

HOUSE FINANCE COMMITTEE
January 31, 2018
3:02 p.m.

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CALL TO ORDER

Co-Chair Seaton called the House Finance Committee meeting to order at 3:02 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

MEMBERS ABSENT

Representative Tammie Wilson

ALSO PRESENT

Sam Cotten, Commissioner, Department of Fish and Game; Carol Petraborg, Director, Administrative Services, Department of Fish and Game; Mike Navarre, Commissioner, Department of Commerce, Community, and Economic Development; Catherine Reardon, Director, Division of Administrative Services, Department of Commerce, Community and Economic Development; Jahna Lindemuth, Attorney General, Department of Law; Dan Spencer, Director, Administrative Services, Department of Law.

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.

FY 19 BUDGET OVERVIEWS:

DEPARTMENT OF FISH AND GAME
DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC
DEVELOPMENT
DEPARTMENT OF LAW

Co-Chair Seaton reviewed the meeting agenda.

#hb285

#hb286

HOUSE BILL NO. 285

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

HOUSE BILL NO. 286

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; making supplemental appropriations; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

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^FY 19 BUDGET OVERVIEW: DEPARTMENT OF FISH AND GAME

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SAM COTTEN, COMMISSIONER, DEPARTMENT OF FISH AND GAME, provided a PowerPoint presentation titled "Alaska Department of Fish and Game House Finance Committee: FY 2019 Budget Overview" dated January 31, 2018 (copy on file). He relayed that he would keep careful to take note of any questions that arose during the meeting.

Commissioner Cotten began with the department's mission on slide 2. He noted that Article 8 of the state's constitution provided guidance to the department and gave the legislature direction on how to manage fish and game resources in Alaska. Section 1, Article 8 dealt with policy including developing resources consistent with the public interest. One of the components of public interest had to do with conservation. Section 2 described the legislature's requirements in terms of resource development for the maximum benefit of the people. Section 4 pertained to sustained yield. He remarked that it had often been mistakenly referred to as maximum sustained yield; however, the word "maximum" did not actually appear in the constitution pertaining to sustained yield. He detailed sustained yield meant a resource should not be harvested beyond what could be regenerated in following years.

Commissioner Cotten turned to slide 3 and discussed core services including management; stock assessment and research; and customer service and public involvement. He reported that the Department of Fish and Game (DFG) was probably the largest science organization in Alaska; it took significant pride in its professional staff - many people stayed for 30 more years and included scientists, wildlife managers, biologists, geneticists, and others.

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Co-Chair Seaton noted that Representative Thompson and Representative Pruitt had joined the meeting.

Commissioner Cotten addressed the public involvement the legislature and DFG had set up with the Board of Fish and Board of Game. He had been told Alaska was unlike any other state in terms of the regulatory process involving the public. He shared that he had recently been in Sitka for a two week [board] meeting where members of the public had the opportunity to take ample chance of participating. The board and department enjoyed myriad benefits from local knowledge and public input. He moved to a Legislative Finance Division (LFD) chart showing the department's portion of the total General Fund (GF) budget beginning in FY 09 on slide 4. The department's GF budget accounted for 1.4 percent of the overall GF expenditures. He remarked that he had to leave the meeting and would turn the presentation over to department staff.

Co-Chair Seaton noted that Representative Guttenberg had joined the meeting.

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Representative Ortiz spoke to the department's concern about the protection of fish habitat and asked if the state was involved in discussions on transboundary mining between the Alaskan and British Columbia governments.

Commissioner Cotten replied in the affirmative. He had personally participated in many of the meetings and the department's director of the Division of Habitat, David Rogers, attended all of the meetings. He highlighted field trips the department had taken including one up the Taku River with the British Columbia minister of mines to examine the Tulsequah Chief Mine. He detailed the minister of mines had been surprised to see a pipe from the old mine shaft spewing dirty water. He reiterated that the department was directly involved in the discussions. He excused himself from the meeting.

Co-Chair Seaton noted that Representative Tilton had joined the meeting.

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CAROL PETRABORG, DIRECTOR, ADMINISTRATIVE SERVICES, DEPARTMENT OF FISH AND GAME, moved to an LFD chart on slide 5 and discussed the department's budget (all funds) by line item. The department's largest line item was personal services at 61 percent, followed by contractual at 31 percent. Over 91 percent of the DFG budget was made up of personal services and contractual. She detailed that half of the contractual was for core services to other state agencies. Slide 6 showed the department's budget by appropriation (GF only). The top line reflected the Commercial Fisheries Division and the bottom three lines reflected Wildlife Conservation, Sport Fish, and Statewide Support Services. The budget for the bottom three divisions trended down and flattened between FY 18 and FY 19. Commercial Fisheries had an increase in FY 18 due to amendments offered by Representative Ortiz. Additionally, in the past the department had a component for facilities' rents within the Statewide Support Services that had been allocated out to the division in order for expenditures to be reflected in the proper appropriation.

Ms. Petraborg moved to an LFD chart on slide 7 reflecting all funds. She reported the department's all funds budget was trending down slightly. Over the past several years DFG had reduced "empty" or uncollectible fund sources, which accounted for most of the downward trend.

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Ms. Petraborg turned briefly to a map of Alaska reflecting DFG office locations on slide 8. She relayed the following slides showed divisions broken out by program. Slides 9 and 10 pertained to the Division of Commercial Fisheries. She reported DFG typically did not budget by program due to the department's regional structure. The information on slides 9 and 10 had been broken out by fish species. The Division of Sport Fish was reflected on slides 11 and 12, which had been broken out by functional areas. The Division of Wildlife Conservation was shown on slides 13 and 14 and had been broken out by function. She noted some of the items were program specific such as the threatened, endangered, and diversity program; and the education and outreach program.

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Ms. Petraborg moved to the Division of Subsistence on slide 15. The division had two programs - one for research and analysis and another for applied research.

Co-Chair Seaton referenced Ms. Petraborg's statement that DFG was eliminating hollow receipt authority.

Ms. Petraborg confirmed the department was getting down to truth in budget. She moved to slides 16 and 17 pertaining to the Division of Administrative Services. She reported there were two sections in the division that were not typically found under administrative services divisions including the Licensing Section (the division was responsible for licensing for sport fishing and hunting) and the administration for all small divisions (including Administrative Services, Habitat, Subsistence, boards, and the Office of the Commissioner). Slide 18 showed the Division of Habitat, which included permitting and compliance, project review and monitoring, and a small federal state wildlife grant.

Ms. Petraborg addressed the Commercial Fisheries Entry Commission (CFEC) on slide 19. She detailed that CFEC was administratively attached to DFG - its allocation was within the Commercial Fisheries component, but it had been separated out for the presentation. The Boards Support Section broken out by component was on slide 20 and the Office of Commissioner was shown on slide 21. She noted the slides included links for additional information related to the rating of effectiveness; the links were directed to performance measures on the Office of Management and Budget (OMB) website and provided guidance to other information. She pointed to healthcare costs on slide 22 and relayed DFG was working with the Department of Health and Social Services on efforts to get the word out. According to the budgeted numbers on the chart, the percentage of total personal services had not changed significantly since FY 14. She noted she would have preferred to have the data based on actuals by fund source, but she could not get the information to break out. She noted that there could be a substantial difference between the budgeted numbers and what actually took place.

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Co-Chair Seaton remarked that the DGF healthcare costs were higher than those in other departments. He wanted the department to address the issue during the budget subcommittee process.

Ms. Petraborg agreed.

Co-Chair Seaton clarified the focus was on avoiding preventable costs to decrease the healthcare cost curve.

Representative Ortiz remarked on the funding reductions across state agencies in recent years. He asked how DFG had been reduced since FY 15. Ms. Petraborg answered that DFG's unrestricted general fund (UGF) budget had been reduced by almost 37 percent.

Representative Ortiz asked if DFG believed the reductions were hindering its ability to fulfill its mission.

Ms. Petraborg answered that the department had been able to do fund source changes for much of the reduced UGF. The department had increased general fund program receipts to Commercial Fisheries - test fish receipts, which was not

popular. The department had worked with industry to provide additional funding to cover some GF reductions. She clarified that the funds were not guaranteed, but they had been available thus far. As long as the department could continue to get the funds it could provide its mission critical services. She added that the department was a research agency and the more research it could do the more information it could gather, which resulted in more precise management.

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Co-Chair Seaton asked about slide 4 and remarked that the department's total GF was lower than it had been in FY 09 and FY 10; it was something the committee had not seen in many departments. He believed the subcommittee would consider the effectiveness of managing on a sustainable level that was not too conservative or resulting in foregone harvests.

Representative Kawasaki referenced slide 6, which showed the Division of Wildlife Conservation had lost almost 73 percent of its GF. He observed that the trend appeared to be up on slide 7 showing an increase of 31 percent. He questioned the difference between slides 6 and 7. He asked for more detail on receipts used by the department.

Ms. Petraborg answered that regarding the Division of Wildlife Conservation, the department had been able to offset GF reductions with an increase to fish and game funds. The passage of HB 137 had increased license fees, which had helped tremendously. The department received federal Pittman-Robertson funds (from the sales of guns and ammunition), which were matched by the department. The state's apportionment was at the highest level from the federal government, meaning the department was matching more federal dollars.

Representative Kawasaki asked if the department was receiving the maximum Pittman-Robertson funding available or whether an increase in state matching funds would capture more federal funds.

Ms. Petraborg answered that for the first time, almost \$1.9 million in federal funding had lapsed because DFG did not have the state matching funds.

Representative Kawasaki asked if the match was one to one.

Ms. Petraborg responded that the match was a three to one (federal to state respectively).

Co-Chair Seaton asked the subcommittee to consider the issue.

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Representative Pruitt stated there was an existing initiative that would impact DFG and fell within the fiscal year. He asked if the department had been able to quantify how the initiative would impact its budget if passed.

Ms. Petraborg replied she did not know what Representative Pruitt was referring to.

Representative Pruitt answered he was referring to the anadromous fish initiative that would potentially be on the ballot [in the fall].

Representative Ortiz believed it was called the salmon initiative.

Ms. Petraborg asked if he was referring to HB 199 [fish and wildlife habitat protection legislation].

Representative Pruitt answered that he was referencing an initiative that was very similar to HB 199.

Ms. Petraborg answered that it would increase the Habitat Division's budget and workload. She would have to follow up with more detail.

Co-Chair Seaton suggested reviewing the fiscal note for HB 199.

Representative Pruitt believed there were some slight differences between the initiative and the bill. He requested follow up. Additionally, he had been told there were people in DFG that had worked on the initiative. He asked if it was the case and thought it was outside the scope of what state employees should be doing.

Ms. Petraborg did not know anything about the issue.

Representative Pruitt asked if DFG discovered the that someone did or was assisting with the initiative process, whether it was allowable or would result in disciplinary action.

Ms. Petraborg answered that the question was outside her realm of expertise. She reported that if an issue occurred it would be handled by human resources.

Co-Chair Seaton stated it would be an appropriate question for the commissioner.

Representative Pruitt agreed.

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^FY 19 BUDGET OVERVIEW: DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT

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MIKE NAVARRE, COMMISSIONER, DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT (DCCED), introduced other department staff. He provided a PowerPoint presentation titled "Alaska Department of Commerce, Community and Economic Development Department Overview: House Finance Committee " dated January 31, 2018 (copy on file). He addressed the department's mission on slide 1, which was to promote a healthy economy, strong communities and protect consumers in Alaska. He spoke to the department's diverse responsibilities including the licensing of doctors, pawn brokers, midwives, and morticians. The department trained rural residents to maintain local utility systems and finance infrastructure projects (often large projects) through its corporate quasi-government agencies. Additionally, DCCED loaned fishermen money to purchase boats and permits and it worked to hold down the cost of health insurance.

Commissioner Navarre relayed the department activities created the framework for a strong economy - the foundation necessary for economic growth. He explained the items could present obstacles to economic growth if not properly

addressed. For example, healthcare costs in Alaska were extraordinarily high and unsustainable and impacted public and private sector budgets. He reported the issue was something DCCED was working to address in conjunction with other departments as part of a healthcare authority review and to determine other ways to combine and gain a better handle on healthcare costs.

Commissioner Navarre shared that he was working on a detailed presentation on fiscal policy that he hoped to present to the committee. He listed the department's four core services listed on slide 2 including consumer protection, economic growth, strong communities, and affordable energy. The slide included web links to department program and budget information for additional detail.

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Commissioner Navarre addressed an organizational chart on slide 3, which included six core divisions (shown in blue) and six corporate entities (shown in yellow). The corporate entities were aligned with the department's mission and appeared in its budget - DCCED provided the entities with a variety of services varying by entity. Services included information technology, human resources, and personnel services. The entities were governed by boards appointed by the governor and confirmed by the legislature rather than by the commissioner of the department. The Alaska Railroad was also part of the department's corporate entities but was exempt from the Budget Act and did not appear on the chart. The department had office locations in Juneau, Anchorage, Fairbanks, Dillingham, Kotzebue, Nome, and Bethel (Community and Regional Affairs held responsibility for the last four). He elaborated that Kodiak had a one-person office staffed by an Alaska Seafood Marketing Institute (ASMI) employee. He reported that ASMI's Seattle office was scheduled to close by the end of FY 18. The positions had been relocated to Juneau, which had been initiated by the legislature.

Commissioner Navarre moved to slide 4 and spoke about the department's FY 19 budget of \$166.781 million. The slide provided a picture of the department's overall budget and gave context to proposed changes. The chart depicted a response to the drop in oil revenue that began in calendar year 2014. The first column showed FY 15 with a budget

total of \$215 million and 585 positions. Since FY 15 federal funds had remained fairly steady, there had been a \$2.7 million drop in tourism marketing funding, a \$3 million in revised cost estimates for Alaska Gasline Development Corporation (AGDC), \$1 million in Alaska Energy Authority (AEA) energy receipts, and \$2 million in Alaska Industrial Development and Export Authority (AIDEA) receipts. Designated general funds (DGF) were shown in yellow and had been fairly level with the exception of the additional \$55 million for the reinsurance program in FY 17. He noted the success of the reinsurance program. He expounded that DGF funding was stable because it consisted of licensing fees, Power Cost Equalization (PCE), and the Revolving Loan Fund. He highlighted the 75 percent reduction in UGF over the past several years from slightly over \$40 million down to \$10 million. He noted that if tourism funding of \$50.2 million and ASMI funding of \$7.4 million, the department's UGF budget had dropped from \$17.9 million to \$10 million (a 44 percent decrease).

Commissioner Navarre reported the total department budget had decreased from \$250 million to \$166.8 million in FY 19 (a \$48.5 million reduction), while the number of employed positions had declined by 80 (from 585 to 505). Slide 5 showed deleted positions and positions that had been included as part of the department's responsibility. The department was requesting one position in the Banking and Securities Division because Alaska Native Claims Settlement Act (ANCSA) corporations were not governed and did not have oversight by the Securities Exchange Commission. The department needed to do a superior job at oversight because more and more proxy issues were arising in the corporations, which was taking up time from the department's other responsibilities in banking and securities. The department was also requesting an additional seven positions for the Division of Corporations, Business and Professional Licensing (CBPL) and eight positions for the Alcohol and Marijuana Control Office (AMCO).

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Commissioner Navarre turned to slide 6 and pointed out that in FY 17 and FY 18 the legislature had appropriated \$110 million to the Alaska Reinsurance Program to stabilize Alaskan's health insurance rate (reflected in green in FY 17 and blue and yellow in FY 18. The yellow bar represented

funds that had been appropriated but not spent in the previous year (the funds had rolled over from FY 17). Deducting the yellow portion of the bar showed a decline within the department.

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CATHERINE REARDON, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, addressed the Legislative Finance Division (LFD) chart on slide 6 showing all GF funds. She reported that UGF had become a small portion of the department's budget at 6 percent (one-seventh of the bar shown for FY 19). Most of the bar represented DGF, including license fees, PCE payments (approximately \$32 million in FY 19 and previous numbers) to utilities. The department's UGF had decreased substantially since FY 15. Generally special projects and initiatives accounted for the ups and downs over the ten-year period shown on slide 6. The green, yellow, and blue shading had been added to the FY 17 and FY 18 bars to reflect the reinsurance program. If the reinsurance funds were excluded from the chart there was a fairly straight line decline from the FY 14 management plan to FY 19.

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Vice-Chair Gara asked if the decrease in UGF was included on the chart on slide 6.

Ms. Reardon answered that the chart combined UGF and DGF - the numbers were not broken out separately on slide 6. She noted that most of the funds on slide 6 were DGF. She pointed to slide 4 that showed the breakdown.

Ms. Reardon turned to an LFD chart showing all funds on slide 7 by line item. There had been some personal services growth, but most was due to cost of living increases for employees. The department's overall position count was down from 516 full-time positions in FY 08 to 500 plus 5 non-permanent positions in 2019. The growth had been in fee supported areas (license fees supported the cost). Changes in contractual line (shown in pink) and the grants line (shown in light yellow) reflected changing duties assigned to the department. The largest item in the 2019 budget was PCE payments (\$26.7 million in FY 09 and \$32.4 million in FY 19). Revenue sharing represented another significant

item in the grants line, which included national forest receipts, payment in lieu of taxes (PILT), and fisheries tax programs (money distributed by the department from those sources). The slide also included the reinsurance program.

Commissioner Navarre underscored the distinction between UGF and DGF and the changes that had occurred since FY 08. He explained that entities had asked the legislature to be regulated and the entities had agreed to pay for regulation via license fees. He expounded the money was DGF, but the public did not make a distinction when looking at positions and jobs in state government. The department had looked at areas where it could find efficiencies even though they were DGF funded. The department was also required by the Division of Legislative Audit to cover the costs.

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Ms. Reardon moved to slide 8 showing appropriations within DCCED (GF only). She noted the chart could appear overwhelming due to the diversity of the department's work and initiatives that come and go. The chart illustrated that the agency was dynamic with many different areas of expertise. Slide 9 illustrated the same information but included all funds.

Ms. Reardon provided detail requested by the committee by division on slides 10 through 17. She reported the takeaway from the information on the slides was that UGF was a very small portion of the agency's budget. She pointed out that the column labeled "percent cost through fees" showed a substantial number of the department's programs were 98 or 100 percent fee or fund supported. Another takeaway was that almost every Alaskan household was touched in some way by DCCED. She relayed the department had spend \$10 million UGF and had deposited \$27 million UGF into the General Fund. The agency was a revenue generator. She noted that was without the inclusion of the insurance premium taxes, which was a \$55 million to \$60 million item likely in FY 19.

Ms. Reardon began with the executive administration on slide 10, which included the Office of the Commissioner and Administrative Services. The two entities had been reduced by 14 positions since FY 15 as described on slide 5 (including the deletion of a deputy commissioner position

and all administrative support in the Anchorage commissioner's office). The department had been making a concerted effort to reduce back office costs in order to focus remaining funds on services - ideally in ways that were invisible to the public. She reported that consolidating space and reducing space costs had been an effort by the current administration. The department had moved two agencies into its footprint on the 9th floor of the Juneau State Office Building (SOB) out of the Community Building in 2015, which had eliminated 7,000 square feet of space DCCED had used for the Division of Banking and Securities, Division of Community and Regional Affairs, and the Alcohol and Marijuana Control Office (AMCO). In 2018 department had moved the Division of Economic Development to the 9th floor of the SOB, which had eliminated an annual lease costing about \$250,000 and reduced the department's footprint by 8,000 square feet.

Ms. Reardon expounded that DCCED had reduced 15,000 square feet in Juneau since FY 15. The department had moved the Anchorage AMCO office to the existing DCCED space in the Atwood Building. Additionally, the Fairbanks office was in a much smaller lease than it had been in FY 14. She relayed the space reduction was one of the department's efforts to use its money well.

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Ms. Reardon highlighted the Banking and Securities Division on slide 11, which was funded entirely with fees. She referenced the significant, but not widely known banking function of regulating proxy related filings (and shareholder inquires) from ANCSA corporations. She detailed the filing reports, proxy solicitations, and statements were significant because they could impact the outcome of board elections, management direction, and ultimately the financial profitability of the corporations. The division had established a fee from ANCSA corporations and the department was asking permission in FY 19 to spend the revenue on a position to help meet the statutory and civic responsibility.

Ms. Reardon addressed the Community and Regional Affairs Division on slide 12. The department had aimed to use the slides as a way to show the agency functions. The division had about \$6.5 million UGF - it was not possible to have user fees for many of the services provided by the

division. She elaborated that the division was responsible for DCCED's constitutionally mandated functions. Article 10 required the state to have an agency providing services and support to local government and communities. Additionally, the Local Boundary Commission was a constitutionally mandated function.

Co-Chair Seaton asked if the RDU revenue sharing on slide 12 was the community assistance program.

Ms. Reardon answered that in the budget system revenue sharing pertained to the three items shown at the bottom of slide 12 including PILT, national forest receipts, and fisheries taxes. The corresponding amounts were \$10.4 million, \$600,000, and \$3.1 million respectively. She added that community assistance payments were issued by the department and appropriated by statute; therefore, the money was not actually seen in the DCCED budget.

Ms. Reardon turned to slide 13 and addressed CBPL. The professional licensing side of the division was supposed to be a breakeven by statute. Fees were raised and lowered by regulation with the goal of each of the licensing programs breaking even over time, without any excess spilling over into the General Fund (per AS 08.01.065).

Co-Chair Seaton asked for verification the program support line item (on slide 13) was not funded by fees. He noted there was no cost allocation included for the component.

Ms. Reardon answered that DCCED did not actually budget in most of the program units, but at the RDU level. For the presentation, the department had approximated how much staff worked on the functions. All of the costs of the RDU on slide 13 were covered by fees. Investigations was a subset of professional licensing and program support included the division director, accountants, and front counter staff. She explained that once professional licensing and investigations had been broken out under the division, the remaining costs were referred to as program support.

Co-Chair Seaton asked for verification program support was 100 percent covered [by fees].

Ms. Reardon agreed. She noted a distinction in the specific RDU. Professional licensing programs (shown at the bottom

of slide 13), investigations included, were statutorily mandated to try to break even (lower fees if revenue exceeded costs and raise fees if costs exceeded revenue). However, the business licensing and corporations line item did not have the breakeven mandate. The business license fee was set by statute and it resulted in money for the general fund. In FY 17, the profit was almost \$8 million.

Commissioner Navarre added that the department had instituted a streamlining process for professional licensing in order to reduce the turnaround time. He detailed it was initially applicable to medical and nursing licenses, but information technology (IT) staff was helping put together an online process in order to process the information faster and apply it to other professional licensing areas as well.

Ms. Reardon remarked that it was not only for increased efficiency, but part of working to facilitate private sector economic development. The faster licenses went through for new hires, the better for everyone.

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Representative Ortiz addressed the department's efforts to increase the speed in licensing. He asked if the effort applied to licensing of doctors as well as nurses.

Commissioner Navarre answered in the affirmative; the initial focus was on medical and nursing, with the goal of applying efficiencies across all licensing programs.

Representative Ortiz asked what was being done to make licensing move faster.

Commissioner Navarre replied the department was doing online applications and getting to uniform information. The processing time had already been cut significantly from six months to under 30 days or less. The initial effort [focused on medical and nursing licenses] included the formation of a steering committee (including IT, department personnel, and the commissioner's office) to further streamline the process and apply it across all licensing programs. He believed the process would be undergoing testing in the following week to ensure any glitches were worked out.

Representative Kawasaki referenced the division's 98 total positions, 78 of which were filled. He asked if there was foregone revenue because the positions were vacant.

Ms. Reardon replied in the negative. She detailed that because the division was supposed to break even (not produce a profit) there was no foregone revenue to the General Fund. For example, if the division spent less due to vacancies it meant nurses would be charged less than they otherwise would be, to have their program cover its costs. If it was in the business corporations and licensing side, less would be spent and more profit would spill into the General Fund. The vacancies were not ideal because of the division's high work volume - keeping the licenses moving was of utmost importance to many Alaskans. She added that the positions and vacancies shown on slide 13 were as of December 15.

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Ms. Reardon highlighted the Economic Development Division on slide 14 that included two RDUS: economic investment and investments (the revolving loan funds). She noted the economic development component had seen substantial reductions since FY 15 and had decreased from 13 positions to 5. The component had lost 64 percent of its UGF budget and more than half its staff but was holding steady in the FY 19 budget. The component had been focusing on where it could make a difference, part of which was included in its comprehensive economic development strategy. She relayed the investments component was funded entirely with the revolving loan funds.

Representative Grenn asked for verification there was no user fee (for farmers or other users) associated with the "Made in Alaska" brand.

Ms. Reardon clarified that farmers typically used the "Alaskan Grown" brand, which was operated by the Division of Agriculture. She explained that DCCED was responsible for the "Made in Alaska" program and it charged a fee for the stickers that people put on their products. Additionally, there was a relatively small fee to participate in the program. She noted there were qualifications.

Ms. Reardon briefly highlighted the Division of Insurance, which was 100 percent fee funded (slide 15). She added that the line items were not separate programs but had been broken out to show the types of division functions.

Ms. Reardon reviewed AMCO on slide 16. She noted the slide broke out revenue from alcohol versus marijuana. Alcohol was entirely fee supported. She reported that marijuana was on a three-year trajectory to get off UGF. She elaborated that initially there had been expenses but no license fees. There were now licensees who had begun renewing licenses. The fund source had gone from 100 percent UGF to approximately \$532,000 in FY 19. She reported that by FY 20 there should be no UGF funds required.

Commissioner Navarre added that AMCO was housed under DCCED for administrative purposes. He explained that in the past the office had been under the Department of Revenue followed by the Department of Public Safety. The director had been hired by the administration but worked under the direction and answered to the Alcoholic Beverage Control Board and the Marijuana Control Board. He clarified the position did not answer to the DCCED commissioner.

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Ms. Reardon reported that slide 17 showed all of the allied corporations except AMCO, which had its own slide. Fee support for each of the corporations ranged. For example, the Regulatory Commission of Alaska (RCA) was almost 100 percent funded by fees (2 percent came from interagency receipts). She highlighted that ASMI received no UGF funds (it was 78 percent fee funded with the remainder coming from federal funds). She indicated that AEA had no positions of its own even though it used positions - all positions were housed within AIDEA. She noted that in the budget PCE showed an "estimated to be" number. She relayed the figure was about \$5 million lower than in FY 18. The actual formula dictated how much would be paid out.

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Representative Ortiz asked if the Alaska tourism marketing component was included in the presentation.

Ms. Reardon indicated that DCCED no longer provided funds to the Alaska Travel Industry Association (ATIA) in the operating budget.

Ms. Reardon reviewed the five-year health care cost trends on slide 18. She noted that the department's percent of healthcare was relatively small compared to some other departments. The reason was because DCCED had some significant expenditures that had no personal services or workers involved. For example, if the department gave out \$32 million of PCE, there would be no associated healthcare costs except for two or three employees. The department's percent was impacted by its large non-employee related expenditures. She added the cost was governed by the cost in worker contracts.

Co-Chair Seaton pointed to the 5.6 percent healthcare for FY 19 on slide 18, which he surmised was all UGF. He believed that on slide 6 the department had stated the total percent of the budget was 6 percent UGF. He asked if it meant almost all the department's UGF went to healthcare.

Ms. Reardon replied in the negative. She explained that the health insurance portion of an employee cost was billed to their funding source just like their salary. For example, if a person worked for Professional Licensing, professional licensing fees paid their health insurance. She added that the number should match the department's funding sources; the federal government was billed for federally funded positions.

Co-Chair Seaton asked if DCCED had business licenses. Ms. Reardon answered in the affirmative and referenced the Division of Corporations, Business and Professional Licensing.

Co-Chair Seaton asked the subcommittee to address a change made by the legislature that allowed a person with several businesses to have one business license. He wanted to see an analysis by the department showing how much money the state was losing due to the change.

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Representative Guttenberg looked at the RCA on slide 17. He had been approached earlier in the day by Alaska Power

Authority groups with a request to fund the RCA at a higher level. He had responded that the power authority could increase fees if it wanted to fund the RCA at a higher level. The response he had received was the RCA budget went through DCCED for review and they could not add personnel or increase the budget without the department's approval. He believed it was all reimbursable service agreement (RSA) funds. He asked if DCCED reviewed the RCA's budget. Alternatively, he wondered if the Office of Management and Budget (OMB) could tell the RCA it could not expand services. He asked if it was something he needed to address.

Ms. Reardon responded that in the budget process the legislature told RCA and the department how much it could spend. She elaborated that even though the cash came from fees, like the department's other fee-funded divisions, the legislature decided on spending authority. For example, the RCA may have plenty of cash on hand, but could only spend \$9 million. She explained that the legislature would have to increase funding authority if the commission wanted to spend \$10 million.

Commissioner Navarre added that the RCA funding increment went through the DCCED budget, but it was OMB driven.

Representative Guttenberg noted that he would take the issue up with the subcommittee.

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^FY 19 BUDGET OVERVIEW: DEPARTMENT OF LAW

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JAHNA LINDEMUTH, ATTORNEY GENERAL, DEPARTMENT OF LAW, introduced department staff. She provided a PowerPoint presentation titled "Department of Law Department Overview: House Finance Committee" (copy on file). She addressed the department's three core services funded with general funds including the prosecution of crimes, protecting children, and statehood defense and revenue protection. She had communicated to the committee the previous year that cuts

to the Department of Law (DOL) had gone too far. She reviewed that the committee had authorized two additional prosecutors at the end of the past session. She shared that at the time it had not been known that crime had risen in the past several years. The Uniform Crime Report had come out in the summer of 2017, which showed crime was on a significant uptick, while at the same time the department's budget had seen cuts beginning in FY 14. The increase in crime was also impacting the department's child protection cases. The opioid epidemic was a primary driver and was impacting DOL's core services.

Attorney General Lindemuth moved to slide 2 and addressed the department's core mission:

The Alaska Department of Law prosecutes crime and provides legal services to state government for the protection and benefit of Alaska's citizens.

Attorney General Lindemuth detailed that DOL represented all departments and agencies statewide except for the University of Alaska and the Alaska Railroad Corporation. The department had an Administrative Services Division and two operating divisions including the Criminal Division and Civil Division.

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Attorney General Lindemuth addressed the Civil Division on slide 3. All of the divisions 13 sections fell into four core services: protecting Alaskans' safety and financial well-being; fostering conditions for responsible development of our natural resources; protecting the fiscal integrity of the state; and promoting good governance. She relayed that much of protecting Alaskans' safety and financial well-being included child and adult protection. The Commercial, Fair Business and Child Support section housed the department's Consumer Protection Unit. Fostering conditions for responsible development of the state's natural resources included the Transportation, Environmental, and Natural Resources sections. The department's core service to protect the state's fiscal integrity included the following sections: Natural Resources, Labor and State Affairs, Regulatory Affairs and Public Advocacy, and Torts and Worker's Compensation. Promoting good governance included the following sections: Opinions, Appeals and Ethics (focused on child protection

appeals); Special Litigation; Labor and State Affairs; Legislation and Regulations; and Information and Project Support.

Attorney General Lindemuth stated that when representing state agencies, the department's work fell into two categories. The first was litigation, which involved going to trial. She elaborated that if the state got sued the department defended claims and if the state had claims, the department pursued them. The second, was transactional and advice oriented. The department represented all other departments in making good decisions for the state. She reported the Civil Division was half funded by general funds and half funded by interagency receipts from other departments. The division's capacity had been cut to the bone [due to a decrease in funding]. Since FY 14, the division's budget was down 32 percent. She detailed that further cuts to the division would impact child protection, statehood defense, revenue protection cases. All of the cases in the upper left and lower right corners of slide 3 accounted for about 75 percent of the departments general fund budget.

Attorney General Lindemuth addressed the Criminal Division on slide 4. Unlike other states, Alaska did not have counties with elected district attorneys; therefore, DOL had primary responsibility for prosecuting cases statewide. Anchorage and Juneau had municipal prosecutors to prosecute misdemeanors and DOL was responsible for prosecuting all other misdemeanors and felonies statewide. The department had 12 district attorney offices along with the Office of Special Prosecution and the Appeals Section responsible for statewide matters. The division was 85.6 percent GF funded; the remainder of the budget was funded with federal dollars for specific federal programs such as Medicaid fraud.

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Attorney General Lindemuth turned to a Legislative Finance Division (LFD) chart reflecting the department's share of total agency operations (GF only) on slide 5. Since FY 14 the department was down 20 percent or \$12.6 million (it was down 26 percent since FY 12). The bulk of the department's GF funding went to criminal prosecutions and civil and child protection cases. She reiterated her earlier statement that while the department's budget had been decreasing, there had been an uptick in the demand for

those types of cases in criminal prosecutions and child protection. For example, child protection cases were up 48 percent since FY 14; the department was down the added staff to cover the work and was without two assistant attorney generals to handle the cases (caseloads had skyrocketed).

Attorney General Lindemuth moved to an allocation of resources chart showing all funds on slide 6. The chart illustrated that the bulk of the department's funding went to personal services (i.e. attorneys and staff providing legal services to the state in civil and criminal matters). The purple portion of each bar represented services (contractual relationships held by the department), which accounted for slightly over 20 percent of the department's budget. The bulk of the contracts included outside counsel and experts, but the component also covered leases and DOL's contracts with other departments. She noted there had been a 48 percent reduction to the component since FY 12. In order to reduce costs, the department had focused on bringing legal work in-house that had previously been done by outside counsel. The department's attorneys charged \$165 per hour, which was much cheaper than outside counsel costing \$250 to over \$500 (depending on expertise). She noted the department still had to use outside counsel occasionally when expertise DOL did not have in-house was required (especially for one-off cases).

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Attorney General Lindemuth advanced to a chart on slide 7 showing appropriations within DOL (GF only), broken out by civil, criminal, and administrative services divisions. The red line representing the Civil Division had the steepest decline at 32 percent since FY 14. The criminal Division was down 10.5 percent since FY 14. Compared to other public safety agencies including the Office of Public Advocacy, the Public Defender Office, and Department of Public Safety, DOL had suffered far greater cuts since FY 14. She explained the difference accounted for the increase in funds for DOL in the governor's proposed budget.

Attorney General Lindemuth briefly highlighted slide 8 showing appropriations within DOL (all funds), broken out by civil, criminal, and administrative services divisions over the past ten years. She turned to slide 9 reflecting the total funding comparison by fund group. The light blue

portion of the bar reflected GF, which was the primary component of the department's budget. The red portion of the bar represented interagency receipts received from other departments, primarily for the Civil Division, which was funded with half interagency receipts and half general fund dollars. The dark purple portion of the bar represented designated general funds and the green portion represented federal receipts, both of which accounted for a small portion of the department's overall budget.

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DAN SPENCER, DIRECTOR, ADMINISTRATIVE SERVICES, DEPARTMENT OF LAW, spoke to five-year health care trends on slide 10. He relayed the budgeted healthcare cost was made up of 60 percent UGF and 40 percent other funds. In FY 18 the department's healthcare costs accounted for 10.4 percent of the overall budget. He briefly highlighted slides 11 through 14 showing a matrix of the department's funds and divisions.

Representative Guttenberg remarked that the telecommunications definition of the Regulatory Commission of Alaska (RCA) clearly included broadband. If DOL supported the RCA with its legal opinions, he wondered why the RCA did not think the definition included broadband.

Attorney General Lindemuth answered that she did not have the answer and directed the question to Deputy Attorney General Ed Sniffen for follow up.

Representative Pruitt referenced the department's testimony regarding personnel levels. He surmised the department believed personnel levels had been reduced substantially in the area of environmental law. He asked if his statement was accurate.

Attorney General Lindemuth answered that the environmental law section had been reduced. She detailed the section was primarily funded through interagency receipts from the Department of Environmental Conservation (DEC). She elaborated that DEC would have to determine the amount it wanted to spend on legal dollars, which would impact the amount of work done by DOL. She pointed out that a significant portion of the work DOL did for DEC brought revenue to the state.

4:24:14 PM

Representative Pruitt asked about HB 199 and a current initiative. He remarked there was a fiscal note from a similar bill the previous year of about \$450,000. He believed the bill was different than the initiative. He asked if DOL had an estimate of additional cost or personnel it may need if the bill or initiative moved forward.

Attorney General Lindemuth asked for more information.

Representative Pruitt replied the bill and initiative pertained to anadromous fish.

Attorney General Lindemuth replied she would follow up on the question.

Representative Pruitt clarified there was a fiscal note associated with the legislation. He remarked that the bill was different than the initiative and he was trying to understand the impacts the initiative would have on DOL.

Co-Chair Seaton remarked on the difficulty of estimating the impact of an initiative because it would not go through the committee process.

4:25:50 PM

Representative Guttenberg asked about a recent settlement on a Trans-Alaska Pipeline System (TAPS) tariff case. He was always concerned when the industry could write its costs off against the tariffs. He asked if a paper had been written on the settlement's benefit to the state.

Attorney General Lindemuth responded the department had published a press release on the subject. She explained there were a number of benefits. First, litigation was expensive, and the state had been litigating the subject for many years. She noted the industry had been incentivized to fight everything because it could roll the litigation dollars into rates going forward. The primary fight had been about whether industry could include their reconfiguration costs in the rates. The settlement specified that none of the reconfiguration costs would be included in the rates going forward; therefore, rates would be significantly lower, resulting in additional tax and

royalty dollars to the state. The department saw the issue as a win-win. She continued DOL was estimating \$165 million more in addition to the \$200 million the state had already collected over the prior years. Second, the settlement provided certainty to the industry about what the future tariff rates would be because a methodology had been established (actuals could be audited). The side benefit was the state would not have to litigate annually, meaning litigation costs would be reduced. The state would have audit rights and would not have to go into litigation to audit the rates.

Representative Guttenberg stated that in the past his concern was that people working on the project did not know the definitions or the physical parameters of what they were defining. He recalled working on the pipeline and commented on the ease of manipulating configurations to circumvent anything a company was doing. He had always been concerned about the issue.

Co-Chair Seaton referenced slide 10 showing five-year health care trends. He noted that the department's healthcare costs had been 9.1 percent of its budget in FY 17. The FY 18 cost had been 1.3 percent more at an increase of 14 percent. He acknowledged that some of the increase was in relationship to total budget. He spoke to concern about healthcare costs taking away from the department's core services. He remarked on the need to avoid healthcare costs by avoiding health conditions. He hoped to move towards a healthier Alaska in order to reduce costs. He could not see getting there by reducing payment schedules only. He mentioned changing the healthcare authority to get \$30 million across all of the insurance pools including the school districts, municipalities, which would wash out as a smaller number compared to total healthcare dollars.

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

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

Co-Chair Seaton reviewed the schedule for the following day.

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ADJOURNMENT

4:31:37 PM

The meeting was adjourned at 4:31 p.m.