

SENATE FINANCE COMMITTEE  
February 23, 2015  
9:01 a.m.

9:01:26 AM

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 9:01 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 Lyman Hoffman  
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Ed Fogels, Deputy Commissioner, Department of Natural Resources; Jean Davis, Director, Division of Support Services, Department of Natural Resources; Larry Hartig, Commissioner, Department of Environmental Conservation; Thomas Cherian, Director, Division of Administrative Services, Department of Environmental Conservation.

SUMMARY

SB 27: APPROP: OPERATING BUDGET/LOANS/FUNDS

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

OVERVIEWS:

FY 16 DEPARTMENT OF NATURAL RESOURCES  
FY 16 DEPARTMENT OF ENVIRONMENTAL CONSERVATION

9:02:04 AM

Senator Kelly asked members to limit the scope of their questions. He encouraged the committee to ask probing questions about budgetary issues and significant cuts.

[9:03:08 AM](#)

#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."

[9:03:16 AM](#)

^OVERVIEW: FY 16 DEPARTMENT OF NATURAL RESOURCES

ED FOGELS, DEPUTY COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES (DNR), referred to the presentation "State of Alaska Department of Natural Resources Overview, Senate Finance Committee, February 23, 2015" (copy on file). He overviewed the preliminary slides in order to refresh the committee on the organization and core missions of the department. He stated that he would transition the presentation to his colleague for an in-depth budget review. He specified that the overview would include a list of specific reductions that could be detailed to the extent that the committee desired.

[9:04:08 AM](#)

Mr. Fogels addressed slide 2, and reviewed a departmental organization chart. He reminded the committee of the department's new Commissioner-designee, Mark Myers; and related that DNR had two deputy commissioners, himself and Marty Rutherford. He proceeded to note that the divisions were organized under each deputy commissioner; detailing that Deputy Commissioner Rutherford was acting as the energy deputy, to notably include the Division of Oil and Gas, the Division of Geologic Survey, and the Mental Health Trust. He added that she is also designated as the state's Alaska Liquid Natural Gas project (AKLNG) commercial lead,

and noted that the role was consuming a fair amount of her time.

9:05:03 AM

Mr. Fogels continued his presentation on slide 3, "Department of Natural Resources - Core Services," explaining that the department had four core services:

- Foster responsible commercial development and use of state land and natural resources, consistent with the public interest, for long-term wealth and employment.
- Mitigate threat to the public from natural hazards by providing comprehensive fire protection services on state, private and municipal lands, and through identifying significant geologic hazards.
- Provide access to state lands for public and private use, settlement, and recreation.
- Ensure sufficient data acquisition and assessment of land and resources to foster responsible resource and community development and public safety.

Mr. Fogels commented that the first core function encapsulated the permitting, leasing and stewardship functions of DNR. The second core function encompassed wildland firefighting, which was the biggest budget segment and also included the geologic survey and geologic hazards evaluation program. He continued that the third function encompassed the land sale programs, parks divisions, and programs to ensure access to public lands and Alaska's full state land entitlement. He concluded that the last core function was crucial to gain greater understanding of the state's vast current land holdings in areas of hard rock minerals, oil and gas, forestry, and agricultural resources. He added that the department knew very little about the state's current land holdings.

9:06:24 AM

JEAN DAVIS, DIRECTOR, DIVISION OF SUPPORT SERVICES, DEPARTMENT OF NATURAL RESOURCES, related that she would present four slides in order to portray a different way to examine the overall DNR budget; separately detailed by employees, division, core service, and fund source. She specified that two slides would illustrate how DNR developed the FY 16 Governor's Amended Budget starting with the FY 15 Management Plan.

Ms. Davis presented slide 4, "DNR FY 2016 Governor Amended Budget - Employees," and pointed out that in FY 16, DNR would employ approximately 1,060 full time and seasonal employees. She detailed that the employees were dispersed through 29 locations with main offices in Anchorage, Juneau, Fairbanks, and Palmer; and that DNR had regional offices throughout the state. She drew attention to the employee totals and commented that there had been a "fairly steady workforce" at DNR until FY 16, when it would take a net reduction of 47 positions. She detailed that the department would delete 48 positions and would ask for one new position in the AKLNG group.

Ms. Davis referred to a pie chart on slide 5, noting that it was reflective of the FY 16 operating budget categorized by division, and detailed the totals of each. She pointed out the comparative numbers of the FY 16 operating budget and the FY 15 management plan, which totaled \$175,145.6 million and \$178,330.4 million, respectively. She noted that the Division of Forestry represented the largest segment of the pie chart, of which fire suppression and preparedness accounted for 22 percent.

Ms. Davis presented slide 6, which divided the budget by the aforementioned core services of the department. She pointed out that almost half the budget was under the core service of "Foster Responsible Development"; 10 percent was for "Sufficient Data Acquisition and Assessment, and 18 percent for providing access to state lands. She detailed that the remaining 24 percent was allocated for mitigating natural hazard threats included fire preparedness, earthquakes, volcanoes, and erosion problems.

[9:09:25 AM](#)

Ms. Davis moved to slide 7, which delineated the DNR budget by funding source type. She pointed out that approximately 50 percent of the DNR budget was Unrestricted General Fund (UGF). [Ms. Davis clarified that the slide incorrectly identified the source as "Undesignated General Fund."] She itemized the remaining funding types as 12 percent Federal funds, 23 percent "Other" funds, and 15 percent was Designated General Funds (DGF). She expanded that the 23 percent "Other Funds" included Reimbursable Services Agreements (RSAs), Mental Health Receipts, Industry Reimbursements, and Permanent Fund Receipts. She furthered

that the Industry Reimbursements portion of "Other Funds" were statutorily designated program receipts comprised primarily by the Office of Project Management and Permitting, funded on industry agreement reimbursements as well as the State Pipeline Coordinators Office. She added that there were also Permanent Fund Receipts.

Co-Chair MacKinnon asked why DNR was receiving funds from the vehicle rental tax, and inquired how they were using the funds. Ms. Davis noted that the vehicle rental tax was in the DGF and was appropriated to the Division of Parks. She was unable to recall whether it was a result of a governor's or legislative action, but stated that it was in the budget for several years. She elaborated that the vehicle rental tax was collected on a percentage of rentals, and a large portion of the money was therefore utilized toward tourism associated functions. She added that DNR was receiving about \$2.9 million in vehicle rental tax for the Division of Parks.

Ms. Davis continued to describe slide 7, listing the other funds that made up the DGF: fees (from Parks, the Recorder's Office, and Permits and leases through the Division of Mining, Land, and Water); Land Disposal Income Fund; Timber Receipts; as well as some funding from the Agricultural Revolving Loan Fund (ARLF) for management of that fund. She added that DNR had been comparing its yearly budgets to its FY 06 Management Plan for a number of years, and concluded that the mix of funds in the current allocation was almost identical.

[9:12:28 AM](#)

Vice-Chair Micciche inquired about the 22 percent of Division of Forestry funds expended on fire suppression and wondered if it included mostly permanent positions or if positions fluctuated according to the extent of fires in a given year. Ms. Davis replied that DNR had a core group of fire preparedness employees, the majority of which were in permanent seasonal positions. She clarified that this group of employees was engaged in all of the fire preparedness activities: the initial fire attack prepositioning, training, and readiness. She continued that the hiring of emergency fire crews and additional personnel was contingent on the type of fire season; the positions were hired through the emergency firefighting process and were not reflected on the budget. Vice-Chair Micciche asked if

the \$38.8 million was a base allocation even though it funded primarily seasonal employees. Ms. Davis explained that there were two components that comprised the funding: fire preparedness, which in FY 16 was \$18.7 million and included 31 permanent full-time positions and 167 seasonal positions; and fire activity, which in FY 16 had \$20.1 million in authorization (with \$6.6 million UGF), with the majority from federal receipts. She clarified that DNR did not budget for employees in fire activity, but had base funding in General Funds as well as a large amount of federal funding that was reimbursable after expending resources on fires on federal land.

[9:15:22 AM](#)

Ms. Davis moved to slide 8, and noted that it and the following slide reflected how DNR had assembled the governor's budget. She explained that the governor's budget began with the FY 15 Management Plan as the base, and then pointed out the adjustments that were reflected in the slide. She related that the Legislative Finance Division reviewed the transactions that the governor submitted to arrive at the FY 16 Adjusted Base Scenario, through which they could remove one-time and multi-year appropriations which did not need to be appropriated again. Additionally, Legislative Finance could add in funding for contractually negotiated salary increases, at which point there was an adjusted FY 16 budget that the legislature would typically view as the base.

Ms. Davis detailed adjustments to the FY 15 Management Plan as follows: negotiated salaries were added, an \$8.9 million one-time appropriation fiscal note for SB 138 [2014 legislation relating to the Alaska Gasline Development Corporation (AGDC)] was reversed, and a couple of other reversals of one-time items. She pointed out the almost \$4.1 billion Mental Health Trust administrative budget as another decrement to the FY 15 Management Plan, explaining how the Mental Health Trust had traditionally employed zero-based budgeting. She noted that the funding would be placed back within the FY 16 budget as full increments. She directed attention to the funding category totals of the FY 16 Adjusted Base.

Ms. Davis highlighted to the second half of the slide, and stated that she would be detailing increments in DNR's FY 16 budget, followed by a list of decrements on the

following slide, the sum of which would lead to the FY 16 Governor's Amended Budget. She discussed restoring one-year funding for the AKLNG fiscal note in the amount of \$8.9 million as well as a \$4.2 million request for AKLNG in UGF, to total an approximately \$13.2 million budget for AKLNG. She added that the only other increases in the budget were added under "Other" funding source types, pointing out a small \$585,000 spending authority of statutory designated program receipts for the State Pipeline Coordinator's Office, based on an estimate to manage increased pipeline agreements. She added that the funding was all reimbursable from the companies. She pointed out two increments for Mental Health, noting that they restored the same amount from the previous year, as well as a \$255,600 increment of additional funding.

[9:19:32 AM](#)

Vice-Chair Micciche asked why the \$4.2 million of additional funding for AKLNG was necessary. Ms. Davis explained that the \$4.2 million request, in addition to the restoration of \$8.9 million, would cover the participation of all state agencies in AKLNG. She elaborated that the departments associated were DNR, the Department of Law (DOL), and the Department of Revenue (DOR); and continued that DOL had approximately \$4.8 million of work when associated with AKLNG, whereas DOR had approximately \$1.6 million. She clarified that all the work was primarily related to contracts and was what drove the increase for FY 16. Vice-Chair Micciche asked if the committee would see a corresponding cut in the other departments after moving the funding to DNR. Ms. Davis responded that it was new funding and was not replacing anything that was currently budgeted to the departments. She specified that some of the requested funding was related to a specific contract, and offered to provide additional detailed information as necessary.

Senator Kelly asked Senator Bishop to address the subject in subcommittee.

Senator Bishop asked for more detail regarding the AKLNG increment, and asked that one of the deputy commissioners attend the Finance Subcommittee on the Department of Natural Resources in order to provide additional information.

Co-Chair MacKinnon mentioned a recent op-ed piece by the governor and supposed the committee as a whole was interested in additional information. She wondered if the request was related to going to market in the Middle East, and mentioned that funding for which it was included in SB 138.

Ms. Davis moved to slide 9, explaining that the top portion listed all of the decrements that were proposed in the governor's budget for FY 16. She noted that they added up to almost \$6 million of UGF, and included the 48 position deletions that were mentioned earlier. She pointed out a number of specific items listed, and inquired if the committee would like to hear of them in greater detail.

[9:23:27 AM](#)

AT EASE

[9:26:37 AM](#)

RECONVENED

Senator Bishop commented that it was a pleasure to work with Ms. Davis and her staff. He furthered that the DNR subcommittee had a number of detailed questions, and asked her to be prepared to answer them at its first meeting.

Senator Hoffman asked for more detailed information concerning the 16 deleted positions and reorganization of the McGrath Fire Suppression Protection Area and the discontinuation of the Wildlife Fire Academy. He wondered how the total reorganization would affect the work that needed to be done in the Interior. He opined that 16 positions seemed high for the \$1.1 million decrement represented on the slide.

Co-Chair Kelly asked Mr. Fogels if he would discuss the fire academy restructuring and the \$1.1 million decrement. Mr. Fogels explained that the funding decrease would accomplish two things, including restructuring of the McGrath Fire Office to reduce staffing from 22 to 6 positions. He explicated that DNR observed fire activity shifting to other parts of the Interior, and therefore it would focus efforts closer to the areas of Fairbanks, Delta Junction, and Tok. He relayed that DNR would be keeping a "warm base" in McGrath that would be staffed, and if there was fire activity in the area, it would be able to effectively fight the fires. He clarified that if there

were to be a bad fire season in the McGrath area, the costs were likely to be higher in the long term if DNR proceeded with the reorganization. He noted that the bulk of the \$1.1 million decrement would be from the McGrath Fire Office, with only \$250,000 cut from the Firefighting Academy in McGrath. He referred to the general need for budget cuts as reasoning for the academy closure.

[9:29:42 AM](#)

Co-Chair Kelly asked Senator Bishop if the academy had been funded through Department of Labor and Workforce Development (DLWD) in the past. Senator Bishop related that he and a former DLWD commissioner had worked on funding for the McGrath Fire Academy, and characterized it as "a jobs issue for rural Alaska." He furthered that firefighting was a great way for rural Alaskans to make a living. He echoed the concerns of Senator Hoffman and stated that he would be asking questions related to the decrement in subcommittee meetings. Co-Chair Kelly expressed similar concern and mused that perhaps there was a way to fund the academy through another department.

Senator Dunleavy asked about the out of state employees brought in during heavy fire seasons and wondered if it was at state or federal expense; and if federally funded, were the funds contingent upon fires being on federal land. Mr. Fogels responded that it was dependent upon the location of the firefighting. He discussed the greater expense of limited fire resources on state land, necessitating the hire of fire crews from the Lower 48 at additional cost to the state. Senator Dunleavy asked about the nature of firefighting expense on federal land. Mr. Fogels related that typically federal agencies would be responsible for the cost of fires on federal land; if the State of Alaska assists, it would be eligible for reimbursement including the cost of out of state fire crews.

[9:31:28 AM](#)

Vice-Chair Micciche asked about the remaining funds for fire management and related that he had spent time with fire crews in Funny River, Alaska. He praised the fire crews from all over the state, and characterized them as "amazing people" who did an incredible job. He discussed the need for re-organization and wondered if the subcommittee could look at reorganization to result in

greater efficiency with limited resources. He referred to the remaining \$21.1 million in the budget for fire suppression and inferred that it was a sizable amount of money to work with. Mr. Fogels noted that it has always been an issue to balance fire preparedness and fire activity; more money spent on preparedness resulted in cost savings when fighting fires. He discussed the cost savings when funds are directed to prevention, and assured the committee that DNR was doing everything in its power to assure it was adequately staffed to effectively fight fires over the summer.

Ms. Davis referred back to slide 9, and directed attention to the change in funding from the Adjusted Base to the FY 16 Governor's Amended Budget, divided by fund types. She remarked that it showed DNR with a 5.7 percent increase, which included an additional \$13.2 million for AKLNG. She noted that if the budget was compared to the FY 15 Management Plan, it would reflect a reduction of 1.8 percent. She furthered that for DNR's core services there would be a reduction of 2.3 percent overall.

[9:34:35 AM](#)

Ms. Davis moved to the final slide (slide 10), and illustrated DNR revenue generation. She explained that DNR had examined average annual revenue collection from FY 06 to FY 14. She pointed out that the bulk of the funding displayed on the pie chart was UGF that they had collected primarily from royalties from oil, gas, mining, timber sales, and lease and permit revenues for the use of state land and water. She added that a good portion of the revenue DNR collected went to the Permanent Fund, and reminded the committee that the numbers reflected an average annual amount. She clarified that the Permanent Fund monies were royalties on oil, gas and mining leases; 50 percent on leases issued after 1979, and 25 percent on leases issued prior to that time. She stated that DNR also deposited money into the CBR, based primarily on oil and gas litigation settlements. She explained the "Other Funds" on the pie chart as revenue deposited into the Mental Health Trust, or excess revenues that had been collected above and beyond what they were authorized to spend in offices such as the Records Office or the State Pipeline Coordinators Office pipeline leases. She commented that DNR's UGF Budget was reflected on the side of the slide, and \$72,880,400 had been its average amount of UGF. She

suggested that for every dollar that DNR spent, it deposited approximately \$36 into one of the state funds reflected on the chart. She summarized that DNR generated an average of \$2.6 billion in revenue annually.

Co-Chair Kelly asked to refer back to slide 9, and inquired if the total reduction between the Adjusted Base and the FY 16 Governor's Amended budget was indeed 2.3 percent, excluding the AKLNG expenditures. Ms. Davis pointed out the reduction of 7.6 percent from the Adjusted Base reflected in the UGF column.

[9:37:37 AM](#)

AT EASE

[9:37:43 AM](#)

RECONVENED

Co-Chair MacKinnon asked if there was any reappropriation of capital expenditures or any switching between capital and operating funds. Ms. Davis responded that there was no capital money being reappropriated for expenditure in the operating budget. She noted that DNR did propose a reappropriation in the capital budget of funding from one project to another.

[9:38:31 AM](#)

AT EASE

[9:41:13 AM](#)

RECONVENED

^OVERVIEW: FY 16 DEPARTMENT OF ENVIRONMENTAL CONSERVATION

Co-Chair Kelly stated that he had one or two questions for the Department of Environmental Conservation (DEC) and thought perhaps the other committee members had additional questions.

LARRY HARTIG, COMMISSIONER, DEPARTMENT OF ENVIRONMENTAL CONSERVATION, introduced himself and his team. He noted in the gallery was Ruth Kostik, Budget Manager; Alida Bus, Legislative Liaison; and Nathan Teal. He referred to his presentation "Department of Environmental Conservation, Senate Finance Committee, February 23, 2015" (copy on file), stating that he would review DEC department objectives before going into budget specifics. He moved to

slide 2, and stated that the mission of DEC was to protect human health and the environment, adding that he considered the two things to be inextricably linked. He furthered that human health and the health of Alaskans was dependent upon having clean air to breathe, safe food to eat, and clean water to drink and support aquatic life. He continued that it was part of the mission to ensure that Alaska food products enjoyed a good reputation and could get to market around the world. He added that DEC tried to keep a low incidence of (oil) spills in the state, and tried to mitigate effects in order to not leave a legacy of contaminated sites for future generations. Additionally, he continued, DEC supported wise resource development and community growth. He explained that the permits and authorizations DEC gave were often the social license for many of the activities recently discussed by DNR, such as oil and gas, timber, mining, etc.

[9:43:30 AM](#)

Commissioner Hartig moved to side 3, noting that while DEC could not claim to generate funds such as DNR had, it did add to the quality of life and support the work of other agencies such as DNR. He reflected on conditions of budget tightening necessary in recent years, referring to the federal sequestration, and a 5 percent decline in federal funds for some DEC programs such as the drinking water program. He described cuts to the state budget, citing a loss of \$1.4 million when the 404 Permitting Program was deleted the previous year. He pointed out a 60 percent decline in Village Safe Water funding from the capital budget; clarifying that it was over the last decade. He remarked that DEC had tried to manage the cuts in part by holding vacant positions, cutting back on non-essential expenditures such as travel, and looking at other ways of generating revenue through reviewing fees. He referred to what he termed as "stress points" in the DEC budget, that were all related to the tightening budget over the preceding years. He discussed the departmental vacancy rate of around 12 percent, and mentioned that the Division of Spill Prevention and Response (SPAR) was at 15 percent vacancy prior to the proposed cuts. He remarked that the 12 percent vacancy rate was several percentage points above the historical average, and was reflective of the direction the budget was heading.

Commissioner Hartig moved to slide 4, "Budget Reduction Criteria," and explained that DEC tried to use wisdom and deliberation in considering budget cuts. He directed attention to the budget cut criteria DEC had developed; and welcomed input of the finance committees, the legislators, and the public as to what the foci should be for evaluating potential cuts.

- Services that are mandated by statute
- Services that are necessary to implement DEC's mission and core responsibilities
- Services that can't be performed by local government, federal government, or others
- Services that will be difficult to restore
- Services that are a foundation for economic growth and prosperity
- Services that enjoy strong public support
- Services that leverage other resources

[9:46:00 AM](#)

Commissioner Hartig moved to slide 5, "FY 2016 Endorsed Budget Request," and highlighted the approximately \$86 million operating budget request. He pointed out that the UGF portion was a little over \$20 million, and noted that DEC had the second smallest UGF budget of all the state agencies, just behind the Department of Military and Veterans Affairs, which was primarily federally funded. He noted that the General Fund that DEC received leveraged other funds on the operating and capital budgets, and discussed the necessity of having a base of operations in order to receive federal funds. He attested that the General Funds that DEC did have were stretched tightly among different programs to generate fees. He pointed out that the capital request also leveraged a fair amount of federal receipts. In summary he estimated that the average Alaskan paid 18 cents per day in UGF for all of the services that DEC provided.

Commissioner Hartig moved to slide 6, which outlined the DEC operating budget by fund source. He pointed out a pie chart that delineated Federal funds, permit fees, the Oil/Hazardous Release Prevention and Response Fund, UGF, and DGF. He directed attention to the depiction of funding sources broken down by division, commenting that the "Other" funding category was significant within the Air

Quality Division. He explained that the funds were primarily permitting fees, and explained that permitting fees for the Clean Air Act were required by federal law to support the program. He added that the funds were designated as "Other" due to the fact that federal law requires that the funds only be used in certain ways, rather than appropriated for other uses. He made note of the SPAR budget, in which a large component was Response Fund and a small component was UGF; and relayed that the Response Fund was in a crisis due to declining oil production. He noted the ongoing discussions surrounding how to make up for the loss in funding with UGF or other sources.

[9:49:18 AM](#)

Commissioner Hartig moved to slide 7, showing the budget changes between the 2015 Management Plan and the FY 16 Adjusted Base. He pointed out a 9.5 percent overall reduction for DEC in UGF from the Management Plan to the Governor's Proposed Budget. He explained that this resulted in a total loss of 25 positions, equating to net loss of 24 positions after considering their request for an additional request for the Air Quality program. He discussed a funding switch between "Other" and Federal funds, and said there was no net gain.

Co-Chair Kelly asked for clarification regarding the funding switch between Federal and "Other".

THOMAS CHERIAN, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF ENVIRONMENTAL CONSERVATION, explained that there was a fund source change from Federal to "Other." Co-Chair Kelly asked where the "Other" funds were originated. Mr. Cherian explained that they came from the Alaska Clean Water and Drinking Water funds, which were managed by federal capitalization grants. He referred to a point at which programs generate sufficient fees to support the management of the program, and suggested that scenario was reflective of the funding switch.

Co-Chair Kelly asked how "Other" funds differed from DGF. Mr. Cherian stated that "Other" funds were specifically for the management of the loan funds. Co-Chair Kelly wondered if it was appropriate to call "Other" funds DGF. Mr. Cherian reiterated that the "Other" funds were not designated as DGF because they had been designated for a

specific purpose. Mr. Cherian characterized the "Other" funds as a "fees generator" issued from clean water and drinking water laws. He recounted that when the programs were originally set up, the intention was that the administration would be supported by federal capitalization grants until which time the fees would generate enough funds to do so. He clarified that the programs were now at the point where the fees could do so, and the funding source reflected the switch.

[9:53:21 AM](#)

Commissioner Hartig added that they were revolving loan programs that had been seeded with federal money; subsequently the generation of loan fees had enabled the programs to become self-supporting. The monies, however, could only be used as required under the federal grant and federal law; thereby they went into the "Other" category.

Commissioner Hartig moved to slide 8, "FY 2016 Significant Budget Changes," and described that they would be cutting a position in the Commissioner's Office; after the current employee retired they would not be replaced. He further discussed budget changes and efficiencies in Administrative Services:

- CO-Efficiencies due to Reorganization of Administrative Functions: -\$114.1; -1 PCN(-\$43.1 UGF/- \$71.0 I/A)
- AS-Efficiencies due to Reorganization of Administrative Functions: -\$25.0 UGF
- AS-Replace Federal Receipts with Existing Clean Water Administrative Fees: \$0.0(\$84.0 Other / -\$84.0 Fed)
- AS-Rebalance Funding of Core Service Lease Costs: \$0.0(\$400.0 CAPF/\$110.0 CPVEC/- \$510.0 FED)

Commissioner Hartig pointed out that two of the items listed were relatively minor and without budget impacts.

Commissioner Hartig moved to slide 9, "FY2016 Significant Budget Changes - Environmental Health," which listed a continuation of significant budget changes that he described as having more impact both on the public and on the department:

- FSS-Reduce Inspections of Retail Food, Public Accommodations, and Non-Food Facilities: \$869.3 UGF; - 8 PCNs
- EHL-Delete two Microbiologists Positions: \$170.0 UGF; -2 PCNs
- EHL-Maintain Fish Tissue Monitoring Program: \$0.0 (\$250.0 OR/- \$250.0 UGF)
- DW-Reduced Capacity in Drinking Water Program: \$507.3 UGF; -4 PCNs
- SWM-Efficiencies due to Implementation of New Regulations: \$85.6 UGF; -1 PCN

Commissioner Hartig explained that the department was examining looking at reducing by eight PCNs [Position Control Numbers] in the Retail Food Inspection Division, and explained that it would include restaurants and individuals who provide food directly to the consumer. He clarified that it would not include seafood processing plant inspections, but would signify an increased risk to the public due to a reduction in inspections of restaurants and other retail facilities. He discussed the reduction of two microbiologist positions in the Environmental Health Lab; and stated that through greater efficiencies DEC hoped to not have a reduction in services of the lab. He discussed the Fish Tissue Monitoring Program (FTMP), mentioning the statewide dependence on fish, and contended that the health of fish being exposed to transboundary contamination was a legitimate concern. He referred to data that demonstrated increased levels of mercury in Alaskan waters, and mentioned public concern, including international questions regarding the health of our wild fish. He opined that funding the FTMP would allow the state to use data to take action in the case that our fish reached unhealthy levels of contamination. He explained that there would be a fund switch, utilizing some of the ocean ranger fees that were generated to help support the FTMP. He justified the fund switch by elaborating that the work of the FTMP would reveal monitoring information about the efficacy of permits [in protecting water quality] issued to cruise ships for treated wastewater discharge that was required to meet water quality standards set forth by a citizen's initiative sometime in the preceding years. He noted that the fund switch was examined by the Office of Management and Budget as well as the Legislative Finance Division, both of which considered it to be a legitimate use of the ocean ranger funds.

Commissioner Hartig spoke to a reduction of 4 PCNs in the Drinking Water Program, explaining that it concerned any public drinking water systems that served 25 or more people through the year. He discussed numerous federal requirements that applied to the program, as well as new national requirements which, he explained, DEC had spent much time helping communities (particularly smaller communities) around the state comply with. He articulated that the change would entail a reduction in aid to communities, with the expectation that they would look to the private sector for drinking water engineers to provide the assistance formerly provided by the state. He noted that there would still be a core group in the program, that could assist communities that could not otherwise get help, but there could be a delay in receiving the services due to a smaller team.

[9:57:58 AM](#)

Commissioner Hartig continued to describe slide 9, stating that DEC had looked at efficiencies in its Solid Waste Program, which dealt with landfills it oversaw around the state, noting that it would be taking a reduction of 1 PCN.

Commissioner Hartig summarized that DEC was looking at the deletion of 16 positions in Anchorage, 2 in Fairbanks, 2 in Wasilla, 1 in Valez, and 4 in Juneau for a total of 25. He referenced 1 Air Permitting Program position in Anchorage that would be added back in.

Co-Chair MacKinnon asked how many FTE positions were being cut, and wondered if the positions being cut had incumbent employees, or were they a part of an ongoing vacancy factor in the budget. Mr. Cherian responded that of the 24 positions that were being deleted, 4 were currently staffed. He clarified that DEC had been holding positions vacant in the expectation of position changes. He furthered that there was funding associated with the positions. Co-Chair MacKinnon asked if funds for the 4 positions in question would be backfilled with the Ocean Ranger dollars or another change in funds. Mr. Cherian responded in the negative, and clarified that the positions would go away, as well as the funding for the positions.

Co-Chair MacKinnon referred to the commissioner's early comment regarding increased food safety risk due to budget

cuts and asked how many people were remaining in positions to ensure food safety. Commissioner Hartig stated that DEC would be reducing food inspections by 50 percent. He remarked that even before taking the 50 percent reduction, DEC was well below the federal level for food safety inspections. He related that DEC was taking a "risk-based" approach, under which they were prioritizing facilities to inspect based upon level of risk when considering the food product and consumers. Mr. Cherian added that there were 41 positions left in the Food Services and Sanitation Program. Co-Chair MacKinnon asked to clarify if this was before or after reduction in positions. Mr. Cherian elucidated that after the proposed position reductions, there would be 33 positions left in the program. Co-Chair MacKinnon asked if Anchorage was included in this number, and wondered if the city had its own health inspections. Commissioner Hartig replied that Anchorage had its own inspection program that was operated with state oversight and delegation, and was the only community in the state that operated that way. He spoke to the challenges of implementing food safety programs throughout a large state.

[10:02:16 AM](#)

Co-Chair MacKinnon noted that the marijuana bill [SB 30] would soon be in the Senate Finance Committee, and wondered how DEC would be involved with regard to the food safety of edible marijuana products containing oils or leaf of the plant. Commissioner Hartig related that DEC was concerned with such food products and confirmed that the department had a responsibility for processed food in the state, and to the extent that individuals would produce food with marijuana components they would statutorily have responsibility to make sure it was safe. He relayed that the Food Safety Program within the Division of Environmental Health had been "heavily involved" in discussions with other state agencies on what role they might have. He mused that while DEC might not have a leadership role, it may have a role with food safety. Co-Chair MacKinnon stated that she expected to see a fiscal note to reflect any fees associated with trying to ascertain that the food products were healthy. She was unsure if such a fiscal note would be a part of SB 30, but hoped that there would be an "adequate" fiscal note along with an associated fee to aid in the management of the products for the general health of the public.

10:04:07 AM

Co-Chair Kelly asked about the processing of marijuana oil extraction, which he characterized as very dangerous, and wondered if facilities that engage in the processing would fall under the purview of DEC. Commissioner Hartig discussed food safety protocols, and surmised that the food safety concerns and risks regarding marijuana products were not known. He stressed the need for development of the food safety standards before being able to regulate the use of such a new food product; and relayed that DEC needed statutes and regulations in place, which would need to happen in steps. He added that there was no federal guidance for the process. Co-Chair Kelly asked about any forthcoming fiscal notes attached to SB 30. Commissioner Hartig specified that any fiscal notes would be a product of different state agencies working together, developed as they received more clarity about the statutory requirements.

10:06:10 AM

Senator Bishop asked about the two microbiologist positions proposed to be cut, and asked how many microbiologists were employed by DEC. Mr. Cherian did not have the information but agreed to provide the number at a later date. He reiterated that DEC would be deleting two microbiologist positions. Senator Bishop referred to the governor's State of the Budget speech, in which he discussed public-private partnerships, and working with the University of Alaska. Senator Bishop praised UAF's Life Science Building in Fairbanks and urged Commissioner Hartig to consider utilizing the building and scientists there. Commissioner Hartig relayed that DEC always looked for such partnerships, and furthered that DEC's Environmental Health Lab served the needs of the state that the private labs and the University generally could not. He stressed that they were not trying to be in competition with anybody, but rather to fill a gap. He used shellfish Paralytic Seafood Poisoning (PSP) testing (federally required to take place in a government lab) as an example to illustrate the unique work done by the Environmental Health Lab. He explained that the PSP testing was not economical for a private lab to do; DEC had spent over \$400 per sample in doing the PSP tests. Further, the fees didn't even begin to cover the costs. He noted that the shellfish testing was a service to the state; however it and other general work done by the

DEC lab were not services that could be easily turned over to the private sector.

Senator Bishop followed up to say that Holland [the Netherlands] had done a lot of work in the edibles safety area, and there was likely a large body of research to utilize.

10:08:50 AM

Senator Hoffman discussed when Alaska took over primacy for the National Pollutant Discharge Elimination System (NDPES) wastewater discharge permitting and compliance program. He relayed that the change had an associated expense of greater than \$4 million annually, and wondered if DEC had reviewed the benefits the state had received from managing the primacy. He further inquired as to what other states were doing in the same field and whether NDPES had even been considered for budget reductions. Commissioner Hartig responded that it was critical for the state to have a good wastewater discharge permitting program. He recounted that the Environmental Protection Agency (EPA) had delegated the program to the state in 2008. He noted that during the discussions regarding the state taking primacy of the program, there was significant public concern that the EPA was far behind in issuing permits. He specified that the EPA had only one permit rider in Alaska, and a few in Seattle. He discussed differing conditions in the state and how that affected efficacy of the permit process. Additionally, he noted, the EPA was only issuing approximately six permits per year; the seafood processors were using out-of-date permits, and new processors could not get a permit. He continued that when Alaska got delegation of the program, we inherited a large backlog of permit requests. He reported that currently, DEC issued more than 19 permits per year and over 700 authorizations or general permits per year. He contended that holding at the current budget, DEC could keep up with the permit load for the next two years while working with the backlog. He characterized NDPES as a "growing program" and judged that it was a ten-year endeavor to achieve optimization, and concluded that it was positively serving the public and industry around the state.

10:11:40 AM

Commissioner Hartig referred to slide 10, explaining that the Air Quality program was the only area to which a position would be added. He explained that the Air Permit program was a delegated program, much like the aforementioned NDPES. He specified that the state had had the delegated air program from the EPA for decades. He explained that one of the critical permits that DEC issued under the program was called a Construction or Title 1 Permit; a permit which must be obtained prior to construction of a facility. He described a modelling process under which air quality standards were measured based on hypothetical iterations of the building project to quantify emissions and effects that were required to meet health-based standards. He listed Point Thomson, LNG facilities, gas facilities, gasification plants, and new power plants as examples of facilities needing the air program permit. He referred to them as "very expensive projects that can't be delayed," and expressed that DEC was experiencing a bottleneck in the modeling process that was causing them to get behind. The addition of the position, he explained, was an attempt to relieve the bottleneck. He discussed the Point Thomson liquid natural gas project as an example; and relayed that DEC had been through four or five iterations of the permit, a process necessitated by changes in design that required repeated re-modeling and analysis of over 200 independent emission sources. He described the reduction in the SPAR fund, citing the decline in oil production resulting in less money going into the fund. He noted that DEC was looking at cutting four positions, largely being accomplished through reorganization that would combine several programs and gain efficiencies.

[10:14:27 AM](#)

Commissioner Hartig moved to slide 11, illustrating reorganizations that reflected budget changes:

- WQ-Efficiencies due to Reorganization of Administrative Functions-\$95.0 UGF; -1 PCN
- WQ-Offset Ocean Ranger Fees for Fish Tissue Monitoring Program-\$250.0 OR
- WQ-Delete Environmental Program Manager-\$103.4 UGF; -1 PCN
- FC -Replace Federal Receipts with Existing Clean Water Administrative Fees\$0.0(\$700.0 Other/- \$700.0 Fed)

- FC-Maintain Operator Certification Program\$0.0(\$101.1 DGF/- \$101.1 Fed)

Commissioner Hartig pointed out administrative reorganization in Water Quality, the fund switch in the FTMP program, and a fee increase in the water treatment Operator Certification Program. He additionally mentioned possible fee increases in Air Quality and Water programs.

Senator Olson asked about the Operator Certification Program, and wondered how many operators were in smaller communities to aid in providing water and sewer the villages. Commissioner Hartig responded that the majority of the operators were in small communities. Senator Olson noted the importance of potable water in the rural areas, discussed revenue sharing, and asked what the back-up plan was to ensure that the water and sewer facilities remained open. Commissioner Hartig relayed that DEC planned on having a single point of contact for small communities to reach the department for water and other issues. He expressed that it was the intention of the department to rethink and readjust in the eventuality of a systemic problem being identified. Senator Olson asked if the department had the regulatory authority to impose fines and penalties in the case of individuals being unable to maintain certification. Commissioner Hartig relayed that DEC did have the authority, however it was not the department's intention to penalize individuals; rather, its goal was to make sure the systems were operating to provide the health benefits to the people in the communities.

[10:19:01 AM](#)

Co-Chair Kelly asked about the SPAR program, and wondered if DEC had a contingency plan in the event that the legislature did not approve the supplemental appropriation of \$3.1 million from the lapsing municipal grants. Commissioner Hartig explained that there were three sources of funds for the Response Fund: the 4 cents a barrel surcharge on crude oil production in the state, the interest income on the response account, and and statutorily required cost recovery against responsible parties that is appropriated by the legislature into the response fund. He remarked that all three of the fund sources were variables, and the DOR estimated the amount of income based upon oil production. In turn, DEC (with assistance from the Department of Law) estimated the amount

of cost recovery for DEC. He pointed out that DEC had no ultimate control over the variables, and basing funding on projected revenues that do not meet expectations resulted in a budget short fall. He recounted that budget shortfalls had not been a problem in the past due to a surplus in the fund that could be drawn upon if needed. He referred to an FY 15 settlement that did not come in, as well as projected interest income that did not materialize; which resulted in an approximately \$2.1 million shortfall in FY 15. He relayed that DEC had immediately started implementing cost-saving measures, and referenced the 15 percent SPAR vacancy rate as evidence. He clarified that the entire department had also engaged in cost saving measures. He revealed that of the original \$2.1 million from FY 15, DEC was left with a remaining shortfall of approximately \$800,000 on top of a projected \$1.9 million shortfall for FY 16. He added that the total projected shortfall for FY 16 included an assumption that they would receive a \$5 million settlement from the federal government that was largely negotiated but not yet finalized. He clarified that if the \$5 million settlement was received before June 30, 2015, it would be subject to appropriation for the FY 16 budget.

Commissioner Hartig discussed impacts to the budget, and related that if DEC did not receive the requested appropriation, they would be immediately impacted in FY 15, considering the \$800,000 gap. He continued that DEC was so far in to the fiscal year, that the layoffs necessary to balance the budget would be significant, equaling approximately 35 full-time positions. He continued that under the labor agreements, departments were required to give layoff notices a minimum of 12 weeks in advance for budgetary reasons. He reiterated the short time remaining in the fiscal year to make up for the \$800,000 budget shortfall. He described the appropriation to be capital funds on projects that were completed. He asserted that by doing the reappropriation directly in to the prevention account, it would allow DEC to be able to deal with the FY 15 problem. He clarified that if the department was forced to wait for the funds in the supplemental budget, there would be timing issue.

Commissioner Hartig continued to describe a shortfall that would extend into FY 16, and noted that the expected \$5 million "Aniak School Settlement" would affect the budget differently depending on when in the budget cycle it arrived.

[10:25:31 AM](#)

Co-Chair Kelly asked if the use of SPAR funds went far beyond spills. Commissioner Hartig mentioned the statutory language that created the response fund and noted that the fund comprised of the prevention account and the response account. He clarified that the response account was for "eminent and substantial" spills, and spills alone. The prevention account, he explained, ran the operating side of SPAR, totaling \$15 million of the \$20 million budget, and included a fair amount of federal and other funds. He furthered that the prevention fund paid for prevention, preparedness, and response. He further likened it to DNR's description of the importance of fire preparedness and explained that prevention was crucial in the mitigation and treatment of toxics spills, and was a key element of the program. He furthered that the prevention component was funded from the 4 cents per barrel surcharge on crude oil, and included activities such as detailed contingency plan preparation, drills and inspections, as well as response and clean-up. He listed contingency plan details for large tank farms, vessels, exploratory drilling, and large pipelines; such as prevention plans, spill response resource planning, and localized areas to protect. He added that there was some cost recovery from clean-up of contaminated sites, and some of the cost was funded back through responsible parties and reappropriated back by the legislature. He concluded that prevention, preparedness, and response were all partially funded by the 4 cents per barrel surcharge.

[10:28:17 AM](#)

Co-Chair Kelly asked how many of the contaminated sites were not pipeline or oil field related. Commissioner Hartig relayed that there were about 2,000 reported spills per year, the majority of which were small refined products from fishing vessels, home fuel tanks, and trucks. He mentioned the importance of considerations such as the spill content, location, and volume. He estimated there to be 10 to 20 spills of a size that required a fair amount of state resources on the response, and 6 or so that might make front page news for their magnitude. He relayed that he would provide data to reflect the number, types, and sources of spills to the committee. He qualified that the bulk of the spills were refined products such as gasoline,

aviation fuel, diesel-type fuels, home heating fuels, etc. He noted that the larger spills were often marine transportation spills and spills related to oil and gas or mining industry.

Co-Chair Kelly stated that it was his understanding that the fund was set up for oil spills related to the pipeline, and associated to the transport of oil. He wondered if the money collected from oil generation was used to clean up numerous things other than oil-related spills. Commissioner Hartig replied in the affirmative and noted that DEC was examining the question of fairness of requiring the crude oil industry to fund all of the prevention and response without some contribution from the companies and individuals who store, transport, and use refined products. He added that DEC was looking at ways (with the help of a number of legislators) to get income into the response fund prevention account and more fairly spread the costs amongst those who benefit from those services. Co-Chair Kelly related that his understanding of the original intent of the fund was for response to a crude oil spill, and wondered if companies that produce oil were required to have spill response mechanisms. Commissioner Hartig affirmed that companies were required to have such mechanisms, and related that after the oil spill in Valdez in 1989, there were changes in federal and state law relating to drilling and transport of crude oil. Co-Chair Kelly asked what volume was required to constitute a spill. Commissioner Hartig stated that it varied, and that DEC evaluated the appropriate response based on initial contact made to DEC. In the case of impact on human health, safety, or environment; DEC would have a heavier role. He explained that crude oil by its nature was more problematic in the environment and received more attention, whereas a diesel fuel spill could volatilize and dissipate without having the same level of toxicity. He shared that crude oil companies often had relationships with co-ops in the state that would help them respond, and DEC worked with industry on the response. Co-Chair Kelly stated that they could discuss the particulars further in subcommittee.

[10:34:38 AM](#)

Vice-Chair Micciche expressed that he was interested to have an additional meeting to include Senate Finance Committee members; DEC and SPAR staff; DOR; and Pat Pitney, Director, Office of Management and Budget, Office of the

Governor. He mentioned topics of immediate budget gaps, statutory language issues, longer-term funding, and caps on the funds. He relayed that the other body was looking at "some complicated methods of solving the problem" and mused that potentially they [the Senate Finance Committee] might have a simpler solution.

Co-Chair MacKinnon asked what volume was required for reporting of an oil spill. Commissioner Hartig replied that under state law there were triggers based on volume and area for spills on land; whereas any amount of spill on water must be reported. He qualified that not all spills on land were required to be reported to DEC.

Co-Chair MacKinnon referred to DEC's projected \$1.9 million shortfall for FY 16, and wondered if it took into account the 35 employee layoffs that Commissioner Hartig had spoken of when referring to the \$800,000 budget shortfall in FY 15. Commissioner Hartig replied that he had calculated a necessitated 15 full-time employee layoffs as a result of the projected \$1.9 million shortfall in FY 16. Co-Chair MacKinnon suggested that Commissioner Hartig provide information at a later date to clarify matters, and wondered if the 35 positions would be temporary layoffs or position eliminations. Commissioner Hartig discussed the FY 15 approved budget, and suggested that the problem was that the funds were not available when needed; and the shortfall necessitated layoff notices, although perhaps not eliminations. He clarified that when considering the projected \$1.9 shortfall for FY 16, notwithstanding the aforementioned 35 positions, it would equate to the layoff of approximately 15 positions.

[10:38:49 AM](#)

Mr. Cherian explained that in light of the short remaining time in FY 15 (exacerbated by contractually obligated timeframes for layoffs), to make up for an \$800,000 shortfall, it was necessary to cut as many as 35 positions. Conversely, in FY 16 it was only necessary to cut 15 positions to make up for a \$1.9 million shortfall over a fiscal year.

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ADJOURNMENT

[10:40:58 AM](#)

The meeting was adjourned at 10:40 a.m.