

SENATE FINANCE COMMITTEE  
March 10, 2015  
9:06 a.m.

9:06:20 AM

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 9:06 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Heidi Drygas, Commissioner, Department of Labor and Workforce Development; Paloma Harbour, Director, Division of Administrative Services, Department of Labor and Workforce Development; Colonel Laurel Hummel, Commissioner, Department of Military and Veterans Affairs; Colonel Robert Doehl, Deputy Commissioner, Department of Military and Veterans Affairs; Susan Colligan, Director, Division of Administrative Services, Department of Military and Veterans Affairs.

SUMMARY

SB 27            APPROP: OPERATING BUDGET/LOANS/FUNDS

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

FY 16 BUDGET OVERVIEWS:

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT

#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."

[9:07:50 AM](#)

^OVERVIEW: FY 16 DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT

[9:08:18 AM](#)

HEIDI DRYGAS, COMMISSIONER, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, discussed the PowerPoint, "FY 2016 Budget Overview, Department of Labor and Workforce Development" (copy on file). She shared that she was born and raised in Fairbanks, and attended the University of Alaska Fairbanks (UAF). She attended law school, and graduated in 2003. She continued to discuss her background and resume.

Commissioner Drygas highlighted slide 1, "Department Overview":

MISSION:

Provide safe and legal working conditions and advance opportunities for employment.

KEY PROGRAM PRIORITIES:

- Protect Alaska's workers through statutory and regulatory assistance and enforcement.
- Workforce development to support Alaska hire and economic development.
- Income replacement for injured, unemployed, and permanently disabled workers.

Co-Chair Kelly suggested that the focus of the presentation be on the budget requests.

Commissioner Drygas stated that slide 2 showed some of the office locations and job centers.

Commissioner Drygas looked at slide 3, which was the department organizational chart.

Commissioner Drygas discussed slide 4, "Protect Workers." She stressed that the state saw a significant reduction on the work place time lost due to illnesses and injuries from a rate per 100 employees of 1.13 in FY 13 to a record low of 0.061 in FY 14. She stressed that the decrease was a direct result of the Division of Labor Standards and Safety developing a ten-hour Occupational Safety and Health Administration (OSHA) course that was used to improve safety in the target industry of seafood processing. The majority of the decrease occurred in that industry. She expressed concern, because the other body proposed eliminating the funding that supported those efforts. She felt that developing proactive programming to keep workers safe, functioned as a cost savings measure overall.

Commissioner Drygas highlighted slide 5, "Workforce Development." She stated that the vocational rehabilitation programs performance had remained strong over time.

[9:12:05 AM](#)

Co-Chair Kelly looked at slide 4, and surmised that the reduction rates were an overall reflection, or strictly the seafood industry. Commissioner Drygas replied that reduction rates were an overall reflection of the workforce. She stressed that there was a program to train the seafood processing industry for better handling of seafood. She stressed that the industry was fraught with workplace injuries. The rate of the decline could be attributed to the specific training program. She remarked that the training program cost \$300,000, and felt it was a worthwhile investment.

Senator Bishop remarked that the keeping the workplace incident rate low would keep the overall workman comp premiums at a low rate.

Vice-Chair Micciche agreed that the unintended consequences of the budget reductions could be far higher than the initial program cut.

Commissioner Drygas addressed slide 5, "Workforce Development." She shared that the vocational rehabilitation programs performance remained strong in 2014.

Commissioner Drygas looked at slide 6, "Income Replacement." She shared that the department saw a marked improvement in the timeliness of Fishermen's Fund Claim payments from an average of 60 days in FY 13 to an average of 47 days in FY 14. She stated that the reduction resulted from an implementation of follow-up protocol that quickly notified claimants of any missing documents required to process the claims. The successes were due in large part to existing public and private partnerships she stressed that the department worked hard to develop the partnerships.

Commissioner Drygas discussed slide 7, "Workforce Development Partnerships":

#### State Partnerships

- Alaska Military Youth Academy - WorkKeys assessments
- Department of Corrections - WorkKeys assessments and Hiland project
- Department of Education and Early Development - WorkKeys assessments, education program outcomes, and Career and Technical Education grants
- University of Alaska - Training program outcomes
- Division of Juvenile Justice - Johnson Youth Center training

#### Private/Non-profit Partnerships

- Alaska Employers
- Tribal and Community Vocational Rehabilitation Programs
- Construction Education Foundation
- Alaska Works Partnership
- Regional Training Centers and Private Training Providers
- Membership on Boards and Councils

[9:17:06 AM](#)

Senator Bishop wondered if the other body had proposed to cut the Construction Education Foundation. Commissioner Drygas responded in the affirmative.

Senator Bishop wondered how much of the funding was used to bring high school students into the trades. Commissioner Drygas replied that there was approximately \$2 million for K-12 in the Construction Education Foundation.

Co-Chair MacKinnon disclosed that her husband was the CEO and served on the board of directors for the Construction Education Foundation.

Senator Dunleavy wondered if there were discussions regarding job displacement management due to the job losses that would occur during the budget climate in the state. Commissioner Drygas replied in the affirmative. She wanted to insure that the Unemployment Insurance (UI) fund was solvent.

Vice-Chair Micciche remarked that there was a 75 percent reduction in lost work case days. He felt that the oil and gas industry hoped that many of the people that were displaced from the shutdown of the Agrium Plant would be able to return to the Kenai for work. He felt that the success on a community level was extraordinary. Commissioner Drygas responded that the department took great pride in the rapid response program to ensure that the workers get back to work as quickly as possible.

Commissioner Drygas looked at slide 8, "FY 2016 Endorsed Budget: \$179,537.8 million." She explained that the department's governor's budget totaled \$179.5 million; 53 percent of which was federal funds. The department's UGF in FY 16 totaled \$29.2 million, which was down by \$4.2 million from the current year, and was equivalent to a 12.8 percent reduction. To implement the reduction, the department focused on the governor's goal of redesigning administrative services to maintain maximum program and services delivery. The reductions proposed in the governor's budget were significant enough that there would be direct service implications, but the decisions were informed and reasoned. She was committed to continuing to streamline services; find efficiencies; and develop partnerships to maintain key programs and services. She did not believe that the reductions made by the House subcommittee fit the key criteria.

[9:22:16 AM](#)

Commissioner Drygas discussed slide 9, "Governor's Endorsed Budget Overview":

Operating Budget:

One-time and Temporary Increment Reversals

- \$1.4 million UGF for the Alaska Youth First/Compass Alaska program
- \$150.0 DGF for the Rural Apprenticeship Outreach program
- \$226.8 UGF and -\$100.0 DGF for the Alaska Vocational Technical Center (AVTEC) Registered Nurse program

Designated General Fund Increases

- Additional program receipt authority for the Alaska Safety Advisory Council (\$35.0) and AVTEC (\$110.0)
- \$429.0 in additional Technical and Vocational Education Program (TVEP) funding to regional training centers specified in Alaska Statute 23.15.835 Known Federal and Other Funding Reductions
- \$3.0 million less in federal and other funding that supports the state's job center network

[9:22:46 AM](#)

Senator Bishop wondered if the decrement was only for the registered nurse program. Commissioner Drygas replied that the reversal was only for the registered nurse program.

Senator Bishop wanted to examine that issue further in the subcommittee.

Senator Dunleavy remarked that the administration was in disagreement with the recommended cuts from the House subcommittee. Commissioner Drygas agreed.

Senator Dunleavy asked that she restate her disagreement. Commissioner Drygas responded that she believed very strongly that reductions must be made thoughtfully and

responsibly, and she did not believe that the cuts from the House subcommittee were responsible or thoughtful.

Senator Dunleavy wondered if there would be additional recommendations for cuts and reductions above what was submitted by the governor's budget. Commissioner Drygas responded that she would continue to examine her programs to determine the best solutions. She felt that the House proposed reductions would cost more money than the cuts would provide. She felt that reducing OSHA funding would hurt the bottom line more than it helps the bottom line. She agreed to continue to examine more areas to cut. She remarked that the current time was not a good time to diminish the efforts to develop Alaska work force.

Vice-Chair Micciche preferred that commissioners were not compliant to the legislature, and appreciated the honesty. He hoped to continue to passionately defend the programs.

Co-Chair Kelly stressed that the commissioners were not available to argue against the governor's budget.

Commissioner Drygas continued to discuss slide 9.

[9:28:21 AM](#)

Senator Dunleavy surmised that DLWD was examining the possibility of program redundancies. Commissioner Drygas agreed.

Senator Dunleavy wondered if there would be a plan to concentrate on one particular training center for a specific trade, in order consolidate and reduce cost while maintaining quality. Commissioner Drygas responded that the governor wanted to focus on career and technical education (CTE). The department was working to examine its own programs to eliminate duplications, and work with industry to ensure that the training programs that were desired.

Senator Dunleavy asked if there was a continued robust presence of providers of training. Commissioner Drygas replied that there were both union and nonunion public and private partnerships. She stressed that those relationships were continually cultivated.

Commissioner Drygas looked at slide 10, "Governor's Endorsed Budget Overview":

Operating Budget continued

\$300.0 Unallocated Unrestricted General Fund Reduction

- Delete three positions from the Commissioner's Office and the Administrative Services Division to attain the Governor's goal of redesigning administrative infrastructure to maintain maximum program and services delivery

8 percent Unrestricted General Fund (\$2.5 million) Reduction

- Reduce administrative and support positions, and streamline services to minimize direct service impacts (-\$1,052.2)

- Reduce funding available to offset lease expenses (-\$311.4)

- Closure of the Alaska Vocational Technical Center's Anchorage Campus, which houses AVTEC's Allied Health programs (-\$478.9)

Co-Chair Kelly queried the additional amount that the House removed. Commissioner Drygas replied that the House removed an additional \$6 million, which was a 31 percent reduction.

[9:34:04 AM](#)

PALOMA HARBOUR, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, announced that the total UGF reduction in the FY 16 amended budget was \$4.2 million.

Commissioner Drygas highlighted slide 11, "Governor's Endorsed Budget Overview":

Operating Budget continued

8 percent Unrestricted General Fund (\$2.5 million) Reduction continued

- Reduced Adult Basic Education instructional hours (-\$172.5)

- Eliminate a Wage and Hour Investigator (-\$153.9)

- Less funding for pass-through grants in support of Alaska Construction Academies and Rural Training Centers (-\$367.6)

#### Capital Budget

##### Re-appropriation

- \$530.0 unexpended balance of the AVTEC Third Avenue Dormitory project to provide for the replacement and upgrading of AVTEC's information technology (IT) equipment and infrastructure.

Senator Bishop queried the total number of Adult Basic Education (ABE) test takers that received diplomas. Commissioner Drygas replied that there were approximately 17,000, but agreed to provide an exact figure.

Senator Bishop wondered if less people would be able to take the test, due to the budget reduction. Commissioner Drygas deferred to Ms. Harbour.

Ms. Harbour explained that the ABE program estimated that the reduction would serve approximately 80 less individuals per year. She stated that the GED underwent a significant change in 2014 to a computer based test. The GED test was much more difficult, so it required greater instruction just to take a computer-based test. There will be a demand on the program, but the number of test takers had reduced.

Senator Bishop encouraged the department to consider a partnership with another provider to help with the instructional hours, because GEDs were another way into an apprenticeship program.

Co-Chair MacKinnon looked at slide 10, and remarked that there would be a deletion of three positions from the Commissioner's Office and Administrative Services. She wondered if those positions were currently filled. Commissioner Drygas responded that the positions would not result in any layoffs. She furthered that some people were moved to different positions to eliminate some vacancies.

Co-Chair MacKinnon commented that the reoccurring cost would save money in perpetuity if those positions were already filled.

Commissioner Drygas discussed slide 12, "Vision for the Department":

Streamline programs and revamp the workforce development system to ensure maximum effectiveness and efficiency within a sustainable budget

Increase Alaska resident hire in priority industries and occupations to ensure Alaskans are getting Alaska's jobs

Ensure economic stability for injured, unemployed and disabled Alaskans

[9:42:30 AM](#)

AT EASE

[9:44:21 AM](#)

RECONVENED

[9:44:32 AM](#)

Vice-Chair Micciche remarked that there were certain Alaskan industries that had a high nonresident rate. He queried solutions to the nonresident rate in some industries. Commissioner Drygas responded that the department was working to develop an increase the Alaska hire in the seafood industry. There was work with the Pacific Seafood Processors Association in working with ways to employ Alaskans. She shared that there was a successful prisoner reentry program into the seafood processing industry, and many of those individuals were some of the best performing workers in the particular plant. There was an interest to develop and further broaden that program to other processors.

Vice-Chair Micciche felt that it was important for residents to understand that there were some industries that were considered "seasonal."

Senator Bishop remarked that the state may receive some royalty relief, if the state reached 80 percent Alaska hire.

Vice-Chair Micciche encouraged the commissioner to educate Alaskans on the true residency rates.

9:50:31 AM

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9:58:20 AM

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^OVERVIEW: FY 16 DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

9:58:49 AM

COLONEL LAUREL HUMMEL, COMMISSIONER, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS, introduced herself.

COLONEL ROBERT DOEHL, DEPUTY COMMISSIONER, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS, introduced himself.

Commissioner Hummel looked at the PowerPoint, "FY2016 Budget Overview, DMVA" (copy on file).

Commissioner Hummel addressed slide 2, which showed the 2015 plan and the 2016 amendment. She stated that column three showed the difference between the two.

Commissioner Hummel addressed slide 3, "FY 2016 Budget Reductions":

Decreases in the Governor's Amended FY2016 budget

- \$4,175.0 UGF - Alaska Aerospace Corporation

State GF operating and sustainment funds have been entirely eliminated. Aero Receipts have been correspondingly increased to enable the collection of contract revenue.

- \$350.0 UGF - Interior Veterans Cemetery Operations

Construction of the Interior Veterans Cemetery has been delayed due to availability of federal funds. Therefore, operating funds are not needed in FY2016.

Co-Chair Kelly noted that it was \$350,000. Commissioner Hummel agreed.

Senator Bishop surmised that the department purchased some property for the new cemetery in Fairbanks. Commissioner Hummel agreed.

Senator Bishop wondered if the budget had an effect on the new cemetery. Colonel Doehl replied that the state must find a suitable location, so the federal government would build the cemetery. Once the cemetery was built, the department would operate the cemetery.

Senator Hoffman queried the timeline for the completion of the cemetery. Commissioner Hummel replied that the federal government had indicated that the cemetery would be completed the following year.

Vice-Chair Micciche noted that the request was also in the FY 15 budget, and felt no need to provide operating funds for a cemetery that was not currently operation.

[10:03:16 AM](#)

Commissioner Hummel continued to discuss slide 3:

- \$300.0 UGF - Base Realignment and Closure Impact Assistance

DMVA will work with available resources and coordinate with other interested parties to advocate for sustainment of Alaska's military installations.

Commissioner Hummel highlighted slide 4, "FY 2016 Budget Reductions":

Decreases in the Governor's Amended FY2016 budget

- \$350.0 UGF - Army Guard Facilities Maintenance

DMVA anticipates some cost savings due to changes in cost-sharing ratios with the National Guard.

- \$133.6 GF Match/\$75.5 Fed - Pre-Disaster Mitigation Activities

Pre-Disaster Mitigation activities will be reduced.

Co-Chair MacKinnon assumed that the \$133,600 in GF would leverage the \$75,000. Commissioner Hummel agreed.

Vice-Chair Micciche looked at slide 4, and remarked that the decreases would amount to \$5.2 million. He wondered if the difference between \$6.7 million and \$5.3 million related to PCN reductions. Commissioner Hummel deferred to Ms. Colligan.

Co-Chair Kelly asked Vice-Chair Micciche to restate his question.

Vice-Chair Micciche remarked that the changes in the bullet points totaled \$5.3 million, but the UGF decrements shown on slide 2 were \$6.7 million.

SUSAN COLLIGAN, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS, explained that there three other small items including decrements, air guard facilities, and a \$94,500 decrease. She remarked that there was reduction of \$68,200 for a food service position in the Alaska Military Youth Academy (AMYA), which was a recently vacated position. She furthered that there was a reduction of \$13,700 in National Guard Military Headquarters, and there were continued examinations of administrative efficiencies. She remarked that there were some net numbers in the first slide, and noted that there were some increases in personal services due to contractual increases.

Vice-Chair Micciche surmised that it was a \$1.462 million gap, and there was only \$150,000 accounted. He queried the location of the other \$1.3 million in detailed reductions. Ms. Colligan agreed to provide that information.

[10:08:43 AM](#)

Commissioner Hummel discussed slide 5, "FY2016 Budget Highlights":

Increases in federal authority in the Governor's Amended FY2016 budget

- \$3,005.0 Fed - Alaska Aerospace Corporation  
The Department of Defense's current budget contains federal funds for support of non-federal

launch facilities. AAC is one of only two such facilities nationwide.

- \$1,300.0 Fed - Alaska Military Youth Academy (AMYA)

AMYA anticipates award of a 40-month grant to provide a job-training component to selected cadets who have completed AMYA's residential program.

- \$250.0 Fed - Office of Veterans Affairs

The Office of Veterans Affairs was awarded a federal grant to off-set the costs of ground or sea transportation of veterans in highly rural areas.

Senator Dunleavy wondered if the grants expired, and whether there was an expectation that the state would then provide GF funds. Commissioner Hummel replied that she did not know if there was an expectation that the grants were a one-time opportunity or long-term programs. She deferred to Colonel Doehl.

Colonel Doehl explained that the supplemental programs were eliminated when the federal dollars were fully depleted, because they were 100 percent federally funded.

Senator Dunleavy remarked that there were fiscal issues that caused people to ask new questions, and noted that there were numerous grants that could be awarded without legislative approval.

[10:12:53 AM](#)

Co-Chair MacKinnon looked at slide 2, and looked at the "other" category, and remarked that there was an overall percentage increase. She queried the "other" dollar gains and wondered how the Aerospace deduction was replaced by federal receipts. Commissioner Hummel responded that the other category included \$4.175 million of aerospace receipts and salary increases. The federal receipts of \$4.668 million included approximately \$3 million from aerospace, the \$1.3 million in federal grants to AMYA, \$250,000 to veteran services transportation grants, and salary increases.

Co-Chair MacKinnon remarked that there was no GF for the grants. She stressed that aerospace could collect receipts, and then have additional spending authority for the federal grant. She noted that there was approximately \$120,000 that was not yet identified. She wondered if there was \$4.175 million in the other category. Commissioner Hummel replied in the affirmative, and stated that it also included salary increases.

[10:15:18 AM](#)

Vice-Chair Micciche wondered what the house subcommittee had determined. Mr. Doehl replied that the House increased the decrements by approximately \$400,000: eliminating a position in the commissioner's office; eliminating more of the pre-mitigation funding; and examining savings in Army and Air Guard facilities.

Senator Hoffman remarked that the governor indicated that he intended to expand the National Guard in different areas of the state, specifically rural Alaska. He wondered how the department planned to accomplish that goal in FY 16. Commissioner Hummel replied that there would be revitalization of the Alaska National Guard in rural Alaska was one of the department's objective, but that was not included in the current budget. She stated that it was a complicated issue, and the department must examine how best to accomplish that effort. She hoped to leverage federal funds for increased recruitment, transportation, and training expenses.

Senator Hoffman wondered if the department had conducted communications with the congressional delegation regarding the National Guard expansion. Commissioner Hummel responded that there were no recent conversations.

Senator Bishop commented that there were many training aspects in Anchorage. He queried the detailed opportunities for training. Commissioner Hummel agreed to provide further information.

[10:19:53 AM](#)

AT EASE

[10:20:32 AM](#)

RECONVENED

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

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ADJOURNMENT

10:21:43 AM

The meeting was adjourned at 10:21 a.m.