

SENATE FINANCE COMMITTEE  
March 12, 2015  
9:05 a.m.

9:05:03 AM

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 9:05 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

Valerie Davidson, Commissioner, Department of Health and Social Services; Sana Efird, Assistant Commissioner, Finance and Management Services, Department of Health and Social Services; Doctor Jay Butler, Chief Medical Officer, Department of Health and Social Services; Mark Luiken, Commissioner, Department of Transportation and Public Facilities; Mary Siroky, Director, Division of Administrative Services, Department of Transportation and Public Facilities.

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 HEALTH AND SOCIAL SERVICES

DEPARTMENT OF TRANSPORTATION AND PUBLIC  
FACILITIES

#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."

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^OVERVIEW: FY 16 DEPARTMENT OF HEALTH AND SOCIAL SERVICES

[9:06:32 AM](#)

VALERIE DAVIDSON, COMMISSIONER, DEPARTMENT OF HEALTH AND SOCIAL SERVICES (DHSS), acknowledged the former commissioner of DHSS, Bill Streur.

Co-Chair Kelly appreciated the acknowledgement of the difficulties of commissioners.

Commissioner Davidson discussed her career background and personal life.

Commissioner Davidson discussed the PowerPoint, "Department of Health and Social Services, Senate Finance, FY 2016 Department Overview" (copy on file).

Commissioner Davidson highlighted slide 2, "Alaska Department of Health and Social Services Organization Chart." She shared that the organizational chart displayed the deputies, who were also present at the meeting.

Co-Chair Kelly asked for more information about the budgets attached to each division.

Commissioner Davidson shared the budget allocations of the DHSS positions displayed on slide 2:

Chief Medical Officer and Public Health Director

Total Budget: \$138.502 million  
UGF: \$53.561 million

Total positions: 488

Medicaid and Health Care Policy

Total budget: \$1.958,127 billion  
UGF: \$860.488 million

Total positions: 1.314

Human Resources; Regulations; Health Information  
Technology

Total budget: \$16.869 million  
UGF: \$4.438 million

Total positions: 58

Family, Community, and Integrated Services

Total budget: \$533.954 million  
UGF: \$311.555 million

Total positions: 1.579

Assistant Commissioner for Finance and Management  
Services

Total budget: \$44.869 million  
UGF: \$23.606 million

Total positions: 222

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SANA EFIRD, ASSISTANT COMMISSIONER, FINANCE AND MANAGEMENT SERVICES, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, discussed slide 3, "Department Total FY 2014 Actuals." She stated that the slide showed the department total FY 14 actuals, and how the budget was distributed in UGF, DGF, other funds, and federal funding sources. She noted that unrestricted GF was 49 percent of the Department of Health and Social Services (DHSS) budget, 45 percent was federal

funds, and the remaining funding sources made up a smaller percentage.

Ms. Efird addressed slide 4, "FY 2014 Actuals by Division." The slide showed the FY 14 actuals, and were broken down by division. She noted that Medicaid Services made up over 61 percent of the DHSS budget; and the other division's percentages were also displayed.

Ms. Efird highlighted slide 5, "DHSS FY 2015 Management Plan." The slide showed all funds with a total budget of \$2.7 billion, with Medicaid budgeted at \$1.7 billion. She furthered that there were other formula grant benefit programs for \$292.9 million, which was 11 percent of the budget. The non-formula grants and benefits program were budgeted at \$190.7 million, which was 7 percent of the budget. The additional non-formula other pieces of the budget was \$539.5 million, which was 20 percent of the budget. She stressed that 80 percent of the DHSS budget was included in the grants and benefit line.

Ms. Efird looked at slide 6, "Formula Programs":

Formula Program - a program with specific eligibility standards which guarantees a specific level of benefits for any recipient who qualifies. The eligibility standards and benefits must be based in statute and/or regulations.

Ms. Efird discussed slide 7, "Formula Programs":

Public Assistance

- Adult Temporary Assistance Program
- Adult Public Assistance
- Child Care Benefits
- General Relief Assistance
- Tribal Assistance Programs
- Senior Benefits Payment Program
- PFD Hold Harmless
- Energy Assistance Program

Senator Dunleavy looked at slide 6, and wondered if the programs were imbedded in state law. Ms. Efird replied that the programs were in statute.

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Senator Dunleavy wondered if the poverty rates were in state statutes. Ms. Efird replied that the poverty rates were in federal law.

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Co-Chair Kelly explained that the percentage was chosen by the state. The state existed somewhere in the range set by the state. Ms. Efird agreed and furthered that some programs had additions above the federal guideline. She explained that the federal portion of the energy assistance program provided funding for up to 100 percent of the poverty level. The state energy assistance program picked up from the 151 to 225 percent level.

Senator Dunleavy asked if the state had any control over costs, allocations, and benefits. Ms. Efird agreed to provide that information. She stated that each program was different.

Co-Chair Kelly queried the name of the fuel assistance program. Ms. Efird replied that the federal program was the Low Income Energy Assistance Program (LIEAP), and the state program was the Alaska Heating Assistance Program (AKHAP).

Co-Chair Kelly wondered if there was an adjustment for the lower fuel costs, or if it was only a percentage. Ms. Efird responded that the eligibility criteria was based on many different criteria.

Co-Chair Kelly felt that the question could be addressed in subcommittee. Ms. Efird agreed to provide further information.

Senator Bishop agreed that the energy issue was important.

Ms. Efird continued to discuss slide 7:

#### Medicaid Services

- Behavioral Health Medicaid Services
- Children's Medicaid Services
- Adult Preventive Dental Medicaid Services
- Health Care Medicaid Services

- Senior/Disabilities Medicaid Services

Children's Services

- Subsidized Adoptions/Guardianship
- Foster Care Special Need
- Foster Care Augmented Rate
- Foster Care Base Rate

Ms. Efird highlighted slide 8, "Service Population":

Priority 1: Health and Wellness Across the Lifespan

Core Service 1.1

Protect and promote the health of Alaskans

Core Service 1.2

Provide quality of life in a safe living environment for Alaskans

Priority 2: Health Care Access Delivery and Value

Core Service 2.1

Manage health care coverage for Alaskans in need

Core Service 2.2

Facilitate access to affordable health care for Alaskans

Priority 3: Safe and Responsible Individuals, Families and Communities

Core Service 3.1

Strengthen Alaska families

Core Service 3.2

Protect vulnerable Alaskans

Core Service 3.3

Promote personal responsibility and  
accountable decisions by Alaskans

Vice-Chair Micciche stressed that the services that DHSS provided were the most important services for Alaskans.

Ms. Efird discussed slide 9, "State of Alaska Department of Health and Social Services." The page depicted the process that the department had undergone over the most recent three years. She shared that the previous administration in DHSS had worked on performance based accountability and budgeting exercises. The slide depicted the DHSS priorities: health and wellness across the lifespan; health care access delivery and value; and safe and responsible individuals, families, and communities. She pointed out DHSS had determined seven core services for vulnerable Alaskans: 1) protect and promote the health of Alaskans; 2) provide quality of life in a safe living environment for Alaskans; 3) manage health care coverage for Alaskans in need; 4) facilitate access to affordable health care for Alaskans; 5) strengthen Alaska families; 6) protect vulnerable Alaskans; 7) promote personal responsibility and accountable decisions by Alaskans. Each division within the department examined their budget, and must determine how each division fit into the department. The divisions had determined how they contributed to each core services, and the dollar amount for each effort.

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Ms. Efird continued to discuss slide 9. She explained that DHSS had worked for three years, and was now at the critical point in determining what data would show that the department was achieving the results to meet each core service. The divisions were working on the correct data to collect and analyze the information to ensure that DHSS was meeting the core services.

Co-Chair Kelly felt that the titles and grants should be set apart in order for the chairman of the subcommittee to analyze their growth over time.

Vice-Chair Micciche echoed Co-Chair Kelly's sentiments.

Ms. Efird stated that the grant discussion should include an understanding of the performance measures within the specific grants and awards.

Commissioner Davidson highlighted slide 10, "Health and Social Services, Eight Divisions":

Alaska Pioneer Homes | Vickie Wilson (Acting Director)

- 649 Positions
- \$62,323.1 - FY2015 Management Plan
- 2.31 percent of DHSS FY2015 Operating Budget
- Provide the highest quality of life in a safe home environment for older Alaskans and Veterans.

Behavioral Health | Al Wall (Director)

- 374 Positions
- \$141,942.4 - FY2015 Management Plan
- 5.27 percent of DHSS FY2015 Operating Budget
- Manage an integrated and comprehensive behavioral health system based on sound policy, effective practices and partnerships.

Commissioner Davidson addressed slide 11, "Health and Social Services, Eight Divisions":

Office of Children's Services | Christy Lawton (Director)

- 509 Positions
- \$143,709.6 - FY2015 Management Plan
- 5.34 percent of DHSS FY2015 Operating Budget
- Prevent and respond to child maltreatment in order to ensure safe children and strong families.

Health Care Services | Margaret Brodie (Director)

- 131 Positions
- \$24,391.6 - FY2015 Management Plan
- 0.91 percent of DHSS FY2015 Operating Budget
- Manage health care coverage for Alaskans in need.

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Commissioner Davidson addressed slide 12, "Health and Social Services, Eight Divisions":

Division of Juvenile Justice | Karen Forrest  
(Director)

- 503 Positions
- \$58,824.7 - FY2015 Management Plan
- 2.18 percent of DHSS FY2015 Operating Budget
- Hold juvenile offenders accountable for their behavior, promote the safety and restoration of victims and communities, and assist offenders and their families in developing skills to prevent crime.

Division of Public Assistance | Ron Kreher (Acting Director)

- 566 Positions
- \$331,226.7 - FY2015 Management Plan
- 12.30 percent of DHSS FY2015 Operating Budget
- Provide self-sufficiency and provide for basic living expenses to Alaskans in need.

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Vice-Chair Micciche asked how the Division of Public Assistance helps to provide self-sufficiency. Commissioner Davidson replied that one of the requirements of many of the programs administered by the Division of Public Assistance included requirements that required recipients to seek work, and included paths to self-sufficiency.

Vice-Chair Micciche shared that he would like divide the beneficiaries from those that were temporarily receiving assistance from those that could not physically support themselves.

Senator Bishop shared that shared that DHSS and the Department of Labor and Workforce Development (DLWF) work together on public assistance. He felt that DLWF could also provide further information.

Senator Dunleavy wondered how long people were on public assistance. He also wanted to understand why the individual

remained on public assistance for an extended period of time.

Co-Chair Kelly felt that DHSS was in a difficult position, because the department provided services that were statutorily required to distribute to the population. He shared that he had some individuals in his family that were almost pursued by the department to take advantage of services. He wondered if there were discussions about whether the department was creating a problem by outreach to the population. He stressed that he did not want more people on welfare. Commissioner Davidson agreed to provide further information.

Co-Chair Kelly wondered if the five-year window for the Temporary Assistance for Needy Families (TANF) program was still in existence. Commissioner Davidson responded that the maximum time that a person was eligible for TANF was 60 months in their lifetime. The average length of stay in TANF in Alaska was approximately 26 months.

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Co-Chair Kelly wondered if the goal of the Division of Public Assistance Division was self-sufficiency or providing basic living expenses. Commissioner Davidson replied that the goal was to provide basic living expenses in order to move the individual to self-sufficiency.

Co-Chair Kelly felt that the two goals were in conflict. He wondered how DHSS would navigate between the seemingly opposed objectives.

Ms. Efird stated that there were varying degrees of Public Assistance programs. She explained that there was an adult temporary public assistance program for able bodied Alaskans that needed help to find and secure jobs. She furthered that there were other programs for the elderly, disabled, and blind individuals that did not have a goal of self-sufficiently.

Senator Dunleavy stressed that the committee was attempting to determine whether the mission matched the activities within the department. He felt that there was an overarching philosophy to not needing the department. He looked at slide 9, and looked at priority 1: "Health and Wellness Across the Lifespan." He queried the goal of that

priority. He felt that there were possibly more people that would be considered obese today than there were four years prior. He opined that obesity led to many problems in health care like diabetes and hypertension. He queried the department's efforts in reducing obesity, other than outlawing fast food and mandating exercise. Commissioner Davidson replied that DHSS was committed to the preventative and wellness programs. She explained that the best opportunities to educate individuals was when those individuals were children. She felt that putting the children on a path to a healthy lifestyle.

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Senator Dunleavy wondered if there was anywhere in the process that rejected individuals who were not willing to make lifestyle changes. Commissioner Davidson replied that DHSS had a program for people that over-utilize the emergency room. She stated that the state spent approximately \$29 million in unnecessary emergency room care for Medicaid beneficiaries. She stated that there was work to determine whether the people that were over-utilizing the emergency room could go to a different medical provider. She stated that the program was currently voluntary, and people seemed to have a positive response to the program. She announced that the recipients liked to have someone pay attention to them, and give them care. She hoped that the program may soon become mandatory. She shared that there was a "lock in program" for someone that had abused the system to lock them into a provider to receive proper care. She stated that the department was looking forward to encouraging shared responsibility for improved health care. She remarked that health care providers never asked a patient, "What about your health do you want to improve this year? And how can we help you get there?"

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Senator Dunleavy felt that DHSS wanted to better reform the programs, to help individuals get out of the cycle. Commissioner Davidson agreed.

Ms. Efird shared that slide 9 represented the first time that the department had allocated the programs in this manner and examined how the money was spent. She remarked that Core Services 3.3 had the least amount of money. She

stressed that money should be spent on prevention and accountability.

Senator Bishop requested a cost benefit analysis.

Senator Hoffman looked at slide 9, and wondered if he would be provided the same spreadsheet for the governor's proposed budget. Ms. Efird replied that the department had not yet drafted a spreadsheet. She stated that the department would align the final FY 16 budget with the outline of slide 9.

Commissioner Davidson looked at slide 13, "Health and Social Services, Eight Divisions":

Division of Public Health | Dr. Jay Butler  
(CMO/Director)

- 488 Positions
- \$138,502.8 - FY2015 Management Plan
- 5.14 percent of DHSS FY2015 Operating Budget
- Protect and promote the health of Alaskans.

Senior and Disabilities Services | Duane Mayes  
(Director)

- 171 Positions
- \$63,385.8 - FY2015 Management Plan
- 2.35 percent of DHSS FY2015 Operating Budget
- Promote the independence of Alaskan seniors and persons with physical and developmental disabilities.

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Ms. Efird looked at slide 14, "FY2016 Governor's Amended Budget Compared to FY2016 Adjusted Base." She stated that the governor's proposed budget was a decrease of \$46.2 million in UGF. She explained that the decrease was the net reduction. The actual reductions in the governor's budget was almost \$50 million, but the increases in salary adjustment there was a slight increase in personal services.

Ms. Efird highlighted slide 15, "Department of Health and Social Services FY2016 Budget Comparison Unrestricted General Funds (UGF)." She stated that the slide represented

the current budget after the House Finance Committee version of the budget. The governor proposed a \$46.2 million reduction; the House Finance budget subcommittee suggested an additional \$35.5 million reduction; and the House Finance Committee suggested an additional \$1.17 million reduction. The department's current budget proposed in the House was \$83 million, which was a 7 percent reduction.

Co-Chair Kelly requested an 8 percent reduction scenario. Ms. Efird agreed to provide that information.

Commissioner Davidson discussed slide 16, "Department Updates":

- Alaska's Resource for Integrated Eligibility Systems (ARIES)
- Medicaid Management Information System (MMIS)
- Medicaid Expansion
- Medicaid Reform

Commissioner Davidson highlighted slide 17, "Areas of primary focus (4) (2015 and beyond)":

1. Access to health care for Alaskans

- Medicaid Expansion: investing in the health of Alaskans
- System Improvements: enrolling individuals and paying providers
- Medicaid Reform: develop an Alaska plan

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Co-Chair Kelly would like to see DHSS version of an 8 percent reduction. He stated that the House presented their version of a close to 8 percent reduction.

Senator Dunleavy shared that many of the health care providers in his district did not get paid or paid on time. He remarked that those providers were used to the unprocessed claims. He shared that a doctor had emailed him stating that the state had denied him \$37,000 in claims. He felt that there was a major software issue within the department. He encouraged the department to fix the software glitch. Commissioner Davidson agreed, and

furthered that that individual had a right to be paid. She stated that the department was working with Xerox to increase the timeliness and accuracy of paid claims.

Senator Dunleavy stressed that many doctors did not want to expand Medicaid if it were overlaid on a faulty system.

Commissioner Davidson explained slide 16, "Department Updates":

- Alaska's Resource for Integrated Eligibility Systems (ARIES)
- Medicaid Management Information System (MMIS)
- Medicaid Expansion
- Medicaid Reform

Commissioner Davidson looked at slide 17, "Areas of primary focus (4) (2015 and beyond)":

1. Access to health care for Alaskans

- Medicaid Expansion: investing in the health of Alaskans
- System Improvements: enrolling individuals and paying providers
- Medicaid Reform: develop an Alaska plan

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Commissioner Davidson addressed slide 18, "Areas of primary focus (4) (2015 and beyond)":

2. Child welfare | keeping our children safe

- Maximizing relationships and resources to improve outcomes for Alaska's children
- 2400+ children in out-of-home placements

Commissioner Davidson looked at slide 19, "Areas of primary focus (4) (2015 and beyond)":

3. Tribal and Federal Partnerships

- Enhancing partnerships to address health and child welfare issues
- Removing barriers that impede our collective efforts

Co-Chair MacKinnon wondered if there were efforts to encourage the tribal organizations to report their federal money. She shared that there had been conversations about the tribal health organizations that utilized some federal funding. She did not want to provide duplicate program funding for communities. Commissioner Davidson replied that it was important to communicate with the tribal organizations to understand if there was duplications. She shared that there would be a meeting in April of all of the tribal child welfare providers in the state and other individuals from the federal government.

Commissioner Davidson discussed slide 20, "Areas of primary focus (4) (2015 and beyond)":

4. Improving the health status of Alaskans

- Prevent and control complications of obesity
- Reduce tobacco use
- Reduce abuse of alcohol and other drugs
- Prevent and improve management of injuries
- Improve immunization coverage among pre-school aged children
- Prevent and control infectious diseases
- Prevent infant deaths
- Implement Healthy Alaskans 2020 action plan

Commissioner Davidson looked at slide 21, "Looking to the Future, Governor Walker's 2014 - HSS Transition Report":

Five Recommendations (Department will explore further in coming months)

1. Medicaid Expansion and Maximize Federal Revenue
2. Administrative Improvements (i.e. Eligibility and Payment systems)
3. Behavioral Health Policy Improvement and Enforcement
4. Health Care Cost and Affordability
5. Safety Net Service Delivery (i.e. Children at Risk, Community Access Hospitals, Disproportionate Share Hospitals, Long Term Care)

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Senator Hoffman wondered how the marijuana initiative may affect the DHSS budget. Commissioner Davidson deferred to Dr. Jay Butler.

DOCTOR JAY BUTLER, CHIEF MEDICAL OFFICER, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, announced that the impact of marijuana legalization was unknown. He stated that there were some concerns, and shared that he was in close contact with his colleague from the other states that had recently legalized marijuana. He announced that there was an increase in emergency room visits for children who had accidentally injected marijuana products.

Co-Chair MacKinnon stated that Legislative Budget and Audit had recently run a review of the shortcomings of the Medicaid system.

Senator Olson queried the possible supplemental budget request number related to the marijuana legalization. Doctor Butler responded that the costs may be related to addiction services. He furthered that he could not speculate the exact number.

Senator Olson wondered if the request would be in the million or billion dollar range. Doctor Butler responded that it would not be a request in the million dollar range.

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^OVERVIEW: FY 16 BUDGET DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

[10:19:19 AM](#)

MARK LUIKEN, COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, (DOT/PF) discussed the PowerPoint, "Department of Transportation and Public Facilities, Governor's Endorsed Budget Overview" (copy on file).

Commissioner Luiken looked at slide 2, "Mission and Core Services":

"Keep Alaska moving through service and infrastructure."

Core Services:

- Construction of transportation infrastructure and facilities
- Maintenance and operations of the state transportation systems and public facilities
- Measurement standards/commercial vehicle enforcement

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Commissioner Luiken highlighted slide 4, "Fabric of DOT/PF." He shared that the slide showed the matrix of the organization. He stated that the functions that provide service were displayed along the top of the slide, including the regional components in the Northern, Central, and South Coast region. The components utilized a large portion of the operating budget for the services. The international airport system was somewhat independent, and was a revenue positive part of the organization. He stressed that all funds generated by the international airport system must be reinvested in the airport. The marine highway system was an important part of the organization, especially for Southeast and Southwest Alaska.

Co-Chair MacKinnon wondered if the reinvestment of the aviation dollars was state or federal law. Commissioner Luiken replied that it was a federal law.

Co-Chair MacKinnon remarked that there was some foreign aviation fuel that was not taxed, and wondered if there was payment in lieu of tax (PELT) from the federal government to the state of Alaska to entice airlines to land in the facility and not pay the full aviation fuel tax. Commissioner Luiken agreed to provide that information.

Co-Chair MacKinnon shared that there was a report that suggested that there were millions of dollars in forgone revenue because of not taxing the full fuel tax.

Senator Hoffman remarked that the state was attempting to comply with federal law. He queried the reconciliation of no dedicated funds to aviation.

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MARY SIROKY, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, explained that the department spent approximately 25 percent of its highway and aviation general funds on airports. The department took in approximately \$5 million. She stated that DOT/PT could approach the federal government to explain that the revenue was appropriately utilized.

Co-Chair MacKinnon shared that she was in position of a document from the Department of Revenue (DOR) dated March 6, 2015, in response to a question she offered to DOR. It appeared that there were two separate foreign fuel tax exemptions: the foreign fuel flight exemption and the foreign fuel tax exemption. She stated that it had been drastically underestimated, and the committee may want to consider the two exemptions. There could be as much as between \$6 million and \$43 million of uncollected tax or credits under one of the exemptions. There was also somewhere between \$4.2 million and \$57 million on the other exemption.

Vice-Chair Micciche believed that those exemptions were founded in state law as an ability to keep the international airports at a lower cost of business.

Co-Chair MacKinnon understood that the airports had benefited from the tax credits. She stressed that the \$3.5 billion deficit had caused her to research the indirect credits to examine whether or not those credits hold the same value.

Commissioner Luiken continued to discuss slide 4. He explained that the left side of the page represented the headquarters component, and the services cut across all of the operational components within DOT/PF. He shared that it was his goal to continue to strengthen the department's ability to provide core services; strengthen the department's core competencies; and emphasize the core values of integrity, excellence, and respect. He shared that he wanted to examine ways to consolidate to find efficiencies across the organization in order to decrease the operating budget. He wanted to strengthen the

leadership of DOT/PF to move the department toward a "one DOT."

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Commissioner Luiken looked at slide 5, "DOT/PF Assets."

- 3,180 full time positions
- 5,619 center line miles of roads/highways
- 79 Maintenance Stations
- 249 State Airports
- 2 International Airports
- 720 Facilities (4 million + sq. ft.)
- 11 Ferries
- 35 Ferry Terminals
- 22 Harbors
- 810 State Owned Bridges
- 7 Weigh Stations

Commissioner Luiken discussed slide 6, "FY2016 Governor's Endorsed Budget." He stated that the DOT/PF budget was divided between roughly \$207 million of other funds and \$339 million of general funds.

Commissioner Luiken highlighted slide 7, "FY2016 Governor's Endorsed Operating Budget Funding Sources." He remarked that \$268 million of other funds were attributed to the interagency receipts at approximately 0.7 percent; the highway equipment working capital fund at approximately 5.6 percent; the international airport revenue fund at 13.8 percent; the capital improvement program receipts at 25 percent; the statutory designated program receipts at 0.3 percent; the Whittier Tunnel toll receipts at 0.3 percent; the uniform commercial carrier registration fees at 0.1 percent.

Commissioner Luiken addressed slide 8, "FY2016 General Fund Governor's Endorsed Operating Budget by Allocations." He pointed out that the three categories Administration and Support; Planning; and Design and Construction totaled roughly 7 percent of the DOT/PF operating budget. The remaining 93 percent was for the marine highway system; highways and aviation; and facilities maintenance and operations. That 93 percent accounted for the direct services that the department supplied to Alaskans.

Co-Chair MacKinnon asked for an explanation of the benefit ratio of the investment for the two largest budget components.

Commissioner Luiken surmised that Co-Chair MacKinnon wanted an explanation of the cost of the systems and how many people the systems supported.

Co-Chair MacKinnon agreed with that summation.

Commissioner Luiken replied that the marine highway system supported roughly 10 percent of the Alaska population. The highways and aviation component supported roughly 100 percent of the population. He stated that the communities that could only be reached by air was roughly 82 percent of the communities in the state.

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Senator Dunleavy wondered if the marine highway system was a subsidized transportation method. Commissioner Luiken indicated in the affirmative.

Senator Dunleavy noted that those communities that were in northern Alaska received subsidies for airports, but he noted that there were no subsidies for the actual flights. Commissioner Luiken agreed.

Senator Dunleavy remarked that the rural communities that were not connected by road or marine highway depended solely on airports. Commissioner Luiken agreed.

Co-Chair Kelly asked for an examination of the marine highway system with a reduction in the subsidy, compared to other marine highway systems in other states.

Vice-Chair Micciche felt that there should be an examination of the cost per user.

Co-Chair Kelly stressed that the budget for the marine highway system was extremely expensive.

Senator Bishop queried a brief update of federal aviation funding. Commissioner Luiken replied that the U.S. Congress was currently reauthorizing the Federal Aviation Administration's funding for future years. He stated that the state was at the end of the previous authorization. A

few Alaska programs would be scrutinized, including the essential air service. He remarked that the aviation funding was expected to continue.

Senator Olson wondered what the marine highway budget percentage had been in previous years. He wondered if it was consuming a higher percentage for less and less of the population. Commissioner Luiken responded that the budget had remained roughly the same percentage of the budget over time.

Co-Chair MacKinnon wondered how many federal dollars were moved from roads to the marine highway system. Commissioner Luiken replied that he had possibly misspoken earlier. He stated that the marine highway system was recognized as a national highway, the actual miles did not qualify within the federal formula like the remainder of the surface transportation system. He stated that the only components that would qualify under a formula program were the terminals and dock facilities associated with the terminals. He furthered that that there was a ferry capital fund to pay for significant maintenance on the vessels. He stressed that the money was not taken from the road system, because it was part of a separate formula.

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Co-Chair MacKinnon surmised that the state criteria did not influence the distribution. Commissioner Luiken agreed.

Vice-Chair Micciche queried why the marine highway did not qualify because of mileage. He wondered if the ferry system could rearrange the voyages to qualify under mileage. Commissioner Luiken did not believe that any ferry system mileage could qualify under the federal formula.

Commissioner Luiken looked at slide 9, "FY2016 Governor's Endorsed Capital Budget." The largest portion of the budget was federal receipts.

Commissioner Luiken spoke to slide 10, "DOT/PF Regional Boundaries." He stated that the new boundaries were to share a work load. The central region was the largest growing population, so consumed much of the work load. The marine highway system was now all under one region. The department was working through the transition.

Vice-Chair Micciche looked at slide 9, and felt that it did not align with the earlier slides related to overall state expenditures. Commissioner Luiken explained that slide 9 represented the capital budget, not the operating budget.

Ms. Siroky discussed slide 11, "National Environmental Policy Act":

Cost  
\$1,235.4 CIP  
4 Positions at DOT/PF  
2 Positions at Law

DOTandPF Assumes Federal Highway Administrations role to review and approve

- Environmental Impact Statements (EIS)
- Environmental Assessments (EA)
- Defend ourselves if sued

Advantages

- Control over decision making
- Quick decision making: time = money
- Federal role is eliminated
- Consult directly with other federal agencies
- Try innovative process or procedures
- Adopt new policies quickly if needed

Application process takes two years

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Co-Chair MacKinnon wondered if the plan to take over the 404 permitting was known as "primacy." Ms. Siroky replied that it was known as "primacy" at DEC, but this was known as assignment with FHWA. She stressed that DOT/PF had obtained authority for categorical exclusions, or the easy parts of the National Environmental Policy Act processes. She felt that DOT/PF was more efficient than the federal government.

Co-Chair MacKinnon wondered if there was a reasonable expectation to complete the process with the indirect funding, and avoid a legislative appropriation. Ms. Siroky replied that the department had worked with other states

who were at various stages of the process. She stressed that the program qualified for indirect funding. She remarked that a good percentage of the program operations could be charged to the specific capital projects. She felt that the remainder of activities would be indirect cost eligible. She felt that the program would never need GF dollars.

Senator Bishop commented that he was in support of NEPA, and felt that there was great work on the state transportation system as related to the AKLNG project.

Vice-Chair Micciche requested a cost benefit analysis.

[10:51:49 AM](#)

Senator Hoffman looked at slide 9, and wondered if the CIP funds included 89 percent from federal dollars, or were all the CIP funds derived from GF dollars. Ms. Siroky replied that the projects charged could be either federal or state funds. She stated that most of the large projects in the future would be primarily federally funded projects.

Senator Hoffman looked at slide 11, and wondered if the \$1.2 million was constant with inflation, or would the amount increase drastically. Ms. Siroky replied that there was no anticipated drastic increase, but understood that any cost was subject to inflation.

Co-Chair Kelly looked at slide 12 and queried the House Finance Committee's marine highway system reductions. Ms. Siroky replied that the marine highway system reduction was a total of \$10.8 million.

Co-Chair Kelly surmised that there was an additional \$7 million from the governor's budget.

Commissioner Luiken highlighted slide 12, "FY2016 Governor Endorsed Operating Budget Changes":

New Initiatives

Deadhorse Airport Extended Operations; \$570.7

Telematics Fleet Management System; \$250.0

Full National Environmental Policy Act  
Assignment; ('6005') \$1,235.4

One-Time Items

Reduce Naturally Occurring Asbestos Ch 13 SLA  
2012 (HB 258) (Ch 15 SLA 12 P45 L30 P46 L1) (HB  
284): \$(55.0)

Position Count Reductions

11 full-time; 1 part-time; 3 non-permanent

Reductions

Administration and Support RDU: \$(1,034.0)

Design and Construction RDU: \$(979.3)

International Airports RDU: \$(325.6)

Highways and Aviation Components: \$(5,837.5)

Facilities Components: \$(194.9)

Alaska Marine Highway System: \$(3,560.0)

Total Reductions: \$(11,931.3)

[10:57:04 AM](#)

Commissioner Luiken addressed slide 13, "Reductions":

Administration and Support RDU

- Positions, travel, supplies, services, use vehicle pools

Highways and Aviation - maintenance and operations

- 3 positions Bethel airport- reduce operations to 5am to 10pm
- 1 position Akutan
- Winter maintenance - reduce number of position, overtime, commodities
- Will use service levels to set maintenance priorities

- Use federal preservation funding when allowable to do routine maintenance

Design and Construction RDU

- Positions, travel, training, services

Alaska Marine Highway System

- Eliminate 39 weeks of service
- Bars

Co-Chair MacKinnon stressed that she was not advocating for anyone to lose their jobs. She wanted to ensure that eliminating vacant positions did not change any services. She wondered if anyone was losing their jobs inside of the position count reductions. Ms. Siroky replied that some of those positions were filled, but some positions were vacant to move people in order to mitigate the magnitude of layoffs.

Co-Chair MacKinnon wondered if the prioritization of the overall agency budget was conducted in the budget drafting. Commissioner Luiken replied that he had instructed his staff to prioritize the overall agency budget. He stressed that the cost saving initiative would be the same across the department.

[11:01:20 AM](#)

Ms. Siroky discussed slide 14, "FY2016 Governor Amended Operating Budget Changes":

Reductions/Changes (UGF)

Statewide Procurement-Personal Services: \$(200.0)

Central Region Highways and Aviation-Service Level Reductions: \$(1,942.2)

Northern Region Highways and Aviation-Service Level Reductions: \$(3,084.1)

Southcoast Region Highways and Aviation-Service Level Reductions: \$(1,062.7)

Marine Vessel Operations-Restore full service to currently published schedule and account for eliminated fuel trigger: \$6,289.0

Commissioner Luiken looked at slide 15, "FY2016 Proposed Fee Increases."

AMHS Fare Increase

- 4.5 percent = \$1.8M

Deadhorse Landing Fees

- \$285.0 in FY2016
- \$570.0 in FY2017
- Whittier Tunnel Fare increase 10 percent

[11:06:40 AM](#)

Senator Hoffman looked at the fuel trigger of \$3.6 million, and the department would recoup \$1.8 million, with a 4.5 percent increase in FY 16. He queried the increase percentage in the subsequent five years. He wondered if the department was planning ahead to account for the probable increases. Ms. Siroky replied that the 4.5 percent increase to the marine highway system was in addition to the fare study that was in the process of completion, which would attempt to balance the fares throughout the system. She shared that the House passed an amendment that would double the fare increase in January 2016. She shared that there was a plan to build the ferry schedule on a budget that was sustainable in terms of the state's current fiscal situation.

Senator Hoffman wondered if there were any marine highway fare increases beyond FY 16. He specifically wondered if the state would attempt to recoup the \$3.6 million fuel trigger. Commissioner Luiken replied that the department had conducted a fare study, so the department intended to utilize the results of the fare study to rework the fare system into a formula based system. He felt that there would be increased revenue as a result of the new fare system.

Senator Olson looked at the landing fees, and wondered if there was a change in the gross weight limitation of 6,000

pounds. Commissioner Luiken replied that he anticipated some comments regarding the base of the set weight.

Senator Olson assumed that the proposal was still 6,000 pound gross weight. Commissioner Luiken agreed.

Senator Olson queried the cost of collecting the \$500,000. He wondered if there would be additional personnel required to facilitate the collection process. Commissioner Luiken responded that there was an automated system in place that could be used, and the expectation was to utilize the current personnel.

Senator Olson wondered if the intention was to extend the hours at the Deadhorse Airport. Commissioner Luiken replied in the affirmative.

Senator Olson remarked that there were some aircraft that did not have specific TSA clearances, so he felt that the tax was discriminatory against the smaller aircrafts that were attempting to provide necessary service to the smaller communities.

[11:13:43 AM](#)

Co-Chair Kelly wondered if the matter could be dealt with in the budget, or whether it was a policy issue. Senator Olson replied that it would be a regulatory change, because there were some federal issues.

Co-Chair Kelly asked if there could be some resolution with Senator Olson. Commissioner Luiken agreed.

Senator Bishop wondered if any of the seven weigh stations would be affected. Ms. Siroky agreed to provide that information.

Vice-Chair Micciche remarked that the state was in extraordinary times. He felt that there would be some inconvenience to some residents of the state.

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

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ADJOURNMENT

[11:17:57 AM](#)

The meeting was adjourned at 11:17 a.m.