

HOUSE FINANCE COMMITTEE
January 29, 2016
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 Dan Saddler, Vice-Chair
Representative Bryce Edgmon
Representative Les Gara
Representative Lynn Gattis
Representative Scott Kawasaki
Representative Cathy Munoz
Representative Lance Pruitt
Representative Tammie Wilson

MEMBERS ABSENT

Representative Steve Thompson, Co-Chair
Representative David Guttenberg

ALSO PRESENT

Larry Hartig, Commissioner, Department of Environmental Conservation; Thomas Cherian, Director, Division of Administrative Services, Department of Environmental Conservation; Heidi Drygas, Commissioner, Department of Labor and Workforce Development; Paloma Harbour, Director, Division of Administrative Services, Department of Labor and Workforce Development; Representative Cathy Tilton.

SUMMARY

FY 17 Budget Overviews:

Department of Environmental Conservation
Department of Labor and Workforce Development

Co-Chair Neuman discussed the meeting agenda.

^FY 17 BUDGET OVERVIEW: DEPARTMENT OF ENVIRONMENTAL CONSERVATION

1:33:00 PM

LARRY HARTIG, COMMISSIONER, DEPARTMENT OF ENVIRONMENTAL CONSERVATION (DEC), provided a PowerPoint presentation titled "Department of Environmental Conservation, House Finance Committee" dated January 29, 2016 (copy on file).

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

Commissioner Hartig highlighted that DEC's mission was to protect human health and the environment (slide 2); the department saw the two items as inextricably linked. He addressed outcomes the department was aiming for (slide 3):

- Clean water, healthy air, and good management of hazardous materials and waste
- Safe drinking water and sanitary waste disposal
- Food safe to eat
- Low risk of spills and efficient, effective response when spills occur
- Wise resource development for a growing state

Commissioner Hartig elaborated on slide 3. He detailed that outcomes ensured safe drinking water without worry about things like lead contamination that had occurred in Flint, Michigan. He furthered that outcomes also meant residents could put their garbage out without being concerned about where it would go and could drive to work without worry about air quality. He noted that there was significant work that happened behind the scenes that DEC and others did to ensure the items were provided. He addressed slide 4 titled "Means":

- Science-based standards
- Permits and authorizations incorporating these standards
- Monitoring, outreach, compliance assistance, and enforcement
- Emergency response and oversight of spill clean-up
- Meaningful and effective public processes for developing standards and permits

- Technical assistance, grants, and loans to communities for drinking water and wastewater infrastructure

Commissioner Hartig elaborated on the topic of monitoring on slide 4. He provided a recent example about the excess arsenic in the Talkeetna water system. He explained that the issue was brought to DEC's attention immediately due to regular reports provided to the department. The department had samples tested and was able to alert communities if numbers were higher than normal. The department then worked with communities to correct the problem and notified the public if there was a delay resolving the issue. He added it happened with some regularity. He spoke to emergency response provided by the department. For example, DEC had recently responded to a truck spill containing some hazardous chemicals. He continued addressing slide 4 and relayed that DEC managed a couple of loan and grant programs that provided water and sewer to communities statewide. He briefly highlighted an organizational chart on slide 5 that included the commissioner, one deputy commissioner, and five divisions.

Commissioner Hartig addressed the Division of Administration on slide 6. The division was directed by Tom Cherian and provided administrative services, information technology, financial, budget, procurement, and building management. The division also housed the Environmental Crime Unit; the unit employed two staff and was independent of the commissioner's office and of the programs - it operated across the programs with independence. He explained that the unit met with the commissioner and division director at least once a month to go over the status of all of its cases; the commissioner and director could provide direction if they chose to.

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Commissioner Hartig discussed the Division of Environmental Health on slide 7. He relayed that it was the department's largest division and was currently without a director. He noted that the prior director had retired the past summer; the department was in the process of revisiting all of the work done by the division to determine if some efficiencies and consolidation could occur. The division included food safety and sanitation, laboratory services (including the environmental health lab where the state veterinarian

resided), public drinking water systems (e.g. oversight of the Talkeetna water plant he referred to earlier), and solid waste management (landfills for communities statewide).

Commissioner Hartig addressed that the Division of Air Quality was the department's smallest division (slide 8). A federally delegated program issued Clean Air Act construction and operating permits in the state. He explained that the program had run for over 30 years by a very experienced group. He shared that earlier in the day he had been involved in an exercise reviewing the state's air quality permitting program; the consultant had communicated that the department may see a 15 percent improvement resulting from some changes it was considering. The consultant had communicated that typically the improvement was closer to 50 to 80 percent; however, the state's program was already operating very efficiently. He noted that although the division was small, it was very effective. The division also did a fair amount of community work, particularly related to transportation. He mentioned Anchorage and Fairbanks and explained that the department received some funding through the Department of Transportation and Public Facilities to work with local communities on transportation plans to ensure the plans did not impact air quality in negative ways. The division also did some limited air monitoring around the state, primarily for Environmental Protection Act (EPA) requirements and for forest fires. He elaborated that DEC supported the Department of Natural Resources and other agencies in air monitoring and issuing air alerts relating to human health concerns associated with forest fires.

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Commissioner Hartig moved on to discuss the Division of Spill Prevention and Response (SPAR) directed by Kristin Ryan (slide 9). He highlighted that the division had consolidated several of its programs over the past couple of years and had been working towards efficiencies. The division provided spill prevention and response, a contaminated sites cleanup program, and administered the Response Fund. He detailed that the fund had previously been funded by a \$0.05 per barrel surcharge on crude oil, but 2015 legislation had included 0.95 percent surcharge on refined products as well.

Commissioner Hartig addressed the Division of Water directed by Michelle Hale (slide 10). The division contained two parts, the first involved setting water quality standards and incorporating the standards into permits. He expounded that the division included the federally delegated Alaska Pollution and Discharge Elimination System program, which was based on the federal Clean Water Act. The second part of the division focused on facility construction that made loans and grants to communities of all sizes in order to fund water and sewer work. Facility construction included the Village Safe Water Program for communities of 1,000 or fewer residents (75 percent of the money was federal with a 25 percent state match from the capital budget) and the Municipal Grants and Loan Program that provided state funds (with a local match depending on the community size). He noted that the department was not requesting any new money, but it was requesting a reappropriation of some leftover funding from completed projects. He explained that states had been receiving federal money annually for many years to loan to their communities at favorable rates (the fund source was a large percentage of funds for water and sewer plants nationwide). He furthered that a portion of the amount was required to be forgiven under federal law; therefore, each year the department requested a small capital request for the forgiveness portion. He spoke to the shrinking Municipal Grant and Loan program, which had caused the department to consider whether there would be a gap in funding for communities if the funding was no longer available in the future. The department was working to determine whether the existing revolving loan fund program would be sufficient to cover all needs throughout the state or whether a gap would occur.

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Commissioner Hartig addressed the department's FY 17 budget request on slide 11. The department budget was approximately \$84 million, which included \$17.7 million Unrestricted General Fund (UGF) - based on UGF funding DEC was the smallest of the state's departments. A pie chart on slide 11 showed the various fund sources including 28 percent federal receipts, 19 percent of the allocated Designated General Funds went to the Response Fund (funding derived from the \$0.05 surcharge on crude oil production and \$0.95 [\$0.0095] per barrel on refined products, which was projected to bring in about \$7.2 million) [an

additional 15 percent DGF went to other purposes], and UGF accounted for 21 percent of the DEC request.

Commissioner Hartig moved to slide 12 titled "FY 2017 Budget Request by Division." He stressed the importance of the information and addressed the cuts the state was facing. The chart helped identify where UGF was allocated within the department. He began with SPAR and relayed that if the legislature accepted the governor's proposed FY 17 operating budget there would be no UGF remaining in the division. He noted that currently there was about \$400,000 UGF remaining in the division, which was the last bit of UGF funding going towards the department's Pipeline Corrosion and Integrity Program that had been established in 2006. He furthered that the Response Fund was now sustainable and the department was proposing using the remaining UGF to fund the three corrosion engineers.

Commissioner Hartig referred to the bar representing the Air Quality Division, which used a small amount of UGF. He explained that the division was small in size and its largest function was issuing permits under the federal Clean Air Act, which required the program to be "fee-supported." He elaborated that it was possible because the permittees were larger facilities with the capacity to pay larger permit fees (the method would not work in other programs, which would require UGF subsidy). He continued that the UGF in the Air Quality program was essentially federal match money; it was the minimum needed to run the division including a permitting program, bring in federal funds, and collect fees associated with the permits. He stated that it would be difficult to reduce any more UGF in the Air Quality Division. He relayed that they had really leaned the division down to drive it towards efficiencies.

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Commissioner Hartig continued to address slide 12. He spoke to the UGF component of the Division of Administration, which was similar to any other government division including information technology and procurement. The remaining divisions with UGF available for consideration (total requested UGF was \$17.7 million for FY 17) were the Division of Environmental Health and Division of Air Quality. He moved to slide 13 titled "Budget Reduction Criteria." He shared that the budget reduction scenario had begun in 2014 at DEC; the department had started looking at

the declining oil production at that time because it was impacting SPAR. He reminded the committee that SPAR was largely funded by the prevention account, which in 2014 had only been funded by a 5 percent surcharge on crude oil production. He detailed that as crude oil production had declined, the division saw its funding source disappearing. He elaborated that the division had given up about \$500,000 in DGF (the prevention account) in order to lower its draw on the prevention account and extend the funds. The department had started developing criteria to determine how to approach additional cuts in a systematic and thoughtful way (slide 13) and had started discussing the criteria with its House Finance subcommittee in 2015. The criteria focused on preserving core services that could not be undertaken by the federal government or other agency. The criteria also considered functions the state had a long-term investment in that would not be retrieved if they were given up. He considered the department's large permitting programs like the air permitting program it had for over 30 years and its APDS program. He stated that the federal government was no longer set up to handle the programs and by the time the federal government was able to take on the work in 5 to 10 years, the state would have lost all of its experience in the areas. He reasoned that if the state decided it wanted the programs back it would be close to 20 years before it would get them.

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Commissioner Hartig addressed existing budget conditions on slide 14. He reiterated his earlier testimony that the department had started tightening the SPAR budget in 2014. The department had taken a \$1.4 million reduction in its Division of Water. He detailed that the state had been looking at taking the Clean Water Act 404 program, but the legislature had decided not to continue the effort, which meant giving up 5 positions and \$1.4 million in FY 15. Additionally, there had been much higher vacancy rates in the Division of Water and SPAR where the department knew there would be reductions. Rather than continuing to fill positions as they became vacant, the department had left the positions open, knowing that they would not be able to afford them in the near future, which allowed them to not lay off employees. He had heard discussions that the reductions were not real because employees had not been let go. He explained that the department had started holding

the positions vacant to prevent having to fire employees; it provided more flexibility in managing the situation.

Commissioner Hartig continued to address existing budget conditions on slide 14. He highlighted that cuts mandated by the legislature began in FY 16; the department had reduced UGF by 10.6 percent. The department's FY 17 proposal would reduce UGF by another 11.8 percent. He relayed that factoring in cuts to UGF and DGF the department's budget had been reduced by approximately 25 percent. In addition to cuts passed by the legislature in FY 16, DEC could not sustain its 10 authorized positions in the Division of Water and had given them up through the management plan. He noted that there had also been an unallocated cut in 2016 that the department had to absorb, which had added to the fair number of cuts.

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Commissioner Hartig turned to slide 15 and discussed budget reduction strategies. The proposed budget would reduce UGF by another 11.8 percent. In addition to cuts, DEC was continually looking at efficiencies and reorganization; it was consolidating some programs and eliminating a small program in the FY 17 budget. The department was looking at combining lease space, which would likely not occur until FY 18. He relayed that the department had two statutes authorizing it to collect fees for services. He elaborated that the department was only allowed to recoup some of its direct costs, but not its indirect costs. Additionally, there were subsidies required for certain smaller companies (e.g. DEC could not charge the companies for travel out to their facility and other). He explained that the department's look at fees was within its statutory confines; it was not free to just increase fees on people. Any change had to be done through a fee study. He detailed that as stipulated in statute, periodically the department was allowed to revisit its fees and to consider increasing them to cover more of its direct costs. The Division of Administrative Services looked through all of the data to determine whether there was a justification to increase the fee; if the answer was yes, the department went through a regulatory process notifying the public and set the increase by regulation. The process had just concluded in the Division of Air Quality and DEC was looking at implementing a fairly modest fee increase that would begin

with the next fiscal year. He added that DEC was just beginning fee studies in water and food safety programs.

Commissioner Hartig briefly highlighted that the department planned to continue along the same path in FY 18 and would continue looking for efficiencies and consolidations (i.e. consolidations to leases and other) in an effort to reduce its UGF draw.

He turned to slide 16 and addressed a summary of FY 17 reductions. He pointed to the elimination of a shared office assistant position and reduction in administrative services in the department's Fairbanks office. The second reduction was in Laboratory Services at the Tudor Road lab in Anchorage, which would replace UGF with increased fee revenue. The third reduction was in the Air Quality Division; the department was reclassifying an environmental program specialist position as a chemist, which was a lower paid position. Additionally, it was looking at moving the work of several retirees to lower paid positions.

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Commissioner Hartig addressed slide 17 and spoke to a fund source change in SPAR to the prevention account. Two corrosion engineers currently funded by UGF, would be moved over to DGF Response Fund money. He spoke to the dissolution of the Technical Services program in Water Quality. He expounded that the program had provided public outreach and had overseen the preparation of new regulation packages for the Water Quality Division and had managed the information technology employees; the services would be absorbed elsewhere in the Division of Water and the positions in the technical service program would be eliminated (6 positions and about \$700,000 UGF). Additionally, there would be a fund source change in Water Quality to program receipts for increased fee revenue to generate increased DGF.

Commissioner Hartig moved to slide 18 and continued to address reductions. He discussed a reduction in the Water Division in Facility Construction, which would be covered with increased fee revenue and federal receipts. He referred to the unallocated cut in FY 16 and FY 17. He explained that originally the department had been waiting on the results of the labor negotiations to determine if it could produce enough savings to absorb the unallocated cut;

however, the timing was not working out and the department had been directed to identify the exact cuts. The cut would amount to the reduction of 4 PCNs [position control numbers] that would be identified in the next month. He briefly highlighted a table showing a summary of FY 17 budget changes. The table indicated a reduction from approximately \$20 million UGF in FY 16 to approximately \$17.7 million in FY 17.

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Commissioner Hartig moved to slide 20 titled "What Alaskans Get for Their Money." The slide illustrated that it would cost state workers \$0.38 per day for services provided by DEC (i.e. clean air to breathe, clean water to drink, safe food to eat, clean land and waters, and responsible resource development); it would cost \$0.17 per day if the state's total population was factored in.

Commissioner Hartig addressed how DEC spent UGF money (slide 21). He detailed that \$5 million was a required state match for federal grants. Additionally, some of the funds went to the environmental health lab, Administrative Services, and the Office of the Commissioner. He elaborated that about half of the UGF went to subsidizing fee-based programs and towards taking care of things like community complaints and working with communities on capacity building. He communicated that some of the department's programs could carry themselves and others could not. He elaborated that some industries were not at a scale that enabled them to support the program to give them the permits they needed to operate.

Commissioner Hartig included a list of the departments federally delegated and not federally required programs. Programs that were not federally required were things that may be handled by the local government in some states such as restaurant inspections. He detailed that Anchorage was the only city doing restaurant inspections; DEC was expected to do inspections in Juneau, Fairbanks, and other locations. He elaborated that it was unusual; in most states the state government was not involved in restaurant inspections. He furthered that rural Alaska did not have capacity to run those types of programs. He explained that when DEC sent an inspector out to Nome to inspect the fish processing plant, the inspector could also look at restaurants, the school, and other food establishments.

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Commissioner Hartig turned to slide 23 titled "DEC Position History." The table showed the department's position history by PCN count from FY 07 to FY 17. He detailed that in FY 17 the number of positions was 518, which was about what it had been 10 years earlier. He directed attention to the significant drop in positions between FY 15 and FY 16. Slide 24 included a summary of unallocated reductions taken in FY 16. The bulk of the reduction was associated with the elimination of two engineer positions in the Pipeline Integrity and Engineering section of SPAR. Other reductions were associated with a fund switch and efficiencies in Administrative Services and the Division of Air Quality.

Commissioner Hartig turned to slide 25 and relayed that the department may submit a FY 16 supplemental budget request because it may receive additional federal Diesel Emissions Reduction Act grant money; the money would flow through DEC to communities for some new diesel generators that were needed. Money coming into the Division of Air Quality was a bit unpredictable. The department was considering asking for an increment for \$250,000 federal authority going forward to be able to absorb the changes. Slide 26 included performance measures. A table at the top of the slide indicated that the department was staying pretty up to date on permits issued. He elaborated that most permits under federal and state law had to be reissued every five years. He explained that it was important because many of the facilities changed their operations in ways that required permit modifications. A table on the bottom of the slide showed village homes served by safe water. He pointed out a dip in the bar [around 2013]. He explained the biggest reason was related to a different way of accounting; therefore, he did not know how real the dip was. Additionally, the department had slowed down taking on new projects while determining if there was a better way of spending the money to make it more sustainable, which had resulted in a pause.

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Co-Chair Neuman noted that Representative Cathy Tilton was present in the room.

Representative Gara spoke to 11 percent cuts in the current year, 10.8 percent the last year, and 5 percent the year before. He wondered what would be left of the agency. He relayed that after the BP oil spill on the North Slope, former Governor Sarah Palin had started a pipeline safety and integrity office with the goal of preventing the occurrence of another spill on the North Slope. He asked how effective the agency had been and how effective it was at the current level of staffing. He queried the current level of staffing compared to its initial level.

Commissioner Hartig replied that in 2006 there had been two pipeline spills on the North Slope from BP's facilities from three-phase pipelines. He detailed that the specific pipelines ran from wellheads to the processing center where the gas and water was removed and oil was prepared for sending to pump station 1 and then on to Valdez. He elaborated that the pipes were older, smaller (not piggable), and it was difficult to observe corrosion. Additionally, the pipes were not regulated by the federal government. At that point there was no state in the country regulating that type of pipeline. Subsequently, DEC had implemented regulations relating to a corrosion program that industry would have to maintain. The legislature also allocated 5 PCNs and about \$600,000 for the pipeline, corrosion, and integrity program. The department had done a risk assessment with some outside consultants, hired 5 engineers, and had developed the inspection program. Over the past few years, as industry had developed its program and DEC did field and records inspection and review of the industry's corrosion maintenance program for the three-phased lines, it started looking like items were being duplicated in some areas. The department had looked at efficiencies and had determined it could let two of the engineers go without hindering the effectiveness of the program. He was comfortable that letting the positions go was not creating more risk. He noted that the program was more about DEC reviewing the industry's program rather than DEC operating a side-by-side program and trying to do field inspections.

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Representative Gara discussed that for the past three years the legislature had heard from Kristin Ryan [director, Division of Spill Prevention and Response] that DEC's food inspection program was not at a level where the public

could feel safe that food inspections were being conducted to prevent illness. He recalled that it had already been at a level that was not particularly safe. He asked for detail on the program at present.

Commissioner Hartig replied that Ms. Ryan had formerly been the environmental health director prior to moving to SPAR. He explained that the statements had been largely based on federal guidelines for the frequency of inspections for high and lower-risk facilities. He explained that Alaska had always been below the federal guideline level. Going back five years or more the department reported to the legislature that the state was behind federal guidelines, but getting to the guideline level would require an additional 30 PCNs, which was unlikely to occur. The department had started looking at whether it could concentrate on the higher risk facilities and to look at other ways to deal with the lower risk facilities. Subsequently, the department had either changed its regulations to exclude regulation of lower risk facilities or it did inspections less frequently. He confirmed that there was more risk to the public than in the past, but the department focused on higher risk facilities. Related to food safety, lower risk facilities included places where there was not much processing of the food (e.g. pre-packaged food from vendors) bake sales, or other places where it would be easy to determine the origin and stop continued contamination if a person became ill. Higher risk facilities included a significant amount of food processing and mass distribution where it was difficult to track who was eating the food and how to fix it if something went wrong. He added that communities could step in to provide oversight in the lower risk situations, but he did not believe they would have the capacity. He concluded that it came down to working on increased public outreach and education on steps they could take to lower food risk.

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Representative Gara wondered if the program was adequately protecting public safety. He wondered what the department was going to inform people of in terms of how to protect themselves.

Commissioner Hartig answered that informing the public on ways to protect itself included basic things like

communicating to keep food cold or warm if needed and washing hands prior to serving food.

Representative Gara asked if the program adequately protected public safety. Commissioner Hartig replied that he would like the program to do more, but he believed the department was doing a good job related to higher risk things. He believed it was important to be vigilant and to keep pushing out information to the public and to rely on the public related to the lower risk situations.

Co-Chair Neuman noted that the state would have to do less in many areas due to less funds.

Representative Pruitt referred to slide 23 related to the department's position history. He referred to the decreased number of positions between FY 15 and FY 16 and asked how many positions had been vacant.

THOMAS CHERIAN, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF ENVIRONMENTAL CONSERVATION, answered that the department had eliminated about 25 positions through the budget process; 15 of the positions had been vacant and 10 had been filled by employees. He relayed that the department had known it would have to lay off staff so it had held a number of positions vacant in order to keep from firing employees.

Representative Pruitt asked for the vacancy percentages in FY 15 and FY 16. Mr. Cherian answered that in FY 15 the department had a 13 to 15 percent vacancy rate; the vacancy rate in FY 16 was slightly over 8 percent. He added that the department's budget contained a built-in vacancy of 7 percent. He relayed that the current vacancy rate was slightly over the budgeted vacancy, but they still had to maintain it to live within the budget.

Representative Pruitt assumed that the vacancy factor for FY 17 was maintained at about 8 percent.

Mr. Cherian answered that the department would have to maintain a vacancy rate of 7 to 8 percent to live within the budget even in FY 17.

Representative Pruitt remarked that the committee kept hearing from the departments that FY 07 and FY 17 were about the same. He asked what the department's vacancy

factor had been in FY 07. He wanted to know if it was truly looking at an apples-to-apples comparison.

Mr. Cherian answered that the department was required to maintain a vacancy rate of 7 percent. He elaborated that it was an apples-to-apples comparison. He spoke about laying off about 47 positions between FY 15 and FY 17; 7 positions would be reduced in FY 17 and 40 between FY 15 and FY 16.

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Representative Pruitt clarified that he was interested in the vacancy factor in FY 07. He explained that if the vacancy factor had been 7 or 8 percent in FY 15 it was an apples-to-apples comparison. He made it clear he was interested in getting the information from all departments.

Mr. Cherian replied that he would follow up on the question.

Representative Kawasaki spoke about the restaurant facility inspections conducted by the department. He remarked that Anchorage was the only municipality that did its own inspections; Fairbanks had done inspections in the past, but they had stopped in the late 1990s in order to save money, given that DEC already provided the service. He asked if the department conducted restaurant inspections in Anchorage. Commissioner Hartig believed Anchorage conducted all of its inspections. He would follow up on the question to confirm.

Representative Kawasaki referred to SPAR and the change in fee in the past year. He remarked that the charge had appeared on his oil bill in the fall. He asked if the change was resulting in as much money as predicted.

Commissioner Hartig answered that it had not been a complete year since the change had been implemented. The estimate had been \$7.2 million to be collected by the response fund from the 0.95 percent on refined oil and the \$0.05 per barrel charge; it would be necessary to have the Department of Revenue break out the data to determine how much the new fee was bringing in. He believed projections were close to what had been anticipated; although, going forward he was not sure the state would be able to collect as much on the refined products as it had thought. He would follow up with the information.

Representative Kawasaki asked if the additional revenue had been included when the legislature had passed its budget. He asked if money would come back from the FY 16 budget because the bill passed.

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Commissioner Hartig asked for clarification.

Representative Kawasaki wondered if the legislature had budgeted for the UGF and had then passed a bill that would also fund the amount. He asked there would be money coming back.

Commissioner Hartig replied that there may be a surplus of about \$200,000 of the amount collected in the prevention account that would be related to the crude oil surcharge and the refined product 0.95 percent per gallon, which had been intended. He explained that the prevention account money had to be appropriated every year by the legislature; it was always subject to appropriation. He furthered that it had been intended to collect a little extra for the first couple of years because as crude oil declined, the idea had been that the refined product use would continue to rise. He explained that combined with the surplus cushion it would allow the prevention account to be sustainable for about 10 years.

Representative Kawasaki referred to better alignment of existing fees mentioned on slide 15. He asked for verification that the fees were not set by statute.

Commissioner Hartig answered that by statute the department had to be authorized to impose a fee and the statutes specified the criteria and limits. The actual number was not set in statute.

Co-Chair Neuman made a point related to meeting decorum.

Representative Wilson hoped to get heating oil from gas in the future, which would enable residents to stop paying a tax on heating oil. She had often heard that DEC had more stringent regulations than the federal government, specifically related to water permitting and the mining industry. She asked which regulations the department may have that were more stringent than what was federally

required. She pointed to slide 12 and asked about the "other" fund category.

Commissioner Hartig pointed to the purple section of a pie chart on slide 11. He elaborated that the category included the Clean Air Protection Fund, Capital Improvement Projects, interagency receipts, program receipts, Alaska Clean Water Fund, and Alaska Drinking Water Fund.

Representative Wilson referred to slide 12 and how much UGF was required for federal funds. She pointed to environmental health and asked how much of the figure was associated with matching funds and what had been left over.

Commissioner Hartig answered that in environmental health the bulk of the UGF money was related to the Drinking Water Program and Solid Waste. He elaborated that the federal government periodically issued drinking water rules, which were applicable to public drinking water systems. There were national rules that had to be followed by the people running the drinking water systems to protect the public from various contaminants. In the past, DEC would come to the legislature and communicate it needed primacy of a federal rule and funds to implement the rule to help communities meet the rule. He furthered that if that process did not occur, the federal grant funds coming in for water projects would be cut off. He would follow up; it was a significant amount of federal funds that would be lost. He explained that unless the state had primacy of the drinking water rules it would not receive the federal funding coming in for the projects. He could provide the further detail. The amount of federal funds that would be lost was significant.

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Representative Wilson was trying to determine what the state was required to do and why it had taken primacy of some of the rules. She knew the state had received extra federal funds at one time, but some of the funds had dwindled. She believed the state was left "holding the bag" needing to bring everything to a certain level. She reasoned that there were many communities, which would need a tremendous amount of money for the work. She wondered what the state had to do and why it had chosen to do other programs.

Representative Wilson pointed to slide 22 related to non-federally required programs. She thanked the department about loosening up some regulations related to the farmers markets. She wanted additional detail on how much the state was paying for the listed items such as solid waste and how much GF was going towards the items.

Commissioner Hartig would follow up.

Representative Gattis spoke to how many employees had actually been removed from positions. She commended the department for taking higher paid staff and lowering positions. As she approached budgets she was considering she looked at pay ranges that were not being brought down. She stated that sometimes high pay ranges could be worth two people based on the amount of money paid out. She observed that the issue was bigger than just one position, it was how much the position had been worth. She commended the department for cutting costs.

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^FY 17 BUDGET OVERVIEW: DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT

HEIDI DRYGAS, COMMISSIONER, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT (DLWD), began by recognizing the significant amount of work the budget process was for the committee and the departments. She thanked the committee for its effort, questions, and thoughtfulness. She provided a PowerPoint presentation titled "FY2017 Department Overview, House Finance Committee" dated January 29, 2016 (copy on file). The department's mission was to protect workers and advance opportunities for employment. The department accomplished the mission through its key program priorities of protecting Alaska's workers through statutory assistance and enforcement; developing an Alaskan workforce for Alaska's jobs; and income replacement for injured, unemployed, and disabled workers.

Commissioner Drygas addressed the department's organizational chart on slide 3. The chart organized the department by key priority program. The Division of

Employment and Training Services and the Division of Vocational Rehabilitation both had sections that crossed priority program lines, which was indicated on the chart.

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Commissioner Drygas spoke to the protection of workers on slide 4. The department had continued to provide workplace safety consultation and enforcement, which kept workers safe and reduced workers' compensation costs. The department was proud that its efforts had resulted in the second lowest workplace lost-time and injury rate on record in FY 15 at 0.89 per 100 employees. She had recently requested information from the state's Risk Management Division regarding the rate of workplace injuries for state employees and had been alarmed by what she had learned. She elaborated that in FY 14 the state spent over \$27 million on workers' compensation claims and \$28 million in FY 13. She had followed up with a letter to each state commissioner offering occupational safety and health consultation to lower the incidents of workplace injuries and the associated costs to the state. The department was also taking on worker misclassification. She furthered that the department's occupational safety and health, workers' compensation, unemployment insurance, and wage and hour staff continued to implement reforms to crack down on worker misclassification including a multi-departmental memorandum of understanding establishing a working group. The achievements translated into higher wages and greater income security for Alaska's workers.

Commissioner Drygas addressed the Alaska Labor Relations Agency under the commissioner and Administrative Services (slide 5). She reported that the agency had a minimal number of staff to facilitate the resolution of disputes between organized labor and public employers. Within the Labor Standards and Safety Division, the wage and hour administration allocation provided consultation and enforcement of Alaska's wage and hour Alaska-hire and child labor laws. She elaborated that annually the program generated more money than it cost to operate; the revenue was deposited directly into the UGF and UGF paid for the program. She communicated that it would require a statutory change to put the money into a separate account. The mechanical inspection allocation conducted inspections to protect workers by ensuring electrical, mechanical, boiler, pressure vessel, and other similar code compliance. The

costs of the program were covered by fee-for-service revenue that was deposited into a DGF account, which the program was paid out of. The occupational safety and health allocation provided consultation and enforcement for occupational safety and health. The UGF supporting the program provided state match to federal funds. The Alaska Safety Advisory Council organized the governor's annual safety and health conference in March. The program was fully funded by the revenue it generated from sponsorships and attendance fees.

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Commissioner Drygas highlighted workforce development on slide 6. She relayed that in FY 15, 88 percent of Alaska Vocational and Technical Center's (AVTEC) long-term (longer than 6 weeks) program students graduated (a total of 341 out of 387 students); the graduation rate exceeded the target graduation rate of 80 percent set by the Council on Occupational Education (the accrediting agency for AVTEC). The center was continuing on a healthy graduation rate trajectory. Additionally, the department had revamped the workforce development system by merging two divisions into the Division of Employment and Training Services. The merger resulted in reduced staffing and greater administrative efficiencies, which had allowed DLWD to put more money out on the streets as grants. The resulting savings addressed \$337,000 of the department's FY 16 unallocated reduction. Meanwhile, the Division of Employment and Training staff won two highly competitive federal grants that support registered apprenticeship. The funding would enable the department to help build the state's healthcare workforce through apprenticeships and the new 4 to 6-week pre-apprenticeship programs at AVTEC. She highlighted that the new programs would help meet the high demand for entry-level healthcare occupations.

Commissioner Drygas outlined workforce development budget detail on slide 7. She highlighted that with a minimal level of staffing support the federally mandated Alaska Workforce Investment Board (AWIB) provided policy oversight of state and federally funded job training and vocational education programs; the board was funded by programs it oversaw. She pointed to the employment and training services category and addressed workforce services. She relayed that the workforce services allocation administered Alaska's job center network and the online job bank. She

noted that the department would not have to close any job centers in FY 17. The workforce development allocation comprised all of the department's workforce development grant programs, including the State Training and Employment Program, Technical and Vocational Education Program, pass-through grants to regional training centers, federally funded Workforce Innovation and Opportunity Act programs and UGF pass-through grants for programs like the Alaska Construction Academies. She addressed the vocational rehabilitation category and relayed that client services assisted Alaskans with disabilities to secure and maintain employment. The special projects allocation consisted of a few federal grants with some state matching funds, which provided employment services to individuals with the most significant disabilities to enter or retain employment and to provide technology related assistance for individuals with disabilities.

Commissioner Drygas addressed the Alaska Vocational Technical Center on slide 7. The center provided vocational and technical training to prepare Alaskan residents for jobs.

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Commissioner Drygas turned to slide 8 related to income replacement. The department saw an improvement in the timeliness of unemployment insurance (UI) claims payment with 94.3 percent of claims paid within 21 days versus 91.7 percent in the prior year. She detailed that UI claims continued to be processed at a rate exceeding the federal benchmark of 87 percent. She moved to income replacement program detail on slide 9. She addressed the Division of Workers' Compensation, which aided Alaskans with employment related injuries by administering the Alaska Workers' Compensation Act, the Fishermen's Fund, the Workers' Compensation Benefits Guaranty Fund, and the Second Injury Fund. The Workers' Compensation Appeals Commission was a separate division under the department, but was included for budgetary purposes. She detailed that the commission adjudicated appeals from disputed Workers' Compensation Board decisions. She furthered that legislation had been introduced in both bodies to repeal the commission and move the appeals back to the courts.

Commissioner Drygas addressed employment and training services on slide 9. The UI allocation paid benefits to

eligible unemployed workers, in addition to assessing and collecting employer and employee contributions to the Unemployment Trust Fund, the State Training Unemployment Program, and the Technical and Vocational Education Program. She moved to the vocational rehabilitation category and relayed that the disability determination's allocation provided timely adjudication of medical determinations for persons alleging a disability under the Social Security Act.

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Commissioner Drygas addressed the department's FY 16 operating budget on slide 10. The department's overall UGF reduction was \$7.6 million or nearly 23 percent. She added that the total included DLWD's share of the unallocated reduction totaling approximately \$418,000. To accommodate the reductions the department had focused considerable efforts on reducing administrative and overhead expenses. She listed where the reductions had been allocated. The Commissioner's Office and Administrative Services had eliminated 10 positions including the department's communications coordinator at a reduction of \$600,000. Additionally, the department had put considerable efforts into lease consolidation. She noted that department staff had been moving a lot. Leased space had already been reduced in Juneau and Kenai and the efforts had helped address \$81,000 of the department's FY 16 unallocated reduction. Currently efforts were focused on Anchorage, which would result in a savings of about \$100,000 in reduced leased costs in 2017. The department had consolidated the Division of Business Partnerships and the Employment Security divisions into the Division of Employment and Training Services; the consolidation had covered \$337,000 of the department's FY 16 unallocated reduction. She reiterated her earlier testimony that AVTEC had refocused its Allied Health programs away from state-funded longer-term programs to short-term federally funded programs for high demand entry-level healthcare occupations.

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Commissioner Drygas addressed slide 11 titled "FY2017 Budget: \$165,530.8." The governor's requested FY 17 budget for DLWD totaled \$165.5 million; 52 percent of the total was funded by federal money. The department's UGF in the FY

17 budget totaled \$23.9 million, which was down \$1.9 million from the current year. The department had 806 employees; the number was down by 209 employees since 2012 (an average reduction of 40 employees per year). Changes to the department's budget included reducing the amount of UGF supporting its lease cost by \$100,000 and reducing AVTEC's reliance on UGF by nearly \$75,000 (slide 12). She added that DLWD had proposed a regulation change to AVTEC's tuition and fees in order to offset the reductions in UGF and to cover increasing operating costs. She stated that the increase was overdue given that long-term program tuition had not been increased since 2010. The department was reducing the UGF supporting the Alaska Construction Academies by \$600,000 in accordance with legislative intent. The Independent Living program was being transferred to the Department of Health and Social Services; there was a corresponding executive order to clean up the statutory references to the program within DLWD. The department reflected the merger of the Business Partnerships and Unemployment Security Divisions into the Division of Employment and Training Services in the operating budget; there was a corresponding executive order to clean up the statutory references to the Employment Security Division.

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Commissioner Drygas continued to address slide 12. The department was reversing the FY 16 UGF salary adjustments in an unallocated lump sum of approximately \$235,000. Depending on legislative actions, the plans could change, but the decrement would be spread across allocations the same way the original salary adjustments had been spread. The change resulted in reduced supply purchases, equipment replacement and staff training, and further staff reductions across the agency, which would have direct service implications. She relayed that DLWD had a spreadsheet reflecting how the reduction would be spread, which it would use to work with its legislative budget subcommittee.

Commissioner Drygas moved to slide 13 and addressed 10-year projection chart generated by the Legislative Finance Division (LFD). The chart illustrated the changes in the department's GF budget since FY 07. She noted that GF encompassed both UGF and DGF on the chart. The department's DGF included the State Training and Employment Program

(STEP), the Technical and Vocational Education Program (TVEP), and revenue generated by fees for service. The majority of the department's increase since FY 07 had been in the DGF area. For example, STEP and TVEP increased by \$6.7 million due to legislative changes and Alaska's growing workforce.

Commissioner Drygas moved to an LFD chart on slide 14 that she found slightly confusing. She noted that while total personal services expenses increased by \$6.1 million over the timeframe (FY 07 to FY 17), DLWD had actually experienced a loss of 231 employees during that time. The increase was due to wage and benefit adjustments, which included increasing healthcare benefit costs.

Commissioner Drygas turned to an LFD chart showing the department's budget by division (all funds) on slide 15. The big changes in FY 17 resulting from the division consolidation made the chart confusing; therefore, DLWD had prepared another chart, which combined the two merged divisions over the entire time period (slide 16). The federal funding within the Division of Employment and Training Services (top line) made it the department's largest and most volatile division. The federal funding going into the division was cyclical; funding levels were higher when unemployment was high. She detailed that unemployment was currently lower and funding had decreased. She relayed that when employment and training services funding had been at its peak in FY 10, the national unemployment rate had been 10 percent and Alaska's unemployment rate had been 8 percent (shown at the top of the chart on slide (slide 16)). Currently, the national unemployment rate was 5 percent and Alaska's was 6.5 percent; therefore funds had decreased.

Commissioner Drygas addressed a chart showing the department's GF by division (slide 17). She reiterated that on the chart the term GF included UGF and DGF. She noted that due to division consolidation the chart was a little hard to follow. The department had generated a chart combining the two merged divisions over the entire time period (slide 18). The top line represented the Division of Employment and Training Services (the department's largest division). The decrease in the division shown in FY 15 to FY 16 was primarily due to the elimination or significant reduction to the department's UGF funded workforce development grants, including reductions to the Alaska

Construction Academy of over \$800,000; regional training centers of nearly \$700,000; and the elimination of the Alaska Youth First, Compass Alaska, Career and Technical Education, and Oil and Gas training funds at about \$2.5 million.

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Co-Chair Neuman pointed to slide 9 related to income replacement. He wondered when the last time the costs had been reviewed. Commissioner Drygas deferred the question to her colleague.

PALOMA HARBOUR, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, replied that the Workers' Compensation program was funded by a few on workers' compensation premiums; the percentage was a relative percentage of workers' compensation premiums and changed each year.

Co-Chair Neuman asked if the legislature set the rates for the 5 different funds on slide 9. He asked how the monies came in.

Ms. Harbour answered that the Second Injury Fund was based on actual incidents and paid benefits based on demand for the service. There was a fee paid by all employers (separate from workers' compensation premiums); the fund was self-sustaining and the amount fluctuated based on the actual benefit payments. The Workers' Compensation Benefit Guarantee Fund was funded by fines on employers that did not comply with the Workers' Compensation Act; revenue was generated by collecting the fines. She detailed that the fund paid benefits to the injured workers who did not have workers' compensation coverage but should have. Revenue going into the Fishermen's Fund was generated from commercial fishing licenses and paid benefits to injured fishermen; the percentage changed every so often. The only program with anything but benefit payments was the Workers' Compensation program that administered the Workers' Compensation Act, which conducted investigations to ensure employers were compliant. The cost was paid for by a percentage of the premiums. She did not know that the amount had been looked at since 2006, but she would follow up to confirm her answer.

Co-Chair Neuman spoke to an effort to ensure that funds were available for the department to do its job. He asked Commissioner Drygas to make suggestions to the budget finance subcommittee (Representative Wilson, chair) on things that could be changed if they had not been looked at in a while. Commissioner Drygas answered that the department would be happy to work on the issue and had continued to do so. She noted that there had been conversations on the topic the past year during budget discussions, which the department had taken seriously and would continue to work on.

[2:54:26 PM](#)

Co-Chair Neuman referred to slide 10 related to the FY 16 operating budget. He pointed to information that AVTEC Allied Health programs had been refocused from state-funded longer-term programs to federally-funded apprenticeship type programs. He wondered what state-funded programs the department was referring to.

Commissioner Drygas answered that the state's Allied Health program had previously been a very popular program located at the Muldoon AVTEC campus that had mainly consisted of registered nurses and licensed practical nurses. She explained that the program had been very expensive to operate per student, which had relied heavily on state funding; there had also been some private funding involved. When the state funding had been cut, the private sector could not pick up the slack for the diminishing state funds. One of the department's concerns was related to duplication. She elaborated that the University of Alaska Anchorage already had a terrific registered nurse program, although there was a significant waitlist. She pointed to the need for more entry-level healthcare workers in the state; it was an area that had significant turnover in Alaska, which impacted the quality of healthcare services.

Commissioner Drygas continued that department had decided to revamp and refocus the Allied Health program at AVTEC with grant money to help startup a healthcare apprenticeship and pre-apprenticeship program with a focus on entry-level healthcare occupations; there were 9 or 10 positions including a behavioral health aid. The pre-apprenticeship program exposed young people, veterans, and underemployed individuals to the healthcare field. The hope was to alleviate some of the turnover. She explained that

frequently someone went into the healthcare field and it ended up not being what they wanted to do at all. The program was much less expensive to administer; the seed money was from federal funds and the goal was for the program to be self-sufficient. She furthered that the program would help individuals determine whether they wanted to do that kind of work, which was difficult and strenuous. From that point, individuals could possibly transition into the apprenticeship programs. She cited an apprenticeship program at Providence Hospital as an example; there were other healthcare institutions with programs as well. The program needed a place where the curriculum already existed and was working to create a consortium to get the healthcare program off the ground. She noted that it was coming together very well so far. She reiterated that it would move Alaskans through apprenticeship programs on a career pathway. She stated that a person would begin in an entry-level position, but there were plenty of places to advance. The purpose of the program was aimed at improving Alaska's healthcare workforce.

Co-Chair Neuman understood the purpose of the nursing program. He noted that he would never have become a professional mechanic or woodworker if he had not been exposed to the professions in high school. He spoke to the high occurrence of individuals being trained for a position on the job and then leaving because they did not enjoy the work. He thought getting exposure to different trades was very important. He asked if the department planned to reach out to companies and businesses to ask them to help fund some of the training programs.

Commissioner Drygas answered that the department had many partners in the endeavor, including the Southcentral Foundation, several joint apprenticeship training committees, Providence Hospital, and others. The process was a very collaborative effort. Currently, it was funded by federal grant money specifically for the program. The department did not want to have a federally funded program that would eventually require state funding into the future. She understood that it would not work in the current budget environment. The idea was to use the federal seed money to develop the consortium, which was underway. There would be funding mechanisms, which could include employers paying in to keep the program going, much like a joint apprenticeship training community would do with

registered apprenticeship program funding. The department was working on curriculum and would try to get some instruction going in March or April [2016].

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Co-Chair Neuman remarked that several years earlier he had worked on legislation related to vocational education credits where companies could receive credits from the state towards corporate income taxes if they donated money to help with vocational education. He asked Commissioner Drygas to highlight details.

Commissioner Drygas answered that the department had received specific donations from companies; it had recently received a donation from Superior Energy for \$5 million worth of equipment. She elaborated that the company was closing its offices in Anchorage and was donating a marine simulator and several pieces of computer and construction equipment to AVTEC. She noted that the donation could not come at a better time due to a significant number of aging computers and other items at AVTEC. She was very pleased with the donation and believed they would put every piece of equipment to work. Additionally, donations had been received from Saltchuk in the amount of \$60,000. She noted there were other donations that she would have to follow up on. She liked the idea of doing some innovative funding - perhaps giving a company a tax credit for employing registered apprenticeships. She noted that several states were looking at the concept and she believed there was currently legislation in Congress. She spoke to encouraging businesses to engage in apprenticeship programs, which she believed was a healthy economic model. She would be happy to look at the idea in the future or in the current session. She believed it was a great idea.

Co-Chair Neuman spoke to legislation he had worked on in the past that would provide a 50 percent credit on corporate taxes for the first \$100,000 and a 100 percent credit on the second \$100,000 donation to a high school. The catch had been that because it had fallen under federal tax code under defined public benefit, the donator was also eligible for an additional \$69,000 in federal credits; a company could get \$219,000 credits on a \$200,000 contribution into vocational education. The contribution went directly to schools to teach vocational trades that were representative of the companies' industries. He added

that it also allowed schools to receive endowments legally under state law. He spoke to the importance of encouraging private industry to try to help increase vocational education opportunities.

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Commissioner Drygas believed it was an interesting concept, which she was willing to look into. She believed it was almost more tangible to have some skin in the game. She elaborated that a company could receive a tax credit when they showed the state the numbers - when they actually had used training programs and had registered apprentices on their books. She noted that there were terrific statistics about how registered apprenticeship improved the lives of individuals and grows a workforce in any state. She remarked that she thought of apprenticeship as construction - she had gone to a White House apprenticeship conference in September [2015] and had been blown away by the models of apprenticeship that were completely beyond construction (e.g. mining, healthcare, insurance, and other). She continued that there were terrific models used in Europe that utilized registered apprenticeship to help individuals determine their career paths. She believed it would be a great way to encourage the use of registered apprenticeship for any number of industries. Currently the department was focusing on increasing the state's healthcare workforce through registered apprenticeship, but it did not plan to stop there.

Representative Wilson commended the department for finding efficiencies in leasing and other. She remarked that besides matching funds the department used grants. She spoke to uses for the grants on things like AVTEC, adult education, GEDs, and the Construction Academy. She noted that all other budgetary items received matching funds. She talked about giving grants to schools the state had been giving grants to because they were there. She spoke to efforts to be more efficient on utilizing the University and DLWD. She believed the department was taking the lead, especially on the courses they had discussed, and letting the University be the academics. She believed it was how better programs were found. She spoke to concern about out of work individuals and believed it was the way to keep them going. She was proud the department had found federal funds to start something the state had not done in a long

time. She believed growth would occur in DLWD by locating funds that specifically fit the department.

3:07:35 PM

Vice-Chair Saddler pointed to slide 12 related to a reduction to the Construction Academy by \$600,000. He asked how the reduction had impacted the operation. He thought the intended audience of the academy had been retargeted.

Commissioner Drygas replied that the budget subcommittee would continue to address the Alaska Construction Academies. She believed it was important and was a large part of the department's budget. She explained that the academies had worked hard to increase the donations they received (e.g. donated space, instructors, and equipment), which they had to rely on more heavily given the decrease in state funding. The reduction had forced the academies to operate at a much leaner level than in the past.

Representative Munoz asked how the funding worked for the construction academy. She asked if funds went to secondary and postsecondary schools. Commissioner Drygas replied that the funds went to postsecondary adult education as well as high school students for exposure to the construction trades. She deferred the question to Ms. Harbour for further detail.

Ms. Harbour expounded that in FY 14 one-third of the funding had gone to adult training and two-thirds had gone towards secondary education. In the past year the department had retargeted and had taken the majority of the \$800,000 reduction from FY 16 at the secondary level (based on direction given to the department to focus on adults). She stated that at present about half of the funding went to adult education and half went to schools.

Representative Munoz asked if the proposed \$600,000 reduction would jeopardize any of the current programs.

Commissioner Drygas answered that the answer was not yet known. She believed that the Alaska Construction Academies was a policy question. The subcommittee had been discussing whether it was the purview of DLWD to have funding that went towards high school students for construction training. She believed it absolutely was. She expounded that the department could not fulfill its mission of

training workers if it did not provide young Alaskans with exposure to the construction industry. She opined that it was vitally important. She continued that schools were doing some of the work, but construction academies were picking up a significant amount of the work to provide students with an opportunity to try the trades. She spoke to the aging workforce in the construction industry; there would be some significant problems heading into the future, especially as the state looked at building a gasline. The department had worked on several presentations regarding its Oil and Gas Workforce Development Plan, specifically targeted to gasline workforce development. She was concerned that as funding was ratcheted back it would make the department's job much more difficult because it was necessary to build up the workforce; it did not just happen. She believed it was critical to expose individuals to the trade as early as 7th or 8th grade.

[3:12:32 PM](#)

Representative Edgmon pointed to the photo on slide 19 and asked for detail. He wondered if there were other similar opportunities with the Department of Corrections (DOC) and other correctional facilities.

Commissioner Drygas replied that the women in the photo had been incarcerated at the Highland Mountain Correctional Center. The women had engaged in a program, which she could have her colleague provide information on if desired. She communicated that the department did significant work with the Highland Mountain Correctional Center. She noted that there were some terrific women at the facility. She elaborated that the department had been tasked with doing its part to reduce recidivism in Alaska. She paraphrased Governor Bill Walker's statement that when a person had a job they tended to commit fewer crimes. She stated that when a person had a job they had something to do, had self-worth, and had a purpose - all of which reduced recidivism. She would love to expand programs like the one highlighted on slide 19. She pointed to a great collaboration with the iron workers apprenticeship program with Highland Mountain Correctional Center, which she would love to expand, but it was a matter of locating funds. She concluded that it was the type of work that really mattered.

Representative Edgmon asked if the Highland Mountain Correctional Center offered advantages for the department

to do programs like the one highlighted on slide 19. He had heard a reference (possibly from DOC staff) to advantages of moving the inmates to the Palmer Correctional Facility.

Commissioner Drygas could not speak to the difference between the Palmer and Highland Correctional Facilities. One of the reasons the department was engaged with the incarcerated individuals at Highland was because they are women. One of the things the department was trying to do through several initiatives was to increase the number of women and minorities in the construction industry as well as an apprenticeship.

[3:15:43 PM](#)

Representative Gara turned to slide 18. He asked about employment and training services related to the Construction Academy. He observed there had been a \$5 million cut from the prior fiscal year from \$23 million to \$18 million. He remarked that \$800,000 had been cut from the Construction Academy the previous year.

Commissioner Drygas answered that the reduction had been \$835,800 from the Construction Academy. There were three regional training centers that received UGF funds, which had been cut in half to \$678,300. Additionally, the Alaska Youth First Compass Alaska, Career and Technical Education, and Oil and Gas Training Grants programs had all been eliminated at a total of \$2.4 million.

Representative Gara asked if the cut to the Youth First program had occurred the previous year or the year before that. Ms. Harbour answered that two years earlier the program had been cut in half and funded as a one-time item. The program had then ended in FY 15.

Representative Gara referred to the three grants that had been cut the prior year. He noted that Youth First and Oil and Gas Training grants had been cut. He asked about the third program.

Commissioner Drygas answered that the third program was the Career and Technical Education program.

Representative Gara asked for the total for the three grant cuts. Commissioner Drygas replied that the total cut was \$2,421,300.

Representative Gara understood the proposal to cut the Construction Academy by another \$600,000 in the coming year. He asked if there were any other proposed cuts to training in the coming year. Commissioner Drygas replied in the negative.

Representative Gara asked how much had been remaining in the Youth First program the previous year that was subsequently cut. Commissioner Drygas replied \$1.4 million.

Representative Wilson spoke to the Construction Academy. She asked if it would be a benefit to have a grant that could be tailored to changing programs instead of having a pass-through grant for one industry (i.e. nursing, restaurant, and others). She elaborated that there were many other career paths outside of construction. She remarked that a significant amount of the construction unions had their own apprenticeships. She asked what would be the benefit of limiting the grant to construction versus tailoring the program to be more like the State Training Employment Program where a grant could go to provide training in many different areas.

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Commissioner Drygas answered that the idea was interesting and she believed it was a policy question for the legislature. She believed the Construction Academy was good because there was an existing structure in place. Additionally, there was a need for more construction workers in the state, especially as the state geared up towards building one of the largest projects in North America [gasline]. She hesitated to say that it would be prudent to move the money someplace else at present. She was not trying to say that the mining industry, healthcare, or fisheries industries were not important. There were so many places that needed focus; the department was taking on one chunk at a time. She reiterated her hesitation at doing something else with the funding or using it as a fund to do all types of different programs. She would love to have more funding for things like that, but she did not anticipate receiving additional funds. She relayed that the Alaska Construction Academy model was a good one; it

exposed individuals to the construction trades. Many of the adults or high school students receiving the exposure, went on to healthy careers in the construction industry. She stated that the academy was a terrific feeder for the construction industry that she would be remiss to cut off.

Representative Wilson agreed that it was a good program. She reasoned that if the academy was that good it would have the ability to compete for funds competitively. She stated that it would be a policy decision about why the state was favoring one group over all other needs in the state. She stated that it was a pass-through grant and it was difficult to measure. She reiterated that if the program was competitive and able to meet the criteria funding would not be discontinued, but others would also have the same opportunity. She remarked that she wanted to expose high school students to all kinds of trades; however, the larger policy question was whether DLWD continued to do what it was doing and send a bill to the Department of Education and Early Development or schools for partial payment. She remarked that schools had CTE funding within the education foundation formula. She stated that it was not really about whether the state believed the opportunity should be in the high schools - it was more about who paid. She noted that the discussion would be continued in subcommittee. She reasoned that it was a broader policy call about where services belonged when one department could not get the money from their area and hoped another department would take it on. She was not saying the Construction Academy was bad, but she believed the state was basically favoring one group over another. She remarked that the state brought in employees to the seafood and mining industry for very high paying jobs. She spoke about a DLWD trends report, which showed construction was falling off because there was not funding for it; it was not a large demand compared to other areas. She stressed that the state's children were missing out on high paying jobs.

[3:24:45 PM](#)

Vice-Chair Saddler noted that the jobs that would come from the gasline were not in the short-term time horizon.

Representative Gara stated that he did not see the Construction Academy as favoring construction workers over other people; he saw it as all that was left. He detailed

that the Youth First Program had been deleted, which had addressed the goal of getting youth into all sorts of careers. He countered that the legislature was not favoring construction; the academy was all that remained out of what used to be a much bigger job training pipeline. He asked if there was a significant portion of private funding for the Construction Academy.

Commissioner Drygas answered that it had always been the case that private funds were primarily donated to the Construction Academy in the form of equipment, instructors, and space from school districts.

Representative Gara asked for information about the Youth First program that had been eliminated. He recalled that the program had enabled students to meet with job counselors to help them locate available resources, which would enable them to get into professions they were interested in.

Ms. Harbour replied that there had been two different parts to the Youth First program. A portion had gone through the job centers for employees to work directly with youth to interest them in different career opportunities. Additionally, there had been competitive grants awarded annually for youth training activities. For example, there had been a healthcare academy at the King Career Center in Anchorage that had been funded with the grants. She did not recall all of the work related to the healthcare academy.

Vice-Chair Saddler discussed the schedule for the following meeting.

ADJOURNMENT

[3:27:39 PM](#)

The meeting was adjourned at 3:27 p.m.