

HOUSE FINANCE COMMITTEE
February 11, 2020
1:31 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:31 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 Cathy Tilton
Representative Adam Wool

MEMBERS ABSENT

Representative Colleen Sullivan-Leonard

ALSO PRESENT

Ed Sniffen, Deputy Attorney General, Department of Law; John Skidmore, Deputy Attorney General, Criminal Division, Department of Law; Valerie Rose, Administrative Services Director, Department of Law, Office of Management and Budget, Office of the Governor; Julie Anderson, Commissioner, Department of Commerce, Community and Economic Development; Micaela Fowler, Administrative Services Director, Department of Commerce, Community and Economic Development, Office of Management and Budget, Office of the Governor; Jim Andersen, Deputy Director, Division of Economic Development, Department of Commerce, Community and Economic Development; Tom Boutin, Executive Director, Alaska Industrial Development and Export Authority.

PRESENT VIA TELECONFERENCE

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: DEPARTMENT OF LAW

FY 21 BUDGET OVERVIEW: DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT

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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^FY 21 BUDGET OVERVIEW: DEPARTMENT OF LAW

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ED SNIFFEN, DEPUTY ATTORNEY GENERAL, DEPARTMENT OF LAW, introduced himself. He was pleased to provide the committee

with an overview of the responsibilities of the Department of Law. He provided a brief introduction of himself. He had been with the state for over 20 years. He came to the department in 2000 to enforce Alaska's consumer protection and trust laws. He was in that position for 15 years before moving into his current position. He had testified before the legislature numerous times. He began the PowerPoint Presentation: "Department of Law: Budget Overview" (copy on file) with discussing the mission of the department. He turned to slide 2.

Mr. Sniffen reviewed the mission of the Department of Law on slide 2. The department's mission was to provide legal services to state government and prosecute crime for the protection and benefit of Alaska's citizens. The department was responsible for providing legal advice and legal services to all state agencies. The department had two operating divisions, the Criminal Division and the Civil Division. The department also had an administrative services division.

Mr. Sniffen moved to slide 3 which showed the core services of the Civil Division. The division protected Alaskans' safety and financial well-being, fostered conditions for responsible development of Alaska's natural resources, protected the fiscal integrity of the state, and promoted good governance. He would discuss each of the items as he reviewed the slides.

Mr. Sniffen elaborated that the Civil Division had 14 different sections that provided legal services to every executive branch agency, public corporation, and board and commission with the exception of the railroad and the university system which had their own legal counsel. The services fell into two basic buckets. First, the division had a litigation side where it defended cases and pursued claims. Second, the division provided transaction advice to all of the state agencies.

Mr. Sniffen moved to slide 4 which detailed the services provided by the Civil Division relating to protecting Alaskans and included four of the sections within the division: the Commercial and Fair Business Section; the Human Services Section; the Opinions, Appeals and Ethics Section; and the Child Protection Section. The four sections absorbed the bulk of the division's undesignated general fund (UGF) budget. The funds were used to protect

children and vulnerable adults. He relayed that the Commercial and Fair Business Section provided legal services and advice to agencies that monitored insurance companies and licensees, charitable gaming, public utilities, banks, securities, corporations, mortgage brokers, payday lenders, and 20 different professional licensing boards and commissions. The section was responsible for a broad bucket of things.

Mr. Sniffen continued to the Human Services Section which provided advice to the Department of Health and Social Services (DHSS) on all of its legal matters. The section protected vulnerable adults in commitment proceedings or who had guardians or conservators appointed to them and who were unable to represent themselves. The Civil Division also had an Opinions, Appeals, and Ethics Section which was the appellate section. The section handled all types of appeals including the state's child-in-need-of-aid appeals and appeals to the U.S. Supreme Court which the state had done a couple of times in the last few years. The section also handled a variety of other work including ethics and Indian Law advice.

Mr. Sniffen discussed the last section on the slide, the division's Child Protective Section which represented the Office of Children's Services and Child in Need of Aid (CINA) proceedings statewide. He reported that about one-third of the department's UGF budget was used to support the child protection activities that it engaged in.

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Mr. Sniffen moved to slide 5 which discussed the sections of the division related to protecting fiscal integrity and fostering economic development. They included the Regulatory Affairs and Public Advocacy (RAPA) Section and the Special Litigation Section. He explained that RAPA represented the public's interest in proceedings before the Regulatory Commission of Alaska. The Regulatory Affairs and Public Advocacy Section argued on behalf of Alaskans to ensure that utility rates were just and reasonable. In FY 19 RAPA's efforts resulted in saving consumers approximately \$17 million in the form of reduced utility rates.

Mr. Sniffen continued that the Special Litigation Section handled the state's high-profile, expedited, and complex

litigation. He referred to the group as the "Litigation S.W.A.T. Team." The group was often assigned to cases addressing important constitutional challenges and election matters. Most of the state's high-profile, larger litigation was assigned to the section.

Mr. Sniffen reviewed the Natural Resources and Oil and Gas sections within the division turning to slide 6. Both sections protected the state's natural resources and the state's revenues from oil and gas activities. The Oil and Gas Section protected state revenue streams in three large areas including production taxes, corporate income taxes, and royalties. They protected the state from improper refund demands, pursued collections of unpaid or underpaid taxes and royalties, and ensured that tariff rates on the Trans Alaska Pipeline System (TAPS) pipeline were reasonable. In calendar year 2019 the Oil and Gas Section represented the state in a confidential tax and royalty dispute which netted the state over \$300 million in additional revenue.

Co-Chair Foster recognized Representative Carpenter.

Mr. Sniffen advanced to the pictures on slide 7 indicating he would talk about the responsibilities of the Natural Resources Section. The section represented the state's interest in statehood defense which included ensuring access to responsible resource development and protection of state sovereignty. Some examples of the accomplishments within the section included achieving the land exchange through the Izembek National Wildlife Refuge to connect King Cove and Cold Bay. The section also litigated against the roadless rule trying to open up Southeast Alaska for additional timber activity - the efforts were ongoing. The section was also responsible for ensuring access to easements, known as RS2477s, including a number of easements that traversed wild and scenic river corridors. The section also litigated to defend against federal overreach in fish and game management and against federal overreach in Endangered Species Act cases. He provided the example of the over-designation of critical habitat that prevented responsible resource development in certain areas.

Mr. Sniffen continued to slide 8 indicating that the Environmental Law Section, Transportation Section, and Torts and Workers' Compensation Section also protected the

state's fiscal integrity and fostered economic development. The division's Environmental Law Section represented the Department of Environmental Conservation in clean water and air matters and hazardous waste discharge cases. They recovered state costs and penalties related to violations of state environmental law every year. In FY 19 the section recovered about \$2.5 million for state costs and penalties related to violations of state environmental laws. It was a section that provided revenue to the state in a number of areas.

Mr. Sniffen conveyed that the Transportation section represented the Department of Transportation and Public Facilities (DOT) in all of its work. The section also represented other agencies that involved construction and operation of the state's public facilities, the Alaska Marine Highway System, and airports. He continued that the Torts and Workers' Compensation Section defended the state in tort cases and suits. It also defended the state as an employer in Worker's Compensation cases. The section defended the state in a wide range of tort claims and also defended the state as an employer. The section handled prisoner litigation, construction litigation, and a host of different lawsuits directed at the state.

Mr. Sniffen advanced to slide 9 showing the last 3 sections within the department including the Labor and State Affairs Section, the Legislation and Regulations Section, and the Information Project Support Section. The sections provided fundamental support in state government in the areas mentioned. He elaborated that the Labor and State Affairs Section ensured compliance with state employment, procurement, contracting, occupational safety, employment security, and workers' compensation laws. The section also represented the Department of Education and Early Development (DEED), the Department of Administration (DOA), the Department of Military and Veterans Affairs (DMVA), Alaska Industrial Development and Export Authority (AIDEA), and Alaska Energy Authority (AEA).

Mr. Sniffen continued that the Legislation and Regulation Section was currently very busy. The section housed a statutorily required regulations attorney and oversaw all legislation drafting and regulation projects for the executive branch. He relayed that the Information and Project Support Section was often overlooked. However, the section provided a critical function advising all state

agencies on Alaska Public Records Act and record retention requirements. The section advised what was protected information and on legal issues involving the use of social media. The section was very busy with public information requests in the age of social media, emails and other digital data platforms. The section also provided litigation and project support. He cited a couple of examples. He concluded the brief overview of the Department of Law's Civil Division. He deferred to Mr. Skidmore to review the Criminal Division.

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JOHN SKIDMORE, DEPUTY ATTORNEY GENERAL, CRIMINAL DIVISION, DEPARTMENT OF LAW, reviewed the mission of the Criminal Division on slide 10. He indicated that the Criminal Division was where the third bucket of general funds came into play. Mr. Sniffen had talked about the first two buckets found in the Civil Division. The main mission of the Criminal Division was to prosecute crime with the goal of seeking justice. The division's mission was to seek justice, promote public safety, and ensure that the criminal justice system functioned appropriately. He clarified that the division tried to make things move through in a timely fashion, help manage costs associated with the criminal justice system, and ensure that the constitutional and legal rights were protected for witnesses, victims, and the accused.

Mr. Skidmore moved to slide 11 to discuss the duty of a prosecutor. Prosecutors were unlike any other lawyers in the legal system. In the Alaska Rules of Professional Conduct (3.8) there was one rule of professional conduct that applied only to prosecutors. It stated that prosecutors had the responsibility of a minister of justice, not simply that of an advocate. He highlighted the two quotes on the slide. The first came from the Canons of Professional Ethics from the American Bar Association in 1908 where it discussed the primary duty of a lawyer engaged in public prosecution. It was not to convict but to ensure that justice was done. The second quote by Justice Southerland from a famous case in 1935 talked about a prosecutor being able to strike vigorous or hard blows but not foul blows regarding liberty. He continued that a prosecutor did not simply represent a client, rather, they represented the public - the communities at large. The prosecutor's goal could not and should not only be driven

by seeking convictions. A prosecutor's goal was public safety and justice for the public, the victim, and the accused.

Mr. Skidmore turned to a map on slide 12. He indicated that the Criminal Division was broken into regional district attorneys' offices. There were nine district attorneys represented on the left-hand side and the bottom of the slide. The slide showed the faces and the names of the district attorneys and the locations of the offices throughout the state. The attorneys listed supervised and managed the offices that handled anything from criminal trespass to a murder prosecution. He pointed to the upper right-hand corner showing the head of the Criminal Appeals Section, Tamara DeLucia, and the head of the Special Prosecutions Section, Jack McKenna. The Criminal Appeals Section handled all of the criminal appeals and post-conviction relief for cases that went to federal court or habeas cases. The Special Prosecutions Section handled what he called "boutique cases." In other words, the section focused on certain types of cases related to issues such as child welfare, environmental crimes, and a number of different crimes. The section also housed prosecutors that provided support to the other offices. For instance, there were prosecutors that generally provided support for Western Alaska and Northern Alaska - some of the state's smaller offices. All of the state prosecutors were on call 365 days per year, 24-hours per day. They were available to help law enforcement with a charging decision, obtaining a search warrant, a decision related to a homicide, or any other law-related query. The prosecutor's office was available to responded.

Mr. Skidmore indicated slide 13 provided more detail about the core services the Criminal Division provided. The division frequently provided investigation assistance. For example, in Anchorage the division had prosecutors assigned to respond to murder scenes. Prosecutors went out with law enforcement to crime scenes at the start of an investigation which helped to build better cases. He noted informal referrals, informal referrals, and screenings. He reiterated the prosecutor's office helped provide assistance to law enforcement. He noted the importance of the support staff to prosecutors in the processing of cases. For example, support staff in the prosecutor's office contacted victims to update them on the status of their cases. They also helped to gather all appropriate

documentation and made related filings with the court. The support staff provided core services 8:00 a.m. to 5:00 p.m., Monday through Friday. However, in every one of the prosecutor's offices someone typically worked on the weekends as well. Charges had to be filled quickly, as crime did not stop on the weekends. He argued that the work did not stop at the point of conviction.

Mr. Skidmore reported that the office also handled the appellate process, post-conviction release, and petitions to revoke probation. All work required the resources of the division's people. Recruitment and retention were areas the division was focusing on more. The division had filed a report with the legislature earlier in February 2020 which highlighted some of the challenges the department faced particularly in the Criminal Division. The report laid out national trends, Alaska trends, and how the department was trying to respond to the trends. He was happy to address any questions legislators might have about the report or the Criminal Division. He would be deferring to the administrative services director to address the last two slides that show the department's overall budget.

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Representative Carpenter asked which section within the Criminal Division handled public corruption cases. Mr. Skidmore responded that public corruption cases were typically handled by the Special Prosecutions Office, as they required intensive investigation. The cases were usually related to persons in a public office requiring more resources in their prosecution.

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VALERIE ROSE, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF LAW, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced herself and indicated it was her first time testifying before the committee. She had been employed with the department for more than 5 years as the budget analyst. She reviewed slide 14 showing the FY 19 - FY 20 operating budget comparison. She reported that during FY 16, FY 17, and FY 18 the department took significant reductions but had remained fairly flat over the previous several years. Some of the major changes that affected the department's FY 20 budget were in the Criminal Division. She relayed that with the passage of HB 49 [Legislation

passed in 2019 - Short Title: Crimes; Sentencing; Drugs; Theft; Reports] there was an increase to the designated general funds (DGF) in the FY 20 management plan column that was fairly significant but dropped back down in the FY 21 governor's request. The change was from the Power Cost Equalization (PCE) funding that was funded as part of HB 49 to UGF.

Ms. Rose highlighted that between FY 19 and FY 20 there was not a full difference in UGF because the Civil Division had a fund source change of \$750,000. The Civil Division's UGF appropriation was reduced by \$750,000 and the division's interagency receipt authority was increased by the same amount. She pointed out there was a request before the legislature to increase the department's federal receipt authority for the Criminal Division. Currently, the department had a federal grant for its Medicaid Fraud Control Unit that investigated welfare, fraud, and abuse. The department also had a request in the FY 21 budget for an increase to accommodate a grant from the federal government, commonly referred to as the AG Barr Grant, to expand rural prosecutions in Alaska. The request included 2 prosecutors and 1 support staff to focus on sexual assault, domestic violence, and violent felonies in rural areas.

Representative Carpenter asked about the grant for the rural law enforcement activities. He queried the length of the grant. Ms. Rose responded that the grant was approximately 3 years. However, in the department's initial discussions with the U.S. Department of Justice, they indicated a willingness to be flexible with the timeline extending it if necessary and beginning the grant once the state had authority.

Co-Chair Johnston asked if most of the department's other funds were interagency receipts. Ms. Rose responded that she was correct.

Co-Chair Johnston pointed to the increase of about \$1 million. She asked what drove the increase. Ms. Rose responded that the majority of the amount, \$750,000, was an increase to the department's interagency receipt authority during FY 20. The department also had additional authority for the statutory designated program receipts (SDPR) related to the Criminal Division in the amount of \$300,000. The department would be able to take in money from the

North Slope Borough to help support the cost of re-opening the Utqiagvik office in the 2nd Judicial District.

Co-Chair Johnston asked about the increased receipt authority for the \$750,000 and whether it was a budget phenomenon or something else. Ms. Rose replied that the interagency receipt increase was related to a fund source change she had mentioned. The department took a reduction in its UGF appropriation within the Civil Division and an equal amount of interagency receipt authority so the department could bill client agencies for the department's legal services.

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Representative Wool asked about an increased request in federal funds for welfare fraud investigations. He asked Ms. Rose to elaborate. Ms. Rose responded that the increase was not for Medicaid fraud but, it was what the existing federal authority was for. She further explained that the increase was for a different federal grant. Representative Wool asked for specifics. Ms. Rose responded that it was for the AG BARR Grant.

Co-Chair Foster asked Ms. Rose to expand on the positions that would be funded. Ms. Rose responded that the funding would pay for 2 prosecutors and 1 support staff. They would be focused on sexual assault and domestic violence as well as violent felonies.

Co-Chair Foster asked where the additional position would be posted. Ms. Rose thought the positions would be based in Anchorage. She also thought the positions would be cross-deputized with the U.S. District Attorney's office. Mr. Skidmore added that the 2 positions would be in Anchorage within the special prosecutor's office. He reiterated that the special prosecutor's office focused on support for other area, particularly rural locations. Co-Chair Foster was just curious.

Representative Josephson noted that just over half of the operating year had transpired and, the department had about the same number of vacant attorney positions as the prior year. The state had a vacancy factor for FY19 and FY 20 of about 4 percent. However, the department's actual vacancies were about 12 percent. He wondered how much in general

funds would the department be likely to spend on personal services.

Mr. Sniffen answered that it was difficult to predict, as the department was actively trying to recruit for all of the vacant positions. He continued that the timing of hiring the vacant positions would determine how much of the vacancy monies would be used for a particular year. He relayed that the Criminal Division's recruitment and retention issues were important and were a focus. He indicated the Civil Division was experiencing the same challenges and was trying to fill its current vacancies. He hoped the department's renewed efforts would help fill the positions quickly avoiding the vacancy rate into the future. He reported active recruitments for six positions presently within the Civil Division.

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Representative Josephson suggested that relative to retention and recruitment, he had engaged in long conversations in the finance subcommittee meetings about the difficulty of adjusting pay scales because of built-in statutory rules that required a process be followed for partially exempt personnel and the like, for example. The subcommittee had talked about creating an incentive related to the paydown of student loans. He asked if such an incentive would be an effective tool to help in the department's recruitment efforts.

Mr. Sniffen gave credit to Mr. Skidmore who had suggested the idea to him earlier in the year when they were brainstorming on ways to incentivize people to work in the department's rural offices. He recalled, when going to college, that if a person took out student loans to attend college and upon completion wanted to work in a rural area, Alaska student loans could be forgiven up to a certain amount. He was unsure if the program still existed. He and Mr. Skidmore were thinking of a similar incentive to get lawyers to work in areas such as Bethel and other rural areas. He had not spent time looking into the legality of such an incentive but thought it was worth exploring.

Representative Josephson asked about the upcoming supplemental. The legislature was always looking for offsets because of increases to Medicaid. The state experienced fires and other things as well. He suggested

that the department had used the vacancy factor opportunity to hire expensive outside contractors. He asked about the terms of the Consovoy contract that was signed in early January. He also queried the negative impact of using it as an offset.

Mr. Sniffen responded that the contract was issued in January. The department was not far into the contract presently, just over a month. The work for the contract was not particularly active currently. He was unsure how much of the contract would be spent, it depended on litigation in the year. In terms of adjusting the budget in a way that might inhibit the department's ability to pay the contract, he was unclear what the Attorney General would do. He suggested that if the department had a general fund reduction, the reductions might have to come from some other places so that it could continue to pursue the matters the Attorney General felt were most important. The department would have to look at its overall budget picture and decide where its priorities were and how it would spend its money going forward.

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Co-Chair Johnston asked how much of the department's budget was wrapped up in contract services. Mr. Sniffen thought the outside counsel contracts for the Department of Law was about 1 percent of the Civil Division's Budget.

Co-Chair Johnston asked if the rate was fairly stable from year-to-year. Mr. Sniffen responded that looking back 5 or 6 years the department used to spend much more money on outside counsel contracts when it was litigating large oil and gas cases. The return on that money was significant. Such matters had gone away resulting in a dramatic drop in outside counsel spending over the prior 5 years. He suggested that at any point an unanticipated case could come along. He reminded members of the BP corrosion case that had arisen a few years prior where outside counsel assistance was needed, as it was too large to handle in-house. Other cases arose that the Attorney General felt were important to pursue. Overall, the department's outside counsel spend had decreased and, the department was very judicious about the use of outside counsel. Even when it used outside counsel, the in-house lawyers did as much of the work as possible saving the billing rates for outside counsel for only necessary things.

Co-Chair Johnston noticed earlier in the week a case between the legislature and the governor that would be going on to the Supreme Court. She asked if the accounting for such a case involved interagency receipts or whether it would be assumed by the department. Mr. Sniffen believed all of the money was assumed in the department as part of its general fund spending.

Representative Carpenter asked about current vacancy rates and how they compared to the previous 5 years. Mr. Sniffen was aware that the department sent out a recruitment for 3 positions in the Natural Resources Section and was waiting for the recruitment to run its course. The department also had recruitments posted in the Environmental Conservation Section to replace some individuals who had left, and also for a paraprofessional in the same section. There was a recruitment out for the Transportation Section for someone who had left recently to assist with airport work. He noted the department recently filling 2 positions in the CINA Section, a section which now had a full slate of lawyers. It was one of the most difficult sections to keep staffed. He thought the department had recently filled a position in the Labor and State Affairs Section. He was unsure if that recruitment was still active. There were recruitments in various sections and in different stages of process.

Representative Carpenter thought that Mr. Sniffen had talked about approximately 8 positions. He asked if those were the only vacancies. Mr. Sniffen responded that there were about 10 vacancies in the Civil Division.

Ms. Rose turned to the final slide of the presentation, slide 15, which showed a breakdown of the department's fund sources by fund category. She highlighted the more detailed listing of the fund sources within the department on the bottom left of the slide. She relayed that there were significant changes as a result of the passage of HB 49: the federal grant for the AG Barr expansion of prosecution in rural Alaska and the reopening of the Utqiagvik Office in the 2nd Judicial District. Both items were related to the Criminal Division and, the changes could be seen across FY 20 and FY 21. She also indicated that overall, the department had a variety of different fund sources. She noted the department having a significant amount of interagency receipt authority, most of which resided within the Civil Division to allow for interagency receipt

billings for its client agencies. The remainder of the funding was most significantly unrestricted general funds.

^FY 21 BUDGET OVERVIEW: DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT

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Co-Chair Foster invited testifiers from the Department of Commerce, Community and Economic Development to the table.

JULIE ANDERSON, COMMISSIONER, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, introduced herself and thanked members for the opportunity to come before the committee. She began with the PowerPoint Presentation: "FY2021 Department and Budget Overview" (copy on file). She turned to slide 2 to discuss the mission and core services of the department. She began that the Department of Commerce, Community, and Economic Development (DCCED) was a small but diverse department comprised of 6 core divisions and 7 corporations. The department's functions touched the lives of Alaskans in more ways than most people realized. The department handled day-to-day functions like ensuring that physicians were licensed through the Corporations, Business, and Professional Licensing Division, examining financial institutions to large scale activities regulating the price of power and utilities through RCA and providing loan financing for the local hydroelectric project through the Alaska Industrial Development and Export Authority (AIDEA).

Commissioner Anderson continued that while the department put each of its programs into buckets including economic growth, affordable energy, strong communities, or consumer protection, most of its agencies would fall into several of the buckets. One of the highlights of serving as commissioner was seeing how all of the agencies worked together towards their common goals and seeing the passion people had in providing services to the residents of Alaska.

Commissioner Anderson moved to slide 3 which provided an overview of the department's organization. She relayed the 6 core divisions within the department: Administrative Services; Banking and Securities; Community and Regional Affairs; Corporations, Business, and Professional Licensing; Economic Development; and Insurance. The

department also had 7 corporations within the department: the Alaska Energy Authority (AEA), the Alaska Industrial Development and Export Authority (AIDEA), the Alaska Gasline Development Corporation (AGDC), the Alaska Oil and Gas Conservation Commission (AOGCC), the Alaska Seafood Marketing Institute (ASMI), the Alcohol and Marijuana Control Office (AMCO), and the Regulatory Commission of Alaska (RCA). The Alaska Railroad Corporation was housed within the department but was exempt from the Executive Budget Act. She would turn the presentation over to the Administrative Services Director, Michaela Fowler.

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MICHAELA FOWLER, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, turned to slide 4, which showed the changes in the department's budget from FY 19 to FY 21. She pointed out that the department's unrestricted general fund budget had steadily decreased. In FY 20 there was a \$1 million reduction in the Community and Regional Affairs Division as well as in the Economic Development Division. The Community and Regional Affairs Division reduction was made up of entirely general funds. The Reduction to the Division of Economic Development was a mix of fund sources. She indicated that when she got to the division slides, she would go into additional detail about how the reductions had been managed internally.

Ms. Fowler continued that the increase seen in DGF was primarily the result of AOGCC having moved to DCCED from the Department of Administration. The significant reduction in "Other" funds for FY 21 was the AGDC \$6.2 million decrease proposed in the governor's budget. She also highlighted the significant bump in federal funding in FY 20. The Alaska Seafood Marketing Institute was awarded a \$7.5 million USDA foreign agricultural grant for FY 19 through FY 23. The grant was booked in FY 20 and was a multi-year appropriation. Multi-year appropriations showed up in year one but not in the out years.

Ms. Fowler moved to slide 5 which provided a deeper look into the fund sources within the department. The department had 4 formula programs, the largest of which was the PCE Program. The three revenue sharing programs that were run through the Division of Community and Regional Affairs -

payment in lieu of taxes, national forest receipts, and shared fisheries taxes - made up the "other" and federal line. She reported that the department received over 50 percent of its funding through DGF. She pointed out that the slide reflected the department's contributions to the general fund through program receipts, third party collections, fines and forfeitures, settlements, and insurance premium taxes. In FY 19 the department deposited more than \$102 million into the general fund not including the AIDEA dividend. The department had been diligent in identifying areas where it could gain efficiencies but had been cautious to avoid areas that would have an adverse effect on its contributions to the general fund. For example, if resources were reduced in the Division of Banking and Securities, they could not conduct the examinations that would result in program receipts which contributed approximately \$15 million into the general fund purse per year.

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Representative Knopp referenced slide 4 and asked about the AGDC reduction of \$6.2 million. He wanted to better understand how the funding for AGDC worked and asked for clarification around the reduction. He wondered if the money was ghost money. Ms. Fowler responded that the decrease was a reduction to AGDC's operating costs. She reported that AGDC anticipated needing significantly less staff in FY 21. There would be less funding drawn from the AGDC fund. It was effectively a slowing down of a draw from AGDC's fund. The money would remain in the fund.

Representative Knopp clarified that the money would remain in the fund but, AGDC would not be spending it. Ms. Fowler responded, "That's correct." Representative Knopp suggested that they were not UGF dollars, they just stayed in the fund. Ms. Fowler responded affirmatively.

Vice-Chair Ortiz referred to slide 4. He asked if he would see a larger reduction in UGF if the chart went as far back as FY 16, compared to what he was seeing between FY 19 and FY 21. Ms. Fowler responded affirmatively. She offered that a significant reduction would be seen over the years Representative Ortiz specified. The department's UGF budget had been reduced approximately 30 percent to 40 percent. She could get back to the committee with an exact percentage at a later time.

Vice-Chair Ortiz asked about opportunity costs resulting from the previous reductions. Ms. Fowler responded that there used to be grants to the Alaska Regional Development Organizations (ARDOR) program that came through the department that were no longer being given to the program. She noted that the Division of Economic Development had been reduced from an agency that, in FY 16, was a \$3 million agency. However, currently, they were a \$564,000 agency. The department had had significant reductions in the area being discussed. The department had also seen significant reductions in the Division of Administrative Services. The division used to have general funds which were presently interagency receipt authority. She gave credit to the previous Administrative Services Director, Catherine Reardon, for managing the reductions with minimal impact to the public.

Vice-Chair Ortiz referred to the organizational chart on slide 3. He asked about ASMI's connection with DCCED. Ms. Fowler responded that ASMI was housed within DCCED for administrative purposes. She noted she had been remiss when speaking to significant areas of reductions. The Alaska Seafood Marketing Institute no longer had any general fund dollars contributed to its agency - they were entirely funded through receipts.

Vice-Chair Ortiz thought that at one point, ASMI received about \$3 million in UGF dollars. He was uncertain of the amount but was aware of a significant contribution of UGF dollars towards the ASMI program. Ms. Fowler concurred.

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Representative Josephson noted that the department used to have oversight over random grants like Legal Services. He asked if DCCED still housed and administered those grants. Ms. Fowler responded that the grant to Alaska Legal Services was still in the department's operating budget and the department still administered the grants. She mentioned that on the capital side there were significantly fewer grants being administered than there were some years ago when the department had more robust capital programs. The operating grants remained.

Representative Josephson asked if the grants would have been previously identified as being under the department's

prevue. He asked if he was accurate. Ms. Fowler replied that the Alaska Legal Services grant was operating. There were some grants that were operating grants and some grants that were capital grants. She restated that the Alaska Legal Services grant was an operating grant. Whereas, the other grants were identified within the department under the capital budget.

Ms. Fowler continued to slide 6 which showed a visual of the budget by fund source. She highlighted that a significant portion of the department's budget was DGF and, a very small portion was UGF.

Ms. Fowler advanced to the pie chart on slide 7 which showed the budget by line item. In response to Representative Josephson's questions regarding grants, she pointed out that grants made up almost 30 percent of the department's budget. She added that Personal Services was the bulk of the remainder of the department's budget.

Ms. Fowler advanced to slide 8 regarding noteworthy changes made to the FY 20 operating budget. She reported that during the previous budget cycle the budget for the Division of Community and Regional Affairs was reduced by \$1 million. The division had been active in reorganizing its local government staff and had established a central resource desk to improve responsiveness to local governments in order to manage the reduction. She indicated that when the decrement was before the legislature in the FY 20 budget cycle, the division anticipated approximately \$450,000 of the reduction would apply to personal services. However, the reduction was closer to \$650,000 for personal services based on where the division had been able to save money. The Division of Community and Regional Affairs had experienced significant attrition over the prior year and had been managing within that attrition in order to achieve the budget decrement without impacting services to local communities to the greatest extent possible. She noted that in FY 21 there was a request to delete 6 positions that were currently vacant in order to align the personal services with the division's funding level.

Ms. Fowler addressed the reduction of \$239,500 UGF in the Division of Economic Development. In FY 20 all other fund sources for the division were deleted. The division use to receive funds related to vehicle rental taxes as well as having some empty federal authority. Currently, the

Division of Economic Development's budget was \$546,600. As part of the reduction, 3 of 5 economic development positions were deleted. The Division of Economic Development currently had 2 positions as well as a shared director position. She reported that the investments and the economic development components were both housed within the Division of Economic development. The Division of Economic Development director position was shared between the two.

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Ms. Fowler explained the notable changes to DCCED's FY 21 operating budget on slide 9. She explained that the Kawerak Inc. named recipient grant was eliminated in the proposed budget. It was a grant for federal DOT essential air service that used to require the state to provide matching funds. The federal government had revised its essential air service listing and had added Diomede to that listing negating the need for the grant. The federal government would be paying for 100 percent of the service without any match requirement.

Ms. Fowler continued that there was a proposal to eliminate the economic development funding and to replace it with the Alaska Development Team, a multi-year pilot program to establish a 501(c)(3) or an alternative structure to outsource economic development functions and to design a new model for economic development in the state. The commissioner would speak to the idea in greater detail in the near future. She reported that there was also a proposal to eliminate the Capstone Avionics Revolving Loan Fund, a loan fund that would be sunseting. As a result of the sunset it would no longer be necessary for the operating funds to continue in FY 21.

Representative LeBon asked Ms. Fowler to explain the Capstone Avionics Loan Fund. He wondered how it worked. Ms. Fowler responded that it was a loan fund for pilots to comply with new federal requirements for their navigation systems. Pilots had several years to upgrade their aircrafts to comply with the new federal standards which took effect on January 1, 2020, the same time of the program sunset.

Representative LeBon noted that the aviation community met the expectations of the revolving loan fund. He wondered if

providing financial assistance was no longer required. Ms. Fowler replied that the aviation community had made some use of the program. However, the program had not been used heavily. The deputy director of the division reached out to the aviation community to make sure there was no concern with the program being allowed to sunset. Representative LeBon commented that his interest was perked anytime he saw the term "revolving loan fund" used.

Representative Josephson noted Ms. Fowler had indicated the commissioner would go into further detail about what was meant by outsourcing economic development functions. He was open to hearing about the topic. However, he thought the committee would be looking at HB 205 (the operating budget legislation) in earnest within 2 weeks. He wanted to better understand what she meant in terms of a timeline. Ms. Fowler clarified she meant in a couple of slides.

Ms. Fowler continued to review the changes to the department's FY 21 operating budget on slide 10. She relayed that there was a proposal to reduce AGDC's operating expenditures by \$6.2 million which would result in the deletion of 10 full-time positions and 1 non-permanent position within AGDC. The objective of the reduction was to align with AGDC's expectations for the level of service necessary after the completion of Federal Energy Regulatory Commission (FERC) licensing. There was also a proposal to reduce PCE endowment funding in order to align it with historic actuals. It would not have a material impact on the program. Rather, it would reduce excess authority in the PCE appropriation.

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Representative Carpenter asked how many positions would be left with the reduction of 11 positions within AGDC. Ms. Fowler responded that 9 full-time positions and 6 part-time positions would remain with an operating budget of \$3.4 million.

Co-Chair Foster clarified that the PCE Program would be fully funded according to the formula that had existed for many years. He explained that the earnings from the fund would first go to pay for PCE and, the remaining funds would go towards community assistance. If additional funds were left over, they would fund renewable energy. He

reassured the public that there was no funding reduction to the PCE program.

Commissioner Anderson addressed the state's economic growth on slide 11 and slide 12. She would be discussing some of the divisions within the department. She indicated that the department focused many of its activities on economic growth. The Division of Economic Development with the investment component was a great job creator for the state. The revolving loan funds were keeping Alaskans and Alaskan fisheries as its permit holders and supporting entrepreneurs throughout the state. She continued that while talking about economic development in rural Alaska, it was important to note that the Division of Economic Development and the Division of Investments had administrated dozens of loan funds over the previous 50 years. In FY 19, the loan funds created or retained 731 jobs through new loan requests, assumptions, and extensions and had created or retained over 21,000 jobs since the department started tracking employment beginning in FY 96. The jobs were created from small business startups, expansion, or diversification. There were currently active loans in 132 communities across Alaska. The department had 9 revolving loan programs.

Representative LeBon commented that many years ago the division engaged in direct lending to small Alaska businesses. He asked what type of activities the department was engaged in currently. He wondered if the state was involved in any direct lending programs to small Alaska businesses.

Commissioner Anderson spoke to the department's revolving loan funds. In addition to Capstone Avionics, which would be sunsetting, there was the bulk fuel revolving loan fund that provided loan funds to communities within Alaska and other entities for fuel. She noted several other funds including the Commercial Charter Fishery Loan Fund, the Commercial Fishing Revolving Loan Fund, the Fisheries Enhancements Fund, the Mariculture Fund, the Alaska Micro Loan, the Rural Development Initiative Fund, and the Small Business Economic Development Fund.

Representative LeBon asked if any of the loan funds required bank participation. Commissioner Anderson wanted a lifeline.

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JIM ANDERSEN, DEPUTY DIRECTOR, DIVISION OF ECONOMIC DEVELOPMENT, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, introduced himself. He responded that all of the loan funds had a bank denial requirement on them other than the Rural Development Initiative Fund. The Rural Development Initiative Fund was a direct lending program only in rural communities with 2,500 people, in communities connected by rail or road to Anchorage or Fairbanks with 2,500 people, or communities not connected by rail or road to Anchorage or Fairbanks with 5,000 people.

Representative Knopp was not sure to whom he should direct his question. He was confused about the multi-year pilot program establishing a 501(c)(3) that was discussed earlier. He thought the money from the Capstone project was being funneled to the pilot program. He asked if he was correct. He queried who was putting the program together. He wanted additional details.

Commissioner Anderson was happy to discuss the Alaska Development Team next. She wondered if there were any further questions for the deputy director. Representative Knopp asked for further information regarding the development team and the \$200 million for in-state projects through McKinley Capital and other organizations. He wondered if there were any interties.

Commissioner Anderson responded that the Alaska Development Team was the economic development component of the Division of Economic Development. The department was proposing for the Alaska Development Team to focus on doing new business, investing in Alaska, and working with private industries to help grow Alaska. The funding proposal was to take money from the Capstone Aviation Fund and use \$2.8 million to fund a 3-year pilot program for the Alaska Development Team to pursue different opportunities and models to provide long-term economic development through in the state. The department was contemplating whether the pilot program should be done through a public/private partnership with the potential of creating a 501(c)(3) non-profit entity. The model was being carried out in other states. One of the things the department had started doing was benchmarking what other states had done. She was a part of the State Economic Executives Network, an organization of statewide economic development professionals who were benchmarking

the current practices of other states. She wanted to find out what the best model would be for Alaska. She anticipated that the \$2.8 million would be used for the 3-year pilot program continuing current economic development activities and looking at what model would be best for Alaska into the future. She would bring the information back to the legislature for a robust conversation. She explained that some states had a partnership with private industry similar to the Alaska Travel Industry Association. Her goal for the department was to look at long-term economic development efforts.

Representative Knopp noted the commissioner's comments about remaining politically neutral. He commented that politics accompanied any appropriation. He asked if the department was simply in the exploratory stages relating to the development team. Commissioner Anderson replied that the department was in the exploratory stages of the Alaska Development Team. She noted a chart that showed the department in the planning stages. The department was currently looking at all of the possible options. She welcomed any input from legislators.

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Co-Chair Johnston understood the department was in the exploratory stage. She was familiar with what some other states did such as a co-investment. She asked for clarification as to how the department intended for companies to move in. Commissioner Anderson explained what she meant by co-investment. It was possible that a private 501(c)(3) organization could be funded partially by private money and partially with state funding to provide economic development efforts. The entity would be looking at the different available incentive programs the state could use to attract investment. Currently, she was talking about the initial organization model for the delivery of economic development programs in Alaska.

Co-Chair Johnston highlighted the Alaska Industrial Development and Export Authority (AIDEA) and the Alaska Housing Finance Corporation (AHFC) both doing various parts of economic development. She also mentioned the Alaska Regional Development Organizations (ARDORS) still being in existence but no longer affiliated with the state without funding. She suggested that while it was always good for the state to be open for business and to always be looking

into further economic development, she thought the department seemed to be in the planning stages. She asked why the state would be looking at a 3-year pilot program outside of the department. She thought it might be best to do the planning and vetting in-house.

Commissioner Anderson responded that AIDEA was doing one piece. Both of the funds the department was requesting was to fund the team the department was proposing to continue to work with industry to find out Alaska's competitive advantages. The team was currently working towards such efforts in addition to looking at a model for the future. The reason the department was calling the project a pilot program was because the intent was to continue with its current economic development efforts working with all entities at the state, federal, and local levels and to find the best model of delivery into the future. The department would continue on its current path while looking for alternatives for the future.

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Co-Chair Johnston indicated there were a couple of aspects that gave her pause. First, she noted the disfunction of the state and the many silos within government. She wondered how the project would not be just another silo. She mentioned economic development within the University and in communities. She reiterated her question about what made the pilot project different.

Commissioner Anderson responded that what made the particular team different was that the department was already working with all of the entities. She talked about working with ARDORS Program which was moved under the Division of Community and Regional Affairs in order to have a closer connection to knowing what was going on in all of Alaska. It was important to her that the department was growing the economy in all regions of Alaska. She mentioned that the Alaska Development Team was working closely with the Division of Community and Regional Affairs. They were finding tools and ways to bring the whole picture of the state into one area to maximize on what people had to contribute. She noted working with the Department of Natural Resources (DNR), the Department of Fish and Game (DFG), and all of the economic agencies within the state. She noted that one of the department's development executives was working with the University regarding what

it could do to spur economic development. The University was looking at the programs it provided to coalesce some capitalization of its resources and assets to attract more research and industry to the state. She thought the difference of the team was that it was working to knock down the silos by working together. She provided an example regarding the mariculture industry. There had been difficulties obtaining permits. The department intervened by meeting with the taskforce and other entities to figure out how to resolve the issue. The group was able to streamline the process and added 2 additional positions to move permitting forward. She also noted working closely with AIDEA and all entities collaboratively.

Representative Josephson appreciated the commissioner's comments. He had met with members of the mariculture industry earlier in the day. They had indicated that they needed additional financial help in the amount of \$500,000 for their shellfish poisoning testing. They did not have any other request. The aide would help to grow their business.

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Representative Knopp appreciated what the commissioner and the department were trying to do. However, he thought there was a communication discrepancy. He mentioned that within the budget documents he noticed that the Department of Environmental Conservation (DEC), for example, was scaling back its budget trying to eliminate federal mandates for PSP testing of shellfish. Otherwise, they would not get to move anything to market. There were about 400 seasonal workers and 26 farms in the industry. He thought that if Alaska was open for business, the state was going in the wrong direction. He had had problems in communications with DEC trying to kill the dairy program rather than trying to incentivize it to expand and capture a larger share of the market. He suggested that the actions of eliminating 1 position, putting a dozen people out of work, and closing 3 businesses were not helping Alaska stay open for business. He continued that DNR had a request for about \$300,000 to add additional people to process permits for the farms while other agencies were trying to kill the industry. He wondered if the departments were really communicating. He was dumbfounded as to what the state was doing.

Commissioner Anderson understood and would take the issues Representative Knopp had mentioned back to the agencies to see about coordinating efforts. She thought that although the lift was heavy, it was worth pursuing.

Commissioner Anderson continued to discuss economic development turning to slide 13. She would talk about some of the corporations within the economic development bucket. The Alaska Industrial Development and Export Authority financed and developed commercial, industrial, and infrastructure projects that created jobs and grew Alaska's economy. One of the state's stellar examples was the Red Dog Mine infrastructure which continued to provide revenue and was a good model for how AIDEA could invest in the state's infrastructure for future projects. She also noted that ASMI was another successful model.

Representative LeBon asked if AIDEA had any granting authority or just lending authority. Ms. Fowler responded that AIDEA was not a granting entity.

Representative LeBon asked if AIDEA could only make direct loans. He wondered if it could do participation loans with banks. Ms. Fowler asked Representative LeBon to repeat his question.

Representative LeBon indicated AIDEA's primary activity was direct lending. They could initiate loans on their own. They also had a loan participation program with Alaska banks. Ms. Fowler responded in the affirmative.

Representative LeBon asked that between the 2 components whether most of AIDEA's activity was participation loans with banks. Ms. Fowler believed the answer was yes but deferred to Mr. Boutin of AIDEA.

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TOM BOUTIN, EXECUTIVE DIRECTOR, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY, introduced himself. He agreed with Ms. Fowler's response. He elaborated that AIDEA did not have any grant programs. The entity had the loan participation program where every loan was brought to AIDEA by a bank and the bank participated. He continued that AIDEA did up to 90 percent, both banks and credit unions. It was a program of about \$400 million, as AIDEA did a loan about every 10 days including refinances. The program did

not own any real estate and was a very low risk program for AIDEA, which was reflected by the interest rates. He reported AIDEA having a number of other loan programs. It also took equity positions. The Alaska Industrial and Export Authority owned the Skagway Ore Terminal, the Ketchikan Shipyard, the Federal Express Hanger, and the DeLong Mountain Transportation Project Road and Port at Red Dog.

Representative LeBon asked Mr. Boutin to briefly talk about the Ambler Road Project. Mr. Boutin noted that he was happy to provide information. He indicated at 3:30 p.m. in the current day he was doing a presentation for the Senate Community and Regional Affairs Committee. He relayed that the environmental impact study (EIS) was due on March 5, 2020. The Bureau of Land Management (BLM) did the EIS on behalf of the State of Alaska. A record of decision would follow 30 days later. The record of decision would also include a U.S. Army Corps. 404 Clean Water Act Permit. It was a 200 mile, 50-year, 50-foot right-of-way which included 10 miles across a national park. It had 12 to 13 identified mineralized properties and was a multiple of Red Dog Mine of any measure. It would be a toll road revenue bond exactly like the Red Dog. He had been on the AIDEA Board at the inception of the mine. It was fairly new at the time to use public finance to develop natural resources. It was still something that could be seen in Alaska more often than any other place. He wondered if the committee had additional questions.

Representative LeBon asked about the AIDEA dividend. He thought it was a percentage of AIDEA's net profit. He wondered if AIDEA's capital level worked into the dividend or whether it was strictly based on AIDEA's profitability from year-to-year.

Mr. Boutin responded that the law stated the board could appropriate up to 50 percent of earnings. He reported that at the December board meeting members appropriated 50 percent of earnings for 2021. He thought it equaled \$14.5 million. He noted that AIDEA had not had a general fund appropriation for operations since 1986. So far AIDEA had given \$422 million to the general fund with the upcoming dividends bringing that to the \$450 million mark. He relayed that AIDEA was essentially a bank that took half of its earnings and gave it to its shareholders, the people of Alaska. It preserved its capital, lent its capital, lived

off of its own earnings, and contributed to the general fund each year.

Representative LeBon asked for AIDEA's capital level. Mr. Boutin responded that AIDEA's capital that corresponded to a commercial bank presently was just over \$400 million. Representative LeBon commented, "Pretty healthy."

Co-Chair Foster clarified the amount for the dividend which was reflected on the slide at \$14.5 million. Mr. Boutin had mentioned it was about half. He asked if it was up to half. He wondered if there was a minimum and a maximum. Mr. Boutin believed there was a minimum but was hard-pressed to say. However, there was a range and, most often the board approved the total - the cap which was 50 percent.

Co-Chair Foster asked if the full cap of 50 percent had been reached in the current year. Mr. Boutin responded in the affirmative. Co-Chair Foster thought the cap had been 25 percent in the prior year. He was not sure.

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Representative Josephson mentioned that in the previous year the administration sought to take some of AIDEA's receipts to help balance the budget. The legislature contemplated doing so as well. He asked Mr. Boutin to comment.

Mr. Boutin responded that part of the administration proposed using \$254 million of AIDEA's capital. He thought AIDEA would be a much different organization if \$254 million was taken from its purse of \$400 million. The money would have funded oil tax credits. The administration decided not to use the \$254 million after a brief conversation. There were a couple of smaller appropriations taken from AIDEA funds, one of which was vetoed and another was not. The amount was \$2 million. As a result of the \$2 million appropriation, Moody's downgraded AIDEA 2 full notches. Returning to the topic of the Ambler Road Project, AIDEA's longtime financial firm estimated that the downgrade would cost the Ambler Road Project financing \$25 million. The appropriation of \$2 million would cost Alaska \$25 million. Moody's had been looking at AIDEA for a 2-year period without a specific date when they would release their rating. Moody's had expressed concerns with AIDEA no longer being as independent as it had been over the

decades. Moody's worried that AIDEA had a different relationship than they had been rating. Standard and Poor's had also been looking at AIDEA for about the same length of time. He reported that AIDEA approached Standard and Poor's and asked whether they would withdraw the rating and discontinue the rating review if AIDEA defeased its debt. Standard and Poor's agreed to AIDEA's request. He explained that AIDEA currently had no credit rating because of the \$2 million appropriation from the previous year.

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Representative Carpenter thought that the Alaska Development Team had a similar purpose to AIDEA. He asked how it was different. Mr. Boutin responded that the commissioner of DCCED was on the board and most of the team members reported to her. He continued that AIDEA was a financing organization. The development team brought financing questions and ideas to AIDEA. The team also brought some private financing to a road project in West Susitna. They brought participation money in combination with money from the Mat-Su Borough and the state. The Alaska Industrial Development Authority worked very closely together with the team. He noted that the Department of Revenue had a seat on the AIDEA Board and was part of the development team. Some of AIDEA's equity ownership positions had challenges and the team had been helping AIDEA to look at alternatives. He was not concerned with redundancy or tripping over each other.

Commissioner Anderson added that they were two different activities: economic development versus financing. She concurred that the entities worked closely together. The mission of DCCED and growing the economy was different from the mission of AIDEA. She noted the importance of AIDEA similar to Alaska Housing Finance Corporation and other agencies in the state.

Mr. Boutin added that 5 of the AIDEA board members were from the private sector. He thought having 5 business people on the board provided an anchor in the reality of private sector commerce.

Co-Chair Johnston noted that there was a contract between AIDEA and the development team. She thanked Mr. Boutin for telling the story of AIDEA receipts being used to balance the budget. Co-Chair Johnston asked Mr. Boutin to comment

on AIDEA's equity participation. She wondered what the average was of AIDEA's equity participation.

Mr. Boutin did not know how meaningful the information was. He indicated AIDEA had the equity position in Ketchikan at the direction of the legislature. He reported that AIDEA carried it on the books in the amount of about \$72 million. A fair market value was just a few million dollars. He elaborated that it was to provide jobs for Ketchikan and was created in the wake of the closure of Ketchikan Pulp, a 600 ton per-day pulp mill and associated saw mills.

Co-Chair Johnston admitted her question was somewhat unfair because she was aware of the historic equity positions of AIDEA. She was trying to tie the knot between the economic team and AIDEA and the discussion of P3's and other tools. She hoped AIDEA was looking to take a lesser equity position in many of its projects so that its resources could be used more broadly without much exposure.

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Mr. Boutin responded that AIDEA would be using toll road revenue bonds for the Ambler Road Project very similar to Red Dog. The Federal Express Hanger was the result of financing advise - Federal Express preferred a decision based on depreciation details. He noted that the Skagway Ore Terminal was a project that came to AIDEA with a special story. He noted that ore was currently being shipped into Skagway again. Each equity position had its own story. In most cases, the market value was much different than the book value. Alaska Industrial Development and Export Authority would not normally look at an equity position in any kind of investment. - AIDEA was best in a certain space in lending and getting in and out in a short period of time. He continued that AIDEA was best recalibrating the risk in a way that a commercial bank was reluctant to do.

Co-Chair Johnston commented that the shining star had always been the Red Dog Mine. She appreciated Mr. Boutin's intent. Mr. Boutin reported that the Red Dog Mine paid the Northwest Arctic Borough \$18 million in FY 18.

Vice-Chair Ortiz referred to the dividend line of \$14.5 million, an increase of \$4 million. He asked if the figure was a record amount. He queried the basis for the

significant increase of \$4 million. Mr. Boutin was unsure if the sum was a record amount. It was a dark period when AIDEA had the \$2 million appropriation which resulted in a 2-notch downgrade. The agency would like to return to the model where AIDEA could assure the credit rating agencies that it was an independent state agency.

Vice-Chair Ortiz asked if the \$4 million was an arbitrary figure. Mr. Boutin could not accurately answer the question, as he was not in his current position at the time.

Representative LeBon noted that AIDEA had an internal lending limit for business loans in participation with banks. His understanding was that AIDEA's cash position and capital position were so strong that it could make its participation loans without having to go to the bond market. He asked if it was true.

Mr. Boutin confirmed that it was true. He indicated that AIDEA was in the bond market frequently. The organization would be in the bond market in a couple of weeks. He thought that the present day was the date of the Interior Gas Utilities (IGU) board meeting at which members would approve up to \$78 million worth of bonds. The Alaska Industrial Development Export Authority would be having its next board meeting on March 4th at which time the \$78 million would be approved. The organization would be in the bond market for the IGU within just a few weeks. He reported that recently the authority had done a significantly large bond issue for Tanana Chiefs and another more recently for Fairbanks Memorial Hospital. Alaska Industrial Development and Export Authority was actually in the bond market almost continually. However, AIDEA did not access the private bond markets for the loan participation program in which every loan had to be brought to AIDEA by an Alaska bank or credit union.

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Representative Wool asked about the \$2 million appropriation to the Kotzebue School District which attributed to the credit rating downgrade. As a result, the Ambler Road Project would cost an additional \$25 million. He asked if he was correct. Mr. Boutin answered in the affirmative. He relayed that over the life of the debt the estimated interest cost would be an additional \$25 million

because of the 2-notch downgrade. It was a surprise to the organization.

Representative Wool asked if there was a way to dispose of the downgrade. He clarified that AIDEA would go to the bond market for the Ambler Road Project and the rating would affect the payback. Mr. Boutin responded, "That's exactly right." He supposed that if the \$2 million was returned to AIDEA, the organization would approach Moody's to see if the downgrade could be reversed. However, realistically, Alaska had to start rebuilding with the rating agencies.

Representative Wool understood in some situations AIDEA partnered with a bank making a loan. In other situations, AIDEA went to the bond market, such as for Fairbanks Memorial Hospital. He assumed that AIDEA did not use its own money, rather, it used its borrowing capability to bond on behalf of Fairbanks Memorial Hospital.

Mr. Boutin had not talked about AIDEA's direct loan programs. For instance, AIDEA created a direct loan program in 2019 to assist Alaska shipyards to compete in Seattle and especially in Canada because of exchange rates. He explained that when a ship was repaired or rebuilt in an Alaska shipyard and, the shipyard and client agreed that there were no change orders, AIDEA would buy the invoice. It was a way of lending to a ship owner. He indicated that AIDEA had been doing such transactions for Seward and Ketchikan Shipyards, although it could be done in any Alaska shipyard. The money was lent directly from AIDEA's capital, a direct loan not financed with bonds.

Representative Wool asked if something like AIDEA's direct loan program might help stimulate business at the Ketchikan shipyard. If he were a boat owner getting his vessel repaired, he could finance the work done at the shipyard through AIDEA. Mr. Boutin indicated that the program was designed for the Ketchikan Shipyard but was not limited to Ketchikan. It was a way of enticing people to stay in the state for repairs.

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Representative Wool relayed that sometimes when AIDEA came up in conversation, AIDEA did not make money with the exception of the Red Dog Mine. He was unsure if the information was accurate. He was also uncertain if it was

AIDEA's goal to make money. He understood that the organization did not want to be in an equity position. He mentioned some projects that had not been successful including the Healy Coal Mine. He did not think AIDEA was focused on putting up a bunch of money on projects that would not hold their market value of their investment. He queried AIDEA's focus.

Mr. Boutin responded that the Healy Clean Coal was given to AIDEA to sell. He happened to be on the board at the time. Sometimes administrations brought AIDEA fish plants. He had been on the board when Governor Hickel instructed AIDEA to purchase three Mark Air Hangers. Sometimes AIDEA was drawn into projects at the end. At the same time, nothing in the statutes directed AIDEA to look at return on investment. It was entirely focused on jobs and economic development. He had mentioned earlier that AIDEA had not had a general fund appropriation since 1986. He furthered that AIDEA lived off its income and gave half of it to the state. The organization was keenly interested in its projects not losing money, otherwise it would evaporate. He noted that not even the prudent investor rule was part of the statutes related to AIDEA. He reiterated that AIDEA lived off of its earnings. Even the low-interest loan programs made money. The loan participation program was based on the Federal Home Loan Bank of Des Moines' interest rate plus 38 base points for AIDEA's costs. It provided a rate of return that helped the organization's bottom line.

Representative Knopp commented that the committee was getting off track.

Co-Chair Foster indicated that the House Finance Chairs would be leaving at 3:30 PM and, Vice-Chair Ortiz would be chairing the meeting.

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Commissioner Anderson continued to slide 14 and slide 15 to discuss the Division of Community and Regional Affairs. The division had experienced the greatest restructuring within the department. The division experienced a reduction of \$1 million and had taken the challenge of managing the workload and meeting its constitutional and statutory requirements. The division had restructured its service delivery model for local government services. It implemented a resource desk in which communities had direct

access to local government specialists to assist them when needed. The division's community linkage and focus had led to moving the reporting requirements previously housed within the Division of Economic Development such as the Made in Alaska Program, the Forest Products Program, and the ARDOR Program to the Division of Community and Regional Affairs. The Division was working to provide local government support as well as support to local communities. The division also worked closely with the Alaska Development Team to increase the awareness of the competitive advantages of the different regions within Alaska. She wanted to make sure that as the state grew the economy the benefits went to all residents of Alaska.

Commissioner Anderson continued to slide 16 to address Serve Alaska and revenue sharing. She relayed that Serve Alaska was a program that leveraged \$1.8 million in federal funds that were sub-granted through the agency. The agency managed the AmeriCorps Programs and served as the designated state service agency for the program. The program provided several volunteers throughout Alaska. Additionally, the Division of Community and Regional Affairs administered revenue sharing for fisheries taxes, national forest receipts, the payment of lieu of taxes program, and the community assistance program.

Commissioner Anderson advanced to the divisions listed on slide 17 and slide 18: the Alaska Energy Authority (AEA) and the Alaska Gasline Development Corporation (AGDC). She relayed that their mission was to reduce the cost of energy within Alaska. The Alaska Energy Authority owned Bradley Lake Hydroelectric Project out of Homer as well as the Alaska Intertie Project. The Alaska Energy Authority was considered the state's energy office and was the lead agency for statewide energy policy and program development. The department was working with AEA to clarify the use of renewable resources in the funding formula for the PCE Program. It had been an item of considerable interest to different communities.

Commissioner Anderson noted the Alaska Gasline Development had been touched on briefly. She noted that the final EIS was due in 2020 and, the record of decision should follow shortly thereafter.

Commissioner Anderson discussed consumer protection on slide 19. She relayed that the consumer protection agencies

included: Corporations, Business, and Professional Licensing; the Division of Insurance; the Division of Banking and Securities; the Alcohol and Marijuana Control Office; the Alaska Oil and Gas Conservation Commission; and the Regulatory Commission of Alaska.

Commissioner Anderson moved to slide 20. She relayed that within the Division of Corporations, Business, and Professional Licensing professional licensure was administered by boards with departmental support for 21 programs. The remaining 22 programs were administered solely by the division. The division also managed registration for corporations, business licenses, and tobacco endorsements. Over the past several years the division had been working closely with information technology to launch online licensure to allow professional licensees to apply, renew, and check their status online.

Commissioner Anderson continued to the Division of Insurance. She conveyed that the division was responsible for licensing and the compliance of insurers and insurance products throughout Alaska. The division worked closely with other entities to ensure that credible agencies were doing work within Alaska. The division was very successful in bringing another health insurer into the state, Moda. She gave kudos to the director, Lori Wing-Heier.

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Commissioner Anderson turned to slide 21 to review the Division of Banking and Securities duties which included regulating the state's depository and non-depository financial institutions, administering and enforcing Alaska's financial services laws, providing information to consumers, investors, and entrepreneurs in the financial industry. The division included three sections that administered 12 statutory programs. In addition to licensing examination and enforcement duties, division staff answered inquiries, investigated and resolved complaints, and contributed to education and outreach.

Commissioner Anderson reviewed the duties of the Alcohol and Marijuana Control Office. The office was responsible for enforcing alcohol and marijuana commerce laws. The office served both the Alcohol and Marijuana Control boards. Both were quasi-judicial agencies responsible for the regulation of legal sales of alcohol or Marijuana in

Alaska. In FY 21 the Marijuana Control Board's programs were 100 percent DGF funding.

Commissioner Anderson continued to slide 22. She reported that the Alaska Oil and Gas Conservation Commission was an independent quasi-judicial agency of the State of Alaska and it was established under the Alaska Oil and Gas Conservation Act. The commission oversaw oil and gas drilling development, production, reservoir depletion, metering operations, and all lands subject to the state's police powers. The commission acted to prevent waste, protect correlative rights, improve ultimate recovery, and protect underground fresh water. It administered the underground injection control program for enhanced oil recovery, and underground disposal of oil-filed waste in Alaska. It served in a judiciary form for resolving certain oil and gas disputes between owners including the state. The commission carried forth statutory mandates consistent with the protection of health, safety, and the environment. It strived for cooperation with industry while maintaining well defined and essential regulatory requirements.

Commissioner Anderson discussed the Regulatory Commission of Alaska. The commission had broad authority to regulate utilities and pipeline carriers throughout the state. The commission monitored active certificates for public utilities and pipelines. The certificates covered a broad range of activities including provisional certificates for small village water and waste water systems, fully regulated telecommunications, and electric and gas monopolies. She concluded the department's presentation.

Vice-Chair Ortiz thanked the Commissioner and reviewed the agenda for the following meeting.

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

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ADJOURNMENT

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The meeting was adjourned at 3:30 p.m.