

HOUSE FINANCE COMMITTEE  
January 29, 2018  
1:33 p.m.

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CALL TO ORDER

Co-Chair Seaton called the House Finance Committee meeting to order at 1:33 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 Dan Ortiz  
Representative Lance Pruitt  
Representative Steve Thompson  
Representative Cathy Tilton  
Representative Mark Neuman - Alternate

MEMBERS ABSENT

Representative Tammie Wilson  
Representative Scott Kawasaki

ALSO PRESENT

James Johnsen, President, University of Alaska; Michelle Rizk, Associate Vice President, Statewide Planning and Budget, University of Alaska; Greg Cashen, Acting Commissioner, Department of Labor and Workforce Development; Mark Luiken, Commissioner, Department of Transportation and Public Facilities; Amanda Holland, Acting Deputy Commissioner, Department of Transportation and Public Facilities. Paloma Harbour, Director, Division of Administrative Services, Department of Labor and Workforce Development.

SUMMARY

HB 285      APPROP: MENTAL HEALTH BUDGET

HB 285 was HEARD and HELD in committee for further consideration.

HB 286 APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 286 was HEARD and HELD in committee for further consideration.

OVERVIEW: UNIVERSITY OF ALASKA

OVERVIEW: DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT

OVERVIEW: DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

Co-Chair Seaton reviewed the agenda for the day. He indicated that Representative Neuman would be filling in for Representative Wilson for the week.

^OVERVIEW: UNIVERSITY OF ALASKA

Co-Chair Seaton asked the presenter when he wanted to take questions from committee members.

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JAMES JOHNSEN, PRESIDENT, UNIVERSITY OF ALASKA, responded that he wanted to take questions at the end of his presentation. He introduced the PowerPoint presentation: "University of Alaska FY 19 Budget Overview." He noted the sources on slide 2: "Sources."

Mr. Johnsen turned to slide 3: "University Mission." He indicated the University's mission was standard for a public university system. There were three parts to the mission - education, research, and service. He pointed out that what was unique to the University of Alaska's mission was that it served Alaska. Alaska was geographically the largest state. He elaborated that the Ketchikan Campus was 1,342 miles from the Kotzebue Campus.

Mr. Johnsen continued that the University's geographical reach was unlike any other institution in the U.S. In terms of research, the University was unique in that its focus in research was on the arctic and on the North, highly relevant to Alaska. He reported that the University of

Alaska (UA) ranked number one in the world in arctic and Northern topics.

Mr. Johnsen reviewed the third piece of the University's mission - service. It was uniquely focused on Alaska. The Marine Advisory Program, for example, focused on the unique qualities of Alaska and the unique needs that Alaskans had for higher education.

Mr. Johnsen detailed the areas in which the University served Alaska on slide 4: "Serving All Alaskans." He suggested that if the picture on the slide was transposed onto the Lower 48 states, Alaska would touch two oceans and the Ketchikan Campus would be in South Carolina. There would be campuses in Iowa, Oklahoma, and South Dakota. The University would also have a National Science Foundation (NSF) funded world class research facility in Wisconsin, and it would have a federally funded arctic research vessel operating off the coast of Montana. He emphasized the breadth of the University's mission covering all of Alaska through its three universities; the University of Alaska Anchorage (UAA), the University of Alaska Fairbanks (UAF), and the University of Alaska Southeast (UAS). The University also had 12 community campuses and several learning centers across the state. He thought it understated the University's service to Alaska offering dozens of online academic programs as well.

Mr. Johnsen turned to slide 5: "Legal Authority." He provided a brief history of Alaska's university system. In 1956 the delegates to the constitution saw the wisdom of including UA in the constitution. The territorial legislature in 1917 created the Alaska Agricultural College and School of Mines renaming it in 1935. The delegates knew that a strong higher education system, a strong university, was required for statehood. At the time, it was a top priority of state leaders. He was hopeful it would remain a top priority for leaders in Alaska. The University of Alaska was separate from the executive branch, although subject to the Executive Budget Act as provided for in various statutes. Consequently, the University had a Board of Regents appointed by the Governor and a president appointed by the board. The board and president were empowered constitutionally and by statute to operate UA on behalf of the state.

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Mr. Johnsen moved to slide 6: "University of Alaska Share of Total Agency Operations (GF Only)." He pointed to numbers from the FY 10 management plan where the University counted for 15.35 percent of total agency operations. In FY 19, in terms of the governor's adjusted budget, it would be 13.81 percent - a decline of about 10 percent. He noted that general funds only included designated general funds (DGF) in addition to undesignated general funds (UGF). The University's focus was primarily on UGF. Included in DGF were tuitions and other revenues appropriated in DGF but in a different way than UGF.

Co-Chair Seaton acknowledged the arrival of Representative Pruitt to the meeting.

Mr. Johnsen moved to slide 7: "University of Alaska Line Items (All Funds)." He indicated the slide went into more detail than the previous slide. Over the previous 10 years there was significant declines in personal services, roughly \$16 million or 11 percent. There was also a significant decline in grants and benefits of about 25 percent. There was a 32 percent decrease in travel. The story of funding decline was made up in part by increases in tuition rates charged to students.

Representative Neuman asked for information about the original sources of designated funds and also other funds. He wanted to see how much had come from charitable contributions.

Co-Chair Seaton reiterated that members should hold their questions until the end. Vice-Chair Gara had joined the meeting.

Mr. Johnsen continued to slide 8: "University of Alaska Appropriation (GF Only)." He reported that the slide showed general funds (GF) only for the previous 10 years. It reflected an increase through FY 13 with a decline in FY 14 and a bump. There was a considerable disinvestment in the University since FY 15. He noted that the year-over-year reduction in UGF over the period was \$378 million down to \$317 million reflecting a cumulative reduction of \$145 million.

Mr. Johnsen moved to slide 9: "University of Alaska Appropriation (All Funds)." He indicated the slide showed

the same story and pattern as seen in the previous slide reflecting a decline. The slope was negative.

Mr. Johnsen advanced to slide 10: "Program Areas." The University organized its program areas by the primary mission around education, research and service and the amount of UGF, DGF, and other funds going into each component of the mission. Also, the chart showed the number of full-time and part-time employees who directly supported the specific missions, the number of credit hours produced, students served, degrees conveyed, invention disclosures, and members of the public who had benefited from the University's multiple and widespread service programs across the state. He highlighted that some of the costs were recuperated in the education area through tuition and fees. In the area of research, it was federal and other grant dollars leveraged by the state's general fund investment. In terms of service, the funds were recuperated in various fees. All three activities were directly tied to the University's mission on behalf of the state. He was proud of the effectiveness of the faculty, staff, students across the university system, especially in light of the significant decrease of investment in the University and consequently the reduction of its capacity to meet its mission for the state.

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Mr. Johnsen scrolled to slide 11: "Building a Culture of Education." The University was trying to create a culture of education in Alaska. By the numbers, it was falling short. Folks at the University believed that it was critically important to use the tremendous resources and assets of the University of Alaska to meet the state's very serious challenges including the highest healthcare costs in the country, the very high energy costs, the high rates of crime, the highest unemployment rates in the state, and a very narrow economic base. He reported that it had been shown in state-after-state and nation-after-nation that by increasing educational attainment, life expectancy went up, and healthcare costs went down; unemployment went down, and income went up; incarceration rates went down, and recidivism went down. It was the University's view, based on its mission, that higher education was a wise investment.

Mr. Johnsen advanced to slide 12: "Strategic Pathways." He thought everyone was aware of the strategic pathways process. The University tried to answer the question of how to restructure itself in order to meet the mission in light of the significant budget cuts. He reported that 230 faculty, staff, and students staffed 22 committees going through the university system from A to Z. They reviewed, came up with options, and made a number of very dramatic organizational changes in order to make itself as effective as possible.

Mr. Johnson thought the slide summarized the University's statewide mission on behalf of the state. He drew attention to the middle of the slide which focused on each of Alaska's universities and their unique contributions to the mission. He emphasized the word, "unique." The University wanted to take advantage of the special characteristics of each of the universities while trying to build on what was common about them. The slide also captured the tension needed for the University to manage in the diverse university system between what made sense to be distinctive at each university and what made sense to be in common across the university system.

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Mr. Johnsen reported that the Board of Regents had developed 5 objectives shown on slide 13: "Strategic Objectives." He explained that in looking forward at the ways to create a culture of education in the state and to meet the state's needs for higher education, the Board of Regents adopted five goals. They had also adopted measures going out 8 years to 2025. The top priorities included economic development on behalf of the state, workforce development, research growth, degree attainment, and more cost-effective operations.

Mr. Johnsen explained the goals and measures on slide 14: "UA 2018-2025 Goals and Measures." The Board of Regents adopted the goals in November. He reported that there were two ways in which the goals would be measured in accomplishment going out to 2025. In some cases, the goals were extremely ambitious. However, he believed the University had to set ambitious goals given the huge education gaps in Alaska and the state's serious challenges. He pointed to the Science, Technology, Engineering, and Math (STEM) graduates. The STEM program

was a critical component for economic development. The University hoped to increase the number of STEM graduates. The university also hoped to increase invention disclosures, a standard way in which universities contribute to economic development.

Mr. Johnsen addressed workforce development. While the University would continue to focus on welders, accountants, engineers, and others, the Board of Regents asked themselves, if they were to focus on only two occupational areas, what would be the most impactful areas to the state. The Board decided that education and healthcare would be the most important areas of focus. The University wanted to remain number one in the nation. He relayed that a standard measure for research effectiveness was expenditures. The University wanted to drive the number up by increasing its competitiveness and by increasing receipts from the federal government. Much attention would be focused on health research.

Mr. Johnson explained that there were two elements to increasing degree attainment. The first was driving enrollment up from 29,171 to 45,000. He elaborated that as a percentage of the state's population, 45,000 would be the same percentage of the state's population who were students at the University of Alaska in 1975. Over the period since, the state had declined in its percentage of Alaskans in higher education. He opined that it was critical for the state to drive up the number. There were other states with a higher percentage: Oregon was 7 percent. He thought it was reasonable to be at 6 percent. Increasing completion rates had been a tough issue for the University for years.

Mr. Johnson continued that in addition to increasing enrollment, the University wanted to increase thru-put and the number of people getting degrees. A major focus would include not only bachelorettes but workforce credentials, endorsements, and associates degrees. He relayed that an element of the University's budget request was to offer a 25 percent tuition discount in occupational endorsements - short-term, highly focused on high-demand workforce areas. The idea was to provide Alaskans the opportunity to move up quickly through university and community campus training. Finally, the Board of Regents set goals to operate more cost-effectively and to measure increasing its top line faster than its bottom line over the period.

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Mr. Johnsen spoke of the state trend on slide 15: "State Operation Budget Trends." The state operating budget trend had been decreasing for the prior 4 years. In FY 19 the governor's budget was at \$317 million. The Board of Regents was proposing an operating budget of \$341 million for FY 19.

Mr. Johnsen advanced to slide 16: "FY 19 Operating Budget." He explained that the slide showed a breakdown of the FY 19 operating budget. There was a significant amount of detail which he imagined would be looked at carefully by the finance subcommittee as the session moved forward. He noted the delta between FY 18 and FY 19, about \$24 million. He indicated that \$9.7 million was for fixed-cost increases. Strategic investments were at about \$15 million. Specifics were listed underneath each of the strategic investments.

Mr. Johnsen scrolled to slide 17: "Workforce Reductions FY 15 - FY 18." He reported that the University had suspended or discontinued about 50 academic degree and certificate programs. The University had 1200 fewer employees than a few years previously. He indicated that 36 percent statewide administration had been reduced. He pointed to the percentage change in personnel head count under the heading "SW" - a dramatic change in any other unit within the University. Staff had taken a larger share of the reductions than faculty over the period. He clarified that the position reductions were not all layoffs. There was attrition built into the numbers. Many times, if a faculty or staff position became vacant and the decision was made not to fill it, there would be one less headcount and were included in the counts.

Mr. Johnsen discussed slide 18: "Program Reductions FY 15 - FY 18." The slide showed examples of some of the program reductions taken. He noted a few of the strategic pathways implementations. The University had three schools of management with three deans and three bureaucracies reduced to two. The University was leveraging its purchasing so that it was being coordinated across the system as opposed to being done individually by each university. The procurement offices were lining up under a single leadership. A similar structure was being implemented for grants and contracts administration. The University was also streamlining and automating administrative processes.

Mr. Johnsen informed the committee of the consolidation or creation of the Alaska College of Education. Rather than three deans and three schools of education, the University was consolidating to a single executive dean and the faculty and staff would continue at the other universities ensuring access for students across the entire state. However, there would be much enhanced coordination and alignment of teacher education programs statewide. The change was met positively by the 54 superintendents who had been calling for much more alignment of the University's programs and standardization. It was not an uncontroversial action taken by the Board of Regents.

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Mr. Johnsen had other legislative priorities as listed on slide 19: "Other Legislative Priorities." The University had legislative priorities other than the operating budget. He spoke of the \$50 million capital request for deferred maintenance. He mentioned the education tax credit which would expire at the end of the year. He believed legislation was already in play to continue the beneficial program linking business interests in Alaska with interests of the University. It was a positive investment in workforce development and research and other connections between the University and employers.

Mr. Johnsen reported that another priority was protecting the higher education fund that funded two scholarship programs, one was a merit-based system (Alaska Performance Scholarship), and the other was a needs-based scholarship program (Alaska Education Grant). It was critically important for the grants to be funded. The University had seen clear evidence of the value of the Alaska Performance Scholarship in terms of increasing readiness of students for university studies. He noted that Alaska ranked among the lowest in the country in the availability of needs-based grants. It was critical to maintain the funding to ensure that Alaskans, no matter what socio-economic backgrounds they come from, have the opportunities to achieve through higher education.

Mr. Johnsen spoke of the importance of solving the University's land grant deficit. It continued to work the issue in close cooperation with the administration and in collaboration with the state's federal delegation and

federal agencies. He recalled that only Delaware received a small land grant than the University of Alaska. He thought it would be critically important to diversify its revenue sources within about 5 to 10 years. He concluded his presentation and was happy to take questions.

Co-Chair Seaton acknowledged Representative Grenn and Representative Ortiz at the table.

Co-Chair Foster referred to slide 16. He wondered what comprised the bulk of the \$7 million for degree attainment. Next, he referred to slide 19 regarding extending the education tax credit. He commented that it was a simple concept but a complicated statute. He understood the formula to be simple but asked what was complicated.

Mr. Johnsen responded that in the increased degree attainment the money was primarily for additional online courses. Alaska ranked number one in the country in the percentage of the population with some college and no degree. Folks were not quitting their jobs or leaving their families at night to attend classes. He asserted that the University needed to step up availability of online courses for students. It was the University's intent to increase its collaboration with K-12 school districts. He indicated dual enrollment programs or concurrent enrollment programs were incredibly affective in preparing students for college and work. An example was the middle college high school that the University operated in conjunction with the Mat-Su School District. He conveyed that 75 percent of the completers attended a UA campus with an average of 30 credit hours completed requiring zero developmental or remedial work when they got to a university. In addition, the University wanted to increase scholarships in high demand areas.

Mr. Johnsen responded to Co-Chair Foster's question about the education tax credit. It applied to about 10 different tax credits. The title was complex and the language of the bill, as a result of the sheer number of corporate income taxes it applied to, made it complex. He agreed that the concept was very simple.

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Representative Grenn referred to slide 17. He asked if there was a specific number of teachers that had been

reduced. He asked if a correlation could be made with the discounted or suspended programs on slide 18. Mr. Johnsen responded that he could provide the number for him. There was a correlation to some extent between faculty line reductions and discontinued programs. The challenge of the University was its obligations to students to teach them out. For example, if the University were to discontinue a sociology degree or a resource economics degree, the University had an obligation to make sure the students got the courses they needed to complete their degree. Therefore, it could not turn a program off, leaving students hanging. There was a lag in terms of making reductions to faculty, particularly tenured faculty. He noted that adjunct faculty or term faculty were hired on a year-to-year basis and tended to be reduced more quickly.

Representative Grenn indicated that he wanted the number.

Representative Guttenberg referred to slide 16. He wondered about the funding for the UAF engineering building operating costs. He had assumed that the amount was built into its budget base. He suggested closing the building or taking the cut. Mr. Johnsen responded that it was an absolutely critical building for the University's mission and he thought it was appropriate for the state to pay the operating costs for the facility. If the costs were not funded, the University would have no other choice than to continue operating the facility which would force reallocation - reductions in other places to continue operating. It was absolutely mission critical for the University for engineering education and engineering research. The Alaska Center for Energy and Power, a world class alternative energy research organization, was housed in the facility. The University would be forced to make reductions in other places.

Representative Thompson turned to slide 7 and asked what comprised the miscellaneous category. Mr. Johnsen deferred to Ms. Rizk.

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MICHELLE RIZK, ASSOCIATE VICE PRESIDENT, STATEWIDE PLANNING AND BUDGET, UNIVERSITY OF ALASKA, responded that the University aligned the definition with the state's definition: It represented the University of Alaska's debt service.

Representative Thompson asked about the tax credits. He wondered how many of the tax credits were used to match federal grants. He queried whether the number was sizable.

Mr. Johnsen replied that typically the large expenditure was for scholarships. He indicated that the fish processing industry had been a major contributor to the University for workforce and research. He thought it had provided a tremendous benefit to fisheries faculty and oceanography faculty as they competed for funds at the national level.

Representative Pruitt mentioned the land grant deficit. He asked if there was a way for the legislature to help. It had previously passed a resolution to assist with the opening of Alaska National Wildlife Refuge (ANWR). He asked if a resolution from the legislature would help the University. He was willing to help with legislation if necessary and wondered if Mr. Johnsen was willing to work with him on a resolution.

Mr. Johnsen responded affirmatively. The land grant deficit was more of a federal issue given the state constitution's prohibition on the dedication of land to the University as learned by a 2009 State Supreme Court decision. He believed a resolution by the legislature would be helpful in the University's push to achieve satisfaction of its long-time deficit.

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Representative Neuman asked about research and Alaskan's served on slide 10. He asked about the University's policy regarding intellectual property. He thought the University could make a considerable sum off the intellectual property of the inventions coming out of the institution. He asked if the University of Alaska owned the patents. Mr. Johnsen replied positively and could provide a revenue distribution schedule that was negotiated into the collective bargaining agreement with the faculty union.

Representative Neuman wanted the information. He also referred to slide 18 regarding the strategic pathways implementations. He noted the first item on the list and thought the legislature had tried to persuade the University to move into one university system as opposed to

the tree systems currently in place. He asked Mr. Johnsen to explain his goals and how he intended to reach them.

Mr. Johnsen responded that there were very serious institutional and accreditation issues that the University faced. The Northwest Commission on Colleges and Universities down in Washington accredited UA's institutions rather than programs. To move in the direction of a reduction would take several years of effort. The University had had active communication with the commission. He had engaged an expert in accreditation to study the issue. His view and the view of the Board of Regents was that it would be a massive distraction to trying to generate enrollment and meet the needs of the state. Therefore, instead of applying resources to a regulatory process from people outside of Alaska, they decided to focus on what the University needed to achieve given its three accreditations.

Representative Neuman thought the goal was to consolidate to one administrative cost for the sake of efficiency. He also understood that another large problem was the transferring of credits. Mr. Johnsen responded that he could provide information to confirm that there was not a problem transferring credits between the University campuses.

Vice-Chair Gara asked about the focus on increasing STEM graduates. He wanted to make sure there was no decrease on the emphasis on liberal arts education. He asked Mr. Johnsen to speak to the subject. Also, he asked if the decrease in funding for the University had led to a decrease in grant funding it had been able to leverage. He referred to slide 18 which indicated that the University discontinued the GC clinical social work practice program. He asked Mr. Johnsen to explain the program. He did not know what "GC" meant. Mr. Johnsen would have to get back to Vice-Chair Gara.

Vice-Chair Gara reported some discussion by folks that were Children's Services Agency hires, case workers who were not social work graduates, about a decrease in the number of social work graduates. He remarked that a decrease would not be helpful. Ms. Rizk thought GC stood for graduate certificate.

Representative Guttenberg asked about a line item taking over a seismic buoy-rey across the Gulf of Alaska. It was his understanding that the federal government was about to move it to another location in the world. He thought it was valuable to keep it in the gulf. He asked about its status. Mr. Johnsen would be happy to follow up with that information.

Co-Chair Seaton indicated there would be more details in the finance subcommittee process. He thanked the presenters.

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^OVERVIEW: DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT

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Co-Chair Seaton indicated that members should hold their questions to the end.

GREG CASHEN, ACTING COMMISSIONER, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, thanked the committee for hearing the department's presentation. He introduced the PowerPoint presentation: "FY2019 Department Overview." He reviewed the department mission on slide 2: "Department Mission and Resources." The mission of the department was to provide a safe and legal working conditions and advance opportunities for employment. The department accomplished its mission by protecting Alaskan workers through statutory and regulatory consultation and enforcement, developing an Alaska's workforce for Alaska's jobs, and income replacement for injured, disabled, and unemployed workers. He pointed out that the slide included links to the department's mission and key performance indicators, the FY 19 budget details, and the performance measures from all of the department's divisions. He turned the remainder of the presentation over to Ms. Harbour.

PALOMA HARBOUR, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, would walk the committee through the 10-year look back slides generated by the Legislative Finance Division (LFD).

She highlighted that slide 3 showed the department's general fund (GF) budget since 2009. She pointed out that GF included unrestricted general funds (UGF) and designated general funds (DGF). The slide indicated there had been significant cuts to the department's state-funded programs since FY 15. She reported that UGF for the department had been reduced 38 percent over the period. The department was \$7.3 million below where it had been in FY 09.

Ms. Harbour moved to the chart on slide 4: "Department of Labor and Workforce Development Line Items (All Funds)." The chart showed changes in the department's budget since FY 09 by expenditure category. The department's personal services budget was almost at the same level that it was in FY 09, yet it had 224 fewer budgeted positions. It was because position costs such as wages and benefits had increased over the period. She also noted the significant reduction to the department's grants and benefits of \$22.3 million partly due to the significant state funding reductions and partly due to federal and other declines.

Ms. Harbour moved to slide 5: "Appropriations within the Department of Labor and Workforce Development (GF Only)." She reported that the chart showed the department's GF by division. The slide could be hard to follow because in FY 17 the department consolidated 2 divisions, Business Partnerships and Employment Security, into 1 division - Employment and Training Services. She highlighted that the Commissioner's Office and Administrative Services budget for FY 19 was almost \$1.9 million less than in FY 09. The reduction was due to the department focusing its cuts on reducing administrative and overhead expenses in the department. The department analyzed every position that became vacant and reviewed every lease that came up for renewal. The department had cut UGF spending on leases by \$1.2 million since FY 15.

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Ms. Harbour moved to slide 6: "Appropriations within the Department of Labor and Workforce Development (All Funds)." She indicated that the chart showed a similar picture to the previous slide but included all funds. The division consolidation in FY 17 made the chart difficult to follow. As noted on the slide by LFD the department's budget since FY 09 had decreased 15 percent or \$26.4 million. As she had

stated earlier it was partly due to state funding reductions and also federal and other funding reductions.

Ms. Harbour continued to slide 7: "Commissioner and Administrative Services." As requested, the following several slides reflected the department's budget by division broken down by component or program. The department's rating of importance to the mission was based on guidance provided by the co-chairs. Critical meant a program that was directly meeting the department's mission. Important meant a program that provided indirect support that would need to be reassigned if the program did not exist. Status quo meant a program that had historically been funded because of statutory requirements but had no real impact on the department's mission or potentially hampered the department's functioning. The department was not given specific guidance on rating the effectiveness. Therefore, the department used "high, moderate, and low." Using very strict criteria for determining what was constitutionally required, the Office of Management and Budget (OMB) determined that the commissioner's office was the only thing in the department that was partially constitutionally required.

Ms. Harbour scrolled to slide 8: "Worker's Compensation." She explained the slide reflected the programs within the Worker's Compensation Division. While the department had rated the effectiveness of the Worker's Compensation Program as "high" the department recognized there was room for improvement. The department had worked with the governor's office on HB 79 [Omnibus legislation introduced in 2017 regarding Worker's Compensation] and HB 303 [Worker's Compensation legislation introduced in 2018 regarding the rehabilitation and reemployment of injured employees]. The Department had rated the importance of the Second Injury Fund as status quo and its effectiveness as moderate. The program was meant to facilitate the reemployment of injured or disabled workers. Although the program worked, many other states had eliminated the Second Injury Fund because the American's with Disabilities Act largely fulfilled the same purpose by prohibiting discrimination on the basis of disability. The sunset of the fund was included in HB 79. The department also rated the importance of the Worker's Compensation Appeals Commission as status quo and its effectiveness as low. The department had worked with the governor to introduce HB 69

[Introduced in 2017] which would repeal the specialty commission and return the appeals to the courts.

Ms. Harbour explained the information on slide 9: "Labor Standards and Safety." She conveyed that the programs within the department's Labor and Standards Division were critical to the department's mission of protecting Alaska's workers and were highly effective. The one item rated status quo within the division was the Alaska Safety Advisory Council, which, according to statute, was responsible for organizing the governor's annual safety conference. Members of the council took their responsibilities very seriously and did a great job with the conference. In fact, they brought in more money through sponsorships than necessary to cover the cost. The department ranked the council's effectiveness as moderate because it believed the group could be even more effective if it were privatized. The council was interested in privatization, but more work needed to be done before moving forward with the required legislation.

Ms. Harbour advanced to slide 10: "Employment and Training Services." She conveyed that the programs within the Employment and Training Services Division were critical to the department's mission of advancing employment opportunities for Alaskans and the department's core of providing income replacement for temporarily unemployed workers. The division was relatively new and by far the largest in the department because it represented the consolidation of 2 other divisions into 1. Through the consolidation the department was able to eliminate 10 positions, reduce UGF spending by \$300,000 and reduce administrative costs which put more funds out on the streets to train Alaskans.

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Ms. Harbour continued to slide 11: "Employment and Training Services - WD Programs." She indicated that the department's workforce development component of the Employment Training and Services Division had some ongoing annual programs displayed on the slide. The programs were highly effective and critical to achieving the department's mission. As mentioned previously, there were fewer ongoing programs than there once was. However, the department had been successful in seeking one-time competitive grant opportunities to help try to fill the gap. In fact, the

department currently had competitive federal grant awards to expand apprenticeship to non-traditional industries such as health care, to help reduce recidivism by providing employment and training services to inmates before release, and to provide disabled youth with work experience to help them obtain and maintain employment. The department was using non-permanent positions for the temporary grants to ensure no further state obligation once the grant funds end. The department hoped to be equally as successful in the future as other grant opportunities arose.

Ms. Harbour moved to slide 12: "Vocational Rehabilitation." She reported that the department's Vocational Rehabilitation Division was focused on delivering services to disabled Alaskans. The federal and statutory programs were highly effective and critical to the department's mission of advancing employment opportunities for all Alaskans and the core service of providing income replacement for disabled Alaskans. She highlighted the department's special project component meant for special federal grants that enhanced the services the department provided through its client services program. They included supported employment which was allocated to individuals with the most significant disabilities and an assisted technology program that helped disabled Alaskans test and identify technology that could assist them in their daily lives and in seeking employment.

Ms. Harbour explained slide 13: "Alaska Vocational Technical Center (AVTEC)." She continued that AVTEC, in Seward, was critical to the department's mission of advancing employment opportunities for Alaskans. Alaska Vocational Technical Center was highly effective with an average graduation rate of 92 percent over the previous 5 years and an average of 90 percent placement rate for their graduates in their area of training within a year. The department's budget for AVTEC included 2 changes in FY 19. First was a change of \$250,000 UGF to \$250,000 DGF. Due to AVTEC's continued efforts to raise revenue through increasing partnerships the department believed that 5 percent of AVTEC's UGF could be replaced with program receipt authority without negatively impacting services. The second change reflected a DGF cut of about \$173,000 related to the Technical Vocational and Education Program (TVEP). When overall employment in Alaska declined, revenue to the TVEP account declined. She explained that TVEP funding reductions were necessary to avoid a shortfall.

Ms. Harbour explained slide 14: "Department Five-Year Health Care Trends." AS requested by the committee, the slide showed the department's health care costs over the prior 5 years compared to the department's total budget during the same period. While total health care costs were down, the percentage that they represented of the department's budget had increased. It was worth noting that the department's position counts were down significantly over the period. If they were not, the department would be paying much more in health care costs. In order to help drive down health care costs, the department was committed to doing more to promote vitamin D and overall health with its employees. She spoke of the department hosting a wellness event in the previous week in its conference room over the lunch hour. It provided employees with a convenient opportunity to talk with a health coach about how they might improve their personal wellbeing. She concluded the presentation and thanked the committee.

Co-Chair Foster asked how many job centers had been closed in the prior few years and their locations. Ms. Harbour responded that there were 4 job centers closed in Kotzebue, Utqiagvik, Seward, and Eagle River.

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Co-Chair Foster asked if there had been discussions of closing any other job centers. Ms. Harbour replied that as she had indicated, the department looked at every position that became vacant and every lease that came up for renewal. She noted that if a position were to become vacant due to retirement or attrition at any of the smaller job centers the department might consider closing them.

Representative Ortiz noted that Ms. Harbour had talked about an overall 22 percent cut in funding since FY 15. Ms. Harbour replied that the overall reduction since FY 15 was 38 percent UGF.

Representative Ortiz asked her to summarize some of the opportunity costs resulting from the reductions. Ms. Harbour reported that the majority of the reductions had been in state funded workforce development grant programs. The department had cut the Alaska Youth First Program which provided career experience and training opportunities for youth. The department also cut the Career and Technical

Education Grant Program that helped provide grants to school districts for career and technical education. The department cut the Oil and Gas Training Program which was trying to develop an Alaska workforce for oil and gas. She indicated that the construction academies were funded at about half of their previous levels.

Representative Ortiz asked how an average person came to attend AVTEC. He wondered where clients were coming from to attend AVTEC. Ms. Harbour did not have all of the pertinent information with her. She was aware that AVTEC had served students from over 100 Alaskan communities. Many students were from rural Alaska. There were 2 programs recently that brought students to AVTEC to see if there were continued training opportunities available. Excel Alaska was a group that brought 60 students to AVTEC to get some training experience to see what life would be like on campus. The majority of the students came from the Kenai area because of AVTEC's location.

Co-Chair Seaton mentioned that there were also self-pay students that graduated from AVTEC.

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Representative Pruitt asked about the funding for AVTEC and its receipt authority. He asked for further clarification of the \$250,00 she had mentioned. Ms. Harbour responded that the amount was receipt authority from student tuition and fee revenue and contract training revenue.

Representative Thompson asked about the AVTEC program and other programs within the University with vocational and technical training such as the nursing program within each entity. He wondered about other competitive programs. Ms. Harbour replied that the University of Alaska had cut the Allied Health Program at AVTEC 2 years prior. In reviewing AVTEC's programs, the department made sure there were no other alternatives or duplications.

Representative Grenn asked about enrollment and reductions to AVTEC. He asked Mr. Harbour to send more details prior to the subcommittee process. Ms. Harbour would provide the information.

Representative Neuman thought the presentation was interesting. He asked about unfilled positions. Ms. Harbour answered there was a difference between the number of budgeted positions and the number of filled positions. As she had noted on the slide, the number of filled positions changed constantly. The department made hires every day and received resignations every day. The data contained in the slide was as of December 15, 2017. It reflected a point in time. The department had been asked to provide the number of positions within the department. It was normal to have vacancy within a department which was the reason OMB required that departments had a vacancy factor that they unfunded.

Representative Neuman interjected that it seemed like a high number of unfilled positions. He asked about funds being moved from UGF to DGF suggesting that it was an accounting practice that made funds less visible. He wondered why it had been done.

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Ms. Harbour replied that it was different types of money. If AVTEC generated the money, it was coded as general fund program receipts and was automatically called a designated general fund. By AVTEC supporting itself, the designated money was used rather than UGF to support it. It was still in the budget and the department reported on it.

Co-Chair Seaton clarified that it was the proposed budget and fund sources by the department. The legislature would either approve or not approve it. He noted that Representative Neuman had not been on the committee the previous week when it had heard about vacancy factors. He would pass the information along. He also commented that the only way to control healthcare was to have a healthy workforce. He spoke to the reduction in costs. He thanked the department for its presentation.

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RECONVENED

^OVERVIEW: DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

2:40:59 PM

MARK LUIKEN, COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, provided a PowerPoint presentation titled "Alaska Department of Transportation and Public Facilities Department Overview" dated January 29, 2018 (copy on file). He began on slide 2: Department of Transportation and Public Facilities Core Services and Sources." The department's mission was to keep Alaska moving through service and infrastructure. Per Alaska Statute 44.42 the Department of Transportation and Public Facilities (DOT) was responsible for planning, research, design, construction, operation, and protection of all state transportation systems and many public facilities. It was achieved through the department's core services and its strategic approach known as results-based alignment.

Commissioner Luiken continued that the department preserved Alaska's infrastructure by performing duties which included projects and activities that extended the life of the state's existing infrastructure. Infrastructure repair and bridge preservation were two examples. The department operated and supported safe and efficient movement on existing structure. Snow and ice management and operating certificated airports were two examples. Modernization improved infrastructure to meet current standards and capacity which the department did through product delivery.

Commissioner Luiken relayed that the department provided services to move people and goods on the existing infrastructure. Operating ferries and operating the Alaska airport system were two examples. Results-based alignment was the service delivery frame work the department used to measure the contribution of services the department delivered in support of its mission. He pointed out that there were additional links provided on the slide.

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AMANDA HOLLAND, ACTING DEPUTY COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, relayed that the following 4 slides showed the budget charts prepared by LFD.

Ms. Holland scrolled to slide 3: "Department of Transportation and Public Facilities Share of Total Agency

Operations (GF Only)." The chart provided a 10-year look back of the department's UGF and DGF funding. She reported for the FY 19 governor's proposed budget the department's UGF equaled \$177.9 million and DGF totaled \$97.9 million. The numbers were close to FY 09 levels.

Ms. Holland turned to slide 4: "Department of Transportation and Public Facilities Line Items (All Funds)." She pointed out that the chart showed all funds by line item. She noted the commodities and travel lines which were below FY 09 levels. She highlighted that in FY 19 the services line increased due to personal services being transferred to the services line to fund shared services reimbursable service agreements. The agreements were for Shared Services of Alaska, the Office of Information Technology, and the Division of Facility Services.

Ms. Holland moved to slide 5: "Department of Labor and Workforce Development Appropriations (GF Only)." The slide showed general funds only including UGF and DGF fund sources. Highways, aviation, and facilities and the Alaska Marine Highway System made up 94 percent of the department's GF operating budget. It meant that 94 percent of the general fund operating budget went to serving Alaskans directly. In the FY 19 governor's proposed budget all of the department's general fund appropriations were below the FY 09 level.

Ms. Holland moved to slide 6: "Department of Labor and Workforce Development Appropriations (All Funds)." She reported that when looking at all funds for the FY 19 governor's proposed budget, Highways, Aviation, and Facilities had the largest share of the operating budget. The results delivery unit included \$4.2 for the Division of Facilities Services, a new division added for FY 19. The statewide public facilities component was consolidated from another appropriation into the new division which also included the regional facilities components.

Ms. Holland advanced to slide 7: "Administration and Support RDU." She reported that the slide showed a breakdown of the department by results delivery unit. It was broken down by fund category and the number of positions in the third and fourth columns. The three furthest right columns showed constitution, federal, and statutory requirements. The rating of importance column in the middle reflected the department's rating as critical,

important, beneficial, or status quo. She pointed out that the administration and support results delivery unit included several types of services including measurement standards, commercial vehicle enforcement, statewide aviation, program development, and statewide planning. She and the commissioner would address a couple of the columns, specifically the number of Alaskans served and the rating of effectiveness.

Commissioner Luiken indicated that they had left the numbers of Alaskans served column blank. He claimed that it was a challenge to measure the number quantitatively. The state's transportation infrastructure directly or indirectly impacted every Alaskan every day. The system worked all the time providing connectivity and access to drivers, pilots, and passengers in a direct way. Indirectly, the system facilitated delivering goods such as food and medicine, or services such as emergency response. They had chosen an effective rating because the department was currently meeting the department's mission. Results-based alignment performance data confirmed the department's effectiveness rating.

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Ms. Holland moved to slide 8: "Design, Engineering, and Construction; State Equipment Fleet; Highways, Aviation and Facilities International Airports RDU; and Marine Highway System RDUs." The unit was responsible for design, engineering, and oversight of the capital program. The capital program included roads, bridges, and runways - horizontal construction. The state's infrastructure had been developed to address unique needs of Alaskans on the move. She reported that only 2 percent of Alaska's land area was accessible by road, and 82 percent of Alaska communities were not connected to the road system.

Ms. Holland continued that the state equipment fleet results delivery unit procured, maintained, and disposed of vehicles, equipment and their attachments which were owned and operated by the executive branch, Legislative Affairs, and the court system. It was a shared service responsible for approximately 7,129 pieces of state equipment, and vehicles. She explained that the highways, aviation, and facilities unit was responsible for the operation, maintenance, safeguard, and control of the state's infrastructure system of highways, airports, harbors, and

public facilities. She noted that the three regional components had been combined into one line for design, one for construction, and one for highways and aviation.

Commissioner Luiken turned to slide 9: "Safety and Health." He remarked that safety was at the forefront of everything the department did. Enhancing and further strengthening the department's safety culture was part of the department's strategic plan and included a focus on health, safety, and environment. Safety of the traveling public was a top priority. He explained that in addition, the department's employees were its most valuable asset. The department was working to reduce incidents of injuries for the traveling public as well as its employees. At DOT everyone was seen as a safety leader. An important aspect of safety was employee health. In the department employees encouraged each other to walk during breaks and lunch. It hosted AETNA wellness functions and posted monthly health wellness-related newsletters at various facilities. He noted that on his Commissioner's Corner webpage he offered Vitamin D awareness and education. The Department of Transportation and Public Facilities' budgeted healthcare costs had decreased by \$2.5 million in the previous 6 years. Healthcare costs had remained steady as a percentage of the department's total operating budget over the prior 6 years - between 8 percent and 8.5 percent. The percentage was lower than the FY 18 statewide average of about 35 percent.

Commissioner Luiken concluded that DOT was an economic driver for Alaska. The overall economic impact of transportation included access, connectivity, and mobility. Transportation was essential for economic activity to take place in Alaskan communities. The infrastructure DOT designed, constructed, operated, and preserved allowed Alaskans to live and thrive in their communities. The Department of Transportation and Public Facilities was absolutely necessary for the economic health and vitality of Alaska. He thanked the committee and made himself available for questions.

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Representative Thompson referred to slides 7 and 8. He noted there were several "other" funding sources. He asked how much of "Other" funding was federal funding. Ms. Holland responded that "other" was comprised of a number of different fund sources. it included such things as

interagency receipts, international airport receipts, capital improvement program receipts, the Whittier Tunnel receipts, Alaska Liquified Natural Gas (AKLNG) and aviation fuel tax receipts, rural airport receipts, and rural airport interagency receipts. The "Other" column was made up of about 11 different fund sources. One of the sources was the department's capital improvement program receipts.

Representative Thompson asked if it was federal funding. Ms. Holland replied that in the operating budget the department had very little direct federal funding. She explained that the department had its capital budget and employees who were compensated through the operating budget who could charge to a capital project which was what the capital improvement program receipts allowed.

Representative Thompson asked about the department's engineering and design services and whether they were charged to federal projects. Ms. Holland responded that he was correct that several of them were a direct charge to a capital project. In the operating budget the department had to have authority to charge to those projects.

Representative Grenn referred to the funding decrease noted on slide 6 for the design and engineering construction funding. He wondered if the reduction had to do with a reduction in the capital budget. Ms. Holland responded that as the department had looked for efficiencies and had reduced UGF in the design, engineering, and construction component wherever possible. It showed a decrease in the area. Positions had also been deleted within the unit reducing the budget overall.

Co-Chair Seaton referred to slides 7 and 8. He asked about DGF, other funding, and hollow authority. Ms. Holland reported having taken a look at unrealized authority and reported that the department was eliminating some of the authority in FY 19. However, most of the authority was realized.

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Representative Ortiz asked about funding being reduced to FY 09 levels. He wondered about the overall impact of the department being able to meet its goals to preserve, operate, modernize, and provide. He asked if there were specific areas that were falling short due to reduced

funding. Ms. Holland brought up the example of highways and aviation in terms of preservation and operation. The department needed to care for its road system. Most of the state's road system was funded with federal funds. In accepting the funds, the state was responsible for keeping its roads in good repair. An example over the previous few years was the reduction in the quality of traffic signs. If the signs were shot up, they were not immediately replaced. The department had a conditions rating applied to Alaska's roads and surfaces ranging from "A" to "F". The department tried to maintain at least a "B" rating. The department had seen some of the ratings slip over the prior few years for surfaces, culverts, and potholes. It had been difficult to meet the department standards recently.

Representative Ortiz asked if she would agree that the preservation of Alaska's transportation infrastructure was beginning to suffer. Ms. Holland replied that he was correct. The department was starting to see a faster deterioration of its infrastructure.

Representative Ortiz asked about the chart that showed funding for the different divisions which had all either flattened out or declined. He wondered how much of the design, engineering, and construction budget applied to aviation and the Alaska Marine Highway. Ms. Holland asked Representative Ortiz to clarify his question. Representative Ortiz asked for clarification as to how the design, engineering, and construction was spent in the areas of highways and AMHS. Ms. Holland responded that the majority of the funding for the design, engineering, and construction group was focused on surface transportation, the state's roads and highways. The department had some capital funding that went to AMHS for vessel construction and overhaul.

Representative Pruitt asked about maintaining the state's infrastructure. He noted the appropriation request for a commuter service from Anchorage to the Valley. He wondered where the request came from. He wondered why funding had gone to something that had not been requested. Commissioner Luiken responded that the initiative was brought to the governor's attention by the mayors of Anchorage and the valley. There was a proposal to look at the viability of a pilot project. There was a request for a repeal and re-appropriation of the money that was identified. A portion of the money was from the Knik Arm Crossing. He clarified

that it was capital funding rather than preservation funding.

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Representative Pruitt suggested that the Commissioner should have notified the legislature. He asked why the legislature was not notified prior to a press release. Commissioner Luiken did not have a good answer. He thought the department could do a better job of communicating in the future.

Representative Tilton brought up the subject of maintenance. She understood that the department was doing a comprehensive review of the state's public facilities and leased buildings to determine whether it was worth it for the state to own certain facilities. She asked him to elaborate on the study and when the legislature might see a report on the subject. Commissioner Luiken replied that the department was getting ready to conduct a facility inventory which was a part of an effort by the Division of Facilities Service. The department was also conducting a facility condition inventory to establish a baseline. The inventory would capture the condition and square footage of each of the facilities owned by the state. The department would also be looking at opportunities for consolidation and the potential to sell some of the facilities. He noted that it was an ongoing process, as the state owned a significant amount of property.

Representative Ortiz thought funding for the AMHS had been reduced by about \$38 million since FY 13. He thought the reduction manifested in terms of weeks of service. He asked for specific examples of who received less service than in FY 13. Commissioner Luiken would have to get back to him with specific examples. He emphasized that the department had tried to minimize the impact to any one community. One of the goals of the department was to avoid stopping service to any of the 33 Alaskan communities AMHS currently served, despite funding reductions.

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Representative Ortiz appreciated that the division would not stop service to any of the communities. He suspected reductions would mean significantly reduced service to all of the communities that AMHS served. He asked if he was

accurate. Commissioner Luiken replied that he could confirm that there was less service to Alaskan communities in terms of frequency.

Representative Guttenberg referred to slides 7 and 8. He pointed to the three highest percent of cost through fee items. He asked about statewide aviation, the international airport, and the state's fleet. He thought the fleet was 100 percent funded. He asked the commissioner to talk about the other two items and Alaska's rural airports. Commissioner Luiken began with the international airport system, which he confirmed was 100 percent funded through rates and fees collected at the two airports. They were 100 percent funded by users. There were 32 signatory carriers that participated and any other carriers using the international airport system.

Ms. Holland responded that the majority of funding for statewide aviation came through leasing. The state collected money from concessionaires leasing property from the department, which was the reason for the 87 percent listed under "percent of cost through fees" on the chart.

Co-Chair Seaton asked what line and page Ms. Holland was referring to. Ms. Holland responded that statewide aviation was on slide 7 on the third line up from the bottom.

Representative Guttenberg asked how much the department paid for internet service. Ms. Holland did not have the number with her but could provide it. Representative Guttenberg asked her to break down the information by region.

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Representative Neuman mentioned a review done regarding the Anchorage International Airport and the ability for the facility to generate revenue. He was hoping to get a report of the review. There had been some high-level recommendations on square footage that could be utilized. He asked for the information.

Co-Chair Seaton asked the commissioner if there was a report available. Commissioner Luiken supposed there was probably a report but did not have it with him. Co-Chair Seaton requested that the information be provided to his office.

Representative Neuman asked who owned the large railroad building in the middle of the Anchorage International Airport. He thought the building was referred to as the Sheffield Building. He asked if it was an asset of DOT. Commissioner Luiken responded that it was owned by the Alaska Railroad Corporation. Representative Neuman asked if DOT received monies from the railroad in terms of the value of the property. He commented that there was a huge building sitting in the middle of the airport doing nothing. He wondered why the building was not being used.

Co-Chair Seaton thought his question needed to be directed to the Railroad Corporation. Commissioner Luiken was willing to gather the answer. He thought it might be a good discussion to have with the railroad.

Co-Chair Seaton appreciated the information presented regarding health and safety. He indicated that commissioners were the employers and responsible for the health of their employees and their dependents through their employment. He commented that whatever the state could do to reduce health care costs, avoiding avoidable health care circumstances such as diseases, was helpful. He thanked the commissioner for including the information in his presentation. He reviewed the agenda for the following morning.

#  
ADJOURNMENT

[3:13:01 PM](#)

The meeting was adjourned at 3:13 p.m.