

HOUSE FINANCE COMMITTEE

March 31, 2016

8:32 a.m.

8:32:16 AM

CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 8:32 a.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

Jerome Selby; Marty Rutherford, Acting Commissioner, Department of Natural Resources; Alex Nouvakhov, Division of Oil and Gas, Department of Natural Resources; Matt Gill, External Affairs, Senior Manager, Tesoro; Senator Stoltz, Sponsor, District; Denise Daniello, Executive Director, Alaska Commission on Aging; Jacqelli Ziegenfuss, Administrative Operations Manager II, Senior Disabilities Services, Department of Health and Social Services; Kris Curtis, Legislative Auditor, Alaska Division of Legislative Audit; Marie Darlin, AARP, Juneau; Representative Cathy Tilton.

SUMMARY

HB 249 ELECTRONIC TAX RETURNS & MOTOR FUEL TAX

HB 249 was SCHEDULED but not HEARD.

HB 250 INDIV. INCOME TAX: CREDITS; RETURNS

HB 250 was SCHEDULED but not HEARD.

HB 319 SNOWMOBILE REGISTRATION FEES

HB 319 was SCHEDULED but not HEARD.

HB 373 APPROVAL OF SALE OF ROYALTY OIL TO TESORO

HB 373 was REPORTED out of committee with a "do pass" recommendation and with one previously published indeterminate fiscal note: FN1 (DNR).

SB 124 EXTEND SUNSET ON AK COMMISSION ON AGING

SB 124 was HEARD and HELD in committee for further consideration.

CONFIRMATIONS: ALASKA MENTAL HEALTH TRUST AUTHORITY

Co-Chair Thompson reviewed the agenda for the day.

[8:33:32 AM](#)

^CONFIRMATIONS: ALASKA MENTAL HEALTH TRUST AUTHORITY

He relayed that Laraine Derr would not be confirmed during the current meeting.

[8:33:59 AM](#)

JEROME SELBY, was interested in the public service position because he saw it as an opportunity to help Alaskans using state resources. The Mental Health Trust assets would be used to develop jobs for Alaskans while providing more funds for the trust and its targeted set of beneficiaries. He enjoyed developing natural resources of which he had several years of experience.

Mr. Shelby had been the Mayor for the Kodiak Island Borough for 24 years. He had also served on the U.S. Department of the Interior, Minerals Management Service, Outer Continental Shelf Policy Committee making decisions

regarding all of the offshore oil assets in America. The borough had operated the Kodiak Island Mental Health center while he was mayor. Since then the management of the center had been contracted out to Providence hospital. He had a long history of working with the trust. He also felt that it was a good time to ensure additional dollars went into the trust because of the state's tight budget times. He spoke of the Alaska Mental Health Trust Board recently approving about \$4 million in assistance dollars to the Department of Health and Social Services (DHSS). He enjoyed working together to come up with solutions to benefit the people of Alaska.

Representative Guttenberg commented that Mr. Selby had an impressive resume. He asked him to talk about how he would apply his personal experience to the board. He wanted him to elaborate on how he would be a natural fit. Mr. Selby had a substantial history in health care going back to 1971 and had a good feel for health care delivery. He spoke of his experience in Kodiak using the land the borough had received from the state to generate revenue through a number of leases. Several of the leases became development opportunities that fueled and strengthened Kodiak's economy. He enjoyed putting things together to make successful ventures.

[8:38:56 AM](#)

Vice-Chair Saddler asked if Mr. Selby was actively serving. Mr. Selby was currently serving and had attended the February and March board meetings. He was pleased that a timber sale had been approved by the board at the March meeting.

Vice-Chair Saddler mentioned that the board had made some important decisions to dedicate funds to the Medicaid reform bill. He asked Mr. Selby how he voted. Mr. Selby commented that with his limited experience on the board he relied on recommendations from staff and other board members. He used a "common sense" approach measuring against the Alaska Mental Health Trust's guidelines and mission.

Vice-Chair Saddler mentioned that the range of trust beneficiaries was broad. He asked if Mr. Selby had a better understanding or experience with any one class of beneficiaries over another. Mr. Selby did not. The mental

health center within the Kodiak Island Borough tried to serve a range of needs. He was aware that it was an unreasonable expectation that the center could cover every possible need especially with limited funding. Therefore, wise decisions had to be made.

[8:42:48 AM](#)

Vice-Chair Saddler asked about how Mr. Selby would influence the trust's board decisions. Mr. Selby responded that he hoped his expertise would help the board make better decisions and would result in return in revenues and service delivery. He noted his ability to help discern amongst various options and to make tough decisions. He was comfortable and had a significant amount of experience making difficult decisions.

Representative Edgmon thanked the committee for the thoughtful questions and spoke in support of Mr. Selby's appointment to the board. While Mr. Selby was mayor of Kodiak, the representative had a long work relationship with him. He mentioned the trust as a unique body with a unique responsibility. The representative thought that Mr. Selby's experience being an ideal fit in terms of him being a very involved member and the mission of the trust authority. He encouraged other members to support Mr. Selby's confirmation.

Co-Chair Thompson acknowledged Representative Cathy Tilton in the audience. He stated that he encouraged the advancement of Mr. Selby's name to the joint body for confirmation.

[8:45:57 AM](#)

AT EASE

[8:49:05 AM](#)

RECONVENED

Co-Chair Thompson intended to move HB 373 out of committee in the current day if it was the will of the members.

#hb373

HOUSE BILL NO. 273

"An Act relating to the transfer of the title to a vehicle, including certain manufactured homes and

trailers, on the death of the owner; and providing for an effective date."

8:49:50 AM

MARTY RUTHERFORD, ACTING COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, indicated she would be providing a brief overview of the proposed sale of the state's royalty oil to Tesoro.

Commissioner Rutherford relayed that she would discuss the process and the criteria for royalty-in-kind (RIK) sales. She would also discuss the specific contract terms of the Tesoro RIK contract. She would also be mentioning another royalty oil contract the state was in the mist of negotiating.

Commissioner Rutherford began with slide 2: "Royalty In-Kind versus Royalty In-Value":

The State has a choice to take its royalty in-kind (RIK) or in-value (RIV)

- When the State takes its royalty as RIV, the lessees who produce the oil also market the State's share along with their own production and pays the State the value of its royalty share.
- When SOA takes its royalty share as RIK, the SOA assumes ownership of the oil, and the DNR Commissioner disposes of it through the sale procedures prescribed by AS 38.05.183.
- Currently, the SOA receives all royalties as RIV; historically, the SOA has regularly taken royalties as RIK.

Commissioner Rutherford advanced to slide 3: "Non-Competitive RIK Sale Process":

- Before taking RIK, the DNR Commissioner must find it is in the State's best interest.
- DNR must decide whether to sell RIK pursuant to a competitive auction or a non-competitive, negotiated sale.
- Solicitation of Interest issued January 2015 to prospective purchasers to gauge market interest.

- DNR determined that there was not competition allowing for a competitive sale, and proposes to enter into the negotiated 5 year contract with Tesoro.

Commissioner Rutherford continued to slide 4: "Commissioner's Decision Criteria":

AS 38.05.183(e) states that the commissioner must sell the State's royalty oil to the buyer who offers "maximum benefits to the citizens of the state." In making this determination, the commissioner must consider:

1. The cash value offered
2. The projected effects of the sale on the economy of the state
3. The projected benefits of refining or processing the oil in state
4. The ability of the prospective buyer to provide refined products for distribution and sale in the state with price or supply benefits to the citizens of the state
5. The eight criteria listed in AS 38.06.070(a), as reviewed by the Royalty Board

Commissioner Rutherford noted that she would be talking about the eight criteria in greater detail in another slide.

Commissioner Rutherford turned to slide 5: "Approval Process for the RIK Sale":

- DNR must make a Best Interest Finding (BIF) in support of the sale
- Preliminary BIF issued February 2016; final BIF issued in March 2016.
- DNR presented the sale to the Royalty Board on March 15, 2016; the Board reviewed the BIF and the contract, and unanimously voted to recommend the Legislature approve the sale to Tesoro.
- Prior to finalizing the RIK contract, the Legislature must pass a bill ratifying the contract with Tesoro (HB 373; SB 205).

[8:54:44 AM](#)

Commissioner Rutherford discussed slide 6: "Royalty Board's Decision Criteria":

AS 38.06.070(a) states that the Alaska Royalty Oil and Gas Development Advisory Board must consider:

1. The revenue needs and projected fiscal condition of the state;
2. The existence and extent of present and projected local and regional needs for oil and gas products;
3. The desirability of localized capital investment, increased payroll, secondary development and other possible effects of the sale;
4. The projected social impacts of the transaction; and
5. The projected additional costs and responsibilities which could be imposed upon the state and affected political subdivisions by development related to the transactions.

Commissioner Rutherford stated that number 3 was not applicable because the state was selling to an existing refinery that had been using alternative privately purchased supplies. She also relayed that number 5 was not applicable because the state had an established refinery.

Commissioner Rutherford turned to slide 7: "Royalty Board's Decision Criteria Cont.":

AS 38.06.070(a) states that the Alaska Royalty Oil and Gas Development Advisory Board must consider:

6. The existence of specific local or regional labor or consumption markets or both which should be met by the transaction;
7. The projected positive or negative environmental effects related to the transactions; and
8. The projected effects of the proposed transaction upon existing private commercial enterprise and patterns of investment.

Commissioner Rutherford added that the royalty board reviewed the final best interest finding and the associated Tesoro contract. They voted unanimously to recommend that the legislature approve the sale.

Commissioner Rutherford spoke on slide 8: "Tesoro RIK Contract Terms":

- 5 year contract for 20,000 to 25,000 barrels per day.
- The RIK sales price uses a netback formula and provides higher revenue to State compared to RIV.
- If Tesoro nominates zero barrels for 3 consecutive months, the contract terminates.
- Security: Tesoro shall provide a letter of opinion from a financial analyst or a stand-by letter of credit equal in value to 90 days of ANS royalty oil (if rating falls below BBB- and Baa3).
- In-state processing: Tesoro to use "commercially reasonable efforts" to manufacture refined products from the ANS royalty oil.
- Employment of Alaska residents: no discrimination against AK companies and residents.

Commissioner Rutherford highlighted that Tesoro had over 210 Alaskan employees and employed over 40 Alaskan contractors. The plant was located in Nikiski and had been in operation for several decades.

[8:58:26 AM](#)

Commissioner Rutherford detailed slide 9: "RIK Contract Price":

ANS Spot Price - \$1.95 - Tariff Allowance +/- Quality Bank Adjustments - Line Loss

- ANS Spot Price = Average US West Coast Price for Alaska North Slope oil (reported by industry trade publications Platts and Reuters)
- \$1.95 RIK Differential
- Destination value minus marine costs so RIK > RIV.
- Tariff Allowance = TAPS and Pipelines upstream of PS-1.
- Quality Bank Adjustments = as reported by TAPS Quality Bank Administrator.

- Line Loss (loss of volume between PS1 and the VMT).

Commissioner Rutherford pointed to the price formula listed at the top of the slide in red. The Revenue In-Kind contract prices equaled the Arctic North Slope (ANS) spot price minus \$1.95 minus a tariff allowance, adjusted for a quality bank - either up or down - minus line loss. She explained that ANS spot price was the destination value of ANS at the United States West Coast - determined by reports from the industry trade publications, Reuters and Platts. The next item deducted was a location differential. She reported that the amount of \$1.95 was used in the solicitation of interest. She explained that starting with the ANS spot price the state deducted the marine transportation costs. When the state received RIV and looked to the working interest owners the shippers/producers charged the state between \$3.30 and \$3.70 for the cost of the marine transportation from the Valdez Marine Terminal to the West Coast. The state then deducted the tariff allowance, a combination of the Trans Alaska Pipeline tariff and the upstream pipelines. Following those deductions the state adjusted for a quality bank, determined by the TAPS quality bank administrator at the Federal Energy Regulatory Commission (FERC). Finally, the line loss was deducted, the loss of volume that occurred between Pump Station 1 and the Valdez Marine Terminal. The resulting figure equaled the value that the state of Alaska received. She explained that difference between RIK versus RIV was about \$1.95 versus \$3.50 - about \$1.50 in the state's favor. The only distinction between calculating the RIK versus RIV had to do with the amount being deducted.

Commissioner Rutherford highlighted slide 10: "Contract is in the State's Best Interest":

- DNR estimates the State will receive \$45 to \$56 million in additional revenue over taking RIV.
- Producers deduct around \$3.30 to \$3.70 from the west coast value as a "transportation deduction" in arriving at the price for RIV.
- The proposed Tesoro contract will deduct only \$1.95 as a "location differential" from the west coast ANS value.

- The proposed sale provides crude to Tesoro's refinery at Nikiski with associated economic and social benefits to Alaska's economy:
- Tesoro employs approximately 210 Alaskans
- Tesoro produces 59,000 bpd refined products at its Nikiski refinery
- Tesoro refinery's estimated contribution to the local economy is \$127mm

[9:02:55 AM](#)

Commissioner Rutherford moved to slide 11: "Additional Royalty Oil Sales":

- Additional royalty oil volumes are available for the other in-state refiner, Petro Star; helping maintain a competitive in-state refining industry.
- DNR is currently negotiating sales with Petro Star of remaining royalty oil under similar contractual terms.
- The proposed Tesoro contract and forthcoming Petro Star contract will allow for additional sale oil nominations to maximize royalty oil sales if the State has more royalty oil than is currently forecasted.

Commissioner Rutherford added that if the volume fell the state would be pro-rationing both contracts down together. She concluded her presentation and made herself available for questions.

Co-Chair Thompson asked about the quality bank adjustment. He asked her to elaborate on the subject.

Commissioner Rutherford suggested Mr. Nouvakhov would be a better person to address Co-Chair Thompson's question.

ALEX NOUVAKHOV, DIVISION OF OIL AND GAS, DEPARTMENT OF NATURAL RESOURCES, responded that the quality adjustment in the netback evaluation equation looked at the crude which was being sold at the entry of the TAPS and compared it to the comingled stream at the Valdez point. If any residuals were frozen into the TAPS the payment or penalty would be borne by Petro Star rather than the sellers. The two contracts between the State and Tesoro and between the state and Petro Star would have the same quality adjustment.

Commissioner Rutherford explained to Mr. Nouvakhov that because both Petro Star and Tesoro took their oil at the terminus the question was whether there was any quality bank adjustment involved in the formula for Tesoro.

9:06:30 AM

Mr. Nouvakhov responded in the affirmative. He explained that there was because, depending on the nominating field, the state had an option as to which fields and crudes were nominated. For example, if the state nominated something for the crude oil field and then compared that to a commingled final crude in Valdez there might be a quality adjustment.

Co-Chair Thompson was still unclear. He thought the quality bank had to do with the amount of product taken off by Petro Star in the Fairbanks area. They take out a part of the product and what was placed back in the line was of a lesser quality. Therefore, there was a quality bank change to Petro Star. He furthered that if Tesoro took it out in the same as it would go to the West Coast and did not put anything back in the line, he wondered if there would still be a quality bank adjustment. They did not put back a lesser quality product into any line.

Mr. Nouvakhov responded that Co-Chair Thompson was correct that Tesoro did not put any product back into a line. He detailed that the crude the state sold at the point of delivery at Pump Station 1 could be of a different quality than the final commingled ANS crude which Tesoro took at the Valdez Terminal.

Commissioner Rutherford furthered that the state received an average of 12.5 percent from certain fields. The state took delivery of its RIK from Pump Station 1. What was delivered downstream from that could be of lessor or greater quality. The quality bank used an adjustment to calculate either a deduction or an increase to the state's value to ensure the state would receive the pure molecular value for the units from which the state received its oil.

Representative Wilson commented that Petro Star would be effected by the quality bank differently than Tesoro because of their location. She did not think how they [Tesoro] were effected had anything to do with their contracts because a certain portion was not in the

contract. It was dealt with separately because of it being a federal government related transaction and certain information was unknown at the time. Commissioner Rutherford indicated she was correct. She relayed that it was an effort to ensure that where the state took its molecules and the composition of the particular molecules were accommodated so that when they were mixed with everything going into line the state received the appropriate value for the molecules.

[9:10:03 AM](#)

Representative Wilson thanked Department of Natural Resources for making it possible for the state to keep its own oil in the state and using it for the in-state refinery. She hoped it would result in keeping the refinery more profitable and steady. She hoped the state had learned a lesson from what happened at Flint Hills and looked forward to the arrival of Petro Star.

Representative Gara was fine with the bill. He was glad a rider was not in the bill like there had been two years previously. He commented that the more he looked at the legislation the unhappier he became about what the legislature did 2 years prior. He explained that legislation that passed granted up to \$10 million per year of tax credits adding to the royalty renewal contract for three company owners of refineries. Tesoro had indicated they did not want them. He did not believe the state was in the kind of financial condition to continue that kind of legislating. He opined that in part the budget was very unfair to many people. He thought it would be unfair not to give the \$10 million to Tesoro if the state was giving it to others. He would consider offering an amendment on the House Floor.

Co-Chair Thompson indicated that the discussion would continue on the house floor.

Representative Guttenberg had assumed that the quality bank calculation was zero. He realized that there were adjustments for quality per field. He queried if there was a daily calculation on flow rate. He wondered if the state was taking oil from its high volume fields. Commissioner Rutherford responded that she would ask Mr. Nouvakhov to speak to his question about flow. She responded that the State of Alaska received its royalty oil as it was produced

by producers. The state could not over lift or under lift. When the producers produced from various fields the state received its royalty percentage from particular leases. If there was a variation of the royalty rate, it would vary between leases. The state took it as it was produced by the various working interests by field and by lease.

[9:13:54 AM](#)

Vice-Chair Saddler asked about the effects of the price indices rising substantially. He wondered if the contracts for the sale to Tesoro had any provisions for an escalated price. Commissioner Rutherford explained that the place where the state captured how the price was variable was at the ANS spot price.

Vice-Chair Saddler asked Commissioner Rutherford to describe the negotiations that lead to the equalization of the pro-rata provisions in exchange for changed volume for Petro Star.

Commissioner Rutherford detailed that when the department went out for the solicitation of interest the state received various responses. Two of the five parties that responded were North Slope Producers who had indicated that while they might be able to meet a price point of \$195 they were intending to ship out of state for refining. The state had received a response from Flint Hills indicating they were closing down and not interested. The state also received a response from Petro Star that they were interested but were not willing to hit the price point. Tesoro expressed their interest and willingness to hit the price point. The state, then began its negotiations with Tesoro. As negotiations with Tesoro progressed Petro Star came back expressing their interest and the desired price point. The state was well into the negotiating process with Tesoro. As part of trying to accommodate Petro Star's desire for volume the state asked Tesoro if it was willing to give up some of its volume to accommodate Petro Star's interest. The state believed it was good to have a competitive environment for refining in Alaska. In exchange the state had looked at providing Tesoro with a preferential pro-rationing position. She furthered that as the negotiations continued a point was reached where all partners were relatively satisfied. In the end it was decided that neither party would have a pro-rationing

decision. The state would pro-ration down equally between any contracts the state had in place.

Co-Chair Thompson asked for further questions.

[9:17:22 AM](#)

MATT GILL, EXTERNAL AFFAIRS, SENIOR MANAGER, TESORO, urged members support for the legislation. He read from a prepared statement:

Tesoro Corporation is a Fortune 100 company and is an independent refiner and marketer of petroleum products. Tesoro's refining operations started Alaska with the purchase of the Kenai refinery back in 1969.

Our Kenai refinery has the operational capacity to produce up to 72,000 barrels per day and is primarily focused on Jet and Diesel production followed by gasoline and gasoline blendstocks, heating oil and heavy fuel oils, propane and asphalt. We operate a 68-mile, common-carrier products pipeline that transports jet fuel, gasoline and diesel fuel to the Port of Anchorage and the Anchorage International Airport. The wholesale delivery of our products occurs through our terminals in Kenai, Anchorage, our Nikiski dock and the Port of Anchorage.

In addition to being the largest taxpayer in the Kenai Peninsula Borough, Tesoro is also able to provide around 225 family wage jobs at the refinery, along with about 30 full-time contractors that are working in and around the refinery year round. We provide retail fuels at our company-owned Tesoro 2-Go retail outlets as well as at numerous branded and unbranded outlets. We employ operators who work at our terminals in the Port of Anchorage and in Nikiski.

We are a major supporter of the Cook Inlet Regional Citizens Advisory Council (CIRCAC) and the largest member of the Cook Inlet Spill Prevention & Response team (CISPRI).

We actively support a wide range of local events and programs - from employee fundraising for the United Way to youth sports programs. Each year we sponsor all of the 5th and 6th grade classes on the Kenai

Peninsula to conduct a mission at the Kenai Challenger Learning Center and we are the Signature Sponsor of "Caring for the Kenai" program.

Tesoro strongly urges you to support House Bill 373, "An Act approving and ratifying the sale of royalty oil by the State of Alaska to Tesoro Corporation and Tesoro Refining and Marketing Company LLC; and providing for an effective date."

This legislation is the result of constructive dialog and productive negotiations between the Department of Natural Resources and the Tesoro Corporation. By all accounts, our company was very impressed with the State's ability to understand our issues and arrive at a mutually beneficial agreement that is truly a win-win for both parties as well as accommodating to the other refineries in the State.

For the State, the DNR estimates that it will continue to receive a price for its Royalty-in-Kind oil that exceeds the price it would have received if it elected to keep its Royalty Oil in Value.

For Tesoro, this 5 year contract will provide us with a stable supply of ANS crude while also giving us the volumetric flexibility to help accommodate seasonal fluctuations in demand for refined products. The availability, flexibility and stability that this contract offers will have a positive impact on our ability to maintain our ongoing operations at our Kenai refinery.

In order to accommodate the needs of the other in-state refiners, Tesoro and the State modified this contract to reduce volumes as well as eliminate a proration clause and a 5 year extension option.

Tesoro believes in Alaska's future and is committed to being an active corporate citizen. We look forward to continuing to provide Alaskans with clean burning fuels to keep your homes warm and your cars, boats and snow machines traveling across this great state.

I urge you to support House Bill 373.

[9:21:20 AM](#)

Representative Pruitt reported regularly getting asked about pricing. He asked Mr. Gill how Tesoro saw the sales impacting the consumer. Mr. Gill clarified that Representative Pruitt was asking about gasoline prices versus oil prices.

Representative Pruitt responded affirmatively. Mr. Gill relayed that the approval or denial of the contract before the committee would have no direct impact on street prices of gasoline and Tesoro's other oil products. It was strictly a commercial transaction between Tesoro and the State of Alaska, equivalent to a commercial seller.

Vice-Chair Saddler queried about any other supply of crude oil that would replace the state RIK oil. He wondered about the current source of capacity assuming there would be no change in the refinery throughput. Mr. Gill reported that currently Tesoro took every drop of oil produced in Cook Inlet, the company's base supply. It supplemented the Cook Inlet oil with ANS crude either through state royalty contracts or through contracts with other North Slope producers. On rare occasion the company had to import crude oil from out of state to fill its' needs. Currently, Tesoro's royalty oil contract, which expired in January 2016, left the company with a gap until the new contract was in effect in August 2016. It was his understanding that the company had to purchase some Russian crude to bring into the refinery.

[9:23:37 AM](#)

Co-Chair Thompson OPENED public testimony.

Co-Chair Thompson CLOSED public testimony.

Co-Chair Thompson asked Vice-Chair Saddler to review the fiscal note.

Vice-Chair Saddler reviewed one indeterminate fiscal note from DNR, Division of Oil and Gas, Office of Management and Budget, component number 439. The fiscal note was dated March 23, 2016.

Co-Chair Neuman MOVED to report HB 373 out of Committee with individual recommendations and the accompanying

indeterminate fiscal note. There being NO OBJECTION, it was so ordered.

HB 373 was REPORTED out of committee with a "do pass" recommendation and with one previously published indeterminate fiscal note: FN1 (DNR).

[9:25:01 AM](#)

AT EASE

[9:29:05 AM](#)

RECONVENED

#sb124

SENATE BILL NO. 124

"An Act extending the termination date of the Alaska Commission on Aging; and providing for an effective date."

Co-Chair Thompson relayed the next bill, SB 124. He did not intend to move the bill from committee in the current meeting. He read a list of available testifiers.

[9:29:57 AM](#)

SENATOR STOLTZ, SPONSOR, explained that his district was part of the home of the fastest growing senior population in the State of Alaska. He had introduced the bill by request. It was a bill supported by numerous organizations of seniors, individual seniors, and a wide array of others. He wanted to reflect that it was not his bill but one that belonged to the senior community and a broader group of Alaskans.

Senator Stoltz relayed that the extension of the sunset which would expire in July 2016 followed the recommendations of the Budget and Audit Committee. Ms. Curtis and her staff performed the audit and recommended an 8 year extension. There were other recommendations including the commission improving its public notices of subcommittees. He encouraged public participation. He doubted that the commission did anything intentionally to discourage public involvement. The other recommendation was a gentle admonition, because of scarce resources, to confine its' agenda to activities of senior Alaskans rather than wandering into other policy areas. The Senate State Affairs Committee and the Senate Finance Committee looked

at the fiscal impact. The Senate Finance Committee had a lengthy discussion about the fiscal note, which he remarked was a significant aspect. There were recommendations made by the Senate Finance Committee for more significant cuts. The committee mediated at the reduction of one person in the current year and the potential reduction of 2 people in subsequent years. They arrived at those conclusions working with the administration.

Senator Stoltz felt the bill was fairly straight forward and came down to whether the commission performed a significant role. He thought the Alaska Commission on Aging was the conduit for which federal funds were received. He thought the amount was approximately \$11 billion. He and the audit division believed the commission performed an important function. The Senate Finance committee looked at the finances and remembered two words, "We're broke," that were relevant to any discussion on any state issue being dealt with. In spite of the state's fiscal situation he thought the commission had a worthy role.

[9:35:11 AM](#)

Co-Chair Neuman mentioned the analysis on the fiscal note it discussed how the Older Americans Act provided \$12,851 in funding for seniors in FY 16. He wondered if the commission decided how the money was spent. Senator Stoltz responded that the commission, working with the administration, was likely to decide how the money was to be spent. He deferred to Ms. Daniello to provide a detailed description. Some of the money was designated through various components of the budget.

Co-Chair Neuman thought members were advocates of local control. The health commission controlled federal funds for programs that affected seniors. Senator Stoltz added that it was one of the strongest citizen boards in the state. He noted that Rachel Greenberg from his region was a great member. He also mention Edna Debreeze, another active member. He thought there was a deep well of knowledge and capability on the citizens' board that he was not as concerned about a diminution of admission the board was a solid citizen's board.

Co-Chair Thompson thanked Senator Stoltz. He called Ms. Daniello to the table to answer questions.

9:38:07 AM

DENISE DANIELLO, EXECUTIVE DIRECTOR, ALASKA COMMISSION ON AGING, introduced herself.

Co-Chair Thompson was looking at the fiscal note eliminated by the other body. He wondered about the elimination of one full time position from the commission in FY 17 and two full time positions beginning removed from the budget in FY 18. He asked about the effect it would have on the board's ability to fulfill its statutory responsibility.

Ms. Daniello commented that it would have a dramatic impact on the board's ability to do what it had been doing since the commission's inception in 1981. Based on her understanding of the Senate Finance Committee's fiscal note it was an elimination of one position in FY 2017 and an elimination of a second position in FY 18 for a total of two staff positions resulting in a 50 percent reduction of its staff. She remarked that the state had a growing senior population. Currently, there were more than 120,400 seniors, 75,000 of whom were 65 years and older. It was not just the growing senior population, but was also the growth of the number of people of the oldest old. She continued that each cohort of the senior population had different needs and resources. The commission worked to do research on prevailing trends and report data on a variety of indicators. The commission convened stakeholder groups and met with seniors around the state to ask for their input. The commission developed the Alaska State Plan for Senior Services, a 4 year comprehensive state plan, and was in charge of its implementation.

Ms. Daniello also spoke of doing a significant amount of education, advocacy, and planning efforts. The commission provided guidance to other agencies of state government that were also targeting how to address the growing senior population within their planning efforts. She detailed the loss of the administrative assistant who took care of the day-to-day business transactions for the commission. The position also helped provide board meeting packets and many other administrative duties. She reviewed the duties of the Planner 2 position that would be lost; the person worked with the executive director to develop the state plan for senior services satisfying the requirement under the Older Americans Act to draw down the \$11 million in funding. If the fiscal note was approved the commission would continue

to do its best to satisfy its mandatory requirements. She mentioned having done much more over the past years. She noted hosting senior housing summits, the power of aging symposium and working with partners to develop other planning efforts. She reiterated that the loss of staff would affect the commission greatly.

[9:41:54 AM](#)

Co-Chair Thompson asked if the commission would be able to fulfill its statutory requirements. Ms. Daniello answered that the commission had a year to prepare for the loss of the Planner 2 position. She relayed that the commission was very good at partnering. She assured the committee she would do her best to fulfill the mandatory statutory requirements.

Co-Chair Neuman asked what positions were currently filled, their duties, and their salaries.

Ms. Daniello relayed that currently there was an administrative assistant position responsible for the day-to-day business activities of the commission. She worked with that person to develop financial projections. The administrative assistant was also responsible for procuring all travel, doing financial reports required for travel, procuring office supplies, answering phones, handling mail, and other miscellaneous duties.

Ms. Daniello identified the second position at the commission, the Planner 1 position, funded by the Alaska Mental Health Trust Authority using the trust's authorized receipts. She furthered that because the position was funded by the trust the person was responsible for focusing on the needs of senior trust beneficiaries including older people with behavioral health needs, depression, mental illness, and specifically Alzheimer's disease and related dementias. Additionally, there was a growing population of people with intellectual and developmental disabilities who were aging as well as their caregivers.

Ms. Daniello moved on to describe the duties of the third position in her office, the Planner 2 position. This position was very important to the commission conducting day-to-day research and assembling information to compile graphs and charts used in PowerPoint presentations, reports, and position papers. The position also provided

assistance to the executive director in developing needs assessment activities and provided different types of needs analysis used to collect information from the public that informed advocacy and the state plan for senior services. The position also supported the executive director in coordinating the state planned advisory committee meetings and provided support in developing the plan including the goals, strategies, and performance measures. The position also helped with organizing efforts for the commission's newsletter and other responsibilities.

Ms. Daniello reviewed her own duties as the Executive Director for the commission. She oversaw all of the work of the commission including planning, advocacy, and education. The position also prepared all of the PowerPoint presentations, position papers, and formal correspondence from the commission to legislators, the governor, public members, state agencies, and non-profit organizations. The Executive Director was responsible for making sure the state plan was developed according to the requirements of the U.S. Administration on Community Living and much more. She relayed that she took direction from the commission, particularly the commission chair.

[9:46:34 AM](#)

Co-Chair Neuman asked about the salary schedules.

Ms. Daniello deferred to Ms. Ziegenfuss to provide the salary information.

JACQUELLI ZIEGENFUSS, ADMINISTRATIVE OPERATIONS MANAGER II, SENIOR DISABILITIES SERVICES, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, asked if she should provide the salaries or the total costs including benefits.

Co-Chair Neuman asked for both.

Ms. Ziegenfuss reviewed the salary schedule. The Executive Director was a range 23, at a salary of \$112,000 per year, a benefits package of \$56 thousand, for a total of \$169,441. The Administrative Assistant 2 position was a range 14, at a salary of \$58,296, a benefit package of \$37,835, for a total of \$96,130. The Planner 2 position was a range 19, at a salary of \$68,801, a benefits package of \$41,623, for a total of \$110,424. The Planner 1 position

was a range 17, at a salary of \$73,809, a benefits package of \$43,429, for a total of \$117,238.

Co-Chair Neuman asked that the information be provided in writing. He thought the salaries were high and he would like Ms. Curtis' input.

Representative Gara asked Ms. Daniello to elaborate on the duties related to accessing \$11 million in federal funding that currently rested with one of the positions slated for elimination.

Ms. Daniello responded that the funds were granted through the Older Americans Act to provide services for seniors. Also, in Alaska Title 3 funds were available providing nutrition, transportation, and support services. It was one of the largest senior grant programs the state had for seniors. The program also include the National Family Caregiver Support Program. The amount of federal funding was over \$5.8 million. Additionally, there was the Nutrition Services Incentive Program which provided funding used to purchase food for senior meals totaling \$467,080. There was also Title 7 funding for elder protection for the Adult Protective Services and the Office of the Long-Term Care Ombudsman totaling \$103,193. There was federal funding for Title 6 programs for tribal organizations in the amount of \$4.4 million. The funding went directly to the tribes because of their direct relationship with the government and the services mirrored services provided through Title 3 funding. The federal funding she spoke of totaled over \$11 million.

[9:51:40 AM](#)

Representative Gara assumed that Department of Health and Social Services had access to the funds. Ms. Daniello answered that the money did not come through the commission but rather through DHSS. The commission did the work in partnership with the Division of Senior and Disabilities Services to satisfy certain requirements ensuring the State of Alaska received funding. She relayed that the DHSS was the sole state agency on aging in Alaska. The responsibilities were spelled out in the Older Americans Act. The administration of federal and state funding for senior programs went through the Division of Senior and Disabilities Services and they managed the funds rather than the commission.

Representative Gara asked about the volume of traffic received through the commission's office. Ms. Daniello responded that the amount of calls the commission received was significant. She furthered that the office also directed people to the Aging and Disability Center for follow-up as well as talking with them. Often times the commission received calls from care givers who were very stressed out.

Representative Wilson wondered if the commission was helping to bring federal funds to Alaska. She also wondered why a portion of the funding was not being reinvested into the commission. Ms. Daniello responded that there was a small amount of money that came to the commission, approximately \$72 thousand. The rest of the funding for the commission came from the General Fund with the exception of the Mental Health Trust Authority Authorized Receipts (MHTAAR) fund for the Planner 1 position.

Representative Wilson wanted to better understand the criteria for determining how much money went to the commission. She mentioned that she did not see \$72 thousand on the fiscal note.

9:55:00 AM

Vice-Chair Saddler mentioned hearing about the possibility of obtaining additional waivers. He wondered how the operations of the commission would change with the potential cuts being proposed. Ms. Daniello relayed that the commission had advocated to have waiver services available to people with cognitive impairments who might not meet the level of care requirements. The commission was pleased with and had been actively involved in the development and educational efforts having to do with Medicaid 1915(i). The commission would be staying involved with the state plan options.

Representative Gattis drew attention to the commission only receiving a small portion of the \$11 million in federal funding. She had heard Ms. Daniello discuss the commission working in tandem with the DHSS. She wondered why more money did not flow directly to the commission. Ms. Daniello explained that the Commission on Aging worked in partnership with the DHSS to satisfy the responsibilities of a state unit on aging. The responsibilities were

described in the Older Americans Act in Section 3056ad. The Older Americans Act specified that the state unit on aging was responsible for having fiduciary responsibilities administering the federal and state funding for senior programs and services, developing a state plan for senior services, and serving as a visible advocate for elders. The commission also provided significant education. She spoke of a series of educational forums. She offered to send Co-Chair Thompson opinions from seniors on Medicaid reform.

Co-Chair Thompson requested that she provide the information to his staff.

[9:59:53 AM](#)

Representative Guttenberg asked if the planners on her staff were also grant writers. He wondered if they were writing grants that brought federal dollars to Alaska.

Ms. Daniello explained that the state plan for senior services was the source of the draw down of federal money. By having that plan the state remained in compliance with the Older Americans Act. The 4 year state plan was approved by the DHSS, the governor, and the U.S. Administration on Community Living. There was an advisory council mostly comprised of public members of senior age. The commission wrote grant applications and employees worked as a team to gather and compile information. She cited an example where her staff submitted an application to the National Alzheimer's Association for funding to include the perceived cognitive impairment model in the behavioral risk factor surveillance survey to gather information about people with cognitive impairment. She mentioned the state never before having the opportunity to receive certain information from Alaskans directly. She relayed that the commission's plan for the following year was to work with a couple of funders to include a module that would look at the needs of family care givers.

Representative Guttenberg asked whether the ability to maintain federal funding was in jeopardy with the loss of two positions being cut. Ms. Daniello was uncertain. She relayed that the commission would do its best to develop a 4 year state plan and to be an active and physical activist for elders.

Co-Chair Thompson invited Ms. Curtis to the table.

[10:03:33 AM](#)

KRIS CURTIS, LEGISLATIVE AUDITOR, ALASKA DIVISION OF LEGISLATIVE AUDIT, reported that the division did a sunset review of the Commission on aging. They looked at whether the commission should be extended and whether they were serving the public's interest. Overall, the audit concluded that the Alaska Commission on Aging (commission) was serving the public's interest by helping older Alaskans lead dignified, independent, and useful lives through advocacy, outreach, and education. Furthermore, the commission served as the advisory council to advise on matters on the development, administration, and operations related to the state plan. The commission met the federal requirement that each state establish an advisory council to advise the state on aging matters. The division recommend the maximum extension in statute of 8 years to June 30, 2024.

Ms. Curtis relayed that there were two recommendations resulting from the audit. The first was for the executive director to implement and follow public notice requirements. There had been some meetings that were not public noticed as required. The second recommendation was to the chair person to review and approve the legislation watch list prior to distribution. The commission periodically held teleconferences to gather public input and discuss legislation affecting seniors. She explained that to facilitate the feedback the commission published watch lists of bills relevant to senior matters. When the auditors looked at the watch lists they found legislation that was not applicable to their duties. The auditors recommended that in order to efficiently use the commission's resources that they limit the watch lists to only bills affecting seniors.

[10:05:19 AM](#)

Representative Wilson asked if a consideration of the number of staff was part of the audit process. Ms. Curtis was asked by the Senate Finance Committee her opinion about whether the commission's staff could do its job and meet responsibilities without jeopardizing federal funding with the loss of a position. She answered that the auditors did not explicitly enter into a sunset review looking at whether the level of positions was adequate or whether they

were compensated appropriately. There were upwards of 200 boards and commissions. The Commission on Aging was given a higher level of scrutiny because it was up for sunset in the current year. She suggested that it could be time for a legislative audit of all boards and commissions. She reported that the Senate Finance Committee seemed to be interested in her suggestion. A similar audit was conducted in 1992. At the time there was a governor's council on boards and commissions that did a holistic review and suggested merging some boards and providing different compensation. She was aware there was interest and thought it might be a good time for such an audit. However, what she stated specifically related to the Commission on Aging was that the auditors did not believe that a loss of a position would impact its ability to produce a state plan, key to maintaining federal funding.

Co-Chair Thompson clarified that in the fiscal note it indicated that in 2018 a second position would be lost. He wondered if that loss would have any affect. Ms. Curtis answered that undeniably when positions were cut services were cut as well. In talking with the staff that conducted the audit they believed there would be a reduction in services provided. It would come down to prioritization of services. She thought the state plan would be a top priority. She was unsure whether the quality of the plan would be compromised. She thought the level of work with less workforce would be much more difficult. It was hard to say if the level of work would lead to obtaining federal funding. The judgement would have to be made in 2 years. The auditors thought the commission could absorb a cut but would likely result in reduced services.

Representative Wilson asked about the amount of federal funding the commission received versus the goals of the commission. She wondered if the auditors ever weighed in on whether the DHSS should provide more funding. Ms. Curtis replied that the auditors did not scrutinize the commission's funding mechanisms. She thought that obtaining additional federal funding would depend on its activities in the current year. The audit and background material laid out information about the federal program and the commission's role in coordination with the department. It was a joint process but the programs themselves were administered by the Division of Senior and Disabilities Services. They had the federal and state programs that

served seniors. The commission was the planning entity. The appropriate funding would be left up to the department.

10:09:42 AM

Representative Pruitt asked about the second recommendation from the auditors. He understood the concern was that the commission would not want the issue to become politicized. He asked if there had been follow-up in order to ensure the commission was staying within the scope of senior services when tracking legislation. Ms. Curtis answered that once the audit was released there was no mechanism for the auditors to go back in. There was no type of review or evidence to support any changes.

Representative Pruitt asked if Ms. Curtis was satisfied with the responses from the commission. Ms. Curtis relayed that the commission as well as the department were receptive and responsive to the audit. She was satisfied with the audit.

Representative Guttenberg referred to the letter from the commission in response to the audit recommendations. The commission concurred with the audit findings and was addressing them. He was aware the commission was responsible for developing a state plan, but wondered who was responsible for implementing it. Ms. Curtis responded that much of the plan was implemented by the department. However, the commission was responsible for outreach and education which was part of the plan.

Representative Guttenberg asked if the commission staff oversaw the department to make sure it complied with the plan. Ms. Curtis responded that one of the functions of the commission was to receive feedback from the people served. She thought the commission was well aware of the degree to which services were provided. She thought it was a more indirect absorption of information rather than the commission overseeing as a hierarchical type of relationship within the department.

Representative Guttenberg was trying to better understand the relationship between the commission and the department and whether it was scrutinized as part of the audit. Ms. Curtis reported conducting a survey of stakeholders to understand the degree to which the commission was successful. The survey responses and questions were in the

back of the state plan. In general, the feedback on the commission was very positive. The plan was redone every 4 years. The degree to which the plan was successful would be reevaluated when developing the next goals. She thought the executive director of the Commission on Aging would be a better person to answer his question. In response to the question about the recommendations provided by the auditors, every time the auditors did a sunset review they familiarized themselves with the previous report recommendations. In the introduction paragraph to the findings and recommendations the auditors always addressed the prior sunset audit recommendations. In the sunsets audits there was a mechanism to come back in a certain amount of time.

[10:15:25 AM](#)

Representative Guttenberg understood requesting feedback and getting feedback. As far as implementing the plan and its success, he wondered if she had looked at any feedback from the federal government on how the state's implementation.

Ms. Curtis responded that the auditors did not contact the federal oversight agency to inquire about their satisfaction.

Co-Chair Thompson OPENED public testimony.

[10:16:44 AM](#)

MARIE DARLIN, AARP, JUNEAU, indicated that AARP frequently worked with the Commission on Aging. The organization represented the aging population and encouraged younger people to join also because they would become part of that population in the future. She was also a member of the commission for several years. She told of the commission's previous audit which she opined had good results. The recommendations that were made at the time were all addressed by the commission. She was also the chairman of the legislative committee for the Commission on Aging and affirmed that as advocates they watched legislation. The commission had a watch list containing all of the legislation introduced relating to the aging population in whatever way. There might have been a couple of pieces of legislation on the list that could not be tied to the topic of the aging. The commission had taken measures to rectify

the list. The watch list was signed off by both the chairman of the commission and herself. She believed the concerns resulting from the audit had been addressed. In discussing a reduction in staff, she commented that once the 4 year plan was put together, then it was up to the commission to look at the implementation of the plan and be able to report and keep track of it. She reported that the commission consisted of 11 members. She emphasized that the commission made very sure that it represented the entire State of Alaska from the smaller communities to the urban communities. When it came to looking at legislation and other issues the commission made sure to have the input from different areas of the state about where it should place its energies and focus. The commission hopefully represented all of the issues and concerns from throughout the state.

[10:22:02 AM](#)

Co-Chair Thompson CLOSED public testimony.

Co-Chair Thompson indicated he would be setting SB 124 aside.

SB 124 was HEARD and HELD in committee for further consideration.

Vice-Chair Saddler commended the board for its good work and thanked the bill sponsor.

Co-Chair Thompson indicated that the balance of the agenda would be rescheduled for another time.

ADJOURNMENT

[10:23:19 AM](#)

The meeting was adjourned at 10:46 a.m.