

SENATE FINANCE COMMITTEE  
February 12, 2015  
9:07 a.m.

[9:07:55 AM](#)

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 9:07 a.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair  
Senator Pete Kelly, Co-Chair  
Senator Peter Micciche, Vice-Chair  
Senator Click Bishop  
Senator Mike Dunleavy  
Senator Donny Olson

MEMBERS ABSENT

Senator Lyman Hoffman

ALSO PRESENT

Pat Pitney, Director, Office of Management and Budget, Office of the Governor; Cheryl Lowenstein, Director, Division of Administrative Services, Department of Administration; Gary Folger, Commissioner, Department of Public Safety; Mark Luiken, Commissioner, Department of Transportation and Public Facilities; Mary Siroky, Director, Division of Administrative Services, Department of Transportation and Public Facilities; Michelle Rizk, Associate Vice President, Statewide Planning and Budget, University of Alaska; Valerie Davidson, Commissioner, Department of Health and Social Services.

SUMMARY

SB 27        APPROP: OPERATING BUDGET/LOANS/FUNDS

SB 27 was HEARD and HELD in committee for further consideration.

#sb27

SENATE BILL NO. 27

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

Co-Chair Kelly introduced a visitor in the audience, Cheyane Masey, Miss Alaska. She was visiting from Wasilla and planned to attend law school in the future.

[9:10:24 AM](#)

Co-Chair Kelly asked the presenter to just hit the highlights in her presentation and encouraged committee members to ask questions.

PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, recognized the gravity of the state's revenue issue as well as the proposed reductions. The reductions, although small relative to the budget deficit, were significant. She relayed that the commissioners or administrative services directors were present at the meeting and that she might be calling on anyone of them for assistance with specific questions. She explained the documents provided to the committee. She referred to a summary sheet that she favored [FY2016 Governor Endorsed Budget Summary by Department, Prepared by the Office of Management and Budget (OMB), dated February 5, 2015]. She also mentioned that two other summary sheets had been distributed to committee members [Department Summary - Operating Budget by UGF and Department Summary - Operating Budget by All Funds]. She indicated that she would be discussing the changes from the original overview provided about three weeks prior to OMB's summary sheet. The top portion of the summary showed the non-formula components for each department. There was a change in the Department of Health and Social Services (DHSS) budget, moving additional funding from formula programs to non-formula programs to make up the department's overall target. Between the management plan and the amendments found on the summary sheet there was an overall reduction for all departments of \$134 million, a 6.12 percent reduction from FY 15. The legislature had its own line item

apart from the agencies due to being a separate branch of government.

Ms. Pitney pointed to the formula items. There was a \$200 million decrease overall, a 5 percent decrease from the previous year. She furthered that the formula decreased by about \$106 million, a 4.8 percent decrease. In adding formula and non-formula reductions together there was a 5 percent total decrease.

Co-Chair Kelly asked for Ms. Pitney to point where she was reading from on the slide. She pointed to the middle of the page where it read, "Total Agency Operations", and directed Co-Chair Kelly's attention to the far right of the row to 5.3 percent decrease from FY 15.

Co-Chair Kelly asked for the dollar amount. Ms. Pitney responded that the decrement totaled \$239 million.

Ms. Pitney discussed the statewide components that served as tax credits and fund transfers increased by \$129 million. Tax credits and retirement payments contributed to the increase. Adding in the all of the statewide components there was a total decrease in operations of about \$100 million from the previous year, a 2 percent decrease.

[9:16:36 AM](#)

Ms. Pitney reported that agency operations and formula funding decreased by \$240 million and statewide components increased by \$129 million resulting in an overall operating cost reduction of \$109 million.

[9:16:52 AM](#)

AT EASE

[9:17:18 AM](#)

RECONVENED

Ms. Pitney moved on to the document titled: "Department Summary - Operating Budget (6) - All Funds." She directed members' attention to the far right side at the bottom of the page where it shows 1.9 percent. She noted that the summary depicted "All Funds" sources which included federal funds, designated general funds (DGF), and other state funds. The difference in the operating budget from FY 15 to

FY 16 was 1.9 percent, driven primarily by the \$145 million increase from Medicaid expansion.

Ms. Pitney turned to the document titled: "Department Summary - Operating Budget (6) - Unrestricted General Funds." She noted the total percentage decrease of 2 percent. She reported an 8.2 percent decrease from FY 15 in the budget for the Department of Administration (DOA). Public radio and television and some administrative changes within the department contributed to DOA's decrease.

Co-Chair MacKinnon had questions regarding the DOA budget. She mentioned that the Alaska Land Mobile Radio (ALMR) payments were significantly decreased by 68 percent. She referred to a 29.4 percent cut to the Enterprise Technology Services, 68 percent of which appeared to be ALMR payments from municipalities and another 13.4 percent for ALMR directly. She asked Ms. Pitney to discuss the specific cut to ALMR.

Ms. Pitney responded that in her discussions with DOA she asked about the impacts of the reduction. The Department of Administration reported that in making changes to contractual services the department could reduce its expenditures for the ALMR program and it could remain intact. However, it was not DOA's intention to pass on the savings to municipalities. She invited DOA staff to make any additional comments.

[9:21:50 AM](#)

Co-Chair MacKinnon asked if the state believed it could make changes that would reduce payments made to municipalities. She wondered if it was shifting costs to the municipalities. She considered her local fire department and the fees it was asked to pay to provide a beneficial service to the community. Fire service was otherwise not available without volunteers. She wanted to be clear as to whether it was a transfer of additional costs to municipalities.

CHERYL LOWENSTEIN, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF ADMINISTRATION, responded that the department would not be passing the costs to municipalities.

Ms. Pitney highlighted reductions in travel and also noted cuts within the Enterprise Technology Services (ETS) division. The division's general fund (GF) was small relative to its total operations. Enterprise Technology Services was run largely through recharging for services rendered. Although it was a large decrease in unrestricted general funds overall it was a smaller decrease in the total operation but removed money from the GF. In the finance area there was a decrease in positions. The Department of Administration decreased in positions in the areas of supply and purchasing. She thought ALMR and public broadcasting would have the largest number of advocates.

Co-Chair Kelly directed Ms. Pitney to continue down the list of the departments focusing on the high points. There would be the opportunity to delve into their details later.

Ms. Pitney reported that the Department of Commerce, Community and Economic Development (DCCED) saw reductions in tourism and marketing, Alaska Seafood Marketing Institute (ASMI), and other administrative reductions. The most publically impactful decrease in the Department of Corrections (DOC) was the reduction in community jails. She mentioned that within the Department of Education and Early Development (DEED) some grant programs on the non-formula side were reduced. For example the bandwidth program, originally \$5 million, was being reduced. There was a learning network that was being cut out and there were reductions to some of the early childhood programs. The largest non-formula component within early childhood development was the Mount Edgecombe School. Other reductions had to do with the administration of the grants she mentioned.

[9:26:13 AM](#)

Ms. Pitney explained the decreases in the Department of Environmental Conservation (DEC). The reductions fell under spill response and general administrative costs. The largest piece was the reduction of inspection services and water and food services within DEC.

Ms. Pitney reported that the significant changes within the Department of Fish and Game (DFG) were fund source shifts from UGF to designated general funds and receipts. In the governor's office there were cutbacks in staff and reductions of one-time items dealing with elections. She

emphasized that the vast majority of ongoing operating decreases were personnel reductions within the governor's office.

Ms. Pitney reported that within the DHSS budget there were reductions in the senior program that replaced the longevity bonus. There were three tiers of income in which seniors receive payments. There was a 20 percent reduction in monthly payments for seniors falling in the two higher income levels. The reduction equated to approximately \$5 million. She reported that there were administrative decreases and other program reductions within DHSS.

Ms. Pitney continued to discuss the department summary. One of The Department of Labor and Workforce Development's (DLWD) largest decrements entailed a restructuring of its Division of Business Partnerships. There were two divisions within the department that were reorganizing. The Department of Labor and Workforce Development was also facing the federal reductions in the job centers. In the prior year there had been some consternation about the closing of a job center. However, federal funding was being stepped-down and would end by 2017. The state would need to determine how it would provide job center services in the future.

Ms. Pitney reported that the cuts to the Department of Law (DOL) were mainly staff reductions including dedicated lawyers. There was also some reduction in contractual services, travel, and commodities. The Department of Military and Veterans Affairs (DMVA) would see reductions in two areas. The first was in the Alaska Aerospace Corporation, which was on a glide path of stepping down by \$2 million per year. The proposed budget did not set aside any UGF for the aerospace corporation, leaving only federal receipts and aerospace receipts in place. A more privatized approach to the aerospace industry was being encouraged. There were smaller reductions within DMVA where the primary fund source were federal dollars.

[9:31:53 AM](#)

Ms. Pitney reported that the Department of Natural Resources (DNR) had a few stand-alone offices such as the areas of right-of-way and permitting that, rather than having designated resources, would be combined with larger offices. It was also suggested reductions to the fire

academy and fire services in the McGrath area. She commented that she was presenting a very high-level overview.

Ms. Pitney continued that the largest change to the budget for the Department of Public Safety (DPS) was the reduction in the number of staff and troopers and not having a dedicated highway patrol unit. As there were fewer staff they would be asked to be more generalist in nature. The dedicated swat teams and dedicated highway patrol would be asked to take on a broader range of trooper services rather than, for example, highway patrol duties or strictly investigations. It was a holistic change being proposed in DPS.

Senator Dunleavy asked the commissioner of DOL about the reductions in his department. He asked whether the reductions were primarily in the areas of civil, criminal, appellate law. He mentioned having ongoing issues with the federal government regarding overreach. He wanted to know which areas the reductions affected.

Co-Chair Kelly relayed that he had a breakdown of the reductions to each division. The criminal division had an unallocated reduction of \$1.8 million, the civil division encompassing oil, gas, and mining took a \$3.5 million hit. He would provide the hand-out to the subcommittee chair. He encouraged Ms. Pitney to wait to answer Senator Dunleavy's question more specifically after she finished.

[9:35:28 AM](#)

Ms. Pitney discussed the reductions within the Department of Revenue (DOR). The department's reductions were largely found within its administrative positions. Another reduction was the proposal to eliminate the Film Tax Credit Office. There were a few positions in several different departments [divisions]. For instance there were 10 positions slated to be cut from the Tax Division inclusive of the 3 positions in the film office.

Ms. Pitney moved on to discuss reductions within the Department of Transportation and Public Facilities (DOT). There was a significant reduction in highway and airport surface maintenance and a decrease in the Alaska Marine Highway System (AMHS) operations. There were smaller areas in which there would be reductions including analyst

programmers and other IT functions. She noted a replacement of fees in some areas. She suggested that the proposed reductions within DOT were \$115 million for road maintenance and \$115 million in UGF for AMHS operations. There was a decrease of about \$3 million in both areas and there were smaller decreases for travel, commodities, and other administrative areas where expenses could be reduced.

Ms. Pitney reported a decrease in the University of Alaska budget of 2.5 percent similar to the one-time funding reduction in education that resulted in a 2.5 percent decrease. The university's reduction was currently unallocated.

Ms. Pitney mentioned a \$3 million reduction within Judiciary and noted that the decrease was currently unallocated. She skipped the overview for the Legislature's budget.

Ms. Pitney noted that the largest piece of the state's debt service under the work-in-progress budget was the consideration of a pension obligation bond. Alternatively, the choice had been made to make a full retirement payment.

[9:40:08 AM](#)

Co-Chair Kelly asked about a gap amount of approximately \$10 million. Ms. Pitney responded affirmatively. She added it was a statewide UGF increment.

Co-Chair Kelly asked where the increment was held. Ms. Pitney responded that her conceptual expectation was similar to how the fuel trigger mechanism was held. The money would be held at OMB with sideboards defining the circumstances in which the funding could be moved. She provided a hypothetical scenario where the state found it necessary to reopen a community jail after closing them down statewide. Gap funds could be used temporarily until a more permanent plan was put into place in order to reopen a jail if it was found absolutely necessary, at least offering a reduced amount of service. The money could be used to fill the gap. She provided another example where the state reduced a particular service within the ETS division and later realized that a department was unable to perform a particular piece of business because. The state could then utilize the gap monies until a better solution was determined.

Co-Chair Kelly remarked that he wanted to confirm that there was \$10 million available as gap funding that could be used under certain circumstances. In the current fiscal climate the money might be necessary.

9:42:10 AM

AT EASE

9:47:09 AM

RECONVENED

Co-Chair Kelly asked Ms. Pitney if DPS had a time constraint. Ms. Pitney responded, "Correct." Co-Chair Kelly asked that questions for DPS be asked first.

Senator Bishop asked how many aircraft DPS owned and of those how many were fixed wing aircraft and how many were rotor aircraft. His questions stem from the governor's comments in the State of the Budget Address about public and private partnerships. He had not heard much detail on the subject and thought it was an area to further explore. Co-Chair Kelly asked if Senator Bishop wanted the commissioner of DPS to comment on the topic.

Vice-Chair Micciche asked Ms. Pitney to remind the committee about guiding principles. He wondered if OMB had reached its goal with the budget. He wanted to better understand why reductions stopped at 2 percent.

Ms. Pitney responded that OMB used the previous administration's management plan as a starting place. All of the commissioners were asked to look at a range of additional reductions from 5 to 8 percent. They were directed to maximize service delivery while focusing on administrative reductions and to determine what partnerships could be formed with various local and community counterparts. They were also asked to recognize potential impacts on other departments. There was a significant interplay between a change in one department and an impact in another department. She provided an example of interplay between DOC and DPS considering the potential impact on public safety by closing community jails. The Office of Budget and Management was able to reduce the component parts in the agency budgets by 5 percent from the previous year. However, the reduction was offset by having to pay tax credits, and making the

retirement payments netting a 2 percent reduction in the state's overall budget. It was the desire of the administration to arrive at a large reduction. She stated it was a matter of balancing between downsizing and the impacts in maintaining a stable economy.

[9:52:46 AM](#)

Senator Dunleavy referred to the supplemental budget that was reviewed in the previous week. At the time there were requests to shift money for a number of reasons including purchasing land in Kodiak, and purchasing another place in Southeast Alaska for \$75 thousand. He wanted to better understand the philosophy being used by the administration. He understood that the new administration had inherited an unprecedented set of circumstances. He did not understand why money would be reappropriated rather than placing it back into GF. He opined that the percentage would exhaust the state's savings quickly. He wondered if the governor's proposal would reflect a much larger reduction in the following year. He wondered if the state would be proposing new taxes and whether there would be requests to change legislation to reduce cost drivers. He indicated he would not be discussing Medicaid expansion, as it would take up too much time. He wanted to understand the philosophy of the administration to reduce the budget in order to get through the current period.

Co-Chair Kelly asked if Vice-Chair Micciche had further questions or comments before Ms. Pitney responded.

Vice-Chair Micciche compared the budget cuts to the advertisements on free yard sticks at a home show. He felt the administration had not arrived at the place where the logo on the yard stick began. He was well aware of each agency trying to protect its people, but he did not see anything in the budget reductions "outside of the box." He wanted to see some ideas on combining and streamlining the administration rather than losing grader operators. He asked if it was possible to combine administration between like departments. He understood the separation of departments but prior to getting any appreciable reductions the commissioners would need to look at new ways of reducing costs without reducing services. He emphasized that there would be an impact on services but he wanted to be assured that the state was looking at sustentative cuts.

9:57:03 AM

Co-Chair Kelly summarized Vice-Chair Micciche's questions. He asked about what the administration was doing regarding future ways to reduce the budget other than simple math. In other words there was nothing remarkable being done that was creative. He asked Ms. Pitney to respond.

Ms. Pitney agreed that the remedy was not a 1-year application. The administration anticipated implementing reductions over a 3-year or 4-year period, to right-size government. She directed commissioners from all of the agencies to picture operating at 75 percent of what their departments ran at presently. She wanted to know from them what services the state would be able to provide. She posed the question of how to address the issues together. She mentioned that information technology (IT), administrative services, and procurement were all areas of focus. Medicaid expansion and reform provided an opportunity for the state to review healthcare across the board. Alaska was the primary funding entity for over 250 thousand health insurance plans including Medicaid, retirees, active employees, K-12 employees, and university employees. She opined that reform could have a tremendous impact on the budget, but it was a longer solution. The short answer was that what she was providing in the current meeting was the first step in the time the administration has had. Some of the creative solutions included the consolidation of administrative services, streamlining internet technology, and addressing statutes that caused increased costs (she referred to \$75 thousand having to do with Etna Bay). Reviewing and addressing certain laws were at the top of the administration's agenda. The administration wanted to wait to have a discussion about revenue until it had a spending discussion. Based on the optimistic oil projections the state might be able to weather the current storm with overall reductions in place. She recalled her first overview before the committee. She posed the question then about how Alaska state government spending look in comparison to other states spending. Alaska was higher but not remarkably different. She posed the question about the right size of government and what the size might be.

10:01:19 AM

Co-Chair MacKinnon directed a question to Commissioner Folger of DPS. She referred to language pertaining to the

Alaska State Troopers as follows: "a Wildlife Trooper aircraft selection with an increase of 69 percent and an addition to the budget of \$2.3 million." She suggested that it appeared the state was replacing something or purchasing something. She requested further detail on the increase.

GARY FOLGER, COMMISSIONER, DEPARTMENT OF PUBLIC SAFETY, responded that the increment increase was for personnel stemming from Helicopter One's crash. The National Transportation Safety Board (NTSB) came back with some recommendations. The department also had an external audit that encompassed three areas; maintenance, training, and operations. The Department of Public Safety took the resulting recommendations very seriously to improve its safety culture. The proposed personnel would assist with this goal.

Co-Chair MacKinnon wanted to better understand where the recommendation came from. She furthered that she wanted to know why the specific positions were a high priority while positions were being lost in other areas. She asked why it was a priority for the legislature to take notice of and fund. Commissioner Folger answered that the recommendations were suggested by NTSB. He explained that safety personnel would divide the aircraft section into two parts; the maintenance part and the operations part.

[10:03:43 AM](#)

Senator Bishop commented about the deletion of domestic violence and sexual assault follow-up trooper positions. He made mention of the governor discussing the public/private partnership in the State of the Budget speech. He wonder if there was an opportunity to have a public/private partnership with the aircraft section in order to find a savings and back-fill the domestic violence and sexual assault follow-up trooper positions. He believed the positions were sorely needed in Alaska, especially in rural Alaska. He was trying to set a tone rather than picking on Commissioner Folger. He wanted an honest conversation to promote accuracy.

Co-Chair Kelly commented that whenever he talked with DPS he got into the conversation about comparing Alaska to other states. It seemed like Alaska spent way too much. However, he argued that a comparison could not be made with other states. Co-Chair Kelly compared the size of the

borough which he lived in to the size of Connecticut. The city had a police department. The State of Alaska relied on the state troopers to do all other policing, as there was no county sheriff. There were also no county jails, no county prosecutors, and no county judges. Nor did Alaska have a community college that it paid for and the state paid less for education. State responsibilities counted as state spending. Almost anywhere else in the United States the same expenses were paid for by the communities. Public safety was a good example of the State of Alaska paid for the costs rather than communities footing the bill. He opined that DPS would not be able to cover all of the areas around Alaska even if the department was increased massively.

Commissioner Folger indicated that the state had about 563 thousand square miles to cover not including the fishery patrol areas such as the Bering Sea. There were about 400 troopers in the state. He had often heard that for every front soldier on the line there were 7 behind them. He was barely at a one-to-one ratio.

[10:07:07 AM](#)

Senator Olson asked about the overall budget and specifically personnel. He remarked that he would hate to see any of the 400 troopers lost. However, the legislature was looking at cuts. He commented that he came from an aviation background and he had heard from people in the aviation industry about all of the state's assets. In looking at the history of aviation and of the state troopers 20 years or 30 years ago there was a Cessna 180 or a Piper Super Cub, equal to \$10 thousand to \$20 thousand, in the rural areas. The state's aviation fleet was more sophisticated and included larger aircraft. He relayed a list of listed specific aircraft types. He mentioned the ancillary expenses that went along with an aircraft including the hangers, the required maintenance, the inventory, and the ongoing training for pilots and mechanics. He suggested cutting costs by reducing the department's inventory of 47 aircraft including fixed-wing and rotary. By liquidating some of the state's assets not only would the state reduce the price of the aircraft but it would also reduce operating costs. As a previous air taxi operator he understood real savings in hard times. He thought the state had a big problem to address and suggested addressing part of it by liquidating assets, an

option he previously exercised in the private sector. He asked about DPS's general plan regarding the issues he brought up.

Co-Chair Kelly thought Senator Olson spoke with authority on the issue.

Senator Olson mentioned that the more aircrafts the state had, the more chance to have an accident occur. Within the prior two weeks the state came very close to the state having to pay out for a fatality with one of the troopers. He asked what ideas had been discussed to ensure that DPS and the State of Alaska would survive.

Commissioner Folger responded that there was no doubt that over time Federal Aviation Administration and the NTSB had clamped down on the public sector aircraft and the private aircraft. He believed it was in the interest of safety. Alaska was a huge state, mostly road-less. The trooper's aircraft were the patrol vehicles. The department partnered with the private sector in charting flights. There were some core missions that private air charters would not participate in. He provided the example of flying into an airport with a madman in possession of a gun or transporting a person with an emergency order of detention.

Co-Chair Kelly commented that he had listened to University of Alaska President, Patrick Gamble, speaking for the university and then went to a lunch-and-learn regarding unmanned aerial vehicles (UAV). He wondered how much of the public safety aviation mission was getting eyes on something and could the state possibly trade some of its inventory for a less expensive UAV.

[10:12:08 AM](#)

Commissioner Folger spoke of complaints about closing a highway for five to six hours when there was a serious accident. He envisioned a day in which a trooper could pull up to an accident, deploy a UAV, and within ten minutes could survey an entire accident scene. He supposed it would be the wave of the future but added that rules and regulations would apply.

Co-Chair Kelly shared that he was shocked to hear about the price and availability of UAV's being impacted by the following Christmas.

Senator Olson restated his question about liquidating some of the state's assets. He asked if DPS had looked at selling off some of its inventory.

Commissioner Folger responded that those were options DPS would look at.

Senator Olson reiterated that Commissioner Folger had talked about the NTSB's recommendations after the A-Star accident in which people died, including ongoing training. In the senator's discussions with the Medallion Foundation the troopers had been involved with training. It was his understanding that participation in the Medallion Foundation and the star program had been cancelled or reduced significantly. He conveyed that over the past three years only three of the troopers stationed in rural areas had taken the Medallion Foundation training. He asked the commissioner if he was correct. Commissioner Folger was unaware of the numbers but indicated that the department was still in partnership with the Medallion Foundation. He added that the department's aircraft section supervisor was a flight simulator instructor. The last few flight safety seminar were held at the state's safety seminar along with the simulator.

Senator Olson asked that he be provided with the number of people that had participated in the medallion Foundation program over the prior year.

Senator Dunleavy asked Ms. Pitney about a target of 25 percent in reductions over the next so many years. He suggested targeting an 8.33 percent for the current year as opposed to what was being proposed currently. He wanted to better understand why OMB did not propose a deeper reduction for the following year.

Co-Chair Kelly asked if there were additional questions for DPS.

Senator Olson asked about the reductions to the number of village public safety officers (VPSO). He asked how many positions would be left after the reductions were put in place. Commissioner Folger replied that one of the priorities was to make up the indirect costs to the grantees and to roll the department's coordinators into the

overseers of the VPSO's from the grantees. In the end he hoped that there would be about 90 positions.

Senator Olson asked if indirect costs had been funded at \$1.5 million and if the department went ahead with the increased direct rates for certain areas what would be the reduction in positions allowed. Commissioner Folger answered that currently the positions were at 121. With the reduction the department had always maintained 80 to 90 positions on average. In the long run he believed the VPSO program would still those personnel employee numbers.

He asked for the highest number of filled positions in the VPSO program in the previous year and for the current numbers. Commissioner Folger reported that there were approximately 101 position filled in the previous year and 80 currently.

Senator Olson concluded there was a 20 percent decrease. Commissioner Folger responded that the turnover rate for the VPSO program was approximately 33 percent.

10:18:00 AM

Co-Chair MacKinnon addressed that the budget reflected a 15.5 percent cut equal to \$2.7 million related to VPSO's. The committee wanted to ensure that communities expecting to receive public safety assistance continued to see the state's support with an understanding of the state's fiscal constraints. She commented that she did not see a cut to prisoner transportation or judicial services. She reported \$4.2 million allocated to judicial services and a separate allocation of \$2.8 million under prisoner transportation. She asked if any policy decisions about delivering the services differently to reduce costs either in the current year or for the FY 16 budget. Commissioner Folger agreed that transporting prisoners was a challenge. He indicated that the department was internally struggling with not having enough people to move prisoners. Prisoner transport was primarily dictated by the court system. He told of reviewing internal policies about when to physically make an arrest; however, some procedures were mandated by law such as those centered around domestic violence.

Co-Chair MacKinnon mentioned the use of video conferencing to try to reduce DPS expenditures. She suggested that the administration work with the courts, the judicial branch,

and DPS to see if it would be feasible to use video conferencing for arraignments and to look at making the necessary statutory changes. She cited an example in Anchorage where vehicles were parked on the side of the road. A uniformed police officer was required to physically deliver the citations rather than having a contractor to mark all of the cars. She thought there would be a cost savings in contracting the job to a private organization but would require a statutory change. At the time the issue came up it was a big photo radar discussion in Anchorage.

Commissioner Folger affirmed that DPS would be looking at suggestions such as the senator's as a result of budget reductions. He conveyed that he sat on the Criminal Justice Working Group that worked with the judicial system, DOL, and with DOC.

[10:22:36 AM](#)

Vice-Chair Micciche remarked that he had been subject to across-the-board cuts. He did not believe they worked because often the highest priorities were hit as hard as the lowest priorities. He asked if the administration had prioritized departments such that DPS rose to the top leaving some departments at a lower priority.

Ms. Pitney indicated that every department was directed to look at a 5 percent and an 8 percent reduction. They were prioritized based on the responses, previous years' increases or decreases, and other known impacts. For instance, DEED, DNR, DPS, and one other that she could not recall were impacted less than others.

Vice-Chair Micciche asked if DPS had looked at creative solutions to reduce the budget. He opined that it was difficult to change how people look at things. He thought the state's trooper academies were expensive. He wondered if DPS had looked at partnering with the Anchorage Police Department (APD) or another equally sophisticated agency in closing the academies and the amount of potential savings.

Commissioner Folger reported that the department was currently in the process of looking at the concept. He relayed that there were 3 academies across the state located in Fairbanks, Anchorage, and Sitka. The department wondered if one academy would suffice.

Vice-Chair Micciche surmised that one of the biggest challenges to the department was to fill both VPSO and state trooper positions. Some of the difficulties in recruiting had to do with police standards. He wondered if someone with lower authority could carry out certain things that currently require the authority at the level of a trooper. He asked if the legislature could assist in bringing the costs down for certain responsibilities the troopers carried out. He asked about the possibility of contracting out certain responsibilities.

Commissioner Folger replied that the department was looking at such items. In terms of recruitment, within the upcoming 2-year block 102 troopers would become eligible to retire which he was concerned about. He thought that there might be certain duties that could be contracted out and others that could not be hired out.

Senator Olson asked about the cost of flying people around the state because of community jails being decommissioned. He commented that any law enforcement officer in the rural areas might be reluctant to charge a person if there was not a community jail available to hold a person.

Co-Chair Kelly asked to reconvene at 10:35 AM.

10:28:05 AM

AT EASE

10:40:34 AM

RECONVENED

Co-Chair Kelly indicated that questions would begin with DOA but first he returned to Senator Dunleavy.

Senator Dunleavy asked Ms. Pitney about her reference to the 25 percent reduction equal to 8.33 percent over the following three years. He commented that it would take several years before the state budget was sustainable at the rate of reductions proposed in the current budget. He surmised that all of the state's reserves would be exhausted by that time. The state would be faced with accessing the Permanent Fund or imposing taxes. He wanted to better understand the thinking of the administration in being able to make sound decisions quickly. He asked Ms. Pitney to elaborate about how the administration sees

filling the budget gap and getting the state on a sound financial footing for the future.

Ms. Pitney stated that from a 30 thousand foot level people, services, and geography would dictate the right size of government for Alaska. There was a general consensus that there was room in the budget for further reductions. She suggested that looking at a 25 percent reduction was simply a starting point for discussion. She relayed that the administration understood that some operations would not be able to be reduced by 25 percent. Some operations might be reduced by 30 percent. The 25 percent figure was a target indicating that the state had to think differently about how it conducted its business such as changing the way it worked with partner agencies and partner communities. If the reductions were applied over 4 years the yearly reduction would be just over 6 percent. If the reductions were applied over 3 years the yearly reduction would be over 8 percent. The 5 percent to 8 percent target was for the first year. It would be a multi-year exercise but the 5 to 8 percent target would allow for putting the pieces into place to make smart reductions. It was a balancing act and was the first step in setting the stage for the following 2 to 3 years of reductions and kept the economy on a stable footing.

Senator Dunleavy asked about reducing staff in DOL when the state was trying to address disagreements with the federal government regarding overreach. He wondered how the reduction played into Alaska asserting its rights under statehood. He also asked about the philosophy of the administration concerning the reduction and would the state still have the resources to deal with issues with the federal government.

Ms. Pitney replied that the administration was not backing off from its policy. She commented that rather than having stand-alone, single-purpose offices, the resources could be consolidated. The people that would remain in the department would be experts for certain cases. There would also be the option to contract law services for expertise in other specific areas. She reiterated that it was changing from a stand-alone, specific office to consolidating resources the state had and contracting for additional resources when needed.

[10:48:54 AM](#)

Senator Dunleavy asked about the money placed in the budget for Medicaid expansion. He asserted that the legislature was trying to reduce the budget. He wondered how Ms. Pitney saw the increase in the area of Medicaid affecting the overall attempts to reduce the budget.

Ms. Pitney reported that the increase was on the federal side. There were three primary decreases on the GF side that came about because of the expansion. There was a small amount in the behavioral health program grants in the current year. Over the course of five years the number would grow to over a \$10 million decrease in GF. She relayed that there was a Chronic and Acute Medical Assistance program for expanded eligibility group that addressed significant emergency health care bills. Patients would be covered for services under Medicaid at 100 percent for short-term care and 90 percent for long-term care.

Ms. Pitney reported the second decrement was in the area of healthcare within corrections. For example, if a prisoner was in a healthcare facility for 24 hours or more the person would be eligible in the expanded population. The first two decreased were direct decreases in the UGF. Through reform efforts there would be additional reductions in the original population and would be a topic of discussion around the Medicaid implementation.

Senator Dunleavy briefed the committee that DOA affected other departments. He wanted to know what cost drivers the department was looking at to bring to the committee to slow down or eliminate the growth in some of the areas of the overall budget. He also inquired about functions or divisions that could be privatized.

[10:52:14 AM](#)

Ms. Lowenstein responded that the department was looking in all areas. She concurred that the department affected every agency through its rates and the activities that are consolidated. She indicated that the department was working on and had not completed a five-year IT plan. The department was meeting with each director and evaluating the cost drivers for facilities, for enterprise technology, and for personnel. The department has been gathering information on places that it could consolidate and streamline, and contracts that could be reduced. All areas

were being looked at by the department. She reported that the department expected that its revenues would be reduced from other agencies. As soon as the department knew what might be shrinking in services requested, it could focus in on specific reductions.

Senator Dunleavy commented that more questions would be asked of the department in the finance subcommittee.

Co-Chair thanked Ms. Lowenstein for her testimony.

Senator Bishop addressed DLWD indicating that he wanted to have a discussion about the privatization model that the governor had talked about. He wanted to talk further about job center closures such as the one in the Muldoon area. He let Commissioner Taylor know that he wanted to have a robust discussion about community jails and health care in the correctional facilities. He expressed his concerns to DNR about some of the decrements in its budget. He mentioned some position cuts and defending Alaska's resources. Lastly, he voiced his concerns about a position cut within DFG.

Co-Chair Kelly clarified that DOC, DOL, and DNR were Senator Bishop's purview in the subcommittees. He asked if there were any other questions for those departments.

[10:56:49 AM](#)

Vice-Chair Micciche asked about the income level of the senior group impacted by the senior benefit program reductions. He wanted to know who the people were that were affected and was the state essentially just shifting them from the services of one state agency to another state agency. Once the senior benefit payments were reduced he asked if seniors qualified for other assistance. In other words, he wondered if the state was realizing a reduction or if it was shifting services between agencies.

VALERIE DAVIDSON, COMMISSIONER, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, responded that approximately 10 thousand seniors would be impacted by the reductions to the senior benefits program. The reduction was applied to the two highest income level beneficiaries. Individuals in the highest categories with incomes between 100 and 175 percent of the federal poverty level would experience a transition in their monthly benefit from \$125 to \$100 per month.

Individuals in the second highest category with incomes between 75 to 100 percent of the federal poverty level would see a reduction from \$175 to \$140 per month. She also relayed that other benefits would possibly be available for senior benefactors. She would provide more information at the upcoming subcommittee meeting.

Vice-Chair Micciche suggested that he would have other questions in the subcommittee and reasoned that the current venue was probably not the best setting to bring them up.

Co-Chair MacKinnon asked for clarification about what it really meant to be at 100 to 175 percent of poverty level. She wondered if it meant a person making \$14 thousand per year or was it a person making \$50 thousand in annual income. She opined that the percentages were sometimes deceiving. She asked the subcommittee chairman to see what the actual income level was in order to know what magnitude the reduction would have on the actual benefit being received.

Co-Chair Kelly wondered about stacking income. Previously, when the Healthy Families program was being discussed he received information that a CIRI shareholder could have made \$103 thousand and qualified for Denali Kid Care because the dividend that was paid in the same year did not factor into income. He asked the subcommittee chairman to find out more about stacking income and what counted and what did not count.

Senator Olson asked Commissioner Davidson about the housing funds that were removed from the budget. He asked about the department's plans to remedy the removal of what he believed was a basic necessity.

Commissioner Davidson asked if Senator Olson was asking about the AHFC reductions in the capital budget.

Senator Olson responded affirmatively.

Commissioner Davidson responded that the department was hearing concerns from stakeholder groups about the impacts of not having adequate housing. She thought Governor Walker was revisiting the issue. She indicated that one of the challenges the department faced was that most often people who experienced homelessness or who were part of the transient population had significant substance abuse or

mental health issues. The department was ramping up its efforts to be able to address the concerns. Another challenge of the department was the way in which it reimbursed for behavioral health services. It had evolved over time. She compared it not to a patchwork quilt but rather a moth-eaten blanket that did not make much sense. The department had asked Jared Kosin, the executive director of the Office of Rate Review, to look at the way DHSS reimbursed for behavioral health services. He was instructed to find a way to do billing that made more logical sense and which valued things like treatment. The idea was to be able to provide services more logically and in a way that served and benefited outcomes. Additionally, because the reimbursement methodologies through Medicaid did not necessarily make sense, many of the behavioral health grants that the state provided to providers were shoring up losses. If the department looked at redesigning how the state did the reimbursement it could have a huge impact on the reduction of behavioral health grants.

Senator Olson asked if the redesign analysis would include housing. Commissioner Davison responded positively.

Senator Dunleavy asked about the length of the meeting.

Co-Chair Kelly responded that although he had a meeting to go to he would move in order to continue. He appreciated having all of the people from the various departments present.

Senator Dunleavy suggested having two or three departments per meeting in order to help dig deeper to help with budget reductions.

[11:06:50 AM](#)

Vice-Chair Micciche wanted Alaskans to know that the legislature was focused on the households that would be impacted by reductions. Some of the jobs being discussed belonged to mothers and fathers and the topic was not taking it lightly. He reported that many positions were on the books but not currently filled. He wondered why departments did not just zero out any vacancies and make do with the positions already filled by moms and dads.

MARY SIROKY, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES,  
DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

responded that the departments had historically used a vacancy factor to pay for those cost that had not been funded over time for things such as personal services and merit increases. For the most part all vacancies were not filed at any one time. She added that while certain positions might be vacant at a certain point in time, they might not be the same positions vacant at another point in time.

Vice-Chair Micciche understood her point and thought it was a "shell game" and suggested lowering the vacancy number. He addressed Mr. Luiken about the AMHS budget. He remarked that the system only served one-third of Alaskans and felt that it was time to look at drastic reductions. He asked Mr. Luiken if he had a vision for dramatically reducing the cost of AMHS. He asked the commissioner if he had looked at the possibility of private companies coming to the table to either operate or replace the state services with privatized services. He further asked if the department had considered mothballing a couple of vessels and providing on-demand service rather than empty schedule service.

MARK LUIKEN, COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES stated that there was nothing off of the table. The department was looking into several options that would be brought forward once they have been vetted for potential impacts. He had tasked Deputy Commissioner Mike Neussl to start working the ideas and committed to bringing them to the legislature before the end of the session.

Vice-Chair Micciche requested prioritizing a list prior to starting or as the subcommittee process occurred. He had suggested of his own and would like to be working with the department. He respected the commissioner's experience; however, the state was in a tough place. He elaborated that the legislature would have to make significant impacts in the current year. He made it clear that he was not at the legislature to be reelected, rather he was present to do the right thing for Alaskans. He suggested that some people responded differently during an election year. The present time was the ultimate opportunity to make the most substantive reductions in services and spending.

Mr. Luiken commented that his task to the AMHS was to look at how to maximize service to Alaskans with while finding ways to be more efficient and to have a significant impact on the department's budget.

11:12:23 AM

Vice-Chair Micciche closed by stressing that half of DOT's budget was serving about 5 percent of the people of Alaska. At some point the legislature would have to reevaluate the mix [of funding].

Senator Olson understood that about half of DOT's budget was appropriated to AMHS. However, he believed it served 15 to 18 percent of the population rather 5 percent. His district was not concerned with AMHS therefore he did not typically delve into that portion of the budget. He continued by revisiting a point brought up earlier in the meeting by Ms. Pitney that approximately \$3 million had been reduced for AMHS and highways. He asked about how the proposed cuts affected airports. The state received significant federal funds for airports. He wondered if there were any substantial cuts to Alaska's airport system.

Ms. Siroky reported that three positions at the Bethel airport were being eliminated. The department was given funding and positions a few years prior to increase staffing to 24/7 at the Bethel airport. The state had not been able to fill the positions but had been successfully keeping the airport open about 18 hours per day meeting the needs of the airlines flying in first thing in the morning. The department was officially getting rid of the positions and their associated funding. Other impacts to aviation included landing fees at the Deadhorse airport in order to increase services there. Half of the landing fees would be implemented in the current year and the full cost of providing service 24/7 would be put into place in FY 17. She reported significant reductions to the department's highways and aviation components which would likely result in delays in airport repairs in rural areas.

Senator Olson mentioned a study done years previously on high landing fees. He found it interesting that landing fees were being assessed at the airport in Deadhorse which served Prudhoe Bay. It was the only airport in the state of Alaska that had landing fees. The study showed that it would cost more money to have an office open to collect the fees. His concern was about who would be paying the fees. For example, he wondered if someone flying a Super Cub or an operator of a Cessna 207 carrying mail and passengers would be charged. He opined that it was unfair to the poor person flying in from Kaktovik to have to pay a landing

fee. While in other parts of Alaska such as Juneau or Sitka, pilots were not burdened with increased fees.

Commissioner Luiken indicated that landing fees at Deadhorse started at 6000 lbs. In his estimation that aircrafts such as Cubs and 207's would not fall into the applicable category. He mentioned that the Juneau Airport did charge landing fees because it was a self-run facility. The request came from companies that used the Deadhorse airfield most and needed 24/7 service. The department's solution to provide the increased service was to implement landing fees paid for primarily by the larger aircraft that would be landing there.

11:17:30 AM

Senator Olson commented that he had observed that there were not many Super Cubs or 207's but Caravans and 1900's carry passengers and bypass mail and weighed over 6000lbs. He felt that it was unfair for some of the rural areas to be targeted in such a way. He added that it was unfair for 135 operators who were trying to make a living in one of the harshest areas to be penalized.

Commissioner Luiken indicated he would provide Senator Olson with the impact numbers on the smaller carriers.

Senator Olson wondered if a King Air or Lear jet flying for search and rescue purposes would be charged the landing tax.

Ms. Siroky testified that the department would not be able to implement anything without having put the regulations together, which the department had not done. Landing fees would not be charged for a full year. In that time the department would go through the public regulation-setting process prior to implementation. It would provide an opportunity to reflect about the things the senator had brought up.

Senator Olson responded that he would have to answer to his constituents about why only one airport in Alaska was being considered to incur increased landing fees. He stated that it did not seem fair.

Co-Chair MacKinnon indicated that she was the subcommittee chairman for DOR and was putting its staff on notice that

the issue would become part of the revenue discussions. It directly affected fuel. She asked about those carriers that were currently exempted under the AMHS and the aviation system that were receiving a tax exemption or an indirect credit on fuel. She relayed that the subcommittee had gone through a process over the previous session where the subcommittee asked DOR in combination with Legislative Finance Division (LFD) to look at where Alaska was foregoing revenue opportunities. There was a book produced called, "Indirect Expenditures." As she was reviewing the book she saw two areas that raised interest to her for consideration. The first was that the state was not collecting its statewide tax on foreign aviation fuel and foreign marine fuel. She was uncertain how DOR or LFD came up with their numbers and would need to find out how they estimated the numbers. She wondered if DOT knew of a reason why the state was not collecting the two fees. She was trying to figure out the estimation of the credit because the two combined equaled about \$20 million in estimated foregone revenue. It did not mean the loss of revenue, but what had been identified with the information that was available. She wondered what foreign ships were using Alaska hydrocarbons in some way and why they were not contributing. She believed it was because they were not traveling on Alaska's roads, which was the reason for the original exemptions.

Ms. Siroky did not know but would look into Co-Chair MacKinnon's question.

Co-Chair Kelly asked Ms. Pitney for an update on the Ocean Ranger Program, the number of Alaskans that were impacted, and the cost of the program. He also wondered about the Spill Prevention and Response fund (SPAR) and whether the administration or department was planning on proposing any statutory changes applicable to the program.

Ms. Pitney responded that based on the discussion of the supplemental budget about a week previously the direction was to have something like a subcommittee or a workgroup of the interested parties including DEC and someone from OMB to determine a good direction moving forward. She believed if the parties came to a comfortable starting position the administration would submit legislation.

Vice-Chair Micciche told about a meeting held the previous day at which suggestions had been provided and things were

moving in a positive direction. He hoped to get something into place before the end of session.

Co-Chair Kelly relayed that his staff had informed him that Vice-Chair Micciche had contacted his office. He thanked the senator.

11:24:09 AM

Co-Chair Kelly indicated he was trying to get a better understanding of the FY 14 versus FY 15 budget. As he looked on the sheet provided by OMB in FY 14 the university's actuals were \$377 [million] UGF and \$370 [million] was authorized in the management plan. He asked if the fuel trigger money was part of the university GF spending when determining the amount between years.

Ms. Pitney responded that the \$370 was inclusive of the \$7 million that came through language on the heat and power plant. She did not believe it was the fuel trigger mechanism.

Co-Chair Kelly asked if bonded indebtedness was included. Ms. Pitney responded, "Yes."

Co-Chair Kelly stated that there had not been any expenses. Ms. Pitney explained that \$7 million was an appropriation that hit the operating budget for the bond indebtedness as part of the financing plan approved the prior year.

Co-Chair Kelly asked if it was a capital project. Ms. Pitney confirmed that it was a capital project.

Co-Chair Kelly stated that for the UGF year-to-year he thought it would be more appropriate to say the university was at \$377 [million] in FY 14 and \$363 [million] in FY 15. Ms. Pitney replied, "Correct".

Co-Chair Kelly asked if Ms. Rizk agreed.

MICHELLE RIZK, ASSOCIATE VICE PRESIDENT, STATEWIDE PLANNING AND BUDGET, UNIVERSITY OF ALASKA agreed.

Co-Chair MacKinnon commented that as the university budget went forward she hoped that the subcommittees talked about the cost overrun and the projections on the coal plant.

Co-Chair Kelly suggested that it was not a cost overrun, it was a redesign.

Vice-Chair Micciche mentioned that it was essentially the administrative budget. The legislature would be leading the way with an assumed budget. He asked for an outline some basic plans without putting anyone on the spot. He remarked that the legislature intended to get aggressive with its own budget. Currently it appeared that the legislature had a 1.8 percent increase but it was certainly not the legislature's plan going forward.

Co-Chair Kelly agreed and added that one of the problems the legislature had at the current stage that ultimately any budgetary recommendations were going to come from Legislative Council. The legislature was looking at a 10 percent reduction to the budget as well as other measures that would be taken. There was a reduction to the legislative budget which was required to come through Legislative Council. Even when it came through Legislative Council it had to be vetted through the Senate Finance Committee, and through the legislative process.

Senator Olson remarked that the governor had 30 days to add amendments to the budget which was due on February 18th [2015] He asked if there were plans to submit amendments that would address some of the issues brought forward by the committee.

Ms. Pitney offered that there would be a few minor additional amendments. She explained that because of the timing using the work-in-progress budget to come forward everything on the list were technically amendments but there would be a few more that would address certain unintended issues.

Co-Chair Kelly thanked the presenters. He would likely follow Senator Dunleavy's recommendation to choose a few agencies per week to drill down on their budgets.

SB 27 was HEARD and HELD in committee for further consideration.

#  
ADJOURNMENT

[11:29:58 AM](#)

The meeting was adjourned at 11:29 a.m.