

ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE

January 27, 2015

1:29 p.m.

MEMBERS PRESENT

Senator Mia Costello, Chair
Senator Cathy Giessel, Vice Chair
Senator Kevin Meyer
Senator Gary Stevens
Senator Johnny Ellis

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

OVERVIEW: DEPARTMENT OF ADMINISTRATION

- HEARD

OVERVIEW: DEPARTMENT OF COMMERCE, COMMUNITY & ECONOMIC
DEVELOPMENT

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

SHELDON FISCHER, Commissioner
Department of Administration
Anchorage, Alaska

POSITION STATEMENT: Presented an overview of the Department of
Administration (DOA).

FRED PARADY, Acting Commissioner
Department of Commerce, Community and Economic Development
Juneau, Alaska

POSITION STATEMENT: Presented an overview of the Department of
Commerce, Community and Economic Development (DCCED).

KATE SHEEHAN, Director

Division of Personnel and Labor Relations
Department of Commerce, Community and Economic Development
Juneau,

POSITION STATEMENT: Answered a question about confidential employees in the Department of Commerce, Community and Economic Development (DCCED).

ACTION NARRATIVE

[1:29:03 PM](#)

CHAIR MIA COSTELLO called the Senate Labor and Commerce Standing Committee meeting to order at 1:29 p.m. Present at the call to order were Senators Stevens, Giessel, Ellis, Meyer and Chair Costello.

OVERVIEW: DEPARTMENT OF ADMINISTRATION

[1:30:05 PM](#)

CHAIR COSTELLO announced that the first presentation would be by Commissioner Fischer from the Department of Administration.

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SHELDON FISCHER, Commissioner, Department of Administration (DOA), introduced Kate Sheehan from the Division of Personnel and Labor Relations. He began by highlighting DOA's mission and organization and then showed a map of DOA services across Alaska, which cover most of the state. He noted that DOA is divided into two functions, service to the public and service to state agencies. There are over 1,000 employees at DOA.

COMMISSIONER FISCHER turned to the services offered to the public and highlighted the divisions that most people recognize, the Division of Motor Vehicles (DMV) and the Division of Retirement and Benefits (DRB). He said that the Public Defender Agency (PDA) and the Office of Public Advocacy (OPA) have their own challenges and mandates. There are also five semi-independent commissions that are administered by DOE: Alaska Public Offices Commission (APOC), Alaska Public Broadcasting Commission (APBC), Office of Administrative Hearings, and the Violent Crimes Compensation Board (VCCB).

COMMISSIONER FISCHER listed the five services DOA provides to state agencies. The Division of Finance (DOF) has an audit function and is in the middle of an upgrade. One of the Division of Personnel and Labor Relation (DOPLR) functions is to negotiate labor contracts. The Division of General Services (DGS) manages buildings, leases and purchasing. Enterprise

Technology Services (ETS) is the centralized manager of IT services. Also providing services to state agencies are the Divisions of Risk Management (DRM) and Administrative Services (DAS).

COMMISSIONER FISCHER spoke of areas that he thinks require the most attention within DOA because of a desire to address cost issues in the budget. He said personnel costs is one of the largest expenses in the budget and one of the most important areas to look at. DOA manages collective bargaining agreements contract and health care expenses. He said he sees an opportunity to improve productivity by instigating a quality and productivity initiative. He noted that the reduction of the health care unfunded liability remains a big issue, although a lot of progress has been made.

He related that the state spends about \$2.5 billion to \$3 billion on procurement of goods and services, and he has targeted procurement savings as a goal. The state spends about \$220 million on (IT) and DOA will be looking at improving services and cost. Finally, in order to improve facility management, DOA will seek better use of space.

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SENATOR GIESSEL asked if AOGCC is a stand-alone entity.

COMMISSIONER FISCHER characterized AOGCC as independent, but with administration by DOA.

SENATOR STEVENS voiced concern about reducing health care costs without reducing benefits to members.

COMMISSIONER FISCHER said Aetna Health Care costs in Alaska are significantly higher than other states; however, under the new agreement with health care providers they are able to deliver the same services at a reduced cost. There are some "best practices" issues that are still being discussed with the goal being a fair balance.

SENATOR STEVENS asked if Alaska's health care is self-insured.

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COMMISSIONER FISCHER said yes. He addressed DOPLR bargaining contracts, three of which expire in June 2015, and three other contracts that have not yet been finalized from last year. He noted that the LTC contract involves a substantial number of

employees. In 2016 contracts that make up the bulk of state employees will expire.

He noted the average yearly base salary of various state employees.

SENATOR GIESSEL asked about the Confidential Employees Association membership.

KATE SHEEHAN, Director, Division of Personnel and Labor Relations (DPLR), Department of Administration, said that most confidential employees are staff from DPLR, the Division of Finance, and the Alaska Marine Highway, who deal with confidential payroll information.

COMMISSIONER FISCHER discussed the labor bargaining process and negotiations, as mandated by the Public Employment Relations Act. He noted a statutory requirement to submit monetary terms of contracts to the legislature by the 60th day of the session.

He listed scenarios which might lead to labor strikes. He defined Strike Class 1 employees as police and fire protection, correction, and hospital employees; they may not strike. Strike Class 2 employees are public utility, snow removal, sanitation, and educational institution employees other than school districts, and Alaska Marine Highway System employees; they may strike after mediation, subject to a vote, for a limited time. Strike Class 3 employees are all other public employees; they may strike after a majority vote.

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COMMISSIONER FISCHER showed a bargaining road map for negotiations. He said DOA's approach is to try to reach an agreement.

He drew attention to a table of cost-of-living allowances (COLA) over time. Generally, the rate of inflation increase was followed.

COMMISSIONER FISCHER listed the five monetary contracts up for renegotiations. The Master, Mates, and Pilots (MEBA) contract agreement awaits ratification by its members. An agreement has not been reached with the Marine Engineers' Beneficial Association (MEBA) and a discussion with them continues. A tentative agreement has been reached with the Alaska Correctional Officer Association (ACOA). He said DOE is currently in negotiations with Labor, Trades and Crafts (LTC)

and with the Teachers' Education Association of Mt. Edgecumbe (TEAME).

He noted that DOE must submit the monetary terms of a collective bargaining agreement by the 60th day of the session and then the legislature decides whether to fund the contract. Rejection of the terms would require renegotiation.

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COMMISSIONER FISCHER discussed the monthly health insurance benefit credits. A graph of the credits shows a fairly dramatic increase in health care costs from 2006 to 2014. In the last three years, there has been a decline in costs. He stressed the importance of reducing costs, in light of the \$3.6 billion unfunded liability in the retirement plan associated with health care costs. He said recent cost-savings are as a result of the new TPA agreement.

CHAIR COSTELLO requested a definition of TPA.

COMMISSIONER FISCHER explained that since the state is self-insured, it hires a third party administrator (TPA) for health care. Under a new request for proposal (RFP) Aetna was selected as the new administrator. He said a large part of the savings was driven by the new network of providers. He estimated that there has been roughly \$40 million to \$45 million in savings the first year.

CHAIR COSTELLO asked for the reason behind the savings.

COMMISSIONER FISCHER said it was due to a large network with a great amount of purchasing power and the ability to negotiate good rates.

CHAIR COSTELLO spoke of a discussion last session about the need for transparency of health care costs for consumers. She requested Commissioner Fischer's opinion about whether it would result in savings to the state.

COMMISSIONER FISCHER said he has had discussions in that area, but did not know if it would result in savings.

CHAIR COSTELLO said everyone is familiar with the high cost of health care which sometimes results in travel outside of the state to seek cheaper care.

SENATOR STEVENS asked how often the state changes the TPA and how it is awarded. He noted it takes a while for the new provider to figure out the process.

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COMMISSIONER FISCHER said there have been 4 or 5 TPA's in the past years. Aetna was evaluated by how much it would cost to administer and by what the cost of benefits would be. The RFP was awarded based on a combination of the two. He agreed that there was a period of time for Aetna to learn the state system.

SENATOR STEVENS asked about the length of the contract.

COMMISSIONER FISCHER said it was for three years.

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COMMISSIONER FISCHER turned to graphs depicting PERS/TRS retirement benefits and the state's assistance to pay down the unfunded liability. He stressed the urgency of addressing costs early on.

He spoke of the nearly \$60 million in savings in state purchasing by the Division of General Services (DGS) in FY14. The goal is to continue to save in FY15.

He explained the pursuit of the Integrated Resource Information System (IRIS), a tool that will allow the state to better manage information.

He discussed a web site in DOF called Vendor Self Service (VSS) for business opportunities - solicitations that will allow vendors access to all business forms and opportunities as a way to increase competition in purchasing.

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COMMISSIONER FISCHER talked about Enterprise Technology Services (ETS) - service and IT cost issues. Of the \$218 million total spent for IT, ETS spent \$38 million. DOA is looking for solutions for improving services in a department-centric IT culture, and lowering costs.

CHAIR COSTELLO commented on the importance of allowing departments to talk to each other. She asked if Commissioner Fischer has had conversations about that happening.

COMMISSIONER FISCHER said yes. He encouraged a balance; there are times that the expertise must be within the department and

certain times it can be shared using a standardized IT approach. He agreed it was an important vision.

CHAIR COSTELLO related that constituents suggest finding efficiencies between departments. She asked Commissioner Fischer to comment on any ideas he might pursue.

COMMISSIONER FISCHER said there were a lot of ideas, such as making web capabilities more user-friendly and in the areas of reducing purchasing and health care costs. He requested that the legislators submit ideas on this topic.

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SENATOR MEYER asked if there could be one system everyone could use within state government. Currently, every agency has its own system and there is a lot of duplication of effort.

COMMISSIONER FISCHER agreed, except for certain areas specific to a department that can't be standardized. A lot of areas can be standardized.

He showed a list of the buildings that are managed by DOA. He said they are looking to minimize lease costs by moving employees into state-owned buildings. He discussed the Universal Space Standards (USS) Initiative intended to consolidate space and save money. There has been frustration by employees about the new space standards. He said it is important to try to get employees into state-owned space.

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COMMISSIONER FISCHER explained that DOA is self-insured for casualty insurance, and DRM had to draw from insurance in several instances last year in Petersburg and in Kodiak.

He described building updates: the Nome State Office Building, the Douglas Island Building, and the Geologic Materials Center.

CHAIR COSTELLO asked about the Commissioner's vision as to DOA's role in cutting the budget.

COMMISSIONER FISCHER spoke of five areas where he anticipates budget cuts: 1.) Improve productivity in the labor force and better manage labor costs by taking advantage of process improvement techniques to redefine and improve management. 2.) Reduce health care costs. 3.) Be more effective and efficient in the purchasing process. 4.) Promote cost savings in IT and

organize more effectively throughout state. 5.) Manage facilities more effectively.

SENATOR MEYER asked if Amy Erickson is the DMV director. He pointed out that DMV is the one department that is making money for the state. He suggested using more contracted services.

COMMISSIONER FISCHER said Ms. Erickson is the director and he agreed DMV is making money. He noted that for many people, DMV is their only experience with the state and they judge all of state government based on that experience. He suggested using a PR campaign to continue to improve the level of service there.

CHAIR COSTELLO thanked Commissioner Fischer.

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OVERVIEW: DEPARTMENT OF COMMERCE, COMMUNITY & ECONOMIC DEVELOPMENT

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CHAIR COSTELLO reconvened the meeting and introduced Acting Commissioner Parady, Department of Commerce, Community and Economic Development (DCCED).

FRED PARADY, Acting Commissioner, Department of Commerce, Community and Economic Development, presented an overview of the Department of Commerce, Community and Economic Development (DCCED). He began by describing DCCED's organization and mission. He said the Governor has named Chris Hladick as the new Commissioner of DCCED, but he won't begin the job for several weeks. He listed the core divisions within the department: Administrative Services, Banking and Securities, Community and Regional Affairs, Corporations, Business & Professional Licensing, Economic Development and Insurance. He noted there are also seven independent corporate entities: Alaska Energy Authority (AEA), Alaska Gasline Development Corporation (AGDC), Alaska Industrial Development & Export Authority (AIDEA), the Alaska Railroad Corporation, Alaska Seafood Marketing Institute (ASMI), Alcoholic Beverage Control Board (ABC Board), and the Regulatory Commission of Alaska (RCA).

ACTING COMMISSIONER PARADY showed a snapshot of the department's \$215,000 million budget with a funding distribution between corporate agencies (59 percent) and core divisions (41 percent), and about 576 employees. He stated that of core services funding

planned for FY15, 17 percent goes to consumer protection, 14 percent to strong communities, 29 percent to economic growth, and 40 percent to affordable energy. He noted the Power Cost Equalization funds of about \$40 million flow through the affordable energy area.

ACTING COMMISSIONER PARADY described the economic growth plan for the Division of Economic Development (DED) where support for tourism and fisheries resides. Under DED there are 261 loans for \$29.1 million across 10 loan programs to Alaska-owned businesses, including 237 in the Commercial Fishing Revolving Loan Fund. He said \$15 million flow through tourism from DED. The Economic Development Initiative is a \$400,000 appropriation by the legislature in the capital budget, which is now included in the operating budget. Given current budget constraints, the division will have to find a way to absorb that fund because the initiative is so valuable. He gave examples of how the fund was used.

ACTING COMMISSIONER PARADY discussed the role of AIDEA, which recently approved a \$17.6 million FY16 dividend, returning funds to the state general fund. There are nearly \$700 million in private sector investments leveraged in AIDEA's loan portfolio. The projects and investments will create or retain nearly 1,500 construction jobs and over 1,000 permanent jobs. He provided as an example - the completed first phase of the Mustang Oil Field development project. The board recently approved the second phase. AIDA consists of loans, project development, revenue bonds, and the promotion of economic activity by using financing tools.

ACTING COMMISSIONER PARADY explained that ASMI is the heart of the fisheries industry, which is the number one employer in the state with 63,100 jobs. He focused on the Responsible Fisheries Management Initiative, saying there has been a substantial effort by the Marine Stewardship Council to create a record of who has sustainable fisheries and who doesn't. Their definition of "sustainable fisheries" differs from Alaska's definition, as seen when they certified the Russian Pollock catch which devalued Alaska's Pollock catch. He emphasized that ASMI has created a Responsible Fisheries Management Initiative and has succeeded in winning acceptance of the initiative by major procurers, such as Walmart.

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SENATOR MEYER said he has heard that fisheries is the number one employer in Alaska, but he wondered if the jobs are seasonal and if the jobs are held by Alaskans.

ACTING COMMISSIONER PARADY offered to follow up with the answers to those questions.

SENATOR MEYER stated that he wants Alaskan jobs to go to Alaskans.

SENATOR STEVENS agreed that fisheries is seasonal, but he gave credit to canneries for trying to make it a year round business. He commended ASMI for attacking the Russian Pollock issue.

ACTING COMMISSIONER PARADY introduced Michaela Fowler, Legislative Liaison for DCCED.

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CHAIR COSTELLO noted in the Governor's State of the State address the mention of giving departments more "flex authority" to move monies around within or between departments. She inquired when that might that be used in DCCED and how the legislature might provide direction for department priorities.

ACTING COMMISSIONER PARADY said he is a newcomer to state government. As a business executive, he said he is surprised about the inability to move funds around within the state system. He provided as an example, the FY15 supplemental budget regarding the marijuana initiative. He maintained that given current strictures, flexibility is needed.

ACTING COMMISSIONER PARADY turned to affordable energy. Under AEA, the Power Cost Equalization Grant payments of nearly \$40 million went to 188 communities in FY14. He said 53 of 114 rural power system upgrades were completed and there are 22 projects funded through the Emerging Energy Technology Fund. He talked about fuel savings from creative projects in the Renewable Energy Fund.

He reported that AGDC is working to synchronize the timing of AKLNG and ASAP projects. They completed the ASAP Class 3 cost estimates on the pipeline.

SENATOR STEVENS asked the size of the ASAP line.

SENATOR GIESSEL replied that the AKLNG line is 42 inches; the ASAP line is 36 inches.

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ACTING COMMISSIONER PARADY spoke of strong communities and the tasks within the Division of Community and Regional Affairs, which falls under his responsibility. He spoke of the constitutional duty of the state to provide support for local government and his joy in helping to do so. He observed that the Local Government Specialists (LGS) in the Division are the "tip of the state's spear;" they visited roughly 190 communities in the last year. Some of the programs in the division are the Rural Utility Business Advisor and the Local Boundary Commission. The LGS's provide problem solving in many communities during this time of fiscal restraint. The LGS's are in six regional offices.

SENATOR GIESSEL requested a definition of LGS.

ACTING COMMISSIONER PARADY said they are Local Government Specialists. He added that the Division has 1,840 grants totaling close to \$2 billion flowing to local communities.

CHAIR COSTELLO voiced appreciation about the scope of work the Division of Community and Regional Affairs does. She asked the Commissioner if he found the scope of work too challenging.

ACTING COMMISSIONER PARADY said he finds it challenging, but not too challenging. He maintained that there is synergy within several divisions within DCCED. He wanted to see more efficiency and a reduction in overhead.

He added that DCRA distributes \$85 million to 307 communities through revenue sharing and other programs. He noted the first incorporation of a new community - Edna Bay - which was given a \$50,000 grant to get started, followed by a \$25,000 grant.

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ACTING COMMISSIONER PARADY turned to the area of consumer protection. He reviewed data from the Alcoholic Beverage Control Board (ABC) which now falls under DCCED. He opined that the transition went well and that Cindy Franklin is the right leader of the ABC Board, as a former municipal prosecutor of Anchorage. She straddles the "fault line" between public health and the industry well.

He related that there would be a Title 4 rewrite this session that will show compromise and a strong foundation that will serve well for marijuana regulation.

SENATOR MEYER asked whether the ABC Board should be in Public Safety or in DCCED.

ACTING COMMISSIONER PARADY opined that the Board is working well where it is because the constituent groups are working well together. He recommended that the Marijuana Control Board work parallel with the ABC Board and that they both be served by the same agency personnel.

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SENATOR MEYER cautioned about opening up Title 4.

ACTING COMMISSIONER PARADY agreed.

CHAIR COSTELLO inquired if expertise is being sought from other states.

ACTING COMMISSIONER PARADY reported that a contingent recently attended a symposium in Colorado seeking information. DCCED has also been in contact with Oregon about all aspects of marijuana including banking, sanitation of kitchens, edibles, and laboratory conditions. Both Oregon and Colorado had previously established medical marijuana regulations, which Alaska has not done.

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ACTING COMMISSIONER PARADY described the Regulatory Commission of Alaska's (RCA) role in consumer protection. RCA has significantly improved processes and minimized costs to ratepayers and companies by moving to an electronic system for filing for utilities. RCA also collaborates with AEA on the Power Cost Equalization Fund, which applies to the first 500 kilowatt hours into a residence.

ACTING COMMISSIONER PARADY discussed the Division of Banking and Securities role in consumer protection. He noted their substantial role with the Alaska Native Claims Settlement Act (ANCSA). He said the division generates \$13 million in fees and has a budget of about \$3.6 million. It consists of twelve programs making up a soundly regulated financial system.

ACTING COMMISSIONER PARADY turned to the Division of Corporations, Business and Professional Licensing (DCBPL). He related that there are about 68,000 business licenses, 65,000 corporation licenses, and 67,000 professional licenses. He said DCBPL has worked hard to reduce investigation time, and it

reduced indirect overhead by \$1 million. DCBPL has been the subject of LB&A hearings over the last year.

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CHAIR COSTELLO asked if there is a plan to grow businesses in Alaska.

ACTING COMMISSIONER PARADY replied that growing businesses falls more under the Division of Economic Development and AIDEA. He pointed out that business licenses are up eight percent. He noted a need for IT work in DCBPL.

ACTING COMMISSIONER PARADY explained the work of the Division of Insurance, which is to regulate market and review market conduct. He gave an example of an area of fiscal constraint that could be addressed in the division. Where insurance markets are healthy and there is a competitive industry, instead of requiring pre-approval of filings, market conduct could simply be reviewed. He said there were \$3.4 billion in total premiums written in calendar year 2013, and \$64 million in taxes and fees were collected in FY14. The Division of Insurance has a \$7.7 million budget.

He noted that the investigation function is an important assurance to the public.

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SENATOR STEVENS asked if the state is proactively attempting to have unorganized boroughs become parts of organized boroughs.

ACTING COMMISSIONER PARADY said it would be a reach to say that they are being pro-active. He opined that there is great opportunity to assess that situation and decide how to encourage organized boroughs and find solutions to the problem of unmet service needs. He noted the process of local government creation is difficult in Alaska, but it is an area of opportunity. He said Lieutenant Governor Mallott has established a task force to work on this issue.

SENATOR STEVENS pointed out that some communities would have a tax base, but do not contribute to their local schools as an unorganized borough. He suggested this should be looked at.

ACTING COMMISSIONER PARADY replied that as the former Chief Operating Officer of the North Slope School District, and as a former legislator in another state that was dominated by school finance issues, he is keenly aware of the issue. Also, the

Ketchikan Borough lawsuit has implications. The issue is a perception of fairness with everyone pulling their own weight. He opined that the time is right for an innovative solution because the court will not accomplish it.

SENATOR STEVENS asked if the Local Boundary Commission falls under the Division of Community and Regional Affairs.

ACTING COMMISSIONER PARADY said yes. He added that the Municipal Land Trustee Program does as well.

CHAIR COSTELLO requested information on DCCED's plan for job creation.

ACTING COMMISSIONER PARADY said in the Division of Economic Development there is an effort to increase jobs in industries that are adapting to change, such as in the Maritime Support Sector or drone industry. There is a strategy to build up such Alaskan industries. He opined that there is tremendous opportunity in Arctic Design, such as the Cold Climate Housing work at UAF.

CHAIR COSTELLO noted one of the proven ways to grow the economy is through innovation and entrepreneurship.

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There being nothing further to come before the committee, Chair Costello adjourned the Senate Labor and Commerce Standing Committee meeting at 2:43 p.m.