

SENATE FINANCE COMMITTEE  
February 15, 2016  
9:05 a.m.

9:05:55 AM

CALL TO ORDER

Co-Chair MacKinnon 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 Donny Olson

MEMBERS ABSENT

Senator Lyman Hoffman

ALSO PRESENT

Pat Pitney, Director, Office of Management and Budget,  
Office of the Governor.

SUMMARY

SB 167      APPROP: SUPP/CAP/OTHER APPROPRIATIONS

SB 167 was HEARD and HELD in committee for further consideration.

Co-Chair MacKinnon asked the committee to observe a moment of silence to remember Representative Max Gruenberg, who passed away unexpectedly the previous day.

#sb167

SENATE BILL NO. 167

"An Act making supplemental appropriations, capital appropriations, and other appropriations; making reappropriations; amending appropriations; repealing appropriations; and providing for an effective date."

9:07:40 AM

PAT PITNEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, discussed the PowerPoint, "FY2017 Budget Overview Senate Finance Committee FY17 Capital and FY16 Supplemental" (copy on file).

Ms. Pitney turned to slide 28, "FY 2016 Supplemental Summary" stating that it provided a summary of the supplemental requests for the current fiscal year. The slide displayed three tables: current supplemental requests, prior appropriations for FY 16 from the LNG special session and from the governor's budget, and a box enumerating the total of \$251 million. She drew attention to the line for fire suppression, which listed \$47.5 million in costs incurred during the fire season the previous summer and fall. She pointed out small amounts in formula items, judgements and claims, and non-formula.

Ms. Pitney discussed slide 29, "FY 16 Supplemental: Administration," which enumerated supplemental items line by line for each agency. She highlighted line 2, a Statewide Single Audit Increase for \$450 million in unrestricted general fund (UGF). She explained that "single audit" was an audit that the Division of Legislative Audit performed for the state on an annual basis, typically costing the administration \$300,000. She detailed that the administration had received a bill for \$750,000 for the audit in the current year, and the request was for funds to cover the remainder of the cost.

9:11:19 AM

Vice-Chair Micciche asked if the state had changed firms or instituted another change to result in a 150 percent increase in the cost of the audit. Ms. Pitney stated that the audit was a traditional financial audit, performed in-house; and the charge was based on past practice. She furthered that as budgets became tighter, Legislative Audit was billing based on a time basis. She thought the cost was not egregious or inappropriate and accounted for the hours that Legislative Audit was spending on the task.

Co-Chair MacKinnon stated that the committee would follow up with Legislative Audit to ascertain if the charge was as

described with regard to billing for hours spent rather than a traditional flat charge.

Vice-Chair Micciche wondered if the state should consider a request for proposals for a private external option.

Co-Chair MacKinnon thought that the Legislative Finance Division (LFD), and Legislative Audit specifically, were going to utilize contractors more.

Ms. Pitney continued discussing slide 29, pointing out a small increase for the Office of Public Advocacy (OPA). She detailed that OPA's caseload was extraordinarily high in the fall, partially due to the "Fairbanks Four" case [in which convictions of four men in the 1997 death of a teenager in Fairbanks were overturned]. She drew attention to an additional two items for OPA and for the Public Defender Agency. She explained that there was a mechanism for OPA and public defenders to collect funding for services. The agencies were being more aggressive in the collection of such funding, and the items represented the receipt authority necessary for the collection.

Ms. Pitney showed slide 30, "FY 16 Supplemental: Corrections," and discussed a fund source swap (from UGF to federal funds) for the amount that was estimated to cover the number of federal man-days in Alaska state prisons. There was a provision that the federal government would pay for federal prisoners in Alaska prisons. She noted that the administration was trying to follow the principal of putting in only the minimum amount of items necessary to manage through the year. She hoped the committee would recognize that it was a small supplemental package overall.

[9:15:31 AM](#)

Ms. Pitney moved to slide 31, "FY 16 Supplemental: Education," noting that the item request was a technical correction after LFD had noted a fiscal note from the second special session the previous year had not made it into the budget process.

Ms. Pitney showed slide 32, "FY 16 Supplemental: Environmental Conservation" and discussed a one-time funding request for a federal grant for the Department of Environmental Conservation. The funding would provide

cleaner diesel equipment. There were no ongoing commitments to the grant, which was for \$250,000 in federal funds.

Ms. Pitney moved to slide 33, "FY 16 Supplemental: Health & Social Services," noting that the top two items were formula programs; one in foster care and one in subsidized adoption. The two supplemental requests covered the formula amount for the number of children in the programs for FY 16. She discussed the increased number of children in the foster care and subsidized adoption programs.

Senator Dunleavy asked if the increase was indicative of a philosophical shift of the administration.

Ms. Pitney did not believe the increase was based on a philosophical change, and relayed that there was a strict checklist of items including more reports of child abuse or unsafe situations. The criteria for children entering foster care was already established. She suggested that staff from the two programs could meet with the committee to discuss the criteria further if needed.

Senator Dunleavy repeated his question. Ms. Pitney answered in the negative.

Co-Chair MacKinnon asked if there was any legislation that contributed to an increase of almost \$6 million between the two requests. Ms. Pitney answered in the negative.

[9:19:18 AM](#)

AT EASE

[9:20:42 AM](#)

RECONVENED

Vice-Chair Micciche noted that the Department of Health and Social Services (DHSS) budget subcommittee would be examining the requests at a more detailed level. He thought there may have been a change in interpretation of the child welfare issues, and that presently it was not the time in which the state could dramatically increase the cost of operating its departments.

Co-Chair Kelly asked Ms. Pitney if much of the increase in child abuse reports was due to circumstances in a certain geographic region of the state. Ms. Pitney thought there

had been a state-wide increase, but did not know of the specifics.

Co-Chair Kelly related that a few years previously, the legislature had put increased resources into a specific part of the state to deal with the issue of lack of funding for foster care. More social workers were assigned, as well as court employees. He wondered if the action was related to the current increase.

Ms. Pitney noted that the situation had been increasing for the past several years, and was one of the formula programs that was increasing at a pace that outstripped the funding. She asserted that there had been a significant increase.

Ms. Pitney went back to slide 33, addressing lines 11 through 13, which pertained to juvenile justice facilities staffing and health care and totaled \$1 million. She explained that the juvenile justice budget had been traditionally supplemented by \$1 million each year. The last several years DHSS had authority to move funding across appropriations, and money had been moved into juvenile justice. Prior to the authority, there was traditionally an amount put in the supplemental budget. She hoped this was the last supplemental request, and relayed that the administration had requested an increase in the FY 17 budget.

[9:24:29 AM](#)

Senator Dunleavy referred to line 14, and asked how Medicaid expansion had impacted the issue of increased medical costs for juvenile justice health care.

Ms. Pitney stated that there was a neutral effect since the individuals were minors and had been covered on the pre-existing Medicaid. She elaborated that the medical coverage, for prisoners in the Department of Corrections, was only in place when outside of the facility in another medical facility for a 24 hour period of time.

Senator Dunleavy asked Ms. Pitney to provide more detail about the increase.

Ms. Pitney stated that the medical costs associated with minors in the juvenile justice system was higher than anticipated, and had been traditionally under-budgeted.

There had been supplemental requests and/or transfers every year previously in the areas being discussed.

Co-Chair Kelly asked if the amount rose and fell according to specific medical events.

Ms. Pitney answered in the affirmative, and stated that the cost depended upon the experiences of the individuals that were in custody.

Co-Chair MacKinnon clarified that lines 11 through 13 were for staff. She asked Vice-Chair Micciche to provide the committee with an analysis of why the budget from the previous year did not contain enough staffing. She wondered if the Senate or combined legislature had cut staffing, or if the administration had not requested enough.

Vice-Chair Micciche agreed to provide the requested information, and furthered that the Office of Children's Services (OCS) would be before the committee when it considered SB 226.

Co-Chair Kelly asked Ms. Pitney if the ability to cross-appropriate was enacted in the FY 16 budget.

Ms. Pitney answered in the affirmative, and indicated that in FY 16, FY 15, and FY 14 there were transfers. Prior to that time, there was record of supplemental requests.

Co-Chair Kelly asked if some of the costs were being covered by the ability to cross-appropriate.

Ms. Pitney answered in the affirmative.

[9:28:46 AM](#)

AT EASE

[9:30:07 AM](#)

RECONVENED

Co-Chair MacKinnon referred to lines 11 and 12, and asked for the specifics of the requests.

Ms. Pitney clarified that lines 11 through 13 were associated with staffing at particular facilities (McLaughlin, Kenai Peninsula, and Nome); and line 14 was associated to health care in the juvenile justice system.

Co-Chair MacKinnon highlighted line 11, which noted that a \$470,000 increment was included in the FY 17 budget, and the supplemental request was for \$520,000; with a difference of \$50,000. She asked for explanation of the \$50,000, and wondered if it was due to the unallocated cut.

Ms. Pitney explained that the \$50,000 was not due to the unallocated cut; rather, the line was an analysis of the staffing cost for the facility to get through FY 16. She was not anticipating juvenile justice to absorb the DHSS portion of the salary increase. She reiterated that the requests were actual staffing costs for the facility, and juvenile justice could not staff their facilities at a lower cost.

Co-Chair MacKinnon asked for clarification on the increase in staffing authority. She thought Ms. Pitney had indicated earlier that the increase had to do with increased medical costs. She thought it seemed as though the items were for increased staff costs in addition to increased wage cost, because the \$50,000 was not for new staff, and appeared to be the difference in cost between two items.

Ms. Pitney restated that lines 11, 12 and 13 were associated with the cost of staffing in place necessary to cover the facilities; and line 14 had to do with health care costs. Lines 11, 12, and 13 totaled \$700,000 in UGF and was the cost that the juvenile justice system would incur based on the staffing in place in FY 16. The \$470,000 was anticipated as necessary in addition to what the administration had requested in FY 17.

Co-Chair MacKinnon asked if there was any new staff.

Ms. Pitney stated that the requested funding was for existing necessary facility staff that traditionally had not been covered by the budget.

Co-Chair MacKinnon mused that if the supplemental was examined, it would not have to do with medical expenses; it would reflect that the administration either didn't ask for enough staff funding, didn't respond to cuts that it was given, or needed money for wage increases.

Ms. Pitney stated that the administration did not ask for enough funding in FY 16, because in FY 15, FY 14, and FY 13

a provision had been in place to move money. The DHSS commissioner could exercise the provision to move money across appropriations. In FY 16, the commissioner no longer had the authority.

[9:35:05 AM](#)

Co-Chair MacKinnon thought that lines 11, 12, and 13 were misleading. She wondered if there had been a work rule change negotiated inside of a contract that necessitated the additional staff expenditures for secure minimum staffing.

Ms. Pitney responded in the affirmative, and stated that the facilities were currently staffed to meet the need. The cost associated with the request was the cost that the facilities would incur in the current fiscal year to achieve the required minimum staffing level.

Vice-Chair Micciche referred to Co-Chair MacKinnon's inquiry about increased staffing authority, and stated that he would address the question in subcommittee. He did not expect Ms. Pitney to have expertise pertaining to every position in the administration.

Co-Chair MacKinnon clarified that she wondered if the positions were contract increases that should have been responded to inside of the existing budget. She asked LFD to review the supplemental request to clarify if the increase was for staffing or increases in unexpected medical costs.

Ms. Pitney addressed line 15 on slide 33, which was receipt authority for funds from care providers. She furthered that the funds were additional to what was required for claims, and that the state would be collecting reimbursements from various programs within DHSS.

Co-Chair MacKinnon asked if the authority to collect the receipts was needed because of Medicaid expansion. Ms. Pitney stated that the receipt authority necessary was irrespective of Medicaid expansion, and clarified that she was referring to past claims prior to the expansion.

[9:38:11 AM](#)

Ms. Pitney showed slide 34, "FY16 Supplemental: Law." She explained that there had been a multistate arbitration with the tobacco industry, and the state was requesting \$50,000 in tobacco receipts to offset costs for participating in the arbitration. She addressed lines 17 and 18, a request to replace previously collected fees-for-service between agencies with a direct appropriation with the two agencies specified. The Department of Law (DOL) provided legal services to the Alaska Oil and Gas Conservation Commission (AOGCC), which was a non-GF fee supported service; as well as for the Regulatory Commission of Alaska (RCA), also a fee supported service. She furthered that Department of Law did work on behalf of both agencies, which were 100 percent self-supporting.

Co-Chair MacKinnon wondered if AOGCC had communicated that it did not want the services from DOL. Ms. Pitney had not heard, and believed that there was a statute that stipulated the commission received legal services from DOL.

Co-Chair MacKinnon relayed that she would address the issue in the DOL budget subcommittee. She understood that there had been a question pertaining to billable hours, and using commission receipts for billable hours.

Ms. Pitney moved to slide 35, "FY16 Supplemental: Natural Resources," and addressed line 19, relating to wildland fire protection. She clarified that the amount listed represented the cost incurred through FY 16 to date on wildfires, and the state had a particularly large fire season the previous fall. She mentioned a fire that had been in the Wasilla and Houston area, and she confirmed that the cities had a sales tax.

Senator Dunleavy wondered if the state could anticipate any reimbursement from the federal government for any aspect of the fires included in the supplemental request. Ms. Pitney indicated that the state was expecting some reimbursement, and the amount request was above and beyond the reimbursement. She pointed out that she could obtain more detailed expense information per fire incident if necessary.

Co-Chair MacKinnon inquired as to the amount that had originally been budgeted for fire suppression activity. Ms. Pitney was not aware of the amount budgeted, but thought

that there was a ratification for FY 15 as part of the language section in the supplemental.

Co-Chair MacKinnon stated that LFD had suggested that the amount originally budgeted was \$6.6 million.

9:42:38 AM

AT EASE

9:42:48 AM

RECONVENED

Co-Chair MacKinnon communicated that she had received confirmation from LFD that a supplemental request of the size indicated in the presentation was typical.

Vice-Chair Micciche referred to cuts that had been made to the area of wildland fire protection and thought that consequently there would be a greater differential in funding needs after a big fire season if the funding remained at the same level.

Senator Bishop mentioned that he chaired the Department of Natural Resources (DNR) budget subcommittee and stated that the committee had added back funding for a position that would apply for federal funding offsets.

Senator Dunleavy asked if the amount requested would reimburse for actual expenses, or if there were any new expenses included. Ms. Pitney detailed that the supplemental request was only for reimbursement of actual expenses.

Co-Chair MacKinnon asked Ms. Pitney to address line 18 on slide 34. Ms. Pitney expanded that the civil division of DOL did work on behalf of RCA, and the request of direct funding from the RCA was for the amount of work done.

Co-Chair MacKinnon asked if line 18 pertained to RCA receipts and if line 17 had been for AOGCC receipts. Ms. Pitney answered in the affirmative.

Vice-Chair Micciche asked if there had been a decrement in the AOGCC section, or if the workload had been shifted. Ms. Pitney stated that DOL had traditionally billed the AOGCC, and the direct appropriation would provide direct funding

that would come in immediately rather than billing after the work was completed.

Co-Chair MacKinnon mentioned that she was the chair of the DOL budget subcommittee, and thought that DOL wanted a direct appropriation so that it would have to do the billing. She wondered if individual agencies might be challenging what DOL stated it was doing on the agencies behalf. She considered that the subcommittee would examine it further.

Vice-Chair Micciche thought there had been a work shift, and wanted to ensure that the funding was adjusted accordingly.

Co-Chair MacKinnon thought the previous year AOGCC had requested the administration approve spending of its own designated receipts. The administration had not advanced the request, and she restated that the subcommittee would reexamine the issue.

[9:47:52 AM](#)

Ms. Pitney moved to slide 36, "FY16 Supplemental: Revenue," which addressed costs incurred for external investment counsel on three different funds: the Retiree Health Insurance Fund, the Public School Trust Fund, and the Power Cost Equalization Endowment Fund. She explained that there were external management fees associated with the funds.

Co-Chair MacKinnon related that she also chaired the Department of Revenue (DOR) budget subcommittee, and pointed out that two or three fund managers had recently been hired. She thought that the management fees would have been reduced, and advised that the subcommittee would be examining the topic further.

Ms. Pitney stated that the management fees had been incurred; however, the new investment officers would be coming on board and the administration hoped that external investment fees would be reduced in the future.

Ms. Pitney reviewed slide 37, "FY16 Supplemental: Transportation & Public Facilities," and explained that items 23 through 26 pertained to components within the Department of Transportation and Public Facilities (DOT) that had (other than GF) receipt authority to utilize the

amount of revenues available. She detailed that the items would match the authority with the revenue capacity in the regions listed.

Co-Chair MacKinnon advised whichever member that chaired the DOT budget subcommittee to examine the items. She confirmed that Vice-Chair Micciche chaired the subcommittee.

Ms. Pitney showed slide 38, "FY16 Supplemental: Capital". She discussed a capital request for the Alaska Land Mobile Radio System (ALMR), which was the emergency communication system across the state. She furthered that the system was used by DNR, the Alaska State Troopers, and others. She detailed a supplemental request for \$1 million, plus a reappropriation of approximately \$1.2 million to make necessary upgrades to the system. She noted that the system was costly, and that the state depended upon the system. She projected that in FY 18 through FY 19, the request would be in the \$5 million to \$6 million range. She continued that the administration was looking for ways to mitigate the costs associated with the system, but characterized it as the "emergency communication backbone" for the state.

[9:51:55 AM](#)

Vice-Chair Micciche stated that he had previously been on a committee that had reviewed the funding for ALMR, and he recalled that there had been more federal matching dollars at the time. He wondered if the federal government had not lived up to the original agreement, and wanted to look into the matter further.

Co-Chair MacKinnon shared that she had sat on a subcommittee that included the system for the past several years. She wanted to see a plan from the administration, because the federal government had been withdrawing funding. She discussed costs that had been shifted to the state, and thought that the federal government was only participating in funding unlimited transponders that were perceived as having national security value. She used the example of a volunteer fire station in Chugiak that used ALMR to illustrate an example of the state passing costs down to the cities. She wondered if the state should consider partnering with land-mobile operators such as AT & T, Sprint, or GCI. She wondered how ALMR was different than

other networks used by private companies. She emphasized that the information she had was dated.

Ms. Pitney relayed that administration had looked at alternatives; the administration recognized that the system was expansive and was an ever-growing cost to maintain. She emphasized the need for a state-wide emergency communication system.

Co-Chair MacKinnon commented that local communities were finding it burdensome to access certain systems, and used an example of diminished cell phone coverage in an area of her community where it was possible for ALMR to function. She discussed standardization of communication systems as additional carriers came into the state, and pondered alternative emergency systems possible in the future.

[9:55:51 AM](#)

Ms. Pitney continued to discuss slide 38. She addressed line 30, water line repairs for the Anvil Mountain Correctional Center. She discussed an emergency repair to the water line the previous spring, and specified that the \$1.84 million request was required to provide a long-term fix for failing water lines at the correctional center. She discussed line 31, explaining the request for emergency repair of the Eklutna Overpass. The request represented the amount necessary to repair the damages over and above the insurance settlement. Ms. Pitney clarified that there had been a settlement reached after the insurance company had paid, and there was further settlement information available to members if there was interest.

Co-Chair MacKinnon asked about the frequency at which the bridge had been damaged, and wondered if the state should pay to raise the bridge. Ms. Pitney thought the idea was possibly a good long-term solution.

Co-Chair MacKinnon thought there may be a significant cultural site that was causing delay in fixing the overpass, and thought that continued need for repairs was difficult for the community and highway users.

Ms. Pitney discussed slide 39, "FY 16 Supplemental: Language," which covered the language sections of the supplemental budget request. She directed attention to line 35, which detailed the re-appropriation for ALMR. She

explained that line 36 was a reappropriation that allowed the state to match federal transportation funding at a 90/10 match for the Alaska Railroad, which would complete the Positive Train Control (PTC) upgrade. She specified that the reappropriation was for the Tanana Bridge, which equaled just over \$1.6 million, and matched with federal transportation funds that went directly to the railroad company. She reminded the committee that PTC had amounted to a \$55 million project the previous year, of which the Alaska Railroad was bonding approximately \$17 million.

[9:59:31 AM](#)

Senator Dunleavy understood that the railroad was going to deal with the financing through bonding. Ms. Pitney clarified that the railroad was able to bond just short of \$35 million, and the request was for the remaining amount to complete the project.

Senator Dunleavy asked whether the railroad could take the amount out of its assets. Ms. Pitney discussed the railroad's bonding capacity, and reiterated that the funding would be a 90/10 federal match through reappropriation of a completed project.

Senator Dunleavy did not understand why the railroad was unable to finance the remaining portion. Ms. Pitney explained that the companies bonding capacity was for just over \$35 million of the \$50 million cost; therefore, the funds would meet the need of the remaining funds with the federal matching funds.

Co-Chair Kelly rearticulated Ms. Pitney's explanation to check for understanding of the funding composition. Ms. Pitney confirmed that he was correct in that the supplemental request was for the state's portion of the funding match to complete the PTC project.

Senator Bishop thought that the railroad companies had received an increase in PTC funds in a recent transportation act. [The Fixing America's Surface Transportation (FAST) Act, signed by President Obama in 2015; authorized \$305 billion over FY 16 through FY 20 for highway, highway and motor vehicle safety, public transportation, motor carrier safety, hazardous materials safety, rail, and research, technology, and statistics programs.]

10:02:06 AM

Ms. Pitney discussed line 37, which pertained to judgements and settlements through January 29, 2016; and equated to \$2.4 million. She noted that there was a placeholder on line 38 in the case that additional judgements and settlements were to resolve.

Co-Chair MacKinnon asked if Ms. Pitney had referred to judgements against the state. Ms. Pitney responded in the affirmative.

Co-Chair MacKinnon stated that the DOL finance subcommittee would expect a briefing on the matter to understand the details pertaining to the judgments and settlements.

Ms. Pitney discussed line 40, which showed a repeal in the language section of the budget for the previous year. She explained that there had been an error in the dates within the language provision detailing the funds for the FY 16 Permanent Fund Dividend Program PFD appropriation, which had in fact been paid by previous years funding. She furthered that the administration would be submitting an amendment the following day to appropriate funding for the following fall dividends, which would be consistent with the governor's plan for a \$1000 dividend.

Co-Chair MacKinnon asked for clarification that the repeal would modify the incorrect language that was passed the previous session. Ms. Pitney answered in the affirmative.

Ms. Pitney noted that lines 41, 42, and 43 were technical items. She addressed line 46, which she explained was ratification for fire activity prior to FY 16 that had not been budgeted in FY 13, FY 14, and FY 15.

Senator Dunleavy asked if the administration was considering outsourcing or privatizing the bill collection for items such as overdue child support payments from court settlements and other circumstances. Ms. Pitney explained that the collection processes were considered on a shared service component rather than an item for outsourcing. She detailed that Commissioner Sheldon Fisher had hired an individual with significant success with collection efforts in the State of Ohio. To the degree that the state could increase its collections, the funds could help support the

shared services division. She anticipated a significant streamlining of some of the administrative functions of the shared services area. She reiterated that the collection effort was one of the funding possibilities that would support the shared services group. She hoped that Commissioner Fisher would have the opportunity to provide the committee with more background on the subject.

SB 167 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

10:07:28 AM

The meeting was adjourned at 10:07 a.m.