

HOUSE FINANCE COMMITTEE
January 31, 2017
1:31 p.m.

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CALL TO ORDER

Co-Chair Seaton called the House Finance Committee meeting to order at 1:31 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Paul Seaton, Co-Chair
Representative Les Gara, Vice-Chair
Representative Jason Grenn
Representative David Guttenberg
Representative Scott Kawasaki
Representative Dan Ortiz
Representative Lance Pruitt
Representative Steve Thompson
Representative Cathy Tilton
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Colonel Robert Doehl, Deputy Commissioner, Department of Military and Veterans Affairs; Brian Duffy, Director, Administrative Services, Department of Military and Veterans Affairs; Jim Johnson, President, University of Alaska; Fred Parady, Deputy Commissioner, Department of Commerce, Community, and Economic Development; Catherine Reardon, Director, Division of Administrative Services, Department of Commerce, Community and Economic Development.

SUMMARY

FY 18 BUDGET OVERVIEWS:

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
UNIVERSITY OF ALASKA

DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC
DEVELOPMENT

Co-Chair Seaton discussed the meeting agenda.

^FY 18 BUDGET OVERVIEW: DEPARTMENT OF MILITARY AND VETERANS
AFFAIRS

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Co-Chair Seaton spoke to items the committee would like to hear about during the presentation.

COLONEL ROBERT DOEHL, DEPUTY COMMISSIONER, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (DMVA), provided a PowerPoint presentation titled "FY2018 Department Overview, House Finance Committee" dated January 31, 2017 (copy on file). He detailed that DMVA included the Air National Guard, Army National Guard, the Alaska State Defense Force, the Alaska Naval Militia, the Division of Homeland Security and Emergency Management (responsible for coordinating emergency services and recovery to communities in times of disaster), the Alaska Military Youth Academy, the Youth Intervention Program, administrative oversight of the Alaska Aerospace Corporation, and a Division of Administrative Services. The department had 270 state employees and 4,000 uniform employees (guardsman or Alaska State Defense Force members). The department heavily leveraged federal dollars to accomplish its mission.

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BRIAN DUFFY, DIRECTOR, ADMINISTRATIVE SERVICES, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS, began on slide 2 and addressed the department's mission:

Founded in Alaska Statute 44.35.020, the Department's mission is two-fold. First, to provide military forces to accomplish tasks in support of the State or, when mobilized, in support of our National Command Authorities. Additionally, our team provides programs and services associated with homeland security and defense; emergency preparedness, response, and recovery; veteran services; and youth military-style training and education. Further details on our mission, vision, core values, and performance are available at the links shown on this slide.

As a reminder, the Department oversees activities of eight main divisions: The Alaska National Guard, both Air and Army Components; the Division of Homeland Security and Emergency Management, the Office of Veterans Affairs, the Alaska Military Youth Academy, Alaska State Defense Force, Alaska Naval Militia, and our Division of Administrative Services. Additionally, the Department provides administrative oversight of the Alaska Aerospace Corporation.

Mr. Duffy turned to slide 3 and addressed a GF funding profile history for the department:

By way of orientation, all funding amounts shown on this slide are included in the totals at the bottom, with the exception of the yellow bars which normalize the annual amounts to FY 16 constant year dollars. Using that approach, and also discounting the amounts shown in green, representing GF formerly allocated to support the Alaska Aerospace Corporation, the Department's overall spending power declined by approximately 10 percent over the past 11 years.

Mr. Duffy addressed the department's share of total agency operations on slide 4:

With a submitted amount for Fiscal Year 2018 at just over \$16.5 million, the Department's share of total State GF remains at less than one half of one percent. Significant budget changes over time include the removal of all GF supporting the Alaska Aerospace Association effective in Fiscal Year 16, after several years of increases to support on-going operations and maintenance activities.

Additionally, in FY 15, \$4.8 million in UGF was transferred from the Department of Education and Early Development to support the Alaska Military Youth Academy. Furthermore, please note this slide also reflects lower amounts of GF in each year, as compared to previous years' charts, as the National Guard and Naval Militia Retirement System transferred from DMVA to the State Retirement Payments line in FY 17, and as such, was removed from all years shown. Finally, not shown on this slide, but certainly worth noting, is our ability to garner significant Federal reimbursement for a relatively small investment...to

levels of 27:1 in Fiscal Year 2015 and 38:1 in Fiscal Year 2016, a 24 percent gain in Federal funding.

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Mr. Duffy moved to slide 5 and addressed line items for all funds:

Broken out by line item and looking across all fund sources, we've seen reductions in most categories over time. In general, our approach to the current fiscal environment consists of reducing cost and reducing services. For costs, we've restructured our Alaska Military Youth Academy's shift schedules, shrinking overtime by 40 percent; we've turned off utilities at vacant armories; adopted regional disaster preparedness conferences to reduce travel costs; and instituted furloughs on our top executives. For services, we eliminated production of our award-winning "Warriors" magazine, held constant our current number of Veterans Service Officers and reduced their travel statewide, despite a growing population to serve; and also reduced preventive maintenance at National Guard facilities.

Mr. Duffy addressed appropriations for GF only on slide 6:

Looking further at our Components, this slide again highlights the elimination of GF support to the Alaska Aerospace Corporation, the transfer of National Guard benefits out of DMVA's portfolio, and the increase to AMYA's UGF line based on the transfer from the Department of Education and Early Development.

Mr. Duffy turned to slides 7 and spoke to appropriations for all funds:

Similar effects are shown on this slide, looking at the combination of all fund sources over time.

Mr. Duffy moved to slide 8 and addressed total the total funding comparison by fund group for all funds:

Broken out by fund group, the increase in years prior to 2013, in large part, supported the 176th Wing's relocation to Joint Base Elmendorf-Richardson; again, the decrement in 2013 is attributed to removal of

federal receipt authority, and further decrement in 2016 to removal all GF support, from Alaska Aerospace Corporation.

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Mr. Duffy spoke to slide 9 titled "Budgeted Position History":

We wanted to remind the members of the committee that we've seen an almost 20 percent net reduction in end strength over the last decade, with the majority of that effect in only the last three years. However, not all reductions resulted in decreases in personal services costs as some were simply clearing unfunded positions off the books.

Mr. Duffy moved to slides 10 and 11 and discussed allocation/program summary:

The next series of slides provide additional details on our allocations or major programs, including funding levels and types, the number of staff we have executing, the basis for their existence, be they driven by the State's Constitution, the Federal Government, or by State Statute; and also assessments of their importance to mission and effectiveness. Our Department's Mission Statement and Key Performance Indicators are the main basis for these ratings and assessments. For example, for our Homeland Security and Emergency Management team, we assessed 100 percent of organized boroughs responding effectively to events without State Assistance, while also responding to 100 percent of the requests for emergency assistance we did receive.

Similarly, our National Guard end strength remained steady over time and supportive of their mission needs, we responded to all search and rescue efforts across the state within three hours and maintained compliance with inspection requirements. Our Alaska Military Youth Academy's graduation rate continues to grow, exceeding 80 percent for both fall and spring classes over the last three years; and 100 percent of graduates successfully transitioned to in employment, follow-on education, or military service over the last 5 years.

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Mr. Duffy continued to address allocation/program summary on slide 12:

Additionally, our Office of Veterans Services provided assistance to more than 61,000 veterans, active duty, reserve component members, and family members, successfully returning more than \$105 million in single one-time payments owed...besting the last two years combined. The ratings of "important" on importance to mission for the Local Emergency Planning Committee (on slide 10) and Alaska Aerospace Corporation elements, as shown here, are worth clarification as well. The Local Emergency Planning Committee line provides funding and technical assistance to 21 entities across the state for all-hazard response emergency operations planning, training, exercise, and outreach preparedness education.

While it's certainly plausible to consider a centralized approach to this type of emergency response, the key question is, in time of emergency, often with little to no notice, can you get there in time with a trained and ready workforce, to organize a community in crisis as they work to react and recover; whereas, a trained and ready force distributed across the State, can certainly simplify matters greatly. Similarly, while the Alaska Aerospace Corporation is aligned with the DMVA for administrative purposes only and not necessarily in direct support of our core mission set, it can and will provide opportunity to be revenue generator for the State as their operations continue.

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Co-Chair Seaton referred to slide 12 and asked about the role related to the Alaska Aerospace Corporation. He asked if it would be better served under the Department of Commerce, Community and Economic Development (DCCED) or other. He observed that the department had given the corporation an "important" rating and that it contained no undesignated general funds (UGF) funding.

Mr. Doehl replied that the Alaska Aerospace Corporation's statutory mission was to create aerospace development and activity in commerce and economic diversification in Alaska. The department assessed the corporation as being important to the mission of economic diversification and growth for Alaska. He noted it was not one of the department's core missions. Originally the corporation had been under DCCED prior to being transferred to DMVA for administrative oversight purposes only. From an economic development standpoint, the corporation appeared to be clearly in the DCCED wheelhouse. Conversely, 80 percent of the corporation's clientele were military launches who appreciated working with a military entity with similar understandings of some of their requirements. He remarked that he could see both sides of the issue and he believed in the long-term as commercial took more of the corporation's portfolio, a transfer of the corporation to another agency was appropriate. He did not believe that point had been reached yet. He detailed that the corporation's director Craig Campbell or the vice president would speak to the finance subcommittee about the issue. He noted that during the current week there had been another signing of a launch for the coming fiscal year. He concluded that the subject was a moving target.

Co-Chair Seaton asked the subcommittee to consider the issue related to costs. He asked if the corporation reimbursed the department for administrative costs. Alternatively, he wondered if the costs were absorbed in the DMVA budget.

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Mr. Doehl answered that the corporation did RSA [Reimbursable Service Agreement] a small amount for administrative costs incurred by DMVA; however, the corporation did the bulk of its finance, budgeting, and personnel functions directly. He specified that by in large the public corporation was distinct from DMVA. The corporation had about \$8.8 million in contracts for the current year, which covered its overhead and extensive construction and ramp up of activity in Kodiak.

Representative Ortiz pointed to slide 11 and asked about the Alaska Military Youth Academy (AMYA). He asked if the academy used half of the department's funding. He asked for detail about how AMYA worked. Additionally, he wondered if

the academy was the only source of youth military training in Alaska.

Mr. Doehl replied that AMYA was funded 60 percent GF and 40 percent federal receipt authority from the Federal National Guard Bureau. He confirmed that the academy was the largest portion of the department's budget. The department operated a youth intervention program within DMVA. He elaborated that the program was the last credible hope for high school dropouts - there was not an alternative program for kids who were not finding success in the mainstream.

Representative Ortiz observed there were 450 cadets in the program. He surmised that students did not necessarily get into the program by choice, but that it sounded like the academy was one of the last stops of opportunity.

Mr. Doehl replied that a cadet could not be ordered to participate in the program by a judge in lieu of going McLaughlin [Youth Center in Anchorage] or into the Juvenile Justice Program. The individual had to be willing to attend the program on their own. He detailed that the program consisted of a five-month in residence program in a military style setting (the first two weeks were like military boot camp) followed by a strict regimen of academic study, community service, and physical training. Subsequently, there was a one-year follow up of monthly check ins with a mentor to confirm they were staying on track.

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Representative Ortiz referred to Mr. Doehl's testimony about that AMYA graduates had a good job placement rate.

Mr. Doehl answered that during the one-year follow up academy mentors checked to ensure the graduates were staying on the track they had committed to. Prior to leaving the resident program, there was a post-resident plan in place for each student. A student could return to their resident high school to earn enough credits to graduate or go straight into union apprenticeship programs. The students committed to following through on a set program, which was part of the resident phase wind down. The plan discussions were currently underway for students set to graduate from the program on February 24 [2017].

Representative Thompson remarked that DMVA was responsible for providing emergency services to communities. He stated that with the possible deployment of the helicopter brigade out of Fort Wainwright, there would be a shortfall in the number of military helicopters available for rescue missions. He asked if there were functions that crossed with DMVA and the military. He was concerned about what would happen when the brigade was deployed in the next year.

Mr. Doehl answered that the Rescue Coordination Center responsible for deciding which asset would perform a rescue mission requiring military aircraft or aviation related rescues was operated by the Alaska Air National Guard, not by the military. Most rescues done in Alaska (including by Fairbanks and south of the range) were done by the Alaska Air National Guard and some by the Army National Guard and Coast Guard. The Air National Guard and Army National Guard would continue to be on hand to execute those missions 365 days per year. The presence at Eielson Air Force Base would continue to be manned; the HH60 helicopter was located at Eielson and was available for refueling support and additional guardian angel pararescuemen for the foreseeable future.

Representative Thompson thanked the department and was appeased by the information.

Representative Wilson asked if the department was still able to get the dropouts from all the school districts. She knew it had been an issue several years back and wondered if the issue persisted.

Mr. Doehl responded that [AMYA] Director Bob Roses was working with the Department of Education and Early Development (DEED) to reach out to districts. School districts passed along a list of high school dropouts who AMYA may be appropriate for.

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Representative Grenn shared that he could speak to the success of AMYA - he had a family member graduate from the program 19 years back. He thanked the department for the program. He observed that 16 positions had been eliminated from AMYA in FY 17. He elaborated that a total of 62 positions had been cut from the department in the past

three years. He asked if another program had seen numerous positions eliminated or whether the remaining cuts were spread across the division.

Mr. Doehl answered the department would welcome Representative Grenn's family member to speak at one of the upcoming AMYA graduations. He detailed that AMYA was the department's largest program, budget, and number of positions, and had taken the brunt of the lost positions (including occupied positions). He noted that the Alaska Aerospace Corporation had been substantially downsized at a rate that was probably greater than AMYA. Due to the current budget deficit facing the state, the department had gone to the National Guard Bureau to learn how many positions it needed to retain eligibility for federal reimbursement funding. The answer had been 66 positions and 1 spare. The department had gone down to that number and he shared that Director Roses had done a commendable job in shift reform and other practices to make it work. He stated that when the flu went around there were numerous individuals putting in overtime, but they were making it work. The program was currently 10 percent above its enrollment over the preceding year with the addition of the pre-apprenticeship program.

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Representative Kawasaki spoke to the capacity at the youth academy. He asked if the program capacity was driven by the number of UGF funds, space, or teachers.

Mr. Doehl replied there were different tiers or sizes of programs they could go to. The infrastructure was available to increase the program size; however, the need for additional staff would be the biggest limitation. He relayed that Director Roses could follow up on the question during a subcommittee meeting later in the week. He believed it was 16 to 20 additional cadets. The department believed the current program size was a nice sustainable size.

Co-Chair Seaton thanked the department for its presentation.

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^FY 18 BUDGET OVERVIEW: UNIVERSITY OF ALASKA

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JIM JOHNSON, PRESIDENT, UNIVERSITY OF ALASKA, provided a PowerPoint presentation titled "FY18 Budget Overview, House Finance Committee" dated January 31, 2017 (copy on file). He planned to share contextual remarks about the change the University was undergoing and leading. He addressed the university's mission on slide 2:

The University of Alaska inspires learning, and advances and disseminates knowledge through teaching, research, and public service, emphasizing the North and its diverse peoples.

Mr. Johnson explained the university's mission had roots in the Morrill Act of 1862. He detailed that the University was a land, sea, and space grant university - missions the University was very proud of. He explained that the teaching, research, and public service mission had deep roots in American public higher education. He elaborated that there was commonness with all other land grant universities in the country, but uniqueness reflected in the University's focus on the north and on the state's diverse peoples. He believed it was critical that a university respect the diversity of its people and to hold high the diversity viewpoints.

Mr. Johnson turned to slide 3 and addressed the constitution and statutes pertaining to the university. The University was specifically identified and charged in the Alaska Constitution. He noted that 100 years ago in May, the territorial legislature had established the Alaska Agricultural College and the School of Mines. The University of Alaska had been established in 1935. He acknowledged the foresight of the state's founders as they began creating a university as a way to build the state. The University took that foresight seriously every day. He pointed out that under the Alaska Constitution Article 7(3), the Board of Regents "shall, in accordance with law, formulate policy and appoint the president of the university."

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Mr. Johnson advanced to slide 4 and informed the committee that the university's mission was to serve the entire state, including Ketchikan, Kotzebue and everywhere in between. He shared that when he traveled outside Alaska for meetings with other university presidents he explained that the University touched the Atlantic and Pacific; it had a broad geographic distribution, which included campuses in South Carolina, Iowa, South Dakota, and Oklahoma. The chart did not reflect all locations where research was underway across the state. Additionally, there were students across the state participating in distance education and e-learning technology degree programs from the major campuses.

Mr. Johnson spoke to an organization chart on slide 5. The Board of Regents appeared at the top of the chart followed by the University president. He reminded the committee the university's mission was twofold. The first was to ensure the state's needs for higher education were at the top of everything the University did. The second was to provide centralized, cost-effective services to its campuses (the three main campuses were represented at the bottom of the slide). The mission at the campuses was to provide for regional, workforce, and other educational needs. He noted that each of the universities also had statewide responsibilities. He cited nursing at the University of Alaska Anchorage (UAA), research at the University of Alaska Fairbanks (UAF), and teacher education at the University of Alaska Southeast (UAS) as examples.

Mr. Johnson spoke briefly to the University's three-part mission on slide 6, which included student instruction, research, and service. He moved to program areas on slide 7. He pointed to the student instruction row and highlighted the \$635 million total, which was 71 percent of the department's total budget. He noted the \$1.00 UGF to \$2.45 non-UGF ratio. He moved to the research program area, which accounted for 21 percent of the total budget. He remarked on the \$1.00 UGF to \$5.40 non-UGF ratio. The service program area made up 8 percent of the total budget. The ratio was \$1.00 UGF to \$2.42 non-UGF. The \$325 million UGF allocation from the legislature turned into \$899 million total. He did not plan to go into detail on the number of students served, publications, high-demand

degrees produced, and Alaskans touched by the services provided by the University.

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Mr. Johnson spoke to the university's target on slide 8. The University was looking out into the future. He shared that by 2025, 65 percent (25 percent baccalaureate and above and 40 percent career technical degree or training) of Alaska jobs were expected to require some postsecondary education degree certificate or license. The Alaska Commission on Postsecondary Education (ACPE) had adopted the goal, as had the University Board of Regents. The goal was very similar to one in other states - they realized that to be economically competitive in the U.S. and nationally it was important to step up the production of top-quality talent. The University's current attainment was 37 percent. There was quite a gap the university was striving to meet.

Mr. Johnson spoke to developing a stronger culture of education in Alaska, which was critically important for the state's future. He shared that the University was working to partner with K-12 and employers to create an aligned system of education and employment, which fed back into education and student success going forward. He noted the very high correlation between education and income, health status, and civic participation. There was an inverse relationship with health cost and corrections experience.

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Mr. Johnson addressed measurable goals on slide 9. The University sought to broaden access to higher education for Alaskans by looking at high school graduates enrolling at the University. He stressed that the much larger need was among Alaskans who did not graduate from high school. The University also considered the large group of Alaskans who chose not to pursue higher education. The state ranked number one in the country in the percentage of population with some college and no degree. He explained that it had been possible in the economy over the past 40 years, but it would be a difficult condition for the state looking forward. The goal was to reach out to the large market segment to help individuals advance through higher education.

Mr. Johnson continued to address slide 9. He relayed that the University would continue to lead in research, not only in research federal agencies found it interesting to invest in. The University placed a strong emphasis on research relevant to Alaska (e.g. the Alaska Center for Energy and Power, Institute of Social and Economic Research (ISER), the Center for Alaska Native Health Research, the Institute of Northern Engineering, and the Institute of Arctic Biology). The University continued an emphasis on workforce development. He elaborated that the University continued to produce nurses, particularly in rural Alaska. He relayed that the state imported 70 percent of the new teachers hired annually in Alaska - producing only 30 percent of the state's teachers was not sustainable for the long-term educational system in Alaska. He mentioned fisheries technicians, process technicians, and individuals in the maritime trades. Looking forward to the creation of a knowledge economy in Alaska included continued efforts towards IT jobs in the STEM [science, technology, engineering, and math] fields and other.

Mr. Johnson spoke to the commitment to alignment between the state's K-12 system and the university made by the University Board of Regents and the State Board of Education (the two boards had founded a subcommittee). He shared that he and the commissioner met regularly to ensure alignment - it would take time, but there was a strong commitment. The commissioner's top priority was readiness for work or postsecondary education, and the University's top priority was teacher preparation for high-quality teachers in the numbers the state needed. The last measurable goal on slide 9 was to diversify revenues and moderate reliance on state general funds. The University relied heavily on the legislature, but he believed given the state's fiscal situation, its reliance on the legislature was too heavy. The University had developed a long-term financial framework approved by the Board of Regents, allowing the University to moderate its ask of the legislature. The plan involved increasing tuition gradually over time and relied on increasing enrollment over time.

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Mr. Johnson spoke to strategic pathways on slide 10. He detailed that one year earlier the Board of Regents had approved the structure (shown on slide 10) as the process it would undergo to restructure the University to meet the

state's needs for higher education long-term with a shrinking budget. The structure included the University's mission, objective, core principles, and its strategy. The structure also included the three campuses and their unique strengths to the University as a whole. The bottom of the structure showed the common foundation for the entire university, including general education requirements (e.g. teacher education, nursing education, and Alaska Native studies). The individual campuses showed specialty areas based on strengths of the universities where redundancy could not be afforded.

Mr. Johnson spoke to initial outcomes/directions of Phase 1 of the strategic pathways process (slide 11):

- Consolidation of 3 research administration offices into 1;
- Consolidation of 3 procurement offices into 1;
- Consolidation of information technology (IT) functions at each of the universities, with governance at Statewide;
- Collaboration and efficiencies between the two schools of engineering;
- Collaboration between the UAA and UAF management and business programs;
- Consolidation of the UAS management programs into the School of Arts and Sciences;
- Consolidation of three schools of education into one at UAS, serving all of UA

Mr. Johnson elaborated on slide 11. He detailed that 20 organizational units had been involved in Phase 1 and had been reduced to 14 (one-third reduction in the number of units). Phase 3 had been kicked off the previous day in Anchorage - over 250 faculty, staff, and community members had been involved in the process (thousands of comments had been submitted by the public and members of the academic community to the Board of Regents in the process). He relayed it was a major step forward and was difficult. He explained that the University's cycle was generally seven years. The process was moving very quickly - there was a sense of urgency given the state's fiscal situation, but they were trying to balance involvement, inclusiveness, and transparency with the various stakeholders who gave themselves to the university and who relied on the university for education.

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Mr. Johnson turned to a 10-year glide path framework on slide 12. He explained that the framework began in FY 16 at the GF allocation of \$350 and asked where the University should be ten years out in terms of a reasonable ask from the state. The glide path benchmarked the University to the national average GF allocation per student plus additional funds given for Alaska's geography and a cost of living factor. He pointed to the total of \$312 million in 2025, which represented a gradual glidepath from current funding levels to the 2025 funding level. It would require a gradual increase in tuition. The University's current tuition was 0.84 of the western states' average; the goal was to increase it to 1 by 2025. He stressed that enrollment was key.

Mr. Johnson explained that business as usual in terms of recruitment, retention, and attainment of students would not make the framework work. He stressed the importance of doing new things in terms of recruiting and retaining students, including the 115,000 he had mentioned earlier. He underscored making it convenient for the individuals to benefit from educational programs provided by the University. He mentioned philanthropy and research as well. He pointed to the red line on slide 12, which represented the "hard landing" the University had experienced the previous year and the continuation of the hard landing at \$325 million. The governor's proposal was to continue at \$325 million; the Board of Regent's proposal was to move up to the \$341 million figure to get back on the glide path.

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Mr. Johnson spoke to slide 13 and addressed FY 18 governor's budget highlights. The governor's request was \$325 million UGF, a reduction in receipt authority, and a tuition increase. He complemented students who had supported a 5 percent tuition increase for two years in a row. Additionally, students in engineering and management at UAF and UAA had voluntarily agreed to tuition surcharges in order to ensure high-quality education. The governor's proposal also included a reduction of 225 unfilled positions.

Mr. Johnson spoke to FY 15 to FY 18 state budget reductions on slide 14. The budget had been \$375 million in FY 15, \$351 million in FY 16, and \$325 million in FY 17 and FY 18. The Board of Regent's proposal at \$341 million would still represent a 10 percent reduction from FY 15. He addressed budget reduction impacts. The University had cut over 900 faculty and staff positions since FY 15. Numerous faculty and staff had seen schedules reduced from full-time to part-time and faculty workloads had increased. When he had started at the University there had been 478 degree and certificate programs; at present over 50 of those programs had been suspended (with a likelihood of elimination) or eliminated. The University did not believe it was responsible to admit additional students if it looked like a program would be eliminated. He stated that the Board of Regents was supportive of the effort. Additionally, there were fewer sections and larger class sizes.

Mr. Johnson discussed administrative function consolidation on slide 15. He detailed that 14 percent of the University's overall GF had been reduced and 29 percent of the positions statewide had been reduced. Some learning centers had been closed throughout the state and there had been a dramatic reduction in faculty travel. He noted that some of the travel was done with restricted research funds. He detailed that while faculty and staff were careful about the travel they took on restricted funds, it was often required by grants and contracts. However, UGF travel funds had been seriously constrained.

Mr. Johnson relayed that there had been a reduction in research faculty start-up/seed money availability - money the University used to recruit faculty (including setting up a lab and possibly securing them with some graduate students. He explained that the economy frequently operated in a counter cyclical way to the rest of the country. As the University of Alaska was losing funding, other universities across the country were increasing funding. Additionally, the University was the world leader in Arctic research, but the subject had become popular at other universities, which was increasing the level of competition. The University's ability to compete in that competitive market was constrained by reduced startup funds. The University had negotiated a \$1 million per year reduction in its telecommunication contract - it would continue to push on that contract. The University had over 400 buildings across the state and it was in the process of

consolidating onto its campuses, getting out of leases, selling buildings, and entering discussions with private partners on renovation, facility maintenance, and other initiatives.

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Mr. Johnson shared that the Board of Regents had reallocated funds to invest in strategic priorities (slide 16) in order to be positioned strong for the state's future when emerging from the current financial challenges facing the state. The categories on slide 16 reflected initiatives in the board's budget request, in addition to areas the board had reallocated to the previous year. Categories included the recruitment of students (especially students with some college and no degree) and expanding localized programs and retaining students. He highlighted "intrusive advising," which had been successful nationwide - it used predictive data analytics and intrusive advising. He used a hypothetical example, where data pointed to that if someone showed up late three times, it was likely they would drop out. Under intrusive advising, the second time the person showed up late, the school would get on them to make sure they got to class.

Co-Chair Seaton remarked facetiously that he may use the method in committee.

Mr. Johnson continued addressing slide 16. The University was committed to excellence; therefore, it wanted to continue investing in scholarship opportunities and honors college and to bring top students in. The board was working to expand programs to meet the state workforce goal of 65 percent by 2025. He spoke about facility maintenance - the regents had reallocated an additional \$10 million the previous year. He specified that the University had not received any money in the capital budget, which was typically the vehicle used to support facility maintenance.

Mr. Johnson spoke to research and stressed the importance of continuing to lead in Arctic research - the area represented a major workforce in Alaska and a key part of the state's knowledge economy. He relayed that it enhanced the quality of learning in classrooms and in labs across the state. The research contributed to problem solving - work at ISER [Institute of Social and Economic Research] and ASAP [Alaska Stand Alone Pipeline] was practical and

relevant to Alaska. He mentioned economic development and diversification. He noted that Silicon Valley and tech companies were located in the California Bay Area because of the close proximity to Berkley, Stanford, and higher other higher education institutions. The University was happy about increases in disclosures and patents - its budget request included funds to partner with the private sector to create incubators at UAF, UAA, and UAS. He stressed the importance of a partnership with K-12. He elaborated that the preceding year the regents had reallocated money to support ANSEP [Alaska Native Science and Engineering Program], teacher education, the mentorship program (a key criterion for teacher success), and dual enrollment.

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Mr. Johnson spoke to slides generated by the Legislative Finance Division (LFD) beginning with slide 17. He noted the chart indicated that the University's share of total agency operations had tailed off a bit in recent years. He moved to a bar chart on slide 18 and pointed out that personal services and services made up 84 percent of the University budget. The largest expenditure year had been FY 14, which had decreased substantially in future years. The largest single area of reduction was in personal services. He noted that the miscellaneous line item had gone up due to an increase in debt service had increased; the university had the ability to bond and had done so to finish the engineering building in Fairbanks. The facility would be completed and operational by the beginning of the coming year.

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Mr. Johnson turned to slide 19 showing the GF appropriation over time. He believed they were close to a long-term goal of the legislature, which was a 50/50 split between UGF and DGF. Slide 20 reflected all funds - the highest funding year had been FY 15 and it had decreased to \$887 million in FY 18. He moved to a total funding comparison by fund group on slide 21, which included federal, other state funds, DGF, and UGF.

Co-Chair Foster liked the comments about a community being strengthened by a university because it attracted quality businesses like Stanford in Palo Alto. He referenced Mr.

Johnson's testimony about the average per student cost in western states. He asked if it was adjusted for Alaska's higher costs. For example, maybe the number was \$100 in Oregon, but Alaska's costs were higher.

Mr. Johnson corrected that the information he had discussed was the tuition rate, not cost per student. The information was not adjusted by inflation. He confirmed that some states in the western region had a relatively low cost of living, whereas others had a high cost of living.

Co-Chair Foster pointed to slide 15 and asked about the elimination of 900 jobs. He asked if there had been people in the eliminated positions.

Mr. Johnson replied that most of the positions had been filled. He would follow up with the data.

Representative Wilson stated there had been legislative intent language in the budget the previous year. She asked if any of the concerns had been addressed, such as a report on the cost of athletics and the amount charged to students for the programs even when they did not participate.

Mr. Johnson answered in the affirmative. One of the seven areas in phase one of strategic pathways was intercollegiate athletics. He believed the University was still in the process of replying to the formal request from the committee. He elaborated that \$13 million GF (tuition, etcetera) went into the two intercollegiate athletic programs and roughly \$3 million from sponsorships, ticket sales, etcetera. The Board of Regents was concerned about the issue, but at the same time, it wanted to maintain the value of the athletic programs at the two campuses. He remarked that the issue was difficult and controversial. The regents decided to seek a waiver from the NCAA [National Collegiate Athletic Association] - one team required ten; the University had asked the NCAA for a waiver of the ten-team minimum rule. He elaborated that there were 13 teams in Anchorage and 10 teams in Fairbanks. The request had been for 9 teams in Anchorage and 8 teams in Fairbanks. He noted that had been the old minimum rule. The NCAA had declined to consider the University's request and had told the it to do what it wanted and then ask the organization for forgiveness. The challenge with that method was the risk of sanctions against the entire program; the regents had decided not to incur the risk.

Alternatively, the University was going out to boosters and supporters of athletic programs who had made their voices loud and clear. The goal was to increase those donors share of financial support to the programs.

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Representative Wilson did not see graduation rates in the presentation. She wondered if there had been an increase from utilization of the Alaska Performance Scholarship (APS). The previous year there had been concern that numerous students were eligible, but were not attending [the University].

Mr. Johnson answered the APS and the Alaska Scholars Program had improved the university's graduation rate. There was currently a six-year completion rate of about 30 percent at UAA and UAS and about 45 percent at UAF. Much of the increase, at UAF in particular, resulted from the scholarships.

Representative Wilson commended UAS for its program that looked at why people dropped out to try to get them back in. She was glad to see an increase in e-learning. She asked how competitive the e-learning program was. She referenced Arizona and New Hampshire as states competing with Alaska for e-learning services.

Mr. Johnson answered he would follow up.

Representative Kawasaki spoke to the key indicators from the University source book. He observed that graduation rates had increased about 16 percent from FY 10 to FY 14. The same Office of Management and Budget indicators showed an increase of 13 percent when including the past year. He asked why the numbers had fallen from 32.2 percent to 29.4 percent in the past year.

Mr. Johnson replied that he would follow up.

Representative Kawasaki stated that anyone taking in college classes who did not take a prerequisite class in the fall in their second or third year became out of sequence. He pointed to slide 15 and asked if graduation rates were impacted when fewer sections were taught.

Mr. Johnson answered that it could. He noted that the University was stepping up its e-learning programs to make sure there was access [to courses]. He shared that around 90 percent of the University's graduates took an e-learning course at some point. He elaborated that half of the credit hours at UAS came from e-learning. As classroom sections were decreased, the University was trying its best to provide sections online at present and going forward.

[2:34:23 PM](#)

Representative Kawasaki pointed to slide 12 and remarked that the 10-year glide path looked steep. He mentioned adjusting for inflation. He wanted to see the plan for the University's level (not just state support). He shared that he had attended the University and he remarked that the cut in state support appeared to be radical. He wanted to ensure the funds were being made up in other ways. He knew students had been doing a good job paying their way, but he feared the costs to attend the University at some point became too high for most students.

Mr. Johnson responded that the information was in the University's financial framework; it assumed that business as usual would not suffice in terms of recruitment, retention, and attainment of students. He stressed the importance of driving enrollment, which would benefit the University financially and to meet the state's workforce goals.

Representative Pruitt commended the University as the legislature had been pushing aggressively in recent years. He understood the situation had not been without challenges and internal pressure. He remarked that there had been no other instance of a department telling the legislature that it was planning for less state money on a gradual scale. He believed there were only two universities receiving general funds (including the University of Alaska). He asked if the university had the mechanisms and ability to start to supplant general funds with a donor base, alumni base, or other. Alternatively, he wondered if the legislature should anticipate substantial state support beyond 2015 despite ways (i.e. a land grant) the state has attempted to have a self-sustaining university.

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Mr. Johnson agreed it had been a tough time. He shared that the University team had done a tremendous job doing things it had not had to do in many years. In terms of the university's capacity to make the model work, philanthropy needed to be part of the solution. He detailed there was tremendous opportunity to increase alumni support. There was a new president of the University's foundation; the foundation was in the early stages of a long-term campaign to build up support from alumni and other supporters. Research was another area that was critically important - he noted it had restricted funding. He characterized the University as a land grant university without the land - only Delaware had received a smaller land grant.

Mr. Johnson relayed that he had considered where the University would be at present if it had obtained the 360,000 acres it should have received under the Morrill Act as opposed to the 110,000 it had received. He questioned whether the University would be more self-sustaining as other state universities had been able to do. The University would be talking about the issue as a priority during the current legislative session. He noted there was a constitutional issue about the legislature's ability to appropriate land to the University; however, the University had found a path it believed could succeed and it would be working at the federal level to create a federal framework the state could contribute land to. He knew that a number of the committee members had been in the legislature in 2005 when the state had granted land to the University, but the supreme court had determined it unconstitutional in 2009.

Mr. Johnson noted the federal framework would not show immediate results, but it would be part of the solution 10 to 20 years out. The real driver would be enrollment. He stated that Arizona State University was advertising constantly in Alaska because there was a market. He was tired of hearing the ads. He hoped committee members were hearing some of the University of Alaska ads that were airing. The foundation had provided private funding to support a public awareness campaign to drive interest in higher education in Alaska, in addition to targeted approaches to individuals with some college.

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Representative Pruitt believed one of the ways to encourage enrollment was to ensure the ease of utilization of the University. Specifically, the University had studied the accreditation of the entire University was possible. He remarked there had been a feeling that perhaps it may not be the direction at the current time, although it appeared it may be possible in some cases such as with education at UAS. He asked if there was an effort to utilize the method with some of the main programs. He used a person pursuing an engineering degree in Juneau as an example - there was an ability for a student to begin the degree in Juneau and complete it at UAF. He asked if it was something the university was able to do and encourage.

Mr. Johnson answered that the University had done an accreditation study and it had been considered seriously by the Board of Regents. The issue had been shelved at the present time. There was a view that much of the benefits of consolidation could be achieved without going after the separate accreditations. There were very few systems in the country operating under a single institutional accreditation. He assured the committee that the University stayed in touch with accreditors. He highlighted that even in phase one of the pathways process, the University had been able to consolidate research, administration, procurement, education, and other areas (all were consistent with three institutional accreditations). He believed the University had sufficient freedom within three, but the regents had been clear that the study remained an option at some point. The University was working hard within the three accreditations to get the benefits of specialization of its campuses, to reduce redundancy, and increase consistency of processes and general education requirements (e.g. calendars and forms).

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Representative Ortiz asked about the consolidation efforts in the University's education program. He shared that he had been a school teacher for 32 years prior to becoming a legislator. He had worked with different students coming out of the University's education program. He relayed it had been a positive experience. He referenced the consolidation move. He referred to Mr. Johnson's testimony on the goal of increasing the number of teachers trained in Alaska (currently the number was approximately 30 percent trained in Alaska). He wondered if there was a danger of

decreasing the availability of the education training for much of the state if the subject was consolidated to UAS. Consequently, he wondered if the number of teachers trained in Alaska would be reduced.

Mr. Johnson replied that the plan was not to move any faculty from UAA or UAF; it was simply to have the administrative leadership of a new college of education based at UAS. There would be one dean instead of three and one school of education bureaucracy. The goal was access in addition to cost effectiveness and quality. The same goal existed for the UAA nursing program that had faculty and students across the state. There were many details to work out in terms of tuition sharing and what programs would be offered.

Mr. Johnson reported there were currently 25 education degree programs across the system. He questioned whether 25 programs were necessary and surmised the answer was likely no. The University was developing a process, with substantial faculty involvement, to review the issues. There were issues of accreditation as well. He mentioned graduate degree programs, research, and etcetera. The idea was to make the University's programs available no matter where students were located. There was a successful distance delivery program where students came to Southeast to do short residencies (three weeks for a certificate and six weeks for a master's in teaching) with the rest of the year involving student teaching and taking online courses. He stressed that access was key.

Representative Thompson pointed to slide 13 and asked for information on the reduction of \$17 million in receipt authority.

Mr. Johnson did not believe it had an impact on the University. He relayed that the University had some excess receipt authority. He continued that if the University ended up with a large research grant that may exceed its receipt authority there were provisions to address the issue with the legislature.

Representative Grenn moved to slide 16 related to strategic investment priorities. He pointed to words like "extend recruitment," "extend programs," "grow," and "sustain" all in the face of GF reductions in recent years. He turned to the University's 10-year plan on slide 12 that included a

\$16 million increase over the governor's proposed budget. He asked if it was a springboard to set the University up for the decrease. He asked for detail.

2:48:01 PM

Mr. Johnson answered that the details were at a high level on slide 16. He believed about \$4.4 million of the \$16 million was in recruiting and retaining students and needs-based aid. He emphasized driving outreach to students - much less waiting for students to show up on the University's threshold. He continued that it did not necessarily mean students moving into dorms and parking at campuses, but taking programs online. He stressed the distinction between courses and programs - the goal was enrolling students in programs of value to students in the workplace.

Co-Chair Seaton highlighted areas for the subcommittee to address including indirect expenditures. The University had a senior free tuition program, which accounted for over 10 percent of all courses in some campuses. He was interested to see where the tuition load was offset. He had heard that seniors attending courses for free were more likely to drop classes which ran down course completion rates. He mentioned education tax credits of 100 percent for the second \$200,000. He believed it was probably unacceptable to go forward with redirection of money. He wanted to know the implication for the University. Additionally, the prior year the legislature had identified that cuts should be made to non-core items. He referenced the University's mission and surmised that if cuts were made, it did not appear that intercollegiate sports were included in the mission. He asked if students had been made aware of the amount of mandatory fees they were paying and whether students had voted on their willingness to pay the fees and \$13 million directed to the program.

Vice-Chair Gara remarked that some high-profile professors had left the University who had said they did not see a commitment to the University. He referenced Professor [Frank] von Hippel who had written an op ed. He asked if it was a significant issue for the University and whether it was impacting Alaska student interest.

Mr. Johnson knew of a few cases, but he had not seen a fast rush to the doors. There may be personal circumstances

involved as well as professional circumstances. He was not aware of any of that. He relayed that morale was currently challenged within the university, which impacted public support. He elaborated that it took seven positive messages to overcome one negative message. He believed that continuing to focus positively on the future and growing the University would get it through the rough patch. He was confident that individuals who were committed to Alaska and its success would stick it out.

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AT EASE

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RECONVENED

^FY 18 BUDGET OVERVIEW: DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT

[2:58:15 PM](#)

Co-Chair Seaton welcomed the commissioner.

FRED PARADY, DEPUTY COMMISSIONER, DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT (DCCED), relayed that Commissioner Hladick was in Washington, D.C. attending hearings on the Affordable Care Act (ACA) and working with Senator Lisa Murkowski in the Health, Education, and Labor Pension Committee. He introduced department staff. He provided a PowerPoint presentation titled "Department of Commerce, Community and Economic Development, Department Overview to the House Finance Committee" dated January 31, 2017 (copy on file). He reviewed the department's mission to promote a healthy economy, strong communities, and protect consumers across Alaska.

Mr. Parady remarked on the diversity of the department's work. For example, DCCED licensed a gamut of professions including doctors, pawn brokers, acupuncturists, veterinarians, midwives, and morticians. The department trained rural residents to maintain their local utility systems; financed a wide range of infrastructure projects through Alaska Industrial Development and Export Authority (AIDEA) or the grant program in the Division of Community and Regional Affairs (DCRA); loaned fishermen money to buy boats; and worked to hold down the cost of health insurance. The department had a broad ranging mission, but

together the activities created a framework for a strong economy. The department accomplished its mission through its agencies and focused on consumer protection, economic growth, affordable energy, and strong communities.

Mr. Parady addressed an organizational chart on slide 3. The blue boxes represented the department's key divisions including the Division of Administrative Services; the Division of Banking and Securities; the Division of Community and Regional Affairs; the Division of Corporations, Business and Professional Licensing responsible for licensing approximately 210,000 entities (one-third business, one-third corporate, and one-third professions); the Division of Economic Development; and the Division of Insurance. The bottom of the slide included the department's six corporate entities.

[3:01:05 PM](#)

Mr. Parady continued to address an organization chart on slide 3. The corporate entities included the Alaska Energy Authority (AEA); AIDEA; the Alaska Gasline Development Corporation (AGDC); the Alaska Seafood Marketing Institute (ASMI); the Alcohol and Marijuana Control Office; and the Regulatory Commission of Alaska (RCA). He noted the entities were represented with a dotted line on the chart because they were each controlled by a board appointed by the governor and confirmed by the legislature.

Mr. Parady turned to a LFD chart on slide 4 and directed attention to the language in a red textbox. He explained that DCCED operations were slightly below 2008 levels if the following programs were excluded: \$55 million appropriation to the Reinsurance Program the past June [2016] in Alaska Comprehensive Health Insurance Association (ACHIA) and a Power Cost Equalization (PCE) increase estimated at \$12.5 million since FY 08. He explained that the ACHIA appropriation had occurred the past session to stabilize the individual Alaskan insurance market. He detailed there were 23,000 Alaskans insured in the individual market and roughly two-thirds were subsidized under ACA. The one-third not covered by the ACA had insurance rates exceeding their mortgages. The appropriation successfully stabilized the individual market, which was down to one carrier, and the rate increases were 7.3 percent instead of the anticipated 42

percent. He acknowledged that it would be an ongoing subject of discussion during the current session.

CATHERINE REARDON, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, addressed slide 4. The chart showed the department's total GF (UGF and DGF) over a ten-year period. She detailed that DGF included license fees, which entirely fund most of the department's regulatory agencies. She continued that PCE payments, revolving loan funds, and the Reinsurance Program were among other sources. The department had seen the most dramatic UGF reductions of any department with a drop of 71 percent since FY 15, from \$40.5 million to \$11 million in the current budget request. The far right two columns reflected almost entirely DGF.

Representative Wilson pointed to a note on the left of the slide pertaining to \$4 million for QTA contracts. She asked what a QTA contract was.

Ms. Reardon answered that it stood for Qualified Trade Association; the \$4 million was for the Alaska Travel Industry Association (ATIA) tourism contract. She moved to a breakout of the department's budget by line item on slide 5, which showed where significant changes had occurred over the past decade. While there was some personal services growth, most was attributable to inflation and the cost of doing business. The department had been assigned a significant number of new duties since FY 08, including the addition of AGDC, which accounted for 26 of the positions in the FY 18 budget; the Alcoholic Beverage Control (ABC) Board, which had become the Alcohol and Marijuana Control Office (AMCO), came to DCCED in 2013 and accounted for 21 positions at present; the department had five new licensing programs and new licensing responsibilities as well. Growth in the new program areas had been offset by reductions in PCNs in other areas; therefore, the department had been able to hold to a net decrease of one position since 2008, despite the new programs it had taken on.

Ms. Reardon relayed that the grants line was the largest item in the FY 18, which primarily consisted of three areas: \$55 million for the Reinsurance Program that started in FY 17, \$37.8 million for PCE in FY 18 (the number had been \$26.7 million in FY 08), and \$14.1 million in revenue sharing through the national forest receipts payment in lieu of taxes and fisheries taxes programs. The community

assistance program was administered by DCCED, but not reflected in the budget because it was funded through statutory language.

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Ms. Reardon turned to slide 6 and continued to address LFD charts. The chart illustrated that DCCED had seen numerous program changes and special projects over the past decade. The agency was dynamic with many different areas of expertise. She highlighted the green line representing PCE estimate, which was currently \$37.8 million for FY 18. The black line reflected the Division of Insurance's budget, which was consistent until FY 17 when the Reinsurance Program had been added. The spike in the red line was reflective of the AGDC implementation. She relayed that a one-time UGF appropriation had been made for AGDC startup [in FY 11]. She detailed that initially AGDC had been housed under the Alaska Housing Finance Corporation (AHFC) and had been transferred to DCCED in FY 14.

Ms. Reardon continued to address slide 6. The orange line represented ASMI; in FY 15 ASMI's fish tax receipts had been reclassified from GF to "other" funds to reflect that they were collected for a specific purpose and did not intermingle with GF. Since FY 15, ASMI's UGF had declined significantly. The organization only had \$1 million in the FY 18 budget, which it would use to match a competitive federal grant application for international marketing. The purple line for the Division of Economic Development and the teal line for Tourism Marketing were related. She expounded in 2016 tourism funds had been moved from the Division of Economic Development budget to their own appropriation for easier tracking. There were no tourism marketing funds in the proposed FY 18 operating budget; however, there were \$3 million in one-time capital funds (\$1.650 million in vehicle rental taxes and \$1.350 UGF).

[3:09:32 PM](#)

Ms. Reardon moved to a chart on slide 7 showing appropriations within DCCED (all funds). The bulk of the department's programs were small and steady along the bottom of the chart, with outliers she had spoken to appearing in the middle and top of the chart.

Representative Guttenberg observed that LFD must have had fun developing the slides for DCCED.

3:10:07 PM

Ms. Reardon moved to slide 8. She pointed out the department had a large number of statutes - too many to fit by number in the right column. The statute numbers were available online as part of each division's budget packet. Slide 8 included the Commissioner's Office, the Division of Administrative Services, and the state facility rent components. The state facility rent component paid for department office space in state-owned buildings. The number did not reflect the department's total cost of office space, but it was where lease costs were billed first.

Ms. Reardon communicated that the department had been making concerted effort to contract and consolidate its space to reduce costs and allow agencies to better manage budget reductions. The department was contracting in Juneau onto the 9th floor of the State Office Building (SOB), which had been DCCED for the past 25 years; the department was trying to move back into that footprint. In FY 15, DCCED had saved 7,000 square feet by moving the Division of Banking, the Division of Community and Regional Affairs, and alcohol licensing from external space to the SOB. In FY 17, the Division of Economic Development was moving from an 8,000 square foot leased space in the valley to the SOB. The department was also working to consolidate into its existing space in Anchorage. She detailed that when the department had taken on the ABC Board/AMCO it had brought the agency from offsite into the existing footprint in the Atwood Building.

Ms. Reardon spoke about the Banking and Securities Division on slide 9. The division was part of the department's focus on consumer protection. In addition to ensuring that financial services were secure and fair, the department's consumer protection agencies helped set the level playing field required for a successful Alaska economy. The division was completely funded by fees and it contributed \$12.6 million to GF. She pointed to an asterisk at the bottom of the slide and relayed that most DCCED agencies were a single RDU [Results Delivery Unit] and had a single component. She explained that the slides provided a breakdown of division subprograms; however, the department

was not budgeted in that way. Therefore, the funding provided on the slides was an estimate.

[3:13:27 PM](#)

Ms. Reardon moved to slide 10 and addressed the Division of Community and Regional Affairs. The division had two RDUs and offered extensive and varied services. The division was a constitutionally required function. Article 10, Section 14 of the constitution identified that there would be an agency to advise and assist local governments. Additionally, the Local Boundary Commission was created in Article 10, Section 12. She turned to the Division of Corporations, Business, and Professional Licensing (CBPL) Division had been highlighted by Mr. Parady. The division had three primary functions including business licensing, registering corporations, and professional licensing. The slide included a list of the 43 professional licensing programs responsible for licensing 70,000 individuals (primarily Alaskans). She noted that professional licensing paid for itself and carried forward revenue collected from regulated professions year-to-year. Business, Licensing and Corporations was also self-sufficient and contributed \$7 million to GF above and beyond the costs of regulation.

Ms. Reardon moved to slide 12 and relayed that the Division of Economic Development had two RDUs reflecting two distinct activities. The first was economic development, responsible for economic growth. The component had lost 64 percent of its UGF over the past two years and had shrunk from 13 employees to 5. The staff was focused in areas where it could have a meaningful impact and spur economic growth. There was a comprehensive economic development strategy being developed with regions, local communities, and the private sector. The division used funds to leverage federal funds for state trade expansion programs and timber development and focusing on developing value added export industries (products manufactured in and exported from Alaska). The second was investments, which encompassed the department's revolving loan funds listed on the slide. She noted that the administrative costs were funded entirely by the loan funds.

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Ms. Reardon highlighted the Division of Insurance on slide 13. The division was entirely fee funded. Additionally, it

contributed \$5.696 million to GF in FY 16 and provided \$55 million in insurance premium taxes for the Health Care Reinsurance Program. The division had issued 35,000 licenses and admitted 10 new insurers in FY 16; however, none of the new insurers were in the healthcare market - there was currently only one insurer in healthcare.

Ms. Reardon discussed AMCO on slide 14. The office had a single RDU responsible for licensing and enforcement. The slide showed detailed information on funding and expenditures broken out by alcohol and marijuana. There were nearly 2,000 active liquor licenses; at present there were 48 operational marijuana licenses and 700 permits had been issued. Beginning in FY 17 the office had a new local government specialist position responsible for developing educational materials to aid local governments in understanding their rights and obligations when an alcohol or marijuana application was made. The marijuana portion of the agency was on track to be financially self-sufficient by 2020, which had been the department's plan since marijuana regulation occurred through the initiative. The department had been replacing GF support (approximately one-third each year); therefore, in FY 18 there was a decrease of about \$500,000 from the original \$1.5 million allocation. The department anticipated another \$500,000 decrease in UGF in FY 19 and self-sufficiency in FY 20. She qualified that the department was only forecasting what would happen in the new industry. She added that DCCED took the intent that AMCO would pay its own costs seriously.

Mr. Parady provided an updated number of marijuana taxes received reported by DOR: \$10,400 in October, \$81,000 in November, and \$145,800 in December. The taxes were trending in a positive revenue direction.

Ms. Reardon added that the [tax] funds were collected by DOR versus fees collected by DCCED. The legislature had designated how the tax funds would be used. She turned to slide 15 pertaining to Allied Corporations (in addition to AMCO). There was very little UGF funding apart from \$1 million for ASMI and funds for AEA for its work maintaining power to rural Alaska and other communities.

[3:21:21 PM](#)

Mr. Parady communicated the department's priorities for the coming year. The department's priorities for FY 17 and FY

18 were to sustain services to communities. He underscored that it was essential to sustain the operations in the Division of Community and Regional Affairs and AEA to support Alaska's rural communities. He believed it was evident to the department and legislators that rural and urban Alaska needed to be healthy to support each other. The department sought to maintain revenue generating and self-funded programs at current levels of service to provide services to the users paying for them. The department ensured consistent and safe regulation of Alaska's industries; DCCED had contributed over \$26 million to the GF in FY 16. The department also sought to provide stability to the insurance market that was continuing to succeed with the Alaska Reinsurance Program.

Mr. Parady relayed that DCCED had submitted a Section 1332 waiver under the Affordable Care Act. The legislature had directed and given the department the authority to do so when it made the \$55 million reinsurance appropriation the past June. He elaborated that it was a 200-page application backed by a set of actuarial studies. The department had told the federal government that Alaska had moved a \$55 million appropriation to stabilize the individual insurance market. Two-thirds or 23,000 of the individuals were federally subsidized and one-third were not. He relayed that holding the rate increase to 7.2 percent (instead of 42 percent) for the two-thirds who were subsidized kept federal costs down. The department was asking the federal government to return the money to Alaska to offset the cost of the program. The application had been deemed complete on January 17 [2017] and was in a 30-day federal comment period and 180-day federal decision period. With the transition in the federal administration and questions surrounding the Affordable Care Act, the outcome was unclear. The department had been in contact with transition officials who had indicated the concept was viewed favorably and that it was a key idea for moving forward nationwide in terms of stabilizing insurance and dealing with some unintended consequences of the Affordable Care Act.

Mr. Parady relayed that the department's last priority for the coming fiscal year was to continue to ensure that marijuana was safely and effectively regulated in Alaska. He detailed that marijuana licensing was ongoing and was generating revenue. He noted that the state had gone from a citizen-backed initiative to legalize marijuana to a

functioning regulatory framework in the past 18 months. The department had provided the first licenses and opened the doors to new businesses with efficiency and alacrity.

[3:24:35 PM](#)

Co-Chair Seaton stated that one of the responsibilities of the budget subcommittee was to look at indirect expenditures. He asked the department to present suggestions for things like statutory fees that were not adequate to collect from businesses. He asked to hear about a potential move to allow a business owner to have multiple businesses under one business licenses and what the department was anticipating as a loss in associated business license fees. He also wanted to hear whether a fee change was needed per license. The subcommittee would be working with the policy committee. He asked the department to provide potential options to the subcommittee.

Representative Kawasaki referred to slide 10 and asked the department to follow up with a breakout of the fund sources (i.e. UGF, DGF, other, and federal).

Co-Chair Seaton asked for clarification.

Representative Kawasaki noted that slide 11 provided a more detailed breakout of the funding source. He could not determine the funding split on slide 10.

Ms. Reardon pointed to the top row of slide 10 under the "Constitutionally Required" column. She explained that the department did not actually fund by program - there were not components or allocations under the individual programs. She explained that they could give a general idea.

[3:27:46 PM](#)

Representative Kawasaki understood. Separately, he noted that DMVA had presented to the committee earlier in the day. He asked about the transfer of the Alaska Aerospace Corporation to DMVA from DCCED in 2011. He asked if the department had an opinion on the issue.

Mr. Parady answered that the department's coordinating relationship with DMVA was good; the departments coordinated closely on emergency response and disaster

preparation primarily through the Division of Community and Regional Affairs. The department's held regular coordinating meetings and he was not aware of a significant operational problem.

Representative Kawasaki noted that the previous March the governor had instructed AEA, AIDEA, and AHFC to work towards a consolidating effort. He asked for an update.

Mr. Parady replied that the work was ongoing. The administrative order study was complete and under internal review. The recommendations were anticipated in a matter of weeks.

Vice-Chair Gara noted the marijuana initiative had been projected to produce \$12 million annually in tax revenue for the state. He observed that the revenue was currently far below that number. He asked if AMCO had a role in licensing applicants in larger communities.

Mr. Parady answered that it was premature to characterize the tax revenue as falling short. The program had only been in operation for three months. He believed the revenue figure he had provided earlier in the meeting was generated on somewhere around 85 pounds of sales. He thought the "rest of the picture remains to reveal itself." There was a state component of licensing in addition to municipal licensing. For example, Anchorage had its own office addressing municipal perspectives on licensing. He believed that was where the question about usage and public space fell. He would follow up with more detail.

[3:30:32 PM](#)

Representative Wilson referred to slide 10. She did not understand why the chart did not show a breakdown. She pointed to the \$6 million in UGF compared to \$10,000 DGF. She observed that most of the costs were going to municipalities for assistance they may need. She asked why the state was not charging back to bring the number down.

Mr. Parady answered that the GF appropriation of \$6,547,300 supported a range of activities in local governments across the state. For example, the department ran the Office of State Assessor, the Local Boundary Commission, the Alaska Native Language and Preservation Council, the Bulk Fuel Revolving Loan Program, and the Rural Utility Business

Advisor Program (federally funded). The department had a constitutional duty to support local governments and the Division of Community and Regional Affairs was the home for those activities that had been historically state supported. He stated he would leave it to the legislature's judgement as to the continuation of the support.

Representative Wilson believed the legislature should support local government, but she also believed fees should be charged when possible. A breakdown of funds was the only way the legislature could understand where the state may be able to get some of the fees back for services rendered. She referenced indirect expenditures. She added that sometimes when services were free everyone would take them, which was not necessarily the case when there was a cost.

Co-Chair Seaton noted the subcommittee would work with the department to identify any shared expenditures.

Co-Chair Seaton addressed the agenda for the following day.

ADJOURNMENT

[3:33:27 PM](#)

The meeting was adjourned at 3:33 p.m.