

HOUSE FINANCE COMMITTEE
February 5, 2016
1:34 p.m.

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CALL TO ORDER

Co-Chair Neuman called the House Finance Committee meeting to order at 1:34 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

Chris Hladick, Commissioner, Department of Commerce, Community, and Economic Development; Catherine Reardon, Director, Division of Administrative Services, Department of Commerce, Community and Economic Development; Sheldon Fisher, Commissioner, Department of Administration.

SUMMARY

HB 256 APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 256 was HEARD and HELD in committee for further consideration.

HB 257 APPROP: MENTAL HEALTH BUDGET

HB 257 was HEARD and HELD in committee for further consideration.

HB 255 BUDGET: CAPITAL

HB 255 was HEARD and HELD in committee for further consideration.

FY 17 BUDGET OVERVIEWS:

DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT
DEPARTMENT OF ADMINISTRATION

#hb256

#hb257

#hb255

HOUSE BILL NO. 256

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

HOUSE BILL NO. 257

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

HOUSE BILL NO. 255

"An Act making appropriations, including capital appropriations, reappropriations, and other appropriations; making appropriations to capitalize funds; and providing for an effective date."

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Co-Chair Neuman reviewed the agenda for the meeting. He directed members to hold their questions until the end of each presentation.

^FY 17 BUDGET OVERVIEW: DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT

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CHRIS HLADICK, COMMISSIONER, DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT, introduced himself and thanked members for the opportunity to come before the House Finance Committee. He relayed that the department's FY 17 request was \$194 million of which \$21.9 million was undesignated general funds (UGF). The department spent less than 3 percent of the state's total UGF and contributed \$80 million to the general fund (GF). He continued that the state's economic goals were to have plentiful good jobs for Alaskans presently and into the future. The department was strongly identified with marketing and business assistance, but had a much more comprehensive role in supporting Alaska's development. The Department of Commerce, Community and Economic Development (DCCED) provided services essential to fostering a strong economy. The department provided a dependable financial system through a regulation of banks, securities, and insurance corporations. It also provided capital through Alaska Industrial Development and Export Authority (AIDEA), commercial fishing, and other loan programs. It provided energy programs and a consistently regulated utility system through Alaska Energy Authority (AEA) and Regulatory Commission of Alaska (RCA). It also provided certification of qualified professionals needed throughout the economy. The department supported effective, functioning local governments without which economic growth was almost impossible. Whether through participation in the department's loan program, professional licensure, or support to local government, DCCED touched the lives of many Alaskans. He introduced the PowerPoint presentation: "Department of Commerce, Community and Economic Development Department Overview."

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Commissioner Hladick began with slide 2: "Department Organization." He highlighted the six divisions and seven corporate entities within the division. The department had 549 permanent full-time positions not including positions at the railroad. The railroad was a special organization unto itself. The other corporate entities within the department included AEA, the Alaska Gasline Development Corporation (AGDC), the Alaska Seafood Marketing Institute

(ASMI), the Alcohol and Marijuana Control Board, and the Regulatory Commission of Alaska.

Commissioner Hladick turned to slide 3: "Department Makeup." The slide split the corporations from the core divisions. He reported 62 percent of the department's spending was for the corporations, of which about \$40 million was for Power Cost Equalization (PCE) distribution payments to communities.

Commissioner Hladick discussed slide 4: "Mission and Core Services." The department's mission was to promote a healthy economy and strong communities and to protect consumers in Alaska. Its core services were consumer protection, economic growth, strong communities, and affordable energy.

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Commissioner Hladick scrolled to slide 5: "Budget by Core Services." The slide depicted the department's budget by core services broken out by UGF, designated general funds (DGF), other, and federal. He noted that UGF was shown in blue. The total department spend was \$194 million and the break out by fund type was shown.

Commissioner Hladick advanced to slide 6: "Fund Groups & Self-Supported Agencies." He offered that in FY 17 the department was requesting \$194 million; DGF was \$83 million, other was \$69, etc. He pointed out the self-supported programs that contributed to the GF. He reviewed the list: Banking and Securities; Corporations, Business and Professional Licensing; Insurance; Alcoholic Beverage Control Board; RCA; and AIDEA. He noted that the largest self-supporting program was the Division of Insurance which equaled \$62 million.

Commissioner Hladick continued to slide 7: "Unrestricted General Funds." He indicated that the UGF was broken out by division or corporation. The Division of Community and Regional Affairs totaled 33 percent, etc. The department had reduced UGF by 45.9 percent since FY 15, from \$40.5 million down to \$21.9 million. He noted there was a further break out of various activities.

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Commissioner Hladick moved to slide 8: "Consumer Protection." He would be discussing each one of the core services by division or corporation. He began by stating that the Division of Banking and Securities, the Division of Corporations, Business and Professional Licensing, and the Division of Insurance were all self-supporting with no UGF.

Commissioner Hladick continued to slide 9: "Consumer Protection." He noted that the Alcohol and Marijuana Control Office was not self-supporting. There was a budget request of \$1.5 million to support. It was difficult to gauge when it would be self-supporting with the fees that had been set. The department thought it would happen between FY 18 and FY 20 but had no idea how many people would enter into the business. The Regulatory Commission of Alaska was self-supported, as well.

Commissioner Hladick discussed slide 10: "Economic Growth." He relayed that the Division of Economic Development was split into three sections. There were 11 positions within the economic development section and 2 positions within tourism and marketing. The investment section housed 37 positions and was self-supporting. However, the economic development and tourism marketing sections were supported by UGF.

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Commissioner Hladick continued to talk about economic growth on slide 11: "Economic Growth." The Alaska Seafood Marketing Institute's budget totaled \$24 million of which the UGF request was \$3.4 million. The Alaska Industrial Development and Export Authority showed 103 positions but it also included AEA's employees as well (the two divisions shared employees). He noted that AIDEA did not require UGF.

Commissioner Hladick scrolled to slide 12: "Affordable Energy." He stated that AEA had a total budget request of \$13 million, of which only \$2 million was UGF. Power Cost Equalization was housed within AEA and the total budget request was \$40.3 million in DGF. He reported that there was no request for UGF in FY 17 for AGDC, but there had been UGF requests in previous years.

Commissioner Hladick advanced to slide 13: "Strong Communities." He noted that the Division of Community and

Regional Affairs appeared under strong communities. He pointed to the fisheries taxes, national forest receipts, and payment in lieu of taxes. He explained that the fisheries taxes distribution was an existing business fisheries tax that had been in place for many years. The national forest receipts and payment in lieu of taxes were from the federal government. He continued that community revenue sharing was proposed at \$50 million as the distribution to communities; however, the amount was up to the legislature.

Commissioner Hladick continued to slide 14: "Department-Wide Services." He reported that the Division of Administrative services had a total budget request of \$4.9 million, of which \$711,000 in UGF. The Commissioner's office had a request of \$73,000 in UGF.

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Commissioner Hladick moved to slide 15: "FY2015-FY2017 Priorities." He reviewed the list on slide:

- Maintain services to communities
- Maintain revenue-generating and self-funded programs at current levels of service
- Continue effectively marketing Alaska's industries with reduced state support
- Ensure marijuana is safely and effectively regulated in Alaska

Commissioner Hladick turned to slide 16: "Status of FY2016 Reductions":

(\$9,976.0) UGF Reduction in FY2016 -24.7%

- \$13,041.2 total reduction -6.1%
- Eliminated 27 positions totaling \$2.0 million; \$528.4 UGF.
- Communications Coordinator, Grants Administrator, support for Alaska Native Language Preservation Council, 4 Analyst/Programmers, Business Registration Examiner, 2 Development Specialists (film & general), Planner, loan issuance and support positions, utility analysts

Removed multiple named recipient grants

- (\$300.0) Alaska Native Arts Marketing (UGF)

- (\$300.0) Ilisagvik College (UGF)
- (\$600.0) Marine Exchange of Alaska (CPV Tax)

Contracts and marketing efforts reduced

- (\$6,810.6) Tourism Marketing
- (\$1,863.9) Alaska Seafood Marketing Institute
- Marketing activities occur in advance of Alaska visitation and seafood sales; the full effect of these reductions is not yet known
- Continued UGF reductions in FY2017

Commissioner Hladick discussed slide 17: "Status of FY2016 Reductions & Additions":

Unallocated Reductions

- (\$161.5) UGF/DGF Unallocated travel reduction was reallocated to divisions based on average travel costs over three years (same methodology as LFD).
- (\$1,100.0) UGF Executive Branch-wide unallocated reduction was allocated to multiple divisions
 - (\$600.0 Tourism marketing, \$400.0 seafood marketing, \$50.0 Alaska Energy Authority, \$38.9 Commissioner's Office, \$11.1 FY2016 COLA over-appropriation)

Regulation of marijuana is on-going

- FY2015: \$785.7
- FY2016: \$1,574.4
- FY2017 request: \$1,574.4
- General funds will be incrementally replaced with program receipts as they are reliably collected
- Anticipated to be fully funded by license receipts by FY2020

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Commissioner Hladick reviewed slide 18: "FY2017 Budget Highlights":

- Reduced Commissioner's Office staff from 7 to 5 in FY2017, and reduced UGF support in Executive Administration by 49.6% from FY2015
- Reduce UGF support for large marketing contracts
 - Shift from state-managed to industry-managed Tourism Marketing

- Shift from state UGF support to industry support for seafood marketing
- Coordinate with DMV to preserve reduced level of visitor center assistance in Tok
- Reorganize Community and Regional Affairs to improve operations and community support
- On track to ensure marijuana is regulated and licensed

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Commissioner Hladick scrolled to slide 19: "FY2017 Budget by Core Service." He indicated that the slide reflected a budget summary by core services that was previously reviewed but was shown all on one slide. He pointed to the department's total reduction of \$8.2 million in the lower right-hand corner.

Co-Chair Neuman asked if there were any other items the commissioner wanted to point out on the slide including differences. Commissioner Hladick asked if Co-Chair Neuman was referring to differences from the FY 16 Management Plan.

Co-Chair Neuman responded in the affirmative. He wondered if Commissioner Hladick had any comments on the changes. Commissioner Hladick did not have any comments.

Co-Chair Neuman suggested that the committee may [have comments] when Commissioner Hladick was finished.

Commissioner Hladick advanced to slide 20: "Summary of FY2017 Budget." He explained that the slide showed the summary of the department's budget. The summary showed line item reductions and was another way of looking at the previous slide with more detail about the changes and corresponding line items. He also noted the percentages listed at the bottom of the slide.

Commissioner Hladick continued to slide 21: "Summary of FY2017 Budget." He offered that the slide showed two different metrics. The slide at the top showed how many communities were holding public meetings, doing their financial disclosures, and having elections, etcetera. as tracked by DCCED. The bottom chart showed that AIDEA created 1,300 jobs for the economy in FY 15.

Commissioner Hladick asked the chair if he should go through any of the legislative lookbacks.

Co-Chair Neuman replied affirmatively if there was any significant information the commissioner wanted to point out.

Commissioner Hladick reviewed the LFD slide 23: "Department of Commerce, Community and Economic Development Share of Total Agency Operations (GF Only)." He explained that the slide showed a combination of UGF and DGF. He noted the downward trend and the fact that the department spent only 2.17 percent of the total agency budgets.

Commissioner Hladick scrolled to slide 24: "Department of Commerce, Community and Economic Development Salary Adjustment Increases and Personal Services Costs (All Funds)." He reported that the slide showed the total salaries including fringe benefits and employer costs. He noted the summary on the right-hand side and mentioned that the department largely did not have control of the salaries.

Commissioner Hladick turned to slide 25: "Appropriations within the Department of Commerce, Community and Economic Development (GF Only)." He indicated that the slide showed the fluctuations and changes which were either structural or program changes (additions or subtractions) over time. He added that the slide reflected GF only.

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Commissioner Hladick advanced to the final presentation slide 26: "Appropriations within the Department of Commerce, Community and Economic Development (All Funds)." He thought the slide provided good information and noted that it reflected all fund types.

Co-Chair Neuman mentioned having discussions with the commissioner in the past about continuing to reduce the amount of money going to some of the programs within the department or to reduce the programs altogether to avoid inefficient government. He specifically noted their conversations regarding AEA. He had asked the commissioner about the opportunity to fold AEA into AIDEA. He wondered if it was possible to do so and whether it would save the state money in administrative costs.

Commissioner Hladick thought that considering the [state's] budget problems, everything was on the table for discussion. He would be taking a hard look at the idea.

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Co-Chair Neuman spoke of the cost of setting up the Marijuana Board. He noted that the cost would be approximately \$1.5 million. He thought it was the expectation that when the state began to receive money associated with marijuana that \$1.5 million would be repaid. He wondered if the commissioner had the same understanding.

Commissioner Hladick believed that the fees were set based on the anticipated costs for one year. Presently, he was unable to determine how many people would sign up. Some of the fees were \$5000 for a license. There were some fairly hefty fees, but he had not spoken directly to the board about the expectation that they would repay what had been spent in GF.

Co-Chair Neuman commented that the state's intent was that when funds began to be received the money would be repaid to the GF. He added that all the costs would be covered by industry receipts.

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Representative Gara did not understand slide 7. The slide indicated that since 2015 the UGF had decreased by 45.9 percent. He asked if the items listed on the slide represented reductions or the FY 17 proposal. Commissioner Hladick answered that the slide reflected the department's request for FY 17.

Representative Gara asked if AEA and AIDEA were housed in the same building in Anchorage. Commissioner Hladick answered, "Correct."

Representative Gara asked if the deputy director position had been eliminated leaving just a director in place. Commissioner Hladick responded that Representative Gara was correct.

Representative Gara understood that a fair portion of cuts had been cuts to tourism marketing and ASMI. He wondered that with a 45.9 percent cut already if there were things the department was not doing that the commissioner felt he should be doing but lacked money. He posed his question in another way. He asked if the commissioner had cut anything that he thought served the community well that was not available anymore.

Commissioner Hladick responded that the department was given targets to meet and instructed to continue to try to meet the services. He supposed it was possible that the services would not be met as well as they had been four or five years earlier. The department was looking for as many efficiencies as possible.

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Representative Gara asked if there were things the department was no longer doing because of the prior two years of reductions that he felt were important state functions. Commissioner Hladick replied that he had not spent much time thinking about the specific question but had focused on meeting the department's targets and doing what he had been asked to do.

Representative Gara commented that he wanted to see a government that was doing the things it was supposed to do as efficiently as possible. However, he did not want to budget only based on meeting monetary targets. He opined that if legislators were just automatons, then a monkey could cut the budget. He wanted to know what was being done and what was not being done. He suggested that anyone could come up with a number. However, monkeys did not read numbers very well. He stated the commissioner's answer did not help him very much.

Co-Chair Neuman rebuked that the state was just trying to hit monetary numbers. He countered that the legislature was trying to create a budget to ensure the state's survival amidst \$30/bbl oil prices. The budget had been based on \$100/bbl oil and dramatic reductions had to be made or many other taxes would be increased. He disagreed with Representative Gara's comments.

Representative Gara clarified that he was only referring to the commissioner's answer. The answer was that the

department was trying to meet targets. The answer did not help him.

Co-Chair Neuman interjected, "That was his answer."

Representative Gara concurred.

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Co-Chair Thompson reported that he had received complaints from more than one board member about a couple of different issues. Some members indicated they had been told how much to pay for their licenses to cover their expenses which were sometimes inflated due to department investigations. He continued that when fines were issued the money did not get reimbursed to offset the investigations but went into the GF. A particular board would look at it because they needed to meet in person to review applications for professional licensing and continuing education. The board paid dues, its own travel costs, and covered the cost of travel for a board member to attend a national conference in order to ensure that the State of Alaska was keeping up with other states and their rules. Board members were paying more than what was determined by the state. He reported that three of the boards had received letters from the commissioner's office and the governor's office stating that travel would not be authorized. It sounded like members were paying for their own travel but the commissioner would not let them. He thought it was like stealing their money. He was upset and wanted a reply. He also asked about AEA and AIDEA just put out a Request for Proposal (RFP) so they could relocate their offices. He asked what was going on and whether there would be an increase.

Commissioner Hladick was not aware of the RFP for a change in facilities but would look into the matter. He was aware of the travel issue and had been dealing with it. The orders were that there would be no UGF travel. The state had gone back and allowed travel for those boards that were paying for themselves. There was some confusion when the order first came out. He thought the issue had been worked out with the administration. If the situation was not sorted out he would appreciate the details and would look into it.

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Vice-Chair Saddler echoed that for many years a number of boards and commissions had experienced a difficult time getting access to the records of what they were being charged for travel, administration, and investigation. He thought the real estate board in particular would like to know what they were being charged for and was having great difficulty in finding access to that information. He asked the commissioner to encourage the division directors to make the information available. He referred to slide 25. He asked about the lookback relating to PCE and noted there was a big spike in FY 09 when there was legislation passed. It had crept up again since then about \$10 million. He asked for more information as to the increase in the ceiling on reimbursable PCE costs.

Commissioner Hladick asked if Vice-Chair Saddler was talking about UGF.

Vice-Chair Saddler again referred to slide 25. Commissioner Hladick would look into it and would follow up.

Vice-Chair Saddler stated that it appeared there had been a large reduction in the first year but it had crept back up. He anticipated that the last down tick was due to the price of fuel. He wanted to know more about the \$10 million increase.

Vice-Chair Saddler referred to slide 21 which showed the summary of the FY 17 budget. He pointed to the chart concerning the percentage of local governments providing essential public services. He thought the increase was significant. He wondered if it was due to additional funding to the function or something else.

Commissioner Hladick would follow up with an answer.

Vice-Chair Saddler referred to slide 13 and asked why the figures were broken out. He asked if they were under the same division. He did not understand the slide.

Commissioner Hladick responded that it was split out because the fisheries taxes were collected and distributed by the state. He added that the forest receipts and the payments in lieu of taxes were federal receipts. He added that the Community Revenue Sharing was distributed by the

Division of Community and Regional Affairs. It was shown separately because it was sort of a separate function.

Vice-Chair Saddler asked if the \$14.1 million was DGF. Commissioner Hladick indicated UGF was zero.

CATHERINE REARDON, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, answered that some of the money would be federal receipts. There would be a variety of categories. She explained that the reason there were two breakouts for the Division of Community and Regional Affairs was because one was money the division was spending to run a program and the other was money the division was just passing out. She repeated that the top of the slide reflected the activities of the division itself to provide services. The bottom of the slide reflected the division passing out money, hence the distinction. Some of the money was federal funds being distributed and some was state community revenue sharing dollars. She added that distribution of community revenue sharing correlated to seeing more functional communities on the chart he last referred to [slide 21]. She noted the rise in communities meeting their basic activity needs.

Vice-Chair Saddler referred to slide 10 and wanted to better understand the revolving loan fund under the last section under investments. He wondered if there was any overlap between what AIDEA, AHFC, or any other entities and asked about the unique functions of DCCED.

Commissioner Hladick responded that the investment programs were alternative energy conservation, commercial fishing, rural development initiative fund, Alaska Capstone Avionics, Community Quota Entity, Mari culture, Commercial Charter Fisheries, fisheries enhancement, Alaska Micro Loan, and small business economic development.

Vice-Chair Saddler saw some potential overlaps with commercial fishing and energy. He assumed that the subcommittees would look at duplication and possibly economies of scale by lumping them together. He wished the commissioner good luck in trying to find savings.

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Co-Chair Thompson noted that he had misspoken earlier. He had stated that there was an RFP from AEA and AIDEA for a remodel/rehab rather than for relocation. He opined that it was still a sizable amount of money to spend when the state did not have any.

Co-Chair Neuman commented that they might have to use the same old chairs.

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Representative Gattis appreciated the commissioner's succinct presentation. She commented about loan servicing. She mentioned that the state had loans in other different agencies and departments. She asked if the department serviced loans.

Commissioner Hladick responded affirmatively.

Representative Gattis asked if he thought his department could service other loans. She wondered if the state could save some money by placing other loans within his department. She assumed it could be done more cost effectively if all loans were place in one area.

Commissioner Hladick was not familiar with the other loans but assumed it was a possibility. He would have to better understand the circumstances.

Co-Chair Neuman commented that both questions of whether it could be done cheaper and whether it could be done better had to be answered.

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Representative Edgmon referred to slide 25 regarding PCE. In answer to Vice-Chair Saddler's question, he explained that the rise and fall of the line related to the PCE outlays - as high as \$45 million - was built into statute. In statute PCE was based on the average between the utility costs of Anchorage, Fairbanks, and Juneau. The line really tracked the rise and fall of oil prices. He noted the spike in FY 08 and the decrease in FY 17. He mentioned the possibility of oil prices going down further. He highlighted the commissioner's background in local government as the city manager of Galena, Dillingham, and Unalaska for more than 20 years. He supposed that the

commissioner had been in his current position long enough to understand the important role his department played in fostering a healthy local government. He recognized the department providing technical assistance to smaller communities, working with the Alaska Municipal League, and handling pass-through monies.

Representative Edgmon moved on to emphasize the importance of reducing the budget because of the state's fiscal crisis. However, he wanted to avoid making cuts that would actually increase costs somewhere else in state government or shift costs in a way that was counterproductive to smaller communities. He wanted to give the commissioner an opportunity to expand on his comments. He had prefaced his comments with the fact that the legislature had to reduce the budget. He asked Commissioner Hladick to comment and potentially weave revenue sharing into his response. He also wanted him to talk about why it was important for the department to maintain constitutional responsibilities for local government services and the broader services provided by DCCED.

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Co-Chair Neuman requested that the commissioner put on his former hat as a city administrator to provide a perspective.

Commissioner Hladick explained that he had been a city manager for 26 years and reported that when he started the services provided by DCCED were very important. There had been a number of problems at the City of Galena but there was training available. He had never talked to an attorney, drafted a budget before; many individuals had helped him through the process. The department provided some basic training that was critically important to the smaller Alaska communities. He was concerned about the loss of revenue sharing and what might happen. Municipal bankruptcy was not an option in Alaska. Even if a municipality could not make payroll they could not file for bankruptcy. If a community could no longer provide water, sewer, and electric, it would likely toss in the keys leaving the state to take over. He suggested that any funding that would help to forestall such a scenario would be money well spent. He lauded the Division of Community and Regional Affairs for keeping the pulse on communities in rural Alaska. He would hate to see revenue sharing go away, but

understood the fiscal situation and recommended ramping it down gradually if it had to come to an end.

Representative Edgmon thought the commissioner had encapsulated the importance of a department that, outside of the Department of Fish and Game, was as near and dear to his heart as any of the agencies given the relationship amongst so many of the facets of DCCED to the well-being of all of Alaska, not just rural Alaska.

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Representative Kawasaki referred to slide 24. He asked about the growth line between the FY 17 Management Plan to the present day. He wondered why it seemed so steep in comparison to many of the other agencies.

Commissioner Hladick could not explain it, as it occurred before his tenure started with the department.

Ms. Reardon remarked that she did not entirely understand the question.

Representative Kawasaki asked for justification for the growth in personal services between FY 07 and FY 17. He realized the graph was a LFD graph. It appeared that the growth was not due to salary increases.

Ms. Reardon pointed to the lower right and detailed that about half of the increase reflected increased personal services versus salary increases. She explained that the department had several programs that entered and exited the department. For example, at one point AGDC entered with 38 positions, which in a department that has about 500 positions, was a significant percentage. As the department expanded in the number of professions and the volume of professionals requesting licensure increased, so did the department's position control number (PCN) count even though the division was self-funded. The division had had a dramatic increase in the number of license applications over the years. She could provide additional information.

Representative Kawasaki recognized the increase for AGDC and for marijuana. However, the graph increased significantly even before FY 15 and FY 16. He wondered if some of the increase had to do with the disposal of grants through the department when the state had much larger

budgets. He was not sure if there was staff affiliated with specific grants.

Ms. Reardon responded that there was an increase over time of three grant administrators. She would be happy to provide more of a breakdown year-by-year of what constituted the changes.

Co-Chair Neuman suggested that Ms. Reardon provide the information for distribution to the committee.

Representative Kawasaki thought that the slide from the previous day reflecting PCN counts would help members of the committee understand how the department had been impacted by recent budget cuts.

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Representative Kawasaki asked Ms. Reardon to explain the change to travel and tourism marketing. He wondered what was envisioned for the future.

Commissioner Hladick responded that historically tourism marketing had gone back and forth between the state and industry. The industry had approached the department requesting to take it back over which was what the department was currently facilitating. He reported being on the ASMI board. The board was very cognizant of the situation the state was in and was working diligently to reduce the budget and to take on more responsibility for the budget as the state dollars depleted. He reported having been asked whether ASMI should plan for no state funding within two years. The commissioner concurred with the idea given the state's fiscal situation and the price of oil.

Representative Kawasaki asked about the expectations of industry to participate in funding certain programs such as tourism marketing and seafood marketing. He asked if the administration was pursuing negotiations specifically with the old Alaska Travel Industry Association (ATIA) and ASMI. He wondered what it would look like.

Commissioner Hladick answered that it was ATIA that came forward with a proposal. He believed the administration had talked to ATIA on the matter. The department had been working with the administration and the Office of

Management and Budget to facilitate. He continued that regarding ASMI the expectations were that there would be less funding. They were not going to raise fishermen's fees, as it was not a good year to do so. He mentioned that the sentiment of the board was to buckle down and persevere.

Co-Chair Neuman recognized former House Representative Mary Sattler in the audience.

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Representative Gara wanted to clarify his previous questions. He wanted to better understand about the cuts being made to the department. He wondered if the cuts were reasonable or whether the department was being cut to or past the bone. He commented that it would be difficult to paint an accurate picture for the legislature to know what services remained in place that were necessary and what services were not. He hoped the subcommittee would decide what was important to the agency, to the state, and to Alaska's communities. He was not getting the information currently. He did not think a monkey could do the commissioner's job. However, when the commissioner's answer was that the department was meeting goals, it did not help him understand what was being cut. He referred to slides 19 and 20 and remarked that there were some very important functions DCCED performed.

Co-Chair Neuman was certain the commissioner would be willing to talk to him any time he wanted.

Representative Gara commented that it would be nice to get answers in committee also.

Co-Chair Neuman stated, "We'll get you the schedule."

Representative Gara countered that the state could also raise revenue to deal with the budget gap. He continued to slide 19 and he compared UGF in the FY 16 Management Plan to the FY 17 Governor's Plan. He noted an \$8.5 million proposed reduction from \$30.4 million to \$21.9 million. Next he referred to slide 20 and pointed out that the UGF governor's decrements added up to \$5.4 million. He wanted to know which number was accurate in UGF cuts.

Ms. Reardon asked about the \$5 million Representative Gara was referring to.

Representative Gara responded that on page 20 under FY 17 governor's decrements the UGF reductions equaled \$5.402 million. Whereas, the decrement looked like \$8.5 million in UGF cuts. He wanted to understand the difference in the numbers

Ms. Reardon acknowledged there was a difference. She explained that the \$8.2 million number was the correct amount. The difference was that one was compared to the adjusted base and one to management plan. It was a starting point for the comparison.

Representative Gara referred to slide 19 and observed there was a \$3.4 million difference from \$25.3 million to \$21.9 million when compared to the adjusted base. On slide 20 the UGF cut was \$5.4 million. There were three different UGF numbers from FY 16 to FY 17: \$3.3 million, \$5.4 million, and \$8.2 million. He expressed confusion over the discrepancies.

Ms. Reardon was confident of the accuracy of the charts but was having difficulty following Representative Gara's comparisons.

Representative Gara pointed to the FY 17 governor's decrements of \$5.402 million UGF on slide 20. On slide 19 comparing the UGF from the management plan the decrement was over \$8 million. When comparing UGF between the governor's plan and the adjusted base the cuts were \$3.4 million. He continued to review the numbers on the slide for clarity.

Ms. Reardon mentioned that the substantial difference between management plan and adjusted base had to do with marijuana. It looked large because marijuana funding was done for FY 15 and FY 16 as a one-time-only [increment] for the adjusted base. The \$2 million swing that Representative Gara was seeing had to do with having to remove the marijuana money and reinserting it as an increment in order for the budget to be the same as the previous budget (due to a two-year funding of marijuana in FY 15 and FY 16. It was in the capital budget as an operating item. There was something unusual looking. She was confused because of his

comment regarding \$3 million. She offered to sit down with the representative to review the numbers.

Co-Chair Neuman clarified that she had backed out the \$1.5 million for FY 16 and placed it into FY 17 for a difference of \$3 million.

[2:26:15 PM](#)

Representative Gara asked for the most accurate number for the department's budget cuts between the FY 16 management and the governor's proposal. Ms. Reardon responded \$8.272 million in UGF.

Co-Chair Neuman asked the commissioner's staff to look at the numbers and provide an answer to Representative Gara's question.

[2:27:02 PM](#)

Representative Guttenberg referred to water problems in Flint, Michigan and suggested it was an example of a local community taking care of its own problems. He highlighted the RCA and the Division of Insurance and did not see either division living up to its mission and responsibilities. He mentioned that there was a broadband taskforce that came out with a report with languish. Connect Alaska, a federal program, had also come out with a broadband report. He remarked on the report's expansive size and believed it was an absolute waste of time. In speaking with individuals and all entities about economic development, broadband was the common thing that everyone agreed was lacking. He opined that providing proper broadband was the one thing that would help to expand commerce and diversify the state. He was aware the RCA was going to Washington DC to encourage the Federal Elections Commission to implement "The Alaska Plan" which would provide the industry to plan for the future. He suggested that no one was drawing entities together to help to move Alaska to the next level. He argued that Alaska was on the verge of not being able to communicate because the speeds have to be three times faster every day. He expressed his concerns about the state not taking the issue seriously and not moving fast enough. He spoke to former Governor Walter Hickel's comment, "A budget built on cuts alone is no vision at all." He suggested that as the legislature cut the budget and contracted government the legislators should

be looking for places to create opportunities. He asked if the department was doing anything or if the governor's office had any vision.

Commissioner Hladick had read the report Representative Guttenberg had referred to. His observation was that the price tag surprised several people. He mentioned the Quintillion broadband project which he thought was a great idea. He did not know how far along the project was. The department whole heartedly supported them. He added that the state did not have the money to make broadband possible at present. He agreed the state should be doing something.

Representative Guttenberg communicated he had some ideas and would be talking about them.

[2:31:05 PM](#)

Representative Guttenberg segued into discussing his concerns about the Division of Insurance. He spoke to the increase in medical and insurance rates for the state. He thought a key to the increase was the cost of medicine and how it was billed to insurance. He opined that the state needed to get control of medical costs. He believed the Division of Insurance was a key to doing so. He wondered if there was a plan to facilitate a billing database that would allow the state to compare rates and costs in order to negotiate better rates for the state. It was his understanding that the state was only able to insure within the state. He noted some entities grouping together to negotiate terms. He thought the same concept could be applied to the state. A medical executive had recommended that Alaska begin to practice tourist medicine. The concept behind tourist medicine was to send people outside to shake things up. It was something he had objected to because of what it might do to the medical industry. He emphasized that the administration needed to consider the cost differentials inside of Alaska and Alaska and other places. He asked the commissioner to comment.

Commissioner Hladick replied that it was a long conversation that was also political. He thought the state owed it to the people who had spent time and money setting up their businesses to talk to them about the cost of healthcare before sending them out of state. He felt that it was important to have the discussion with several people.

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Representative Guttenberg mentioned the possibility of having a cost database. The state would have a better picture of the cost differentials and know who to talk to. He wondered if it had been discussed within the department.

Commissioner Hladick replied that he had not talked to anyone specifically about the database issue and could not comment.

Co-Chair Neuman suggested that Representative Guttenberg was thinking of the All Payer Database.

Representative Guttenberg responded in the affirmative.

Co-Chair Neuman explained that the All Payer Database was a place where hospitals would be required to post the costs of medical procedures online to facilitate people shopping and perhaps bringing down costs with competition in the marketplace. He had spoken with Department of Health and Social Services Commissioner Valerie Davidson about the issue and recommended asking her when she came to the table.

Representative Guttenberg noted that sometimes it was difficult to determine who to speak to about the issue. He suggested having all the parties involved sitting at the table.

Representative Wilson pointed to \$2.05 million UGF under economic development on slide 10. She wondered what portions were comprised of grants and salaries. She also wanted to know who the state was granting the money to. She also highlighted \$4.5 million UGF under tourism marketing. She was fairly certain that state statute indicated a 50/50 split. She stressed that the amount was not 50/50. She clarified that the budget for tourism marketing totaled \$8.103 million of which \$4.5 million was UGF.

Ms. Reardon replied in the affirmative.

Representative Wilson asked about ASMI. She noted that its budget was \$24 million and the state was only contributing \$3.4 million. She asked if she was correct. Ms. Reardon answered positively.

Representative Wilson noted there was a large percentage between the two amounts and asked if there was a reason for the disparity. Commissioner Hladick replied that in part ASMI was supported through a small tax to fishermen and also federal dollars. He believed the largest portion of dollars going to ASMI were the fisheries dollars. He would supply the breakdown.

Representative Wilson asked for the same information related to tourism. Commissioner Hladick replied in the affirmative.

Representative Wilson pointed to slide 13 under the Division of Community and Regional Affairs. She asked if the department could provide the breakdown of UGF dollars in the amount of \$7.2 million.

[2:38:20 PM](#)

Commissioner Hladick replied positively.

Representative Gattis spoke about broadband. The co-chairman had directed her to delve deeply into the issue of broadband at the subcommittee level. She agreed with Representative Guttenberg's comments about the importance of technology as a tool to be used to make things more affordable. She remarked that the broadband report indicated that Alaska's technology was old and outdated. She indicated that her subcommittee was looking at combining the education, library, and health broadband to be more efficient. She was also working on the issue with the federal delegation.

Co-Chair Neuman mentioned the commissioner working with the Division of Insurance. Recently he had been notified that the state was not allowing Moda insurance to practice in the state; the state currently had one insurance provider, Premera. He wondered how the commissioner saw that influencing the cost and availability of insurance for Alaskans.

Commissioner Hladick replied that the order of impairment was issued that stopped Moda from writing new policies or renewals. Moda still had a certificate to operate in Alaska. The administration had been negotiating with the company for the previous 7 days, 10 to 12 hours per day. He

thought there was going to be an agreed upon solution shortly. He hoped to have a positive press release by the following Monday.

Co-Chair Neuman noted he had had constituents calling his office asking for information. He referenced individuals with current Moda contracts and asked if their policies would be honored.

Commissioner Hladick replied in the affirmative. He stated that if a person had a policy with Moda they should continue to go to the doctor and submit their claims. The state was working diligently to ensure that claims were honored.

Co-Chair Neuman asked if information was going to be released on the following Monday. Commissioner Hladick replied in the affirmative.

Representative Gara clarified that Moda would continue to honor the claims for people who had gone to the doctor from the present day and in the past. He also wondered if policies would continue into the future.

Commissioner Hladick replied that the department was working hard to make sure it was into the future.

Representative Gara spoke to the state's small population and the lack of diversity in insurance pools making things more difficult for costs and insurance. If Alaska was able to pool with other states, it might drive down the cost of insurance. He had been told that under the Affordable Care Act the director of the insurance division could take steps to pool with other states. He asked if anything had been done on the issue.

Commissioner Hladick would look into the matter.

Co-Chair Neuman asked if the department had any information on Representative Gara's prior questions.

[2:43:07 PM](#)

Ms. Reardon replied in the affirmative. She indicated that the numbers were reflected the same on both slides 19 and 20. She thought part of the confusion may have been in reading down and adding without following it cumulatively.

She began with looking at slide 19 at the FY 16 management plan UGF total of \$30 million. She flipped to slide 20 and pointed to the top line that also reflected the FY 16 management plan UGF total of \$30 million. She continued reading down following the FY 17 adjusted base backing out items to get the adjusted base total UGF of \$25 million. Referring back to slide 19 the FY 17 adjusted base equaled \$25 million. She switched again to slide 20 and continued reading down the UGF column. She reported that the FY 17 governor's increments returned marijuana money that had been removed as one time money and unallocated cuts totaling \$1.9 million UGF. She moved on to highlight the FY 17 governor decrements totaling \$5.4 million. By adding the increments and subtracting the decrements from the FY 17 adjusted base totaled \$21 million. She returned to slide 19 reading from left to right. The FY 16 management plan reflected a total of \$30 million, the FY 17 adjusted base totaled \$25 million, and the FY 17 governor's plan totaled \$21 million.

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Representative Gara stated that the only discrepancy he noticed was that Ms. Reardon had been talking about an \$8.2 million cut from FY 16 management plan UGF to the governor's proposal but it looked like an \$8.5 million cut.

Ms. Reardon replied that the \$8.2 million reflected "all funds" and \$8.5 million reflected UGF.

Vice-Chair Saddler commented that he had seen the tourism marketing costs decline. He had heard the tourism industry ask questions and protest. He wondered what would happen if the entire state support for tourism marketing went away leaving the burden to private industry which received much of the benefit. He was not advocating for it but was just asking the question.

Commissioner Hladick responded that in 2006 the state provided about \$5 million. The funding levels were returning to the FY 05 and FY 06 levels. He relayed that he had not spoken with anyone about what would happen if state funding for the tourism industry was discontinued.

Co-Chair Neuman indicated that the committee would move to the next budget overview with the Department of Administration (DOA).

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^FY 17 BUDGET OVERVIEW: DEPARTMENT OF ADMINISTRATION

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SHELDON FISHER, COMMISSIONER, DEPARTMENT OF ADMINISTRATION, introduced himself and his colleagues. He moved to the PowerPoint Presentation: "Alaska Department of Administration Department Overview."

Commissioner Fisher began with slide 2: "DOA Mission and Organization." He relayed that he would attempt to move quickly through the slides.

Co-Chair Neuman asked the commissioner to review the numbers for the benefit of all who were listening.

Commissioner Fisher explained that the mission of the Department of Administration was to provide consistent and efficient support services to other agencies. The department also had a material set of services that it provided to the public. The services provided to other state agencies fell within specific divisions. The Division of Finance provided accounting and finance functions of the state. The Division of General Services provided leasing and purchasing services for the state. The Division of Risk Management provided the risk management and insurance functions for the state. The enterprise technology Services provided the information technology functions. Lastly, he noted the Division of Personnel and Labor Relations was self-explanatory.

Commissioner Fisher continued that in terms of services to the public the Division of Motor Vehicles and the Division of Retirement and Benefits were housed within DOA. The department also had two legal and advocacy functions which were the Public Defender Agency (PDA) and the Office of Public Advocacy (OPA). There were also four commissions that were quasi-independent that the department administered including the Oil and Gas Conservation Commission, the Violent Crimes Compensation Board, the

Alaska Public Offices Commission, and the Alaska Public Broadcasting Commission.

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Commissioner Fisher discussed slide 3: "DOA Budget Reductions by Component." He explained that the slide reflected the department's General Fund reductions that had occurred or planned to happen in the current budget that had been submitted. The funds were broken down by core services which were at the top of the list including hearings, general services, the Public Offices Commission etc. The department separated out OPA and PDA. He noted that the administration's legal and advocacy services accounted for 65 percent of the general funds within the department. They were critical functions to Alaska's most needed and vulnerable members of society. The department had attempted in budget cuts over the past few years to minimize the impact on those organizations. Although it is displayed that over the past two years the department reduced UGF spending by 34 percent. In the legal and advocacy functions the department had reduced its spending by a little over 5 percent. He highlighted the funding for Public Broadcasting and AIRRES [Alaska Information Radio Reading and Education Service] which was down by 32 percent over a period of two years. He also noted that the special system under the formula program referred to the Elected Public Officer's Retirement System was down 10 percent. There was not much the state could do to reduce it because it was a general funded retirement system and was driven by mortality rate.

Commissioner Fisher continued that some of the drivers for the department non-formula core services reductions included furloughs, layoffs, and an increased vacancy factor. There were reductions to travel, support contracts, and cell phone usage. The department had renegotiated cell phone contracts, reduced subscriptions, reduced building services and other janitorial services. He suggested that much of the department was supported through rates which had not been increased for other agencies. The department's Enterprise Technology Services group had also cut rates by a little over \$1.6 million to other agencies in addition to a reduction of 34 percent. He advocated that the department was doing its best to try to not only reduce its budget but to reduce the budget to other divisions that it supported.

Commissioner Fisher reported that the department's procurement arm reached out to virtually every vendor that was funded by GF in the past year seeking concessions in contracts and was able to reduce procurement by about \$5 million in existing contracts across the state. He added that the savings did not just impact DOA's budget. He spoke to some of the measures OPA took to help reduce the budget. He noted that the division had previously used contract lawyers in certain instances and have hired additional lawyers bringing the work in house and reducing the budget by about \$640,000. Both agencies had aggressively used furloughs over the current year. Also the Public Defender Agency had been centralizing a number of functions that were previous completed in each office improving efficiencies. All of the divisions were using vacancies and teleconferencing to minimize costs.

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Commissioner Fisher turned to slide 4: "DOA FY 17 Budget INCS, DECS." The slide showed the FY 17 increments and decrements from the budget submitted by the department. He pointed to the largest increment associated with third party administrator costs of \$2.4 million. The money was associated with the state's AETNA contract. He knew that the number was an obviously significant number. He indicated that there would be further discussion about healthcare and AETNA. He thought it was important to recognize that in the request for proposal the department had initiated a couple of years prior the focus was to drive network savings. He believed the department had seen a fairly substantial decrease in network savings across both the retiree and active plans to the extent of over \$40 million in savings over the network the state had used previously. He added that while the state was paying a third-party administrator more than before, the administrator was aggressively working with the state to build a more cost effective network of which the state was enjoying substantial savings overall.

Commissioner Fisher moved down the slide to point out a decrement that eliminated a subsidy to the Linny Pacillo Parking Garage and the Nome State Office Building in Anchorage in the amount of \$292,000. The decrement impacted other agencies, but the department had been working aggressively to replace the revenue with other revenue and had found tenants and the public to lease the garage. He

thought the revenue would be replaced largely with third-party receipts from non-state users. The department would be able to offset the decrease in revenue.

Commissioner Fisher indicated the reduced funding for Elected Public Officers was associated with mortality in the group. The following two line items reflected maintenance and operations and the maintenance contract work completed by the Enterprise Technology group, which had been done to reduce contracts and maintenance costs. There was a funding reduction to Public Radio. The department proposed a fairly material reduction, although it was in line on a percentage basis with the other reductions that have been submitted for other parts of the department's core operations. He reviewed the \$644, 000 reduction for bringing more legal work in house resulting in more efficiencies. He noted that at the bottom of the page there were a couple of increments associated with OPA and PDA of increased receipts for appointed council and public guardian fees. He explained that it was in effort to collect more from clients. There was a process where the court determined that a person could contribute to the cost of their defense, although not 100 percent. In past years there had been lapses and DOA wanted to collect to the full extent. The department was also assessing whether a fee increase was appropriate. He additionally reported that the public guardian fees had not increased for many years. The department intended to apply an inflation factor and increase public guardian fees to offset some of the decreases that OPA had received.

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Co-Chair Neuman wanted to allow for questions at the end of the presentation and time was limited.

Commissioner Fisher mentioned some of the supplemental requests which included an increase of \$200,000 due to Legislative Audit increasing its fees to the department. Also, the Office of Public Advocacy provided defense for one of the defendants in "The Fairbanks Four." The department incurred some unexpected charges which were reflected in the supplemental budget.

Commissioner Fisher skipped the following four pages to slide 9: "Core Initiatives and Challenges." He reported that when he had presented in the previous session he had

discussed five core initiatives within DOA. They had to do with labor which was both wages as well as productivity, healthcare costs, IT consolidation, purchasing, and facilities management. The department was describing and talking about the initiatives in a different way. The department was also approaching them in a slightly different way - a more mature way. All of the prior areas of focus were included in the presentation. He also mentioned talking about challenges having to do with OPA and PDA. He noted that there would be a specific subcommittee meeting regarding Alaska Land Mobile Radio (ALMR).

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Commissioner Fisher moved to slide 11: "Bargaining Unit (BU) Detail." Labor negotiations were currently beginning with four bargaining units representing approximately 78 percent of DOA's employees. Typically the non-union employees followed the arrangements the department made with the bargained employees. In effect 86 percent of the department's employees would be impacted by the current round of negotiations.

Commissioner Fisher advanced to slide 12: "DOPLR - Current Status of Contracts." In June of 2014, the department reached a tentative agreement with Marine Engineer's Beneficial Association (MEBA). The agreement included a number of terms including a cost of living adjustment (COLA) of 0 percent in 2014, 1 percent in 2015, and 2 percent in 2016. The legislature had approved the contract and MEBA had not sent it to its members for a vote. The Marine Engineer's Beneficial Association felt that there was a misunderstanding and the department was looking at mediation to resolve the issue. The department had also reached a tentative agreement with the Teacher's Education Association of Mt. Edgecombe (TEAME) that did not include COLAs. He reported that an agreement (not on the slide) had been reached the previous evening with Alaska State Employees Association (ASEA) often times referred to as the general governmental unit (GGA) which was the largest bargaining unit that the department negotiated with.

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Commissioner Fisher continued to slide 14: "Status of Alaskacare Health Plan." He reported that the state spent

between its active employees and its retirees between an excess of \$600 million on healthcare. Between \$120,000 and \$130,000 of that was associated with active employees and the rest was associated with state retirees. In looking at the chart in 2010 the department had started seeing a dramatic increase in healthcare spending. He reported a 16 percent increase between FY 10 and FY 11 and a 13 percent increase between FY 11 and FY 12. As he mentioned the prior administration went out for an RFP aggressively seeking to find an administrator that could bring a more cost-effective network of providers for member to use. After that a leveling out and a flattening of healthcare costs could be seen. He continued that between FY 14 and FY 16 there was a dip in the amount the department budgeted for healthcare costs on a per-employee basis. A spike occurred in the state's healthcare costs when the state started discussing temporarily furloughing or laying off its workers. Typically when workers felt threatened with the possibility of being laid off or losing their position they tend to consume more healthcare than they would in ordinary times. The department was currently seeing a spike. As a result, the department believed that the rate of \$13.46 million for FY 17 was too low and it was in the process of evaluating its strategies and tools around how to deal with the circumstances.

Commissioner Fisher scrolled to slide 15: "Mitigation Measures." He spoke to four primary levers the state could manipulate as the state thought about how to mitigate increased costs. The first was that the department could negotiate better rates with providers. He informed the committee that the department was in current negotiations with Alaska Regional Hospital and Providence Medical Center and also working to improve rates with other providers. He added that employees could contribute more to their plan which was included as a topic in bargaining discussions. He suggested that the state could also change the plan design. Deductibles, co-payments, and other things could be increased. The state could also make an increased contribution. The department was exploring all options and expected that all of them would be necessary to close the fiscal gap. The department was also doing an audit of dependents to ensure everyone on the plan was eligible.

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Commissioner Fisher discussed slide 17: "Current state: Decentralized." He explained that one of the core strategies that the department was developing was the notion of centralizing services in an affective way to reduce costs. The diagram represented the recognition that many of the back office functions were decentralized. He prefaced that shared services would never touch what might be considered a mission critical function. The idea was intended to provide a more efficient and effective way to deliver the common administrative tasks. A number of the tasks included, fiscal, human resources, procurement, IT, and facilities. Currently every department had some function on the list. The state was aggressively looking at how to centralize functions and drive efficiency. He noted that DOA would be making a detailed presentation on the subject on the following Thursday to the House Finance Committee.

Commissioner Fisher reviewed slide 18: "IT Consolidation: Cross-Agency IT Projects." He reported that there were four initiatives underway to improve the state's IT services. He mentioned the rural broadband initiative. The state was redesigning its network to rural Alaska. It would improve the level of service and decrease costs. He indicated that it required that the state rebuild the network and purchase new equipment. The department did not seek an appropriation for that purchase but rather took a modest amount of funding that it had from the operating budget, took a first location, purchased the equipment, and as the costs reduced would take the savings to then fund the purchase for each successive location. He reported that the department was about 50 percent of the way through the rollout of the network. He thought that when it was fully deployed the state would see a savings of about \$800,000.

Commissioner Fisher turned to slide 19: "IT Consolidation - Procurement." He explained the department had initiated an IT spend review board. Any purchase of IT equipment in any department that came to a centralized board. The board was made up of individuals from the department as well as from the other departments. The board reviewed purchases to ensure that spending was efficient and that the state's purchasing capacity was being leveraged properly.

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Commissioner Fisher moved to slide 21: "DGS - office space Portfolio." He emphasized that DOA was trying to reduce lease costs. The department had been working with both buildings the state owned and managed and working with lessors to reduce the scope of janitorial expenses, cleaning, and window washing. In the process of renewing leases the department had been looking to negotiate more aggressively, recognizing the state's fiscal challenge as well as the challenge of the market as a whole. The Department of Administration saw opportunities to reduce leases and was trying to leverage those. He pointed to the bottom of the chart noting the Linny Pacillo Parking Garage. The department had made a large effort to bring a tenant in to provide some revenue opportunity.

[3:14:11 PM](#)

Commissioner Fisher advanced to slide 23: "OPA Caseloads." He reported a trend of increased caseloads in both OPA and PDA. The Office of Public Advocacy had three primary functions. They provided a guardian ad litem function for juveniles, a guardian function for adult wards that were no longer able to take care of themselves and needed assistance, and legal functions in cases which the public defended had a conflict of interest. He pointed to the chart which showed the caseload had increased dramatically in the previous year driven primarily due to child in need of aid cases or CINA cases). It had been driven by a change in the way the Office of Children's Services was administering the program combined with increasing issues of heroin and other drug abuse. In the past year alone there had been 1,000 more appointments than the prior year and the trend was continuing.

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Commissioner Fisher continued to slide 24: "PDA Historical Caseload Growth." He noted a similar grow in civil cases. The child-in-need-of-aid cases were civil cases that had had a 43 percent increase year over year within PDA. It had been somewhat offset with downward trends in post-conviction cases, felony cases, and misdemeanor case. Overall PDA's caseload was up. Both organizations were meeting deadlines, their constitutional obligations, and working diligently to control costs in the face of a growing caseload.

Vice-Chair Saddler asked to what extent the department was trying to embrace the missions and measures results-based budgeting effort.

Commissioner Fisher reported that the department was in the process of establishing missions and measures. He did not feel that the missions and measures inherited by the prior administration really represented the core functions of the department; the items had referred to things like family services. He detailed that some of the numbers seen were included "in that." He viewed missions and measures as another way of setting smart goals. The department was developing smart goals, which were specific measurable goals to drive the department. He would be happy to come back to present on the topic.

Vice-Chair Saddler thought they were very effective tools for advocating for and defending reductions. He asked about the funding for public broadcasting and ARRIES. He referred to slide 3 that listed a 32 percent reduction in Alaska public broadcasting and ARRIES. He wondered if the cut applied to just ARRIES or if it pertained to the entire public broadcasting service.

Commissioner Fisher replied that it was both. He noted that ARRIES was a fairly modest portion. He thought the ARRIES portion of the reduction was about \$50,000.

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Co-Chair Neuman asked about the potential savings of nearly \$67 million per year having to do with the consolidation of IT and other areas. He asked about the status.

Commissioner Fisher indicated that the department continued to push forward. He had highlighted some of the initiatives. He suggested taking a copy of the spending review. The department was hoping to achieve a savings of millions of dollars. He had shared that there were four core initiatives that the department was looking at to see a material savings. The department would continue the consolidation process. The department had a three-year goal.

Co-Chair Neuman asked for an update as soon as possible. Commissioner Fisher responded in the affirmative.

Co-Chair Neuman asked about the previous administration's space standards initiative to save money. He wondered if the effort had ceased.

Commissioner Fisher reported that the department had paused the effort for a couple of reasons. He indicated that the effort was viewed as counter-productive in some regards by other departments. He suggested that just because it was not popular did not mean the department would not implement it. However, there was feedback that it was actually reducing productivity. Therefore, the department had paused the project. He furthered that to rebuild and leverage space standards required the state to make an investment. In the current fiscal climate it was important to determine what government would look like on the back end. He wondered if there would be substantial reductions and whether functions be impacted more or less than others. He wanted to allow the process to happen in order to know where the state was at.

[3:20:46 PM](#)

Representative Wilson referred to slide 23. She asked about the number of cases of each guardian ad litem.

Commissioner Fisher responded that he had the information related to guardians but not guardian ad litem. He would have to provide the information. He reported that the guardians in Alaska had 86 wards, while the recommended maximum caseload was 40.

Representative Wilson asked if the commissioner had stated 64 or 86. Commissioner Fisher replied, "86."

Representative Wilson asked how many cases each of the public defenders had. Commissioner Fisher answered that he did not have the figure on hand.

Representative Wilson asked how many cases each of the conflict attorneys had. She referred to OCS's estimate that the number of children in state custody would increase by 19 percent and asked how the increase would impact DOA's agencies.

Commissioner Fisher answered that there was no question that OPA and PDA were stretched. He hoped the members recognized that was why the department had largely

protected them in the budget cuts. The department was working with them to try to drive as much efficiency as possible but the offices were stretched.

Representative Wilson mentioned silos. She did not believe the department could solve the issue on its own. She also asked about driver's licenses. She understood that the group running the safer driver's license program had been sold to an international company. She wondered how it would impact Alaskans and how privacy would be maintained. She did not believe the state was saving money by placing it in the hands of another company. She was aware that it would run out in the following year. She wondered if the department intended to renew and what privacy policies would be put into place.

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Representative Guttenberg asked if the commissioner would have the person running the rural broadband initiative get in touch with him. Commissioner Fisher replied, "Yes."

Representative Gattis read from a list of questions from one of her constituents:

- What employees are currently being furloughed?
- Are any union employees being furloughed?
- What would it take to furlough a public employee?
- Are the unions willing to sign a letter of agreement on the furlough?

Representative Gattis asked the commissioner to walk her through the process of downsizing and to discuss the challenges for DOA in doing so.

Commissioner Fisher answered that regarding furlough it was a subject of bargaining. In FY 16 many departments utilized furloughs as a cost savings measure. However, it had been utilized by non-covered employees largely on a voluntary basis. A number of employees had taken a furlough for two to five days as a way of saving costs. In terms of the state's covered employees, it required bargaining and was an element that the department had been discussing with the unions. The agreement the department reached with the GGU union the previous evening included mandatory furloughs for those employees. The department would continue its

conversations relating to furloughs. Specifically, the ability to furlough a union employee required bargaining.

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Representative Gattis wanted to make sure that the process was on record. She stated that many in private industry were taking reductions and were adamantly vocalizing that public employees should participate in the same process.

Representative Kawasaki referred to slide 17. He mentioned redundancy and appreciated the commissioner's work on centralizing some of the internal core functions. He wanted hear more about how DOA was working with municipal governments, school districts, village councils, and tribal governments in terms of centralizing some functions that the entities all share. He would wait for the commissioner's response on the following Thursday. He noted that leasing was done through the General Services Division. Members had heard a presentation by the Department of Transportation and Public Facilities about the 800 facilities that the department worked with directly. He wondered if there was any sharing between the two agencies.

Commissioner Fisher responded that he would address Representative Kawasaki's question when the department met to talk about shared services. There were other agencies in addition to DOT and DOA doing their own building maintenance. One of DOA's projects was to consolidate all of the building maintenance into a single organization.

Co-Chair Neuman asked the commissioner to look at the possibility of providing maintenance to some of the smaller schools when considering shared services for maintenance.

[3:29:20 PM](#)

Representative Gara referred to slide 23. He asked for verification that guardian ad litem were responsible for advocating for children, including their placement and ensuring proper care. Commissioner Fisher concurred.

Representative Gara assumed that in FY 16 the division would likely break the record in terms of caseloads for the guardian ad litem. He asked if he was accurate. Commissioner Fisher agreed.

Representative Gara mentioned that from FY 12 through FY 15 caseloads had roughly doubled. He asked if the number of guardian ad litem had increased. Commissioner Fisher replied, "It has not."

Representative Gara asked if it was fair to assume that by FY 16 caseloads had more than doubled. Commissioner Fisher thought it was fair but did not have a figure with him. However, he confirmed the trend was continuing.

Representative Gara asked if the commissioner had spent any time with the guardian ad litem to see if they were able to adequately help the children they were assigned.

Commissioner Fisher responded that there was no question that the organization was under stress. The department had strived to minimize any impact on the particular group because of the very issues Representative Gara highlighted. He added that there was no question that DOA was challenged with OPA.

Representative Gara asked if the children were being fairly and adequately represented in court to ensure promoting their interests and improving outcomes. Commissioner Fisher believed that through diligent efforts and hard work DOA was meeting the needs of the children and also meeting the state's constitutional obligations.

[3:32:03 PM](#)

Representative Gara asked if he was aware whether guardian ad litem were spending time with their clients or just opening the children's case files the night prior to a court hearing.

Commissioner Fisher reported having conversations with the director of the group. He could not speak to any specific case. However, it was a mix depending on the circumstances.

Representative Gara asked if the state had the highest guardian ad litem caseloads in the nation.

Commissioner Fisher would provide the information. He was aware that the state's guardian caseload was the highest in the nation. However, he did not know specifically about the guardian ad litem caseload.

Representative Gara requested that the commissioner let him know where the state ranked.

[3:33:15 PM](#)

Vice-Chair Saddler commented that the state had had some success in recent years in getting legislation through to mandate the private insurers in the state cover autism therapies. The legislature had thought that the next step would be for the State of Alaska's employee insurance to cover it and the previous administration had begun evaluating the possibility and potential cost benefit of doing so. He wondered if the commissioner had any update on the status of that effort in his department.

Commissioner Fisher did not have an update but would provide the information.

Vice-Chair Saddler communicated his intent to speak to the commissioner offline.

HB 255 was HEARD and HELD in committee for further consideration.

HB 256 was HEARD and HELD in committee for further consideration.

HB 257 was HEARD and HELD in committee for further consideration.

Co-Chair Neuman reviewed the agenda for the following Monday. The committee would be hearing FY 17 budget overviews for the University of Alaska and the Department of Military and Veterans Affairs.

#

ADJOURNMENT

[3:34:01 PM](#)

The meeting was adjourned at 3:34 p.m.