

HOUSE FINANCE COMMITTEE
February 4, 2020
1:33 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:33 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

Michael Johnson, Commissioner, Department of Education and Early Development; Neil Steininger, Director, Office of Management and Budget, Office of the Governor; Heidi Teshner, Director, Finance and Support Services, Department of Education and Early Development; Kelly Tshibaka, Commissioner, Department of Administration; Brad Ewing, Administrative Services Director, Department of Administration/Department of Revenue, Office of Management and Budget.

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 OVERVIEWS:

DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT
DEPARTMENT OF ADMINISTRATION

Co-Chair Foster reviewed the agenda for the meeting.

#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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^DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT

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MICHAEL JOHNSON, COMMISSIONER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, introduced himself.

NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, shared that until two weeks prior he had served as the administrative services director for the department.

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Commissioner Johnson provided a PowerPoint presentation titled "Department of Education and Early Development (DEED): FY 2021 Budget Overview House Finance Committee," dated February 4, 2020 (copy on file). He briefly highlighted slides 2 and 3:

Our Mission

An excellent education for every student every day.

Our Vision

All students will succeed in their education and work, shape worthwhile and satisfying lives for themselves, exemplify the best values of society, and be effective in improving the character and quality of the world about them. Alaska Statute 14.03.015

Purpose

DEED exists to provide information, resources, and leadership to support an excellent education for every student every day.

Commissioner Johnson moved on to discuss slide 4 titled "Alaska's Education Challenge." He read from the slide:

An excellent education for every student every day.

Cultivate Safety and Well-Being

All schools will be safe and nourish student well-being.

Increase Student Success

Success will be identified using multiple measures as part of a rich and varied curriculum.

Support Responsible and Reflective Learners

Families, tribes, educators, and communities will provide relevant learning opportunities.

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Commissioner Johnson turned to slide 5 titled "DEED FY 2021 Operating Budget: Leadership." He briefly addressed the department's organizational structure that was depicted on the slide. He offered that the department reported to the State Board of Education.

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HEIDI TESHNER, DIRECTOR, FINANCE AND SUPPORT SERVICES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, reviewed slide 6 titled "FY 2021 Operating Budget Comparison." She explained that the chart and graph showed the overall snapshot of the department's budget and broad categories of funding. She pointed to the table at the bottom of the slide that showed the approximate \$15.4 million reduction from FY 19 through FY 21. She commented that the one-time funding outside of the foundation formula appropriated in FY 19 was not included in the FY 21 budget. She listed the "Significant Items" contained in the FY 21 budget:

- The foundation formula was fully funded with a Base Student Allocation (BSA) of \$5,930.
- Additional federal authority for the Comprehensive Literacy State Development Grant.
- The Residential Schools Program added two new schools.
- The budget discontinued the Online With Libraries Video Conference Network (OWL).
- Outsourced Federal Family Education Loan Program (FFELP) Loans.

Ms. Teshner expounded that the literacy grant was a five year grant worth about \$25 million. She noted that the two new residential schools added approximately \$9 hundred thousand in Unrestricted General Funds (UGF).

Co-Chair Foster asked if the \$30 million in one-time funding was included in the slide. Mr. Steininger replied that the funds were not included in the slide. Co-Chair Foster asked why the slide did not contain the spending difference between the FY 20 and FY 21 budget yet compared FY 19 to FY 21. He assumed the information was readily available. Mr. Steininger answered in the affirmative. He

was uncertain why the slide did not contain the FY 20 to FY 21 comparison.

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Representative Sullivan-Leonard referred to the Department of Health and Social Services (DHSS) budget presented the previous day. She noted the budget included early education funding. She asked whether the funding originated in DEED and was transferred to DHSS. Commissioner Johnson believed she was referencing the Parents as Teachers program. The program was not changed, it was just moved. He deferred the answer to Ms. Teshner that was addressed in a later slide.

Representative Wool asked whether Mt. Edgecumbe was considered a residential school. Ms. Teshner replied that Mt. Edgecumbe was a state run residential school. The two additional residential schools were administered by their districts.

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Ms. Teshner turned to slide 7 titled "FY 2021 Fund Source Breakdown by Fund Category." She highlighted that the bulk of DEED funding was UGF mostly expended on the foundation formula. She pointed to the agency operating formula line on the upper table. Included in the formula line were payments for special schools, youth in detention, student transportation, and residential schools. She relayed that the chart also included duplicated funds that helped track expenditures assigned to two different budgetary categories. The Higher Education Investment Fund represented the majority of the "Other Funds" category and was noted under Designated General Funds (DGF) funding the Alaska Performance Scholarship awards and the Alaska Education Grants that were administered by the Alaska Commission on Postsecondary Education (ACPE). In addition, DGF was used for School Broadband Assistance (BAG) grants. She moved to slide 8 titled "Department of Education and Early Development Budget" and reported that District Support represented 80 percent of the entire budget at over \$1.3 billion. The entirety of the department's operation was accomplished through the remaining 20 percent amounting to approximately \$324 million. She indicated that the largest division in the department was the Division of Innovation and Education Excellence containing most of DEED's federal programs. Child Nutrition and the Alaska

Commission on Postsecondary Education (ACPE) were the second and third largest budgetary components. She indicated that DEED's overall budget totaled over \$1.6 billion.

Vice-Chair Ortiz asked where school construction and major maintenance fell in the department's budget. He asked if it was in the capital budget and whether there was money appropriated. Ms. Teshner answered that the items were typically in the capital budget. The governor's budget did not include any funding for the items. She added that school debt reimbursement was funded through Debt Service and was not included in the DEED budget.

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Vice-Chair Ortiz asked if there would be an opportunity to address school maintenance at another meeting. Co-Chair Foster deferred the answer to the Capital Budget co-chair [Rep. Johnston].

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RECONVENED

Vice-Chair Ortiz asked what the average spend on construction and major maintenance had been in past years. Ms. Teshner answered that she did not have the information with her. She offered to follow up. She remembered that for a number of years the cost had been around \$25 million but declined over recent years. Vice-Chair Ortiz asked for verification that currently nothing was appropriated in the budget for construction and major maintenance. Ms. Teshner answered in the affirmative.

Representative Knopp cited slide 6 showing the FY 19 and FY 21 budget comparison. He asked about the one-time funding. He recounted that in FY 19 the one-time funding amount was \$20 million but an additional one-time funding in the amount of \$30 million was outstanding. He asked whether he was correct. Ms. Teshner answered in the affirmative adding that there had been \$20 million appropriated in FY 19 and the department recently received the \$30 million in the current week.

Representative Knopp asked if the \$30 million was included in the overview numbers. Mr. Steininger answered that the slide had been produced prior to the funding distribution.

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Ms. Teshner followed up on Vice-Chair Ortiz's question. She clarified that the school debt reimbursement funded at 50 percent had a small amount of funding for school construction and maintenance included in the Regional Education Attendance Area (REAA) category that was available to small municipal school districts and REAAs.

Co-Chair Foster believed that the amount was about \$19 million and was "tied by formula to the school bond debt program," which amounted to nearly \$50 million. He asked whether his recollection was correct. Ms. Teshner responded in the affirmative.

Representative Sullivan-Leonard asked for information about how the administration was looking at reducing the budget. She highlighted that the bulk of the budget was over \$1.3 billion for K-12 district support. She noted that DEED's budget was the state's largest. She wondered how to bring the spending down to a more sustainable level. Commissioner Johnson answered that school districts were continually going through a budget process and finding ways to be more efficient. He offered that the districts understood the state's budget pressure. He added that one way to make the system more efficient was to improve reading proficiency. Students with reading problems after the third grade required extra supports and interventions that became more expensive to the system.

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Co-Chair Johnston asked whether efficiencies would be created as districts began cooperating more and exchanging their "centers of excellence" with each other to improve outcomes and lower costs. She noted the importance of examining how the state was funding education in order to meet future needs. Commissioner Johnson answered in the affirmative. He relayed that the department was looking at being more efficient, but the budget did not include a reduction to education funding. School districts were currently sharing services for things like vocational studies and teaching. Each year brought more examples of

districts working to increase efficiency and innovation that delivered an increased quality of instruction. Co-Chair Johnston remarked that at some point it would be necessary to adjust the current formula to meet future needs rather than maintaining outdated modes of instruction. Commissioner Johnson agreed. He stated that any time changing the formula was mentioned people got nervous; however, the current formula was developed in 1999. He thought it would benefit students if the state improved the formula that included innovative ways to deliver educational services.

Co-Chair Foster spoke to keeping the budget at a manageable level. He identified the foundation formula as an element that was not something the department currently had control over. He mentioned the 650 decrease in the number of students but an increase in costs due to a growth in special needs students.

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Commissioner Johnson confirmed that there were fewer students in the state but a significant increase in intensive needs students using 13 times the Base Student Allocation (BSA), which offset the potential savings of the reduction in overall students.

Co-Chair Foster thought that the increase was \$15 million or \$19 million. He asked for clarification. Ms. Teshner answered that the difference in basic projected need was \$19.7 million.

Representative Merrick asked what qualified as an intensive student. Commissioner Johnson answered that seven different categories comprised the criteria used to evaluate a student by an Individual Education Plan (IEP) team that included the teacher, special education teacher, principal, and parent; if a student met all the criteria they were identified as an intensive student. Representative Merrick asked if all the intensive students were calculated at the full 13 times the BSA regardless of the level of need. Commissioner Johnson answered in the affirmative and noted that it was the way the model was currently set up.

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Representative Wool asked about intensive students. He wondered if the classification had existed for some time and whether it required a "new level of staffing requirements." Commissioner Johnson answered that the model had been in place "for some time." The seven criteria included things like needing assistance with a personal need or transportation. He explained that criteria did not necessarily mean an autistic student would be identified as an intensive student. However, if identified as an intensive student, the student received a staff person to act as an assistant. Representative Wool used autism as an example and noted the large increase nationally. He asked if the special needs increase was more recent through increased diagnosis and an increased awareness that more intervention and resources should be allocated. Commissioner Johnson answered that the department could follow up with details regarding the increase. He added that the department audited the records and could share the data with the committee.

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Vice-Chair Ortiz highlighted the concern about pressures to drive down costs in education. He cited the presenters' mention of the governor's desire to attract and retain teachers. He deduced that the effort worked in the opposite direction of the goal to drive down costs. Commissioner Johnson answered that one could argue both perspectives; that retaining more teachers was a cost increase or that retention was more cost effective. He commented that no one wanted to work in ineffective schools. He observed that if the state wanted to retain more teachers, providing more supports was necessary to create an environment where people wanted to work. He did not believe providing supports required an increase in funds; it ensured that the current funding was spent effectively.

Ms. Teshner examined slide 9 titled "Department of Education and Early Development Budget" containing a pie chart that broke out the department's budget by line item. She shared that 95 percent of the department's budget was comprised of pass through grants to school districts and other educational entities. She explained that the remaining 5 percent was spent on the department's needs. On average \$5.8 million in grants was distributed per DEED employee and for every dollar in operational costs about \$18.50 was dispersed to communities.

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Ms. Teshner turned to slide 10 titled "FY 2021 Budget - Notable Items in the K-12 Aid to School Districts":

- Foundation Program Fully Funded
 - BSA \$5,930
- Public School Trust Fund (PSTF) Appropriation Structural Change
 - Percent of Market Value (POMV) draw from the PSTF is now directly deposited into the Public Education Fund.
 - This provides more predictability for investment management and potentially greater returns.
 - Appears as a \$21.5M decrement but is matched by an appropriation in the language section of the bill. No change to the funding level.

Ms. Teshner elaborated that the change from the numbers to language section of the Operating Budget bill helped the Department of Revenue (DOR) better manage the fund by eliminating the need to manage the cash flow daily. The funds would be deposited once a year directly to the Public Education Fund, which allowed for greater returns.

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Mr. Steininger interjected that structural changes within the way the appropriations were made from the fund and simplifying the cash flow could result in better returns over time. He delineated that currently daily expenditures were made directly from the Public School Trust Fund, managing the fund as a checking account. The cash flow model limited DOR's ability to manage the fund versus the POMV model that enabled a single draw, allowing the department to predict the draw's amount and timing and offer the management flexibility that ideally would result in better returns over time. Although not a guarantee, the additional flexibility could provide benefits.

Co-Chair Foster surmised that Mr. Steininger described an accounting change in the process to simplify things that did not require additional funds. He described the change as "pretty innocuous."

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Ms. Teshner moved to slide 11 titled "FY 2021 Budget - Notable Items in the K-12 Support":

- Residential Schools Program Component Name Change
 - Better reflects the activities performed in this component.
- \$900.2 UGF - Addition of Two New Residential Programs
 - \$330.2, 20-bed program in the North Slope Borough School District approved by Department in Dec 2016.
 - \$570.0, 50-bed program in the Lower Yukon School District approved by Department in Sept 2019.

Co-Chair Foster wondered whether the programs reflected a full school year for the residential programs. He understood that one program enabled a student to travel from a village to Anchorage for an eight-week program versus a residential school in Galena that operated for a full school year. Ms. Teshner replied in the affirmative. She indicated that both programs were considered "variable-term." The two programs offered the ability for more students to come through and take advantage of the classes the programs offered through variable terms.

Vice-Chair Ortiz was supportive of the two residential programs. He noted that the cost was a \$900,000 increment in a time when funds dedicated to education was decreasing. He asked whether the funds worked mutually with the department's overall goal and the Alaska Education Challenge. Commissioner Johnson answered "Absolutely." He reported that the programs directly related to the second challenge goal of providing more Career and Technical Education (CTE) to students. In addition, the districts were exploring ways to offer more opportunities to students within the existing structures. He explained that the Lower Yukon School District program was developed and offered in conjunction with the Anchorage School District and benefitted both districts students. He believed that the program accomplished the mission of the department and the Alaska Education Challenge to improve the effectiveness of the system.

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Representative Wool asked for verification that the items were for programs and not for brick and mortar buildings.

Commissioner Johnson answered that the expenditure did not fund construction of the facilities. The money went to districts to provide education services, which may involve facility maintenance.

Representative Wool asked whether the facilities already existed. Ms. Teshner answered that the increment request helped pay for the residential costs, not the facility. She noted that the district purchased the building that previously was a hotel.

Representative Josephson asked if the residential programs were competitive. Commissioner Johnson was not aware of the admission process. Representative Josephson ascertained that the programs were not designed to operate like Mt. Edgecumbe that offered a four-year high school education. Commissioner Johnson agreed with the statement. Representative Josephson wondered what the program was designed to do that had not been done ten years earlier.

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Commissioner Johnson replied that he did not characterize the program as addressing an inadequacy. He believed the program represented district leaders being innovative within the context of the geographic realities of the state and provided robust CTE opportunities. He mentioned other examples such as Northwestern Alaska Career and Technical Center (NACTEC) [Nome] and Star of the North, where even though some of the students lived in small communities the districts provided students access to high quality education.

Co-Chair Foster related that in his district it was difficult to have a career and technical center in each village. He observed that the programs granted students in small villages an opportunity to access the education. He trusted that educators had looked at the models to ensure the residential programs were beneficial and offered the village students more opportunities.

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Commissioner Johnson agreed with Co-Chair Foster. He detailed that finding enough qualified teachers played a role in turning to residential models. In addition, specialized equipment was necessary as well as partnerships

with industry and businesses. He noted that NACTEC represented a great partnership between school districts, industry, the state, and federal government that provided students with opportunities they would not otherwise have access to. The Lower Yukon School District and Anchorage School District were discussing adding additional pathways in Anchorage in areas like pre-law, benefitting students in both rural and urban areas. Co-Chair Foster pointed to Commissioner Johnson's remarks regarding the difficulties of providing CTE in small rural communities. He shared that the NACTEC program had heavy machinery simulators that looked exactly like the control panels on the machinery. He pointed out the difficulty of sending simulators to rural communities, which justified rural students travelling to Nome for educational opportunities.

Vice-Chair Ortiz thought it sounded like a great program. He asked whether the \$900,000 was a one-time increment outside of the BSA and if it would recur in the out years or flow out of the BSA in the future. Commissioner Johnson answered that when a student was enrolled in a residential school additional funding outside the BSA supported the residential component.

Ms. Teshner added that the \$900,000 was a base budget increment that recurred annually up to the number of beds budgeted. The students in the programs came from home districts that would continue to receive foundation formula funding.

Commissioner Johnson interjected that students who participated in these types of programs had a 20 percent higher graduation rate.

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Representative Wool asked for clarification that the residential programs used state school district funding. Commissioner Johnson replied in the affirmative and noted that Mt. Edgecumbe High School was operated by DEED. Representative Wool asked if the department considered operating another boarding school. Commissioner Johnson replied that he desired 20 more NACTEC type programs and reported that ideas were discussed, but it was an expense that had to be balanced with the current model. He thought that the CTE programs and early reading proficiency were an investment in better outcomes. Representative Wool asked

whether the department was considering more charter schools or if it was a district decision. Commissioner Johnson answered that under the current statutes charter schools were a district decision.

Representative LeBon recalled his experience as a school board member from 20 years ago dealing with high school qualifying exams. He asked what DEED did to ensure that graduating high school students were prepared.

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Commissioner Johnson asked for clarification. Representative LeBon recounted that each of the school districts set its own standards for graduation. However, the state had previously set a higher bar through requiring passing high school qualifying exams. He asked for verification that the qualifying exams were eliminated and wondered what had replaced the exam. Commissioner Johnson answered in the affirmative and stated that nothing had been implemented to replace the exams. Representative LeBon asked what was done to ensure students were prepared "as graduating seniors." Commissioner Johnson wondered whether he was asking if he believed the state's high school graduates were prepared for career and college. Representative LeBon replied that he wondered whether the state "had a say" regarding graduation preparedness or if the responsibility had been decentralized and left to the discretion of the districts. Commissioner Johnson answered that the state repealed the qualifying exam and currently there was not quality control measures in place to determine if graduates from different districts met the same standards for graduation. He communicated that discussions were ongoing concerning implementing universal assessments for courses. The same assessment would be given to students in all districts. He indicated that currently the department administered end of grade assessments through ninth grade. He favored end of course assessments for high school as a quality control measure.

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Representative Merrick asked if there were other state run schools besides Mt. Edgecumbe High School and if so, how many. Commissioner Johnson answered in the negative.

Ms. Teshner reviewed slide 12 titled "FY 2020 - NOTABLE ITEMS Division of Innovation and Education Excellence:"

- Early Learning Programs Fully Funded
 - Parents as Teachers has been transferred to the Department of Health and Social Services
- \$3,945.9 Fed - Comprehensive Literacy State Development Grant (FY21-25)
- \$(14,700.0) Fed - Federal Programs Grant Carry Forward
 - Matched by an appropriation in language section of the bill.
 - No reduction in federal programs or award.
 - Solves an issue causing difficulty in program execution and grant disbursal.

Ms. Teshner elaborated that the federal title program grants covered a period of 27 months, which allowed DEED to operate three grants over one fiscal year and was shown as a reduction in federal receipt authority as proposed in the governor's budget.

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Ms. Teshner moved to slide 13 related to the Mt. Edgecumbe High School:

- \$650.0 DGF - Operational Cost of Mt. Edgecumbe Aquatic Center
- Program receipt authority to support operations of the pool will be collected through public swims and contracts with outside entities.
- \$4,639.1 fund change from Public School Trust Fund (PSTF) to UGF
- Transfers state support for MEHS to UGF rather than making expenditures direct from the PSTF.
- Managing fund for daily expenditures is onerous for investment management. A structural change to the appropriation increases predictability and potentially increases returns.
- Increased UGF appropriation to MEHS offset by transfer to Foundation Program.

Co-Chair Foster asked about the receipt authority for the Mt. Edgecumbe Aquatic Center. He wondered whether the item

allowed the school to charge a fee for the activity. Ms. Teshner replied in the affirmative. Co-Chair Foster remembered that in the prior budget the governor vetoed UGF that had been appropriated by the legislature. He asked for the amount. Ms. Teshner answered that there had been one-time funds of \$400 thousand to support a multi-year expenditure for the operational costs of the aquatic center. She added that the governor had vetoed receipt authority from the current budget. Co-Chair Foster asked if there was any UGF in the FY 21 budget for Mt. Edgecumbe. Ms. Teshner replied that there were no UGF funds in the FY 20 nor the FY 21 budget to help with the operations of the Mt. Edgecumbe High School. Co-Chair Foster noted that the aquatic center was part of a bond package in 2012.

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Representative Knopp asked what the funding for the aquatic center in the Supplemental Budget was for. Ms. Teshner responded that was for the current year's operation.

Representative Knopp inquired about the amount of funding. Mr. Steininger added that the supplemental budget would not be introduced until the following day.

Vice-Chair Ortiz asked about the \$600 thousand receipt authority for the pool. He asked how much of the \$600 thousand the school expected to collect. Ms. Teshner answered that pool managers estimated that about \$200 thousand in receipts could be collected to help pay for the pool, leaving a shortfall of around \$400,000. The school was finding funds to help offset costs.

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Vice-Chair Ortiz noted that the supplemental had not been officially announced. He wondered what amount may be put forward to help offset operational costs. Ms. Teshner was unaware of the amount. She turned to slide 14 titled "Notable Items Libraries, Archives, and Museums:"

- \$100.0 DGF - Increase entry fee to State Museums to Support Operational Costs
 - o \$2 per ticket increase. Discounts for students and seniors will be retained.

- \$(232.9) UGF - Discontinue OWL Video Conferencing System
 - System is underutilized despite promotional efforts. 271 conferences occurred in FY2019 at a cost of approximately \$860.00 per call.
 - System hardware is at end of life and requires costly replacement.

Ms. Teshner elaborated that the component for OWL that subsidized internet would continue. The decrease merely ended the videoconference portion of the program.

Vice-Chair Ortiz asked whether there had been an assessment about whether communities would have access to alternatives that allowed a form of videoconference to continue.

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Commissioner Johnson replied that staff at the state library had done an assessment. He detailed that the average amount of megabits (Mbps) required for internet alternatives was 1.5 Mbps for both download and upload. All libraries were able to supply the amount. The department concluded that any library with OWL had internet adequate to support other available options.

Ms. Teshner highlighted slide 15 titled "FY 2021 NOTABLE ITEMS Alaska Commission on Postsecondary Education (ACPE):"

- \$(586.3) Other - Outsource Servicing of Some Student Loans
 - The Alaska Student Loan Corporation's Federal Family Education Loan Program loans will be outsourced to a new servicer - the Pennsylvania Higher Education Assistance Agency.
- \$50.8 DGF - WWAMI Medical Program Obligation
 - Increase in the contractual obligation to participate in the WWAMI (Washington, Wyoming, Alaska, Montana, and Idaho) medical program.

Representative Merrick asked for the number of state museums and whether they were all subsidized. Ms. Teshner responded that the state operated two museums: The State Library, Archives, and Museum in Juneau and the Sheldon Jackson Museum in Sitka. She added that both museums had

General Fund (GF) program receipt authority for admission fees.

^DEPARTMENT OF ADMINISTRATION

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KELLY TSHIBAKA, COMMISSIONER, DEPARTMENT OF ADMINISTRATION, provided a PowerPoint presentation titled "Department of Administration: FY 2021 Budget Overview to the House Finance Committee," dated February 4, 2020 (copy on file). She began with an organizational chart on slide 2 titled "Dept. of Administration FY 21 Operating Budget: Mission and Organization." The left side of the chart showed the divisions that served state agencies. The right showed agencies serving the public. She delineated that the mission of the department provided for "mission dissonance." The mission only covered services to state agencies via statute. She noted that DOA's vision was to "champion improvement in the State's performance and results." She pointed to two divisions which the department was consolidating. The Division of Personnel and Labor Relations were being consolidated across the state. In addition, the Office of Information Technology and the Division of Shared Services of Alaska would merge to form Alaska Administrative Productivity and Excellence (AAPEX). She reported that the action achieved three "unprecedented goals;" cost savings, consolidated services, and customer satisfaction. The department completed an assessment and benchmarking of the two divisions. She discovered that DOA had partially implemented shared services across the state and had success with travel, leasing, and centralized printing but needed more work on accounts payable, collections, and procurement. She noted that in the prior year, the department took 33 days to process a travel reimbursement and currently lowered the number to 4 days. She reported that in the previous year each accounts payable staff processed 3,604 invoices and in the current year processed 4,649 invoices. In addition, the cycle time to process and approve a payment took 9.5 days in the prior year and was reduced to 4.6 days currently.

Commissioner Tshibaka continued with a discussion of the Division of Information Technology. She reported that 700 positions were budgeted for Information Technology (IT) in the state and only 42 percent resided in DOA. However, 100 percent of the performance was expected from the

department. She informed members that most of the remaining 48 percent of IT positions would be moved to DOA, except for positions related to business applications. The state had a 20 percent vacancy rate in IT. The total statewide IT spend was unclear and estimated at \$240 million.

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Vice-Chair Ortiz asked the commissioner to elaborate on why the state had a 20 percent vacancy rate in the IT division. Commissioner Tshibaka responded that it was historically challenging to fill IT position in the state. The department was hoping to incentivize potential IT candidates by offering job flexibility and positive working environments since the state could not compete with private sector salaries. Vice-Chair Ortiz asked what the main goal of the consolidation of Personnel and Labor Relations services was and how it related to overall effectiveness and goodwill. Commissioner Tshibaka specified that consolidation of Human Resources (HR) was required via administrative order that defined the function as a joint shared service. The agency divisions would be centralized, and services would be standardized. Differing functions led to numerous inefficiencies and led to operating at a "basic level." She characterized the consolidation as "transformational rather than transactional." She intended to maintain the "relational aspect of HR" but systemize operations. She delineated that rather than "customize" operations for each agency, DOA could offer HR managers the opportunity to engage in "higher performing functions" like actively recruiting top talent. Her goal was to "mature the entire HR organization" while maintaining "the personal touch" that DOR had with departmental HR managers.

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Representative Knopp acknowledged that the IT efficiencies was a priority of the commissioner. He asked for a completion timeline. He wondered whether the 20 percent vacancy rate was proportional to DOA's vacancy rate. Commissioner Tshibaka replied that the timeline for the completion of AAPEX was November 2020. The 20 percent vacancy rate was standard across all departments. She continued with her discussion of slide 2. She elaborated that the state currently had over 1,700 business applications with a high number of custom applications: over 900. She emphasized that a lot of IT time was devoted

to maintaining the applications. Similarly, the state had 77 development platforms versus approximately 24 in other states. In addition, there were over 6,000 databases the state paid for. She indicated that the state had 37 IT processes, and all were "below average." She reported that the department was in "stage 2" of the assessment process; finding solutions to the findings and began stage 3; implementing the fixes.

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Commissioner Tshibaka continued with the services to the public. She reported that the staff positions in Juneau for the Violent Crimes Compensation Board (VCCB) would be transitioned to the Department of Public Safety in Anchorage towards the end of the fiscal year in a "sequential manner." She indicated that the Public Defender Agency (PDA) received a 5.2 percent budget increase in FY 20 that included 10 new positions [PCNs]. She noted that the agency was working hard to fill the 31 vacancies and had hired 15 positions. She was working with the agency to fill the remaining positions. The focus was on increasing money for travel and paying bar dues to help with recruitment and retention. The agency was examining its operations in order to optimize its budget request in the following year.

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Commissioner Tshibaka continued to review the services provided to the public on slide 2. She reported that in the area of Public Communications Services, the department was funding the satellite infrastructure for emergency communications.

Representative Josephson asked if the administration had seen "a net outmigration" of state employees from Juneau. Commissioner Tshibaka answered that for most of the year outmigration remained flat but ballooned to 20 at the end of the year.

Representative Josephson recounted that the Division of Motor Vehicles (DMV) had moved from the Department of Public Safety (DPS) to DOA and wondered when the move happened. Commissioner Tshibaka was unable to answer the question.

Co-Chair Johnston remembered the DMV was under DOA for a long time since the former Knowles administration.

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Commissioner Tshibaka moved to slide 3 titled "Dept. of Administration FY 21 Operating Budget: DOA Strategic Plan and addressed the department's goals.

DOA GOALS and OBJECTIVES

- Provide Excellent Products and Services
 - Recruit, develop, retain, and deploy right talent
 - Improve quality, efficiency, and timeliness of DOA products and services
 - Increase stakeholder awareness of and satisfaction with DOA products and services

- Promote SOA Efficiency and Cost Savings
 - Gain efficiencies for the State through new or improved programs or processes
 - Implement processes and programs to achieve cost savings
 - Improve timeliness, quality, and results of SOA agencies

- Pursue Innovations and Initiatives
 - Offer proactive contributions to the SOA
 - Develop and implement innovations to advance the mission of DOA or other SOA departments and agencies
 - Increase SOA IT proficiency, tools, and capacity

Commissioner Tshibaka reviewed slide 4 titled "Dept. of Administration FY 21 Operating Budget: Department Summary"

- -\$14.9M (-4%) and -34 positions (-2%) from FY20 to FY21
- FY21 proposals focus on investing in strategic priorities, efficiencies, and structural changes

DOA FY21 Budget Proposals

- Increment to cover attorney bar dues with the Alaska State Bar Association
- Classification Section revitalization plan: +2 PCNs
- Delete vacant OIT PCNs: -11 PCNs
- Increase capacity in OPA to cover rural and conflict cases, absorb increase workload due to SSA changes: +10 PCNs
- Increment in OPA to help fill Public Guardian PCNs
- Increments for PDA and OPA travel to address workload throughout the state, avoid contracting out cases at considerable expense, and minimize delays in case disposition
- Automate employee onboarding system (capital project)
- Delete HR/DOPLR PCNs: -7 PCNs
- Automate performance evaluation system (capital project)
- Deferred maintenance, renovation, repair, and equip. (capital project)
- Software for Shared Services of Alaska initiatives (capital project)
- Electronic timekeeping (capital project)
- Upgrade the State's Enterprise Resource Planning (ERP) software, IRIS (capital project)
- Upgrade to cloud servers and replace retirement system servers (capital project)
- Upgrade service management systems and ticketing systems (capital project)

Commissioner Tshibaka elaborated on slide 4. She believed that the departments goals and objectives were tied to the budget proposals that should promote and advance a strategic plan. She briefly described each budget proposal. She spoke to updating the state's procurement system by making procurement information centralized, easily accessible, and transparent eliminating duplicate purchases thus, creating savings.

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Representative Carpenter asked about the ERP upgrade solution and wondered whether it was "all encompassing." Commissioner Tshibaka replied that the Integrated Resource Information System (IRIS) upgrade was not adequate to cover

all the upgrades listed. She reported that procuring other vendors was necessary to accomplish the objectives.

Commissioner Tshibaka turned to slide 5 titled "Dept. of Administration FY 21 Operating Budget: What DOA is Like." The slide portrayed a brick wall with the names of each state agency on the bricks, depicting her metaphor that DOA was the mortar that held the state together through the following six "objectives" listed on the slide:

MODERNIZATION
INNOVATION
EFFICIENCY
COST SAVINGS
CENTRALIZATION
TRUST

[3:05:27 PM](#)

BRAD EWING, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF ADMINISTRATION/DEPARTMENT OF REVENUE, OFFICE OF MANAGEMENT AND BUDGET, addressed slide 6 titled "Dept. of Administration FY 21 Operating Budget: Budget Comparison:"

- Total: -\$14.9M (-4%) and -34 positions (-2%) from FY 20 to FY 21
- UGF: -\$3.7M (-5%), DGF: -\$2.0M (-7%), Other: -\$6.3M (-2%), Federal: -\$2.9M (-72%) from FY20 to FY21

FY21 Gov. Proposed: Significant Changes

- Efficiency gains: 1,264 PCNs in FY 20, 1,230 PCNs in FY 21
- Reduce budget and PCNs in OIT, SSOA, and DOPLR
- +\$1.6M for Office of Public Advocacy: +10 PCNs, public guardians, and travel
- Classification Section revitalization plan (+2 PCNs)
- Bar dues for licensed Alaska Bar attorneys
- Org. structure changes
- Alaska Oil & Gas Conservation Commission to DCCED (Administrative Order #307)
- Alaska Land Mobile Radio and SATS to DMVA
- Continue planning, onboarding, and investments to support consolidation efforts
 - Administrative Order 284 (OIT)
 - Administrative Order 304 (Procurement)

- Administrative Order 305 (HR)

Mr. Ewing pointed to the left side of the slide that showed a chart depicting the FY 2019 and FY 2020 Management Plan and the FY 2021 Governor's Proposed Budget. He reminded the committee that the management plan was the department's spending plan developed from each year's authorized budget. He noted the increase from FY 19 to FY 20 and indicated that a significant portion of the increase was for the Office of Information Technology (OIT) due to administrative order 284 related to OIT consolidation. He explained that the increase reflected the transfer of authority from other departments to DOA and was not an actual increase in the state's budget. He reported that as part of the crime bill [HB 49 Crimes; Sentencing; Drugs; Theft; Reports - Chapter 4 FSSLA 19 07/08/2019] in 2019, both the PDA received a \$1.3 million increase and the Office of Public Advocacy (OPA) received a \$700 thousand increment. He mentioned that other organizational structural changes occurred. The Alaska Oil and Gas Conservation Commission was transferred to the Department of Commerce, Community and Economic Development as part of Administrative Order 307 and the Alaska Land Mobile Radio was transferred to the Department of Military and Veterans Affairs.

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Co-Chair Foster asked how many of the 34 eliminated positions were vacant and how many were transfers. Mr. Ewing answered that one position was filled and the remainder were vacant. He added that some transfers from Alaska Land Mobile Radio System (ALMR) occurred. He reported that DOA was deleting 11 vacant positions from OIT and 6 from the Division of Personnel and Labor Relations.

Representative Wool asked about the transfer of ALMR to DMVA. He had heard from fire department chiefs that DMVA did not use the ALMAR system and questioned why the transfer was to DMVA rather than DPS; an agency that did use the radio system. He asked what the mission alignment to DMVA was. Commissioner Tshibaka answered that DOA had discussions with both departments to determine the best place to transfer the system. She elaborated that since the system was used for statewide emergencies, it was decided to place it with DMVA to maintain and operate the system.

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Mr. Ewing examined slide 7 titled "Dept. of Administration FY 21 Operating Budget: Funding Sources:"

- DOA Budget: 19% UGF, 7% DGF, 74% Other Funds, < 1% Federal
- DOA Fund Sources: 59% duplicated fund sources

Mr. Ewing reviewed other fund sources in the department's budget. He reported that since DOA was a support agency for other departments much of the 74 percent of other funds were interagency receipts. He pointed to a table at the top of the slide and noted the department had no formula funding with most of the funding considered duplicated. He explained that interagency receipts were an example of a duplicated fund source.

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Mr. Ewing turned to slide 8 titled "Dept. of Administration FY 21 Operating Budget: Department Summary:"

- Total: -\$14.9M (-4%) and -34 positions (-2%) from FY 20 to FY 21
- UGF: -\$3.7M (-5%), DGF: -\$2.0M (-7%), Other: -\$6.3M (-2%), Federal: -\$2.9M (-72%) from FY 20 to FY 21

Mr. Ewing pointed to the slide's bar graph showing a fund source comparison on the left and position count by location on the right. He noted that DOA's employees were close to evenly distributed between Anchorage and Juneau with 71 positions in Fairbanks and 144 positions in other parts of the state in the areas of IT, PDA, OPA, and DMV.

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Mr. Ewing advanced to slide 9 titled "Dept. of Administration FY21 Operating Budget: Appropriation|RDU Summary:"

- Six of DOA's 10 appropriations (result delivery units) have budgets > \$1M
- Of these six (below), Legal and Advocacy Services (OPA|PDA) is the only one predominantly funded by UGF

Mr. Ewing delineated that Centralized Administrative Services had a budget of roughly \$14 million, the Division of Finance had a budget totaling approximately \$13 million and the Division of Retirement and Benefits' budget was \$55 million. He addressed the bar graph on the slide showing the department's budget by appropriation. He related that Centralized Administrative Services was primarily funded through "other funds" and its budget remained relatively flat between FY 20 and FY 21. He reported that Shared Services of Alaska had a two percent decrease from FY 20 to FY 21 and was predominately funded by interagency receipt. The Office of Information Technology budget declined between FY 20 and FY 21, primarily due to the ALMR transfer. However, \$3 million was reduced in IT services representing a 4 percent reduction. He communicated that the Division of Risk Management's budget was almost entirely static at \$40.8 million. He noted that OPA and PDA were primarily funded through UGF and showed a 3 percent increase amounting to \$1.8 million between FY 20 and FY 21. The increase was on top of an increase in the past year related to the crime bill. He commented that DMV was funded through program receipts and increased one percent between FY 20 and FY 21.

Representative Carpenter asked about the backlog of cases in PDA. He was informed that PDA was "overworked" and wondered whether the funding was sufficient to resolve cases before reaching trial therefore, saving the state money.

Commissioner Tshibaka answered that the reasons for the backlog was complex and not simply a matter of vacant positions. She spoke to the significant challenges with the historical vacancy rate of 8 to 23 percent and recruiting issues. Public defender agencies in the Lower 48 states offer higher salaries than in Alaska. She communicated that public defender jobs were considered "pipeline jobs" preparing recently graduated attorneys to move into law firms. However, the entire justice system contributed to the backlog. She informed the committee that the average PDA caseload was 145 cases per attorney in the prior year and over 160 in the current year. The maximum caseload standards set by the American Bar Association was one attorney per 150 felonies or 400 misdemeanors per year, with a mixed average of 275. She qualified that many of the state's PDA's had administrative duties in addition to their legal duties. The agency review discovered that a

better balance between support staff and attorneys was necessary. The department was examining how to expedite caseloads. She believed that indigent Alaskans would be best served by PDAs and not by private contracting attorneys.

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Mr. Ewing highlighted slides 10 and 11. Slide 10 was titled "Dept. of Administration FY 21 Operating Budget: Centralized Admin. Services:"

- \$43.1 (0%) and -4 positions (-1%) from FY 20 to FY 21
- Delete vacant positions and authority to realize efficiencies

Mr. Ewing briefly highlighted slide 11 titled "Dept. of Administration FY 21 Operating Budget: Changes from FY 21 Adjusted Base'" which contained a chart related to budget changes for Centralized Administrative Services. He pointed to the increment for the classification section for two additional positions and the proposed strategic investments within the Division of Retirement and Benefits of \$300 hundred thousand for actuarial services and pension system audits. He concluded that the net effect of the changes was a static budget (\$43 thousand decrease) and a reduction of 4 positions.

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Mr. Ewing reviewed slide 12 titled: "Dept. of Administration FY 21 Operating Budget: Shared Services of Alaska (SSOA):"

- \$1,732.5 (-2%) and +2 positions (+2%) from FY 20 to FY 21
- Reduce authority to align with anticipated revenue and expenditures

Mr. Ewing indicated that due to the consolidations, the SSOA budget decreased by \$1.6 million and deleted two accounting technician positions for a decrement of \$220 thousand. He moved to slide 13 titled "Dept. of Administration FY 21 Operating Budget: Office of Information Technology:"

- \$2,831.1 (-4%) and -14 positions (-6%) from FY 20 to FY 21
- Delete long-term vacant positions and authority to realize consolidation efficiencies

Mr. Ewing disclosed that IT staff were found throughout the state for a total of 238 positions. He briefly discussed slide 14 titled "Dept. of Administration FY 21 Operating Budget: Changes from FY 21 Adjusted Base." He pointed to the \$1.6 million decrement associated with the deletion of 11 positions and the \$1.5 million decrease associated with deleting contract authority to realize contract savings.

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Mr. Ewing advanced to slide 15 titled "Dept. of Administration FY 21 Operating Budget: Risk Management:"

- +\$5.2 (0%) from FY20 to FY21
- No changes in position count from FY 20 to FY 21

Mr. Ewing reported that six positions were budgeted for risk management. He turned to slide 16 titled "Dept. of Administration FY 21 Operating Budget: Legal and Advocacy Services:"

- +\$1,797.8 (+3%) and +9 positions (+3%) from FY 20 to FY 21
- Add positions and authority to support rural defense, existing units, and changes in Social Security Admin.

Mr. Ewing briefly addressed slide 17 titled "Dept. of Administration FY 21 Operating Budget: Changes from FY 21 Adjusted Base:" He recapped that the request added ten positions to increase inhouse capacity. He highlighted a \$250,000 increment request for the Office of Public Advocacy for authority to fill and retain public guardian positions. He noted that the request was in addition to a \$2 million increment in the prior year's budget related to the crime bill.

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Mr. Ewing reviewed slide 18 titled "Dept. of Administration FY 21 Operating Budget: Motor Vehicles:"

- +\$88.3 (+1%) from FY 20 to FY 21

- No changes in position count from FY 20 to FY 21

He commented that the appropriation for the Division of Motor Vehicles (DMV) increased by one percent and there were no change records from the FY 21 adjusted base to the governor's proposed budget. He examined the following summary slides. Slide 19 titled "Dept. of Administration FY 21 Budget: Changes from FY 21 Adj. Base to FY 21 Gov:"

Operating Budget: DOA's 35 components (allocations)

- 8 components with proposed changes from FY21 Adj. Base to FY21 Gov., summarized in tables above
- 4components transferred out of agency: AOGCC, ALMR/SATS, VCCB (*Discussed on Slide 6*)
- 3 components are not funded: Public Broadcasting Commission/Radio/T.V. (*Discussed on Slide 6*)
- 20 components with no changes > \$10.0 from FY 21 Adjusted Base to FY 21 Gov.
 - Centralized Admin. Services: Office of Administrative Hearings, DOA Leases, Office of Centralized Human Resources, Health Plans Administration, Labor Agreements Miscellaneous Items
 - SSOA: Statewide Contracting and Property, Print Services, Leases, Lease Admin., Facilities, Facilities Admin., Non-PBF Facilities
 - Administration State Facilities Rent
 - Satellite Infrastructure
 - Risk Management
 - Alaska Public Offices Commission
 - Division of Motor Vehicles

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Mr. Ewing concluded the presentation on slide 20 showing capital proposals and recent administrative orders titled "Dept. of Administration FY 21 Budget: Capital Proposals and Recent Admin. Orders:"

Capital Projects

\$320.0 UGF Automated Performance Evaluations and Onboarding System

- \$1,000.0 UGF Electronic Timekeeping
- \$7,100.0 UGF Integrated Resource Information System Upgrade
- \$230.4 Other Retirement System Server Replacement
- \$5,946.0 Other Public Building Fund Deferred Maintenance
- \$1,800.0 UGF Software for the Shared Services Initiative
- \$1,250.0 UGF OIT Upgrade to Cloud Servers
- \$1,000.0 UGF Uniform Ticketing System/Service Management System Upgrade

Administrative Orders

- Administrative Order No. 284: Reorganizing Telecommunication and IT Services within the Executive Branch
- Administrative Order No. 304: Establish Statewide Procurement Consolidation
- Administrative Order No. 305: Establish Statewide Human Resources Consolidation
- Administrative Order No. 307: Transferring the Alaska Oil and Gas Conservation Commission

Representative Carpenter asked for verification that most of the systems that would be upgraded were for the department's use. Commissioner Tshibaka replied that the systems were used statewide.

Vice-Chair Ortiz became acting chair of the meeting.

Representative Merrick asked whether the department was addressing the problems with rural residents applying for REAL ID. Commissioner Tshibaka answered that DOA established a REAL ID pilot program currently operating in rural communities where a "point of contact" validated the paperwork. The program was piloted in New Stuyahok, a village near Dillingham. The department issued REAL IDs to 80 residents. However, the department experienced an unforeseen challenge. She elaborated that the camera was intricate because of the digital specification requirements for the ID's biometric identifiers. The camera was optimized for the atmospherics in a room and needed adjustments in every new environment. A "high-level" DMV supervisor had to travel to recalibrate the camera for every picture. The department had five more locations lined

up for the pilot program and would reassess upon completion. She wanted to avoid setting up false expectations. The department was trying to educate Alaskans that a REAL ID was not needed to travel by air. She reported that there were 15 other forms of identification, including a passport, permanent resident card, a maritime card, a tribal card, military card, etc. that was sufficient for air travel on October 1, 2020. She discussed the rigorous application process for a REAL ID that required a passport or birth certificate, two forms of proof of residency, a social security card, the "special" photo taken and other documents like name change and divorce decrees. She believed that obtaining a REAL ID was a high hurdle for Alaskans to achieve.

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Commissioner Tshibaka continued that DMV in rural areas was educating rural Alaskans about the identification other than REAL ID that was acceptable for air travel. Representative Merrick asked if the department was anticipating the need for additional funding pertaining to the REAL ID. Commissioner Tshibaka replied in the negative.

Vice-Chair Ortiz asked about the third bullet point on slide 19 related to three components not funded including the Public Broadcasting Commission/Radio/TV. He noted that the slide mentioned the item had been discussed on slide 6. He asked if he had missed something in the presentation. Mr. Ewing answered that slides 5 and 6 did include a discussion regarding the issue.

Vice-Chair Ortiz spoke to concern he heard from his constituents about the lack of state support for public radio. He felt that the concern was widespread throughout rural Alaska. He asked the commissioner whether she believed that public broadcasting fit under the jurisdiction of the department. Commissioner Tshibaka responded that public broadcasting was still under the department's jurisdiction. The Public Broadcasting Commission was administratively supported by DOA and operated under statute AS.44. The commission's duties were to meet and apply for federal grants. Despite the \$2.7 million eliminated from public broadcasting and the matching grants in the prior year there would still be 83 percent of the public broadcasting funds available. The commission could continue to apply for federal, private,

and public funds to make up for the 17 percent loss. She noted that the commission did not meet in the current fiscal year.

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Vice-Chair Ortiz asked if the commission had the support of the administration to continue to meet. Commissioner Tshibaka replied that the department was willing to serve as their support staff, but they had not met. She communicated that previously the Alaska Public Broadcasting Corporation acted as the commissions administrative support staff.

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 thanked the presenters. He reviewed the schedule for the following day.

#

ADJOURNMENT

[3:37:57 PM](#)

The meeting was adjourned at 3:37 p.m.