

HOUSE FINANCE COMMITTEE
January 28, 2020
1:36 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:36 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Jennifer Johnston, Co-Chair
Representative Dan Ortiz, Vice-Chair
Representative Ben Carpenter
Representative Andy Josephson
Representative Gary Knopp
Representative Bart LeBon
Representative Kelly Merrick
Representative Colleen Sullivan-Leonard
Representative Cathy Tilton
Representative Adam Wool

MEMBERS ABSENT

None

ALSO PRESENT

Jim Johnsen, President, University of Alaska; Michelle Rizk, Associate Vice President, Statewide Planning and Budget, University of Alaska; Jason Brune, Commissioner, Department of Environmental Conservation; Ruth Kostik, Administrative Services Director, Department of Environmental Conservation, Office of Management and Budget, Office of the Governor.

SUMMARY

HB 205 APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 205 was HEARD and HELD in committee for further consideration.

HB 206 APPROP: MENTAL HEALTH BUDGET

HB 206 was HEARD and HELD in committee for further consideration.

FY 21 BUDGET OVERVIEW: UNIVERSITY OF ALASKA

FY 21 BUDGET OVERVIEW: DEPARTMENT OF ENVIRONMENTAL CONSERVATION

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Co-Chair Foster reviewed the agenda for the day. He introduced House Finance Committee staff.

#hb205

#hb206

HOUSE BILL NO. 205

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; 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."

HOUSE BILL NO. 206

"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."

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^FY 21 BUDGET OVERVIEW: UNIVERSITY OF ALASKA

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JIM JOHNSEN, PRESIDENT, UNIVERSITY OF ALASKA, provided a PowerPoint presentation titled "University of Alaska Legislative Update" dated January 28, 2020 (copy on file). He began with slide 3, "Introduction":

State funding cuts from FY 2014 to FY 2019—and the threat of a 41 percent cut in FY 2020—have challenged

the university's ability to serve its constitutional mission for the people of Alaska.

Led by the Board of Regents, the University is facing the challenge, committed to its mission, to lower operating expenses, and to investing in programs and initiatives that serve our students and contribute to Alaska's future by:

- Developing and diversifying our economy
- Preparing Alaskans for jobs in Alaska
- Conducting research to solve real problems and create new opportunities
- Increasing educational success through enrollment and completion

Mr. Johnsen relayed that the impacts of the previous difficult year would have impacts on the University for years to come. He underscored that the University had made it through and was moving forward strongly.

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Mr. Johnsen moved to slide 5, "Three-Part Mission":

- Education Delivering academic instruction, career and technical training
- Research Advancing innovation and discovery through academic and scientific research
- Service Sharing knowledge to address Alaska's community needs

Mr. Johnsen addressed slide 6, "Serving All Alaskans Three Universities - One System":

- 1 legal and financial entity
- 3 separately accredited universities
- 13 community campuses
- 16,700 FTE Students, 24,900 total
- 92 percent of all Alaska higher education
- Affordable: \$7,200 (3rd most in US)
- Debt at graduation: 46 percent (2nd lowest)
- Student's cost share: 28 percent (5th lowest)

Vice-Chair Ortiz asked about the 46 percent debt at graduation.

Mr. Johnsen replied that 46 percent of the graduates had some debt.

Representative Josephson noted that even though the achievements were great, the regents repeatedly raised tuition. He remarked that there was a belief that continuing to raise tuition might do great harm to the UA system, because students would leave.

Mr. Johnsen replied it was a bit more nuanced than the scenario provided. He believed that there were certain students from certain socioeconomic backgrounds that were studying certain subject areas that were very tuition sensitive. He remarked that there were other students, however that were not tuition sensitive. He felt that a successful strategy employed by public and private universities across the country was a high tuition - high aid strategy. He remarked that the research indicated that even if the net impact to the student was the same, there was a positive enrollment benefit if the price was higher, because of the reputational aspect of the high tuition rate.

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Mr. Johnsen addressed slide 7, "Strategic Goals":

- Contribute to Alaska's Economic Development
 - Increase STEM graduates and invention disclosures
- Provide Alaska with a Skilled Workforce
 - Increase UA's share of teacher hires and double health professionals
- Grow our World Class Research
 - Stay number 1 in Arctic Research and increase research expenditures
- Increase Degree Attainment
 - Increase enrollment and completions
- Operate More Cost Effectively
 - Decrease cost per completion and increase completion rate

Mr. Johnsen emphasized the Board of Regent's focus on the five priorities outlined on the slide. He highlighted the last item and relayed that cost-effectiveness must be achieved.

Representative Merrick asked how many degree programs the University offered.

Mr. Johnsen replied approximately 400. He noted the number included numerous duplicated programs. He would follow up with the detail.

Mr. Johnsen noted that there would likely be about 20 fewer if the board of regents approved the change in February.

Representative Wool asked for verification there had been more the previous year prior to the cuts.

Mr. Johnsen replied in the affirmative. He relayed the numbers were dynamic and he would follow up with the current programs.

Mr. Johnsen moved to slide 8, "Structure":

- One legal, constitutional, and financial entity; three separately accredited universities with a governing Board and system office
 - Current structure is the result of consolidation of 11 separately accredited community colleges in 1987
 - That 2-year effort met strong resistance, spawned legislation, litigation, arbitration and a voter initiative...and it increased integration and reduced cost
- System office supports Regents, provides cost effective system wide services, and focuses universities on Alaska's statewide priorities
- Non-duplicated system functions include IT, audit, labor relations, financial/tax reporting, government relations, debt, treasury, payroll, risk management, general counsel, procurement, and health/benefits administration

- University Foundation, Land Management Office, and Alaska Education Trust are largely self-funded

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Mr. Johnsen turned to slide 9, "Statewide Footprint":

- University is largest landlord in State Government
- Are there assets that can be closed, sold or eliminated? YES!

Representative Josephson asked for the definition of a facility. He assumed the Hickel Library was a facility.

Mr. Johnsen replied there may be all different kinds of facilities: facility that was someone's office and there were small facilities and major facilities such as the sports facility in Anchorage.

Representative Josephson stated that some may say the number of facilities was outrageous.

Mr. Johnsen agreed. He mentioned Signer's Hall and Constitution Hall.

Mr. Johnsen addressed significant activity on slide 11. The last year had been hard and he believed the University was successfully moving forward lead by the Board of Regents. The University had agreed with the governor on a three-year compact plan, it was still challenging, but manageable. He continued to review a timeline:

FY20 Legislature includes budget intent language for Board to consider single accreditation
 Aug 13 Board of Regents signs 3-year Compact Agreement with Governor
 Aug 20 Board terminates Exigency Declaration
 Sep 26 NWCCU expresses concern over governance and accreditation
 Oct 7 Board ceases consideration of single accreditation and statewide expedited academic program reviews
 Oct 18 Universities begin campus level expedited academic program reviews
 Oct 30 Board responds to NWCCU concerns

Nov 1 NWCCU confirms UA on "right path" on governance and accreditation
Nov 22 Board responds to FY20 legislative intent regarding single accreditation
Dec 3 Board transmits report to Governor and Legislature per Compact Agreement
Dec 9 Board initiates policy audit clarifying roles and responsibilities
Jan 17 Board approves 2020 work plan, 5 percent tuition increase for 2020, including \$1.5M of increased financial aid
Feb 20 Board review of strategic goals and status of policy review

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Representative Josephson discussed that the University had gone through a great trauma in the preceding year. He noted that no other agency had faced the same situation. He commended Mr. Johnsen for getting the University through the situation.

Representative Carpenter expressed frustration on Mr. Johnsen's statement that the University was knocked down. He thought it insinuated that somehow the University was mistreated. He stated that for years the legislature had asked the University to cut its costs, but it had not been done. He elaborated that his constituents who had lost jobs and been negatively impacted would take issue with the insinuation that they had knocked the University down.

Mr. Johnsen respected Representative Carpenter's view. He pointed out that there had been a number of step-downs over years. The University had over 1,700 employee reductions since 2014. The University had been trimming substantially.

Representative Sullivan-Leonard thanked Mr. Johnsen for being present. She asked about an update on the accreditation, and she was concerned about the teaching program and the challenge with recruiting teachers in Alaska.

Mr. Johnsen replied that one of the universities had lost accreditation, but two of the other universities had stepped in to help students complete their programs. He believed it was necessary to look at how the programs were funded and look at increasing teacher funding.

2:00:36 PM

Co-Chair Johnston asked what the University was currently paying for termination costs in the pension fund.

Mr. Johnsen would follow up with the information later in the day.

Co-Chair Johnston thought it would be helpful for the committee to know how much the University was paying for termination costs. She would not debate how to frame the cuts from the previous year, but the termination costs were the equation used to continue to pay the unfunded liability in the pension funds. She believed the University was the hardest hit because it had lost so many employees and it had been an ongoing process of cutting employees since 2015.

Representative Carpenter appreciated seeing the information. He noted that constituents in his district did not have pensions due to working for the private sector.

Co-Chair Johnston understood. She thought it was important to remember the importance of pensions when it comes to employee retention.

Representative Wool asked about the various types of accreditation.

Mr. Johnsen replied there were basically two types of accreditation. He explained that there was institutional accreditation. The federal Department of Education delegated to a number of regional accrediting bodies the responsibility to ensure quality of universities across the country. He furthered that in order for the students to qualify for grants and loans, the university must have an institutional accreditation. He stated that the other type was specialized accreditation, which was program specific. Some of those programs were statutorily required, such as nursing and teacher education. Others were simply required as a sign of high quality, such as engineering.

Representative Wool surmised that there were different accrediting entities.

Mr. Johnsen replied in the affirmative. He explained that the university was accredited by an entity that oversaw the region was the Pacific Northwest.

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Representative Wool wondered whether UA was still accredited as an institution.

Mr. Johnsen replied it was the initial licensure programs that lost accreditation, other programs were fine and maintained their accreditation.

Co-Chair Foster remarked that the meeting may go long.

Representative Tilton referenced the statement on slide 6 about three universities one system, and queried the intent of the slide's representation.

Mr. Johnsen replied there was nothing intended by the way the page had been written.

Representative Tilton queried the status of the university's land grant deficit.

Mr. Johnsen replied that progress was being made // filling the University's longtime land grant deficit of 3,600 acres. He explained that in order to enable the conveyance of the land, and land was included in the definition.

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Mr. Johnsen moved to slide 12, "3-Year Budget Compact":

- Agreement between Board and Governor Dunleavy - August 13
- \$70M (22 percent) reduction over 3-Yrs versus single-year cut of \$134M (41 percent)
 - FY20 \$302M (Down \$25M or 7.6 percent from FY19)
 - FY21 \$277M (Down \$25M or 8.3 percent from FY20)
 - FY22 \$257M (Down \$20M or 7.2 percent from FY21)
- Best negotiated option for the University of Alaska
- Reduces cumulative 2020-2022 cut from \$405M to \$145M

- Requires a tremendous internal effort to meet reduced funding levels
- Secured Governor's support for single appropriation and other important priorities: AEG and APS scholarships, WWAMI medical school funding, dual enrollment and land grant initiative • UA agreed to cost savings and revenue enhancement initiatives

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Vice-Chair Ortiz asked if there had been a look at how the University would look after completing the three-year budget cycle. He wondered what programs would be reduced and he asked about opportunity costs.

Mr. Johnsen replied it was the precise process the University was currently undergoing. The board had a meeting in early June to accept the state's budget and review and approve continuation, discontinuation, or the reduction of programs. The top down component were the five goals he had mentioned [on slide 7].

Vice-Chair Ortiz asked about the details of the process.

Mr. Johnsen would be happy to go through the information with Vice-Chair Ortiz.

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Mr. Johnsen highlighted a bar chart showing the University's funding history and projection on slide 13. He noted the FY 20 funding at \$302 million and the \$257 million in FY 22. He moved to slide 14 and discussed the funding history and projection by major administrative unit (MAU). The system budget was roughly 5.5 percent of the total, and the research mission carried out by the University was disproportionately undertaken at UAF.

Representative Josephson felt that the slide demonstrated that there were significant reductions in recent years.

Mr. Johnsen replied that they did not know what the slide had a different view. He noted the reductions.

Mr. Johnsen advanced to the operating revenue by type and source on slide 15. The slide showed two pie charts - one by revenue type and one by revenue source.

Representative Carpenter asked where land grant funds fell in the chart.

Mr. Johnsen would follow up.

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Mr. Johnsen advanced to slide 16 showing two pie charts on operating expenditures by category.

Representative Wool asked about the research aspect and return on the \$158 million.

Mr. Johnsen answered that about \$25 million in state money (unrestricted general funds) went into research. That money generated the \$158 million.

Vice-Chair Ortiz asked what went into spending behind institutional support.

MICHELLE RIZK, ASSOCIATE VICE PRESIDENT, STATEWIDE PLANNING AND BUDGET, UNIVERSITY OF ALASKA, introduced herself.

Vice-Chair Ortiz assumed that academic support paid for salaries. He wanted to know the expenditures that were included in institutional support.

Ms. Rizk replied that, for example, the statewide system office that supported the Board of Regents would be considered an institutional support category, so there would be salaries and benefits similar to academic support.

Vice-Chair Ortiz wondered whether the \$122 million for institutional support was primarily intended for salaries and benefits of administration.

Ms. Rizk answered in the affirmative.

Representative LeBon asked about the pie charts on slide 16 related to athletics.

Mr. Johnsen replied in the affirmative. The number showed all funds.

Representative LeBon asked how much of the \$12.8 million came from private sources, sponsors, and other.

Ms. Rizk answered that they would follow up with specifics.

Representative LeBon believed the number was close to 50 percent. He asked how much private sector support was applied for the category.

Mr. Johnsen imagined it was a very small number.

Representative LeBon thought the draw from the University was likely less than 1 percent.

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Representative Wool wondered whether the institutional support category was for any non-academic staff.

Mr. Johnsen answered that there were administrative people throughout the different sections. He stated that all the people were included in the institutional support number.

Representative Wool wondered whether the ticket revenue collected from athletic events was included in the chart.

Mr. Johnsen replied in the affirmative.

Representative Carpenter addressed institutional support overhead. He asked what percentage of the item would be cut.

Mr. Johnsen replied they would provide more information in the presentation on what had already occurred.

Representative Carpenter wondered whether there was a political ploy in the budget.

Mr. Johnsen answered that slide 14 showed a good story related to the question.

Ms. Rizk added that each of the universities conducted both program and administrative reviews.

Representative Wool recalled the number of programmers required in the request.

Mr. Johnsen answered that the University had 8 and went down to 5. The last one had walked out the previous week.

Mr. Johnsen discussed slide 17, "Accreditation":

- UA universities receive their institutional accreditation from the Northwest Commission on Colleges and Universities (NWCCU)
- Board took a number of steps in consideration of legislative intent to move to a single institutional accreditation
- Board directed UA president to develop plan for evaluating options
- Convened group of state leaders for advice
- Held workshops across the system and provided opportunities for input from faculty, staff, students and the public
- Conducted extensive public opinion survey 3,900 participants
 - Even split between those favoring "uniqueness" and those favoring "integration"
- Established working group to engage NWCCU and U.S. Dept. of Education on issues and timelines
- On Oct 7, after full consideration, Board ceased consideration of a single accreditation until UAF secures its NWCCU accreditation renewal in 2021
- All three universities (including community campuses) are fully accredited

Mr. Johnsen moved to slide 18, "Academic Program Reviews":

- Board directed UA president to have universities conduct academic program reviews
- University reviews are underway

- In March 2020, chancellors will provide recommendations to the president regarding reduction, consolidation or discontinuation of any programs

- Board must approve any program changes and is expected to consider recommendations in June 2020

- Teach out obligations and faculty notice periods may mean financial savings are not achieved until FY22

Mr. Johnsen addressed budget impacts on slide 19, "Budget Impacts":

- Student support and administrative services have borne large share of \$76M reduction over last 6 years

- HR and procurement restructuring and integration
- Headcount reductions due to attrition and terminations
- KUAC Radio/TV Base Funding Reduction
- Fairbanks Administrative Services Building Sale
- Chugach Eagle River Building Lease Non-Renewal
- Kenai Peninsula College Residential Housing Paused

- \$45M additional reduction over FY21-22 will necessitate significant impacts to academic programs

- Universities aggressively working to achieve FY20 cuts while conducting academic and administrative program reviews

Vice-Chair Ortiz asked about the pause in the Kenai Peninsula College (KPC) housing.

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Mr. Johnsen replied there was declining participation and students, which was the impetus for that decision.

Representative LeBon asked for verification that the KCP housing project had been paused.

Mr. Johnsen answered that the project had been completed, and were suspending residents in the facility.

Representative Knopp had not been pleased to receive the call about the pause in the KPC, but understood that decision. He stressed that there was a quality petroleum program was at KPC.

Representative Josephson thought of tutoring and counseling when the graduation rate was not good, and he asked if there was a correlation.

Mr. Johnsen answered he did not have a specific number, but there was a correlation. He furthered that if students did not receive support, they did not continue.

Representative Tilton references slide 9 related to the number of University facilities. She asked if the facilities were managed by the land office.

Mr. Johnsen answered that the facilities were usually managed by the campuses.

Representative Tilton asked about the specifics of the land management.

Mr. Johnsen agreed to provide that information.

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Representative Carpenter stated the University system brought the housing, and he stated that a growing economy would benefit KPC. He reiterated that a thriving economy would hopefully bring demand back to the campus, and bring the building back online.

Mr. Johnsen advanced to slide 20, "Pushing Continuous Improvement":

- Diversifying Revenue Sources
- Eliminating Low Demand and Duplicative Programs
- Realigning and Simplifying Business Processes
- Consolidating and Standardizing Administration
- Reforming Program and Service Delivery
- Maximizing Return on Assets
- Reassessing Tuition and Fees
- Reducing Facilities Footprint

Mr. Johnsen reviewed a historical enrollment chart on slide 22. He noted it was not the enrollment story he would like to be presenting. He pointed out that there was high unemployment in Alaska that contributed to the decline. The university was looking at how to modernize processes and the culture to make things more convenient to deal with.

Representative Carpenter stated that plumbers and electricians were not traditional degrees, and stressed that there was not enough skilled labor in the state. He thought it seemed like the perfect opportunity to shift from a four-year degree to a certificate system. He hoped it was part of the discussion going forward.

Mr. Johnsen agreed.

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Representative Tilton referenced online programs. She asked about the current percentage of the University's online programs. She wondered what it was doing to increase the programs in the future.

Mr. Johnsen replied that he did not have the specific number.

Co-Chair Foster offered to bring the University back at another time if necessary. He asked members to hold their questions.

Mr. Johnsen reviewed a short history of tuition increases on slide 23. The information was broken out between graduate and undergraduate tuition.

Mr. Johnsen turned to slide 24 and showed a chart highlighting undergraduate tuition and fees compared to WICHE.

Mr. Johnsen moved to slide 25 and highlighted a chart showing tuition - student FTE vs tuition/fee revenue.

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Mr. Johnsen advanced to slide 26, "Key Data: Workforce":

- UA has 1,727 fewer employees than five years ago

- Since FY14 total workforce has been reduced 21 percent
- MAPTS and K-12 Outreach moved from statewide to campus
- Regular employees (leadership, faculty and staff) are down 18 percent and temporary employees (adjunct, student and temp staff) down 24 percent
- Reductions have been achieved through a combination of attrition, retirement, ending term contracts, and eliminating or leaving positions vacant

Mr. Johnsen turned to slide 27, "Key Data Turnover":

- Overall Average Turnover Rate at UA from FY15 to FY20 was 14.1 percent
- According to the Bureau of Labor Statistics (2019) annual turnover rate across all industries in the US ranges between 15 percent and 19 percent
- FY20 to date, we have exceeded FY19 in turnover of administrators and are nearing the FY19 totals for staff and faculty

Mr. Johnsen looked at slide 28, "Key Data: Voluntary Turnover":

- Voluntary turnover includes retirements, departures for other opportunities, and other categories such as medical necessity
- The overall average voluntary turnover rate for all employees in the University of Alaska System from FY15 to FY19 was 11.1 percent
- Comparable Peer Institutions: 7 percent Weber State Univ and 9 percent West Florida Univ

Mr. Johnsen moved to slide 30, "2020 Legislative Priorities":

- Operating Budget
- Year 2 compact funding - \$277M
- Single appropriation structure

- Capital Budget
- \$50M Deferred Maintenance (backlog exceeds \$1.2B)
- \$2.5M Alaska Earthquake Center (USArray)
- Debt Service Relief
- Significant fixed operating cost - \$28M annually
- Principal outstanding - \$297M

Mr. Johnsen addressed slide 31, "2020 Legislative Priorities":

- Technical Vocational Education Program (TVEP)
- Program expires this year (June 2020)
- Funded through payroll deductions \$12.4M in FY20
- Funds high-demand career and technical training
- UA receives 45 percent of program dollars \$5.6M in FY20
- Dual Enrollment
- Expansion of High School/College enrollment
- Alaska Higher Education Investment Fund
- Alaska Performance Scholarship Program: \$12M
- Alaska Education Grant: \$6M • WWAMI Medical School Program \$3M

Mr. Johnsen displayed slide 33, "Conclusion":

The University of Alaska appreciates your support as we move forward, committed to serving our mission, to lower operating expenses, and to invest in the programs and initiatives that provide opportunities for our students and contribute to Alaska's future by:

- Developing and diversifying our economy
- Preparing Alaskans for jobs in Alaska
- Conducting research to solve real problems and create new opportunities
- Increasing educational success through enrollment and completion

Co-Chair Foster asked about debt service relief on slide 30. He noted the principal outstanding debt of roughly \$297 million.

Mr. Johnsen replied that the preference was the first scenario because of the recurring impact.

Co-Chair Foster asked if there was a specific number the university was hoping for.

Mr. Johnsen replied zero. The University would work with the legislature on the issue.

Representative Josephson asked about the engineering program credit hours.

Mr. Johnsen answered that it was a challenge but also a tremendous opportunity. He did not have the exact credit hours, but the number was high

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Representative Wool asked about the difference in instate and out of state tuition. He asked for the percentage of out of state students.

Mr. Johnsen answered it was common to charge out of state tuition. He stated that roughly 10 percent of the students were from out of state, so the increment was significant. One of the recruitment initiatives was to step out of state more aggressively.

Representative Wool stated that if it was 10 percent of students, then it would be a significant tuition revenue. He felt that there may be an initiative to decrease the out of state tuition if the recruitment of out of state students was successful.

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Representative LeBon had come to Alaska for school and had stayed in the state. He asked what the University received from the private sector, individuals, and businesses. He did not know if there was a way to present how the trend lines had changed over the past 10 to 15 years.

Mr. Johnsen would be happy to provide the information. The University had received slightly over \$100 million in the past 10 to 15 years.

Co-Chair Foster thanked the University for their time.

^FY 21 BUDGET OVERVIEW: DEPARTMENT OF ENVIRONMENTAL CONSERVATION

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JASON BRUNE, COMMISSIONER, DEPARTMENT OF ENVIRONMENTAL CONSERVATION, provided a PowerPoint presentation titled "Department of Environmental Conservation: House Finance Committee" dated January 28, 2020 (copy on file). He began on slide 2, "Our Values":

We strive to provide excellent Customer Service both inside and outside of the organization by being professional, responsive, reliable, and respectful.

We are accountable for our actions and stand proudly behind our work, as individuals and as an organization.

We perform to the highest moral and ethical standards, and produce transparent and consistent regulatory actions to show our Integrity.

We support and encourage collaboration across programs and partners to meet challenges and further our collective mission.

We make objective decisions, based on science and facts.

Commissioner Brune explained the main areas of focus for the department including air quality; water quality; environmental health; and spill prevention and response.

Commissioner Brune reviewed the operational chart briefly.

Ms. Brown relayed that the ultimate goal was to maintain strong regulatory agencies. The proposed budget was effectively flat.

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RUTH KOSTIK, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF ENVIRONMENTAL CONSERVATION, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced herself and

indicated that the chart showed the proposed budget. She identified the various colored areas.

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Ms. Kostik looked at slide 7, "DEC FY2021 Operating Budget: Significant Changes":

Eliminate Dairy Program

- Governor proposed elimination in FY2020
- Legislature restored funding, replacing \$15.0 to be paid by the industry
- Legislative intent for the Department to pursue fee schedule
- Current permittees include 1 bovine dairy, 1 goat dairy, and 1 bottle manufacturer
- Conversations with industry indicate any meaningful fees would not be economically feasible
- Reduce \$179.6 and 1 position
 - \$164.6 UGF
 - \$15.0 statutory designated program receipts

Co-Chair Johnston asked about the program as it related to the federal government.

Ms. Kostik responded that the program was required by the federal government, but the federal government did not have a federally run dairy program.

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Representative Knopp expressed being perplexed about what the state was trying to do. The Kodiak dairy currently employed 12 people. He wondered about the reasoning for the closure.

Commissioner Brune responded that the question remained regarding what the state could continue to pay for. He stated that the plan was still in place to close the dairy.

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Representative Knopp offered that he had asked the subcommittee about shifting some of the funds. He suggested having a conversation with the commissioner.

Commissioner Brune responded that he would welcome a conversation regarding wastewater.

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Ms. Kostik looked at slide 8, "DEC FY2021 Operating Budget: Significant Changes":

Reduce Commercial Shellfish Testing Subsidy

- Legislature fully subsidized required testing in FY2009
- Commercial industry does not currently pay the existing fee for analytic testing
 - Industry does bear the cost to collect and ship samples
- Testing is required to participate in commercial shellfish markets
- Direct cost to State for shellfish testing is \$457.7
- Additional \$269.0 to operate the permitting program
 - Industry contributes roughly \$56.7 in permit fees
- Replace \$457.7 Commercial Passenger Vessel Environmental Compliance fees for testing
 - \$228.8 UGF
 - \$228.9 general fund program receipt

Vice-Chair Ortiz asked if DEC had talked to industry about the planned reduction in the shellfish testing subsidy.

Commissioner Brune answered in the affirmative.

Vice-Chair Ortiz wondered where the commercial passenger vessel funds would be spent.

Commissioner Brune replied that the request would be coming later in session

Ms. Kostik noted that in a few slides they would discuss where they were replacing the funds within the Division of Water in the coming year.

Vice-Chair Ortiz stated that industry did not pay for actual testing, but they would have to pay for operating costs.

Commissioner Brune agreed.

Vice-Chair Ortiz asked about when the department had spoken to SARDF, and the cost of the program.

Ms. Kostik replied \$228,000.

Vice-Chair Ortiz asked if industry could absorb the cost and was it amenable to the change.

Commissioner Brune replied that any industry that would have increased cost was not enthusiastic. He stated the discussion needed to occur and he would continue to examine the issue.

Vice-Chair Ortiz was hearing a desire to increase the mariculture industry and shellfish production. He thought there was an increase demand for services in the state. He asked how the reduction played into the overall goal of trying to expand the economy.

Commissioner Brune answered that the governor wanted to expand the economy, and support was important in the infancy of an industry, but at some point, it needed to decrease the costs. He stressed that the governor was very interested in the growing the industry for the state

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Vice-Chair Ortiz believed it was the department's assessment it was inappropriate to use the cruise ship passenger vessel fees in this way. He asked how long it had been taking place.

Ms. Kostik replied she believed it had been since either FY 15 or FY 16.

Commissioner Brune added that the administration was interested in truth in budgeting, and believed the funds should come from general funds.

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Co-Chair Foster stated his understanding that the proposal would be to increase testing capacity and permits.

Ms. Kostik answered that in FY 19 the permitting program issued 292 permits.

Co-Chair Foster asked how many had to do with the actual testing.

Ms. Kostik answered that in FY 19 the department had tested 596 samples.

Co-Chair Foster requested follow up on the number of entities.

Representative Wool asked for verification that the department was proposing a split, and assumed the tested samples were paid by the business owner.

Representative Josephson commented that the Dunleavy administration benefited from the legislature's repeal of the oil and gas tax credits.

Vice-Chair Ortiz stressed that currently the program used CPV funds and did not currently draw on UGF.

Vice-Chair Ortiz thought it was not appropriate to have the cruise ship industry pay for the testing necessary for another industry. He asked if the cruise ship industry had complained about the issue.

Commissioner Brune answered in the negative. He stressed it was a truth in budgeting issue.

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Ms. Kostik advanced to slide 9, "DEC FY2021 Operating Budget: Significant Changes":

Reduce Prevention Account Expenditures

- Prevention Account funded by
 - \$0.04 per barrel of crude oil
 - \$0.0095 per gallon of refined fuel

- Fund projected to run a deficit as early as FY2024

- Stop regulation of Class II facilities and reduced capacity in Training and Guidance unit, Contaminated Sites, and administrative support

- Reduce \$1,019.1 and 7 positions
 - \$643.5 prevention account
 - \$375.6 federal receipts

- Increase \$375.0 oil/haz interagency receipts to reflect average annual personal services charged to emergency response account

Co-Chair Foster asked what types of tank farms she was referring to. He asked if they were in small communities.

Ms. Kostik would have to follow up on the question.

Commissioner Brune added they were tanks that did not require contingency plans.

Representative Josephson stated that the Environmental Protection Agency's budget had been slashed. He asked what that meant - he wondered if someone from the EPA would inspect the tanks.

Ms. Kostik would have to check with the program to see what the EPA would do. She noted the facilities were relatively low risk. They had identified the list of class two facilities.

Representative Josephson noted that the state did not have primacy over the regulation.

Ms. Kostik affirmed.

Representative Josephson stated his concern that the state under regulated. He recalled the 9 mile plume and the need for potable water in North Pole. He would like assurance that the change was acceptable.

Ms. Kostik clarified that DEC had been regulating and providing assistance. She stressed that it was misstated on the slide.

Commissioner Brune added there was a consideration of Flint Hills.

Representative Josephson had been happy to see that. He noted that the previous SPAR director had concerns about using SPAR funds.

Commissioner Brune understood the concern, and stated that the goal was to reach \$50 million in case a spill occurred, especially if there was not a responsible party. There was He noted that a situation in Wrangell had no responsible party and the state would not see the funds again.

[3:39:03 PM](#)

Representative Wool referenced the \$0.04 per barrel of crude oil and \$0.0095 per gallon of refined oil, and queried the link to hydrocarbons.

Commissioner Brune answered it was not linked to hydrocarbons.

Representative Wool asked if it was called a spill - it had been intentionally dumped and the impact had only been identified after the fact.

Commissioner Brune answered it was a great point and he was trying to grasp the issue. He stated it was classified as a spill, and they would develop a plan to remediate and make drinking water safe.

Ms. Kostik added that the statutory language talked about a release and not necessarily a spill.

Representative Wool asked if there was discussion about a state limit for use of pfas.

Commissioner Brune agreed. He was happy to further discuss the issue later on.

Representative Wool referred to the 70 parts per trillion, which was the EPA lifetime exposure. He wondered whether it was only an additive of the toxic elements.

Commissioner Brune answered that the department continued to examine, but the focus was currently on the two individual compounds.

Ms. Kostik continued to discuss slide 9.

[3:45:41 PM](#)

Commissioner Brune added that it was important to determine the programs that did not need legislative appropriation to access the funds for emergencies.

Ms. Kostik turned to slide 10, "DEC FY2021 Operating Budget: Significant Changes":

Regulate Wastewater in Port Communities

- 1.2 million cruise ship passengers in 2019
- Increased daily load in the summer has significant impacts on systems
- Replace \$454.6 UGF with Commercial Passenger Vessel Environmental Compliance fees

[3:46:44 PM](#)

Ms. Kostik advanced to slide 11, "DEC FY2021 Operating Budget: Significant Changes":

Transfer Monitoring of Cruise Ship Air Emissions

- Moves enforcement from Division of Water to Division of Air Quality
- Activities include
 - Opacity readings
 - Ambient air monitoring
 - Complaint response
- Transfer \$312.6 Commercial Passenger Vessel Environmental Compliance fees and 1 position
- No increase to costs No change in services

Vice-Chair Ortiz asked about the monitoring that took place for cruise ship air emissions in port communities.

Ms. Kostik answered that there was an opacity reading that was based on the emissions coming from the smokestack of cruise ships. she remarked that the color was important to determine the level of pollutants in the emissions.

Vice-Chair Ortiz surmised an individual within DEC did the review.

Ms. Kostik believed so and she would follow up.

Commissioner Brune answered there was an approved methodology for the program.

Vice-Chair Ortiz asked if the test happened every time a cruise ship came into a port.

Commissioner Brune would follow up. He did not know the frequency of testing.

[3:49:24 PM](#)

Ms. Kostik moved to slide 12, "DEC FY2021 Operating Budget: Significant Changes":

Increase Inspections for Alaska Pollutant Discharge Elimination Systems (APDES) Program

- Primacy over portion of Clean Water Act
- Permits all major industries in Alaska
- Alaska received failing grade in recent EPA review due to staffing deficiencies
- EPA conducting inspections on DEC's behalf
- RPL approved in December added \$430.0 Fed to fund 4 new positions in FY2020
- Increase \$573.0 Fed and positions funded in RPL
 - Increased inspections by DEC staff
 - Improve program performance

[3:50:28 PM](#)

Vice-Chair Ortiz would have questions on the Ocean Ranger slide. He held the last slide for a later time.

Commissioner Brune offered to meet with individuals on the committee

Representative LeBon thanked the commissioner for traveling to Fairbanks and the Chamber of Commerce on the air quality challenge that had existed for a number of years.

[3:52:29 PM](#)

AT EASE

[3:53:12 PM](#)

RECONVENED

HB 205 was HEARD and HELD in committee for further consideration.

HB 206 was HEARD and HELD in committee for further consideration.

Vice-Chair Ortiz reviewed the meeting for the following day.

#

ADJOURNMENT

[3:53:40 PM](#)

The meeting was adjourned at 3:53 p.m.