitney replied that the line item was included in the operating budget; it had been requested to provide flexibility to cover items that may have been trimmed too far.

Co-Chair Neuman asked where the money had come from. Ms. Pitney replied that the total operating and capital budget allocation was \$5.5 billion in unrestricted general funds; \$2.2 billion would come from general revenue based on \$66/bbl oil. The remaining \$3.5 billion would come from reserves.

Co-Chair Neuman restated his question. He agreed that there should be some funds available to cover unforeseen items. He wondered if the increment came from a prior capital project fund. Ms. Pitney replied that no reappropriations had been made in the operating budget.

Vice-Chair Saddler spoke to the \$2 million increment for transitional housing for victims of domestic violence and sexual assault (page 36). He observed that there were a wide range of state funded programs offering assistance for housing. He wondered if the \$2 million increment represented a small or large portion of the overall housing assistance funding. Ms. Pitney answered that the \$2 million increment was the only housing assistance request that focused on victims of violent crimes and sexual assault. There were additional housing assistance requests for teachers, VPSOs, and troopers. She communicated that in prior years there had been a homeless assistance grant. She relayed that the administration intended to offer a budget amendment to repair the unanticipated reduction. The operating budget included different assistance programs related to public assistance and behavioral health. She did not have the detail on hand.

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Vice-Chair Saddler wondered if individuals were prevented from utilizing more than one of the housing assistance programs. He observed that the program for victims of domestic violence and sexual assault was limited to 36 months. He wanted to prevent "double dipping" or excess capacity.

Ms. Pitney replied that the question provided an excellent opportunity for her office to provide a matrix of the time limits and eligibility requirements.

Representative Guttenberg pointed to page 13 related to school district major maintenance grants. He wondered if the request included the summation of the four projects listed. Ms. Pitney guessed there were over 50 on the list; the page included the top 4 projects. Representative Guttenberg asked for verification that the increment only pertained to the 4 projects listed. Ms. Pitney replied in the affirmative.

Vice-Chair Saddler looked at page 47 for the AHFC energy programs. He noted that past appropriations had been as little as \$2.6 million and as high as \$51 million. He observed that the administration projected an annual need for \$50 million for a period of five years. He believed the cost was high. He wondered if there were other programs in

the capital or operating budgets that may help reduce the need for energy assistance.

Ms. Pitney replied that it was not the intent of the administration to provide annual \$50 million appropriations. She communicated that the office would revise the information.

Representative Edgmon spoke to the weatherization and home energy rebate programs. He believed funding for the programs would carry out until the end of FY 15. He thought there was \$29 million in the weatherization program and less for the home energy rebate program. He surmised that the amount proposed in the governor's budget was a small amount of what would be ideal to keep particularly the weatherization program going forward. He relayed that the program had been very successful in rural Alaska because it provided jobs, sealed up individual homes, and provided 30 to 40 percent cost savings. He stated that \$8.1 million in the weatherization program going forward barely kept the program alive. He would like to see funds of \$100 million per year because only 10 to 12 percent of Alaska homes had been weatherized. He mentioned his membership on the advisory committee to the renewable energy grant program. He stated that the screening process was rigorous; he had never heard of any projects being in direct competition with a private entity. He spoke in support of the programs and appreciated that the governor kept some funds in the budget.

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Co-Chair Thompson referenced Representative Kawasaki's earlier questions. He discussed that the previous year he had looked at fund balances; the home energy rebate had been looked at as a potential place to save money. He stated that in actuality the money was there, but a significant number of people had applied for the program. He detailed that applicants had up to 18 months to do the repairs and could receive up to \$10,000 depending on how much work was done and the energy star rating they achieved. He explained that funds needed to be kept in reserve to pay the money out over time.

Representative Wilson pointed to the AHFC Cold Climate Housing Research Center increment on page 54. She believed the increment looked like an operating cost and observed

that the funding was projected through FY 21. She wondered why it was not part of the regular AHFC budget. Ms. Pitney would double check on the increment.

Co-Chair Thompson noted that AHFC used the research center more than anyone else in the state. He added that there was statewide use.

Representative Guttenberg surmised that part of the problem was that the state was paying for projects and not operations.

Vice-Chair Saddler pointed a \$12 million reappropriation from the Alaska Aerospace Corporation to AMHS on page 61. He wondered if there was an annual appropriation in the operating budget for overhauls for AMHS vessels. He wondered if the \$12 million reappropriation to AMHS meant there was \$12 million "being squeezed into some other expenditure else place."

Ms. Pitney replied that the increment was a traditional capital budget item, but DOT viewed the need as operating. She detailed that the \$12 million went to the everyday maintenance conducted to keep ships in good working order. She relayed that DOT would be happy with the increment in operating budget, but it had traditionally been in the capital budget.

Vice-Chair Saddler surmised that the reappropriation [from the Alaska Aerospace Corporation] just happened to be where the administration had located the funding for the FY 16 budget.

Ms. Pitney replied in the affirmative. She added that there was some interest to leave the increment as a capital budget item, but the administration's primary interest was to ensure the funding was provided in the budget somewhere.

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Representative Gara asked if the funding had traditionally been \$12 million per year. Ms. Pitney pointed historical funding listed on page 61. The annual payment the prior year had been \$12 million, whereas it had been \$10 million the two years before, and \$15 million the year before that.

Representative Gara surmised that if the figure changed annually it indicated that DOT was measuring the amount of funds needed instead of asking for a fixed amount each year.

Co-Chair Thompson would ask the question during a DOT House Finance Subcommittee meeting. He asked members to provide further questions for the administration to his office.

HB 71 was HEARD and HELD in committee for further consideration.

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

ADJOURNMENT

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The meeting was adjourned at 2:28 p.m.