HOUSE FINANCE COMMITTEE
March 1, 2021
1:34 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:34 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Kelly Merrick, Co-Chair
Representative Dan Ortiz, Vice-Chair
Representative Bryce Edgmon
Representative DeLena Johnson
Representative Andy Josephson
Representative Bart LeBon
Representative Sara Rasmussen
Representative Steve Thompson
Representative Adam Wool

MEMBERS ABSENT

Representative Ben Carpenter

ALSO PRESENT

Neil Steininger, Director, Office of Management and Budget, Office of the Governor; Paloma Harbour, Fiscal Management Practices Analyst, Office of Management and Budget, Office of the Governor; Leslie Isaacs, Ts'aang Gaa'y, Administrative Service Director, Department of Administration, Office of Management and Budget, Office of the Governor.

PRESENT VIA TELECONFERENCE

Lacey Sanders, Administrative Services Director, Department of Education and Early Development, Office of Management and Budget, Office of the Governor; Dom Pannone, Administrative Services Director, Department of Transportation and Public Facilities, Office of Management and Budget, Office of the Governor; Kelly Tshibaka, Commissioner, Department of Administration.

SUMMARY

HB 69 APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 69 was HEARD and HELD in committee for further consideration.

HB 71 APPROP: MENTAL HEALTH BUDGET

HB 71 was HEARD and HELD in committee for further consideration.

PRESENTATION: CORONAVIRUS AID, RELIEF, AND ECONOMIC Security (CARES) ACT FUNDING UPDATE

Co-Chair Foster reviewed the meeting agenda.

#hb69
#hb71
HOUSE BILL NO. 69

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

HOUSE BILL NO. 71

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

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^PRESENTATION: CORONAVIRUS AID, RELIEF, AND ECONOMIC Security (CARES) ACT FUNDING UPDATE

1:35:02 PM

NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced a PowerPoint presentation titled "State of Alaska Office of Management and Budget: House Finance COVID-19 Funding Overview," dated March 1, 2021 (copy on file). He began with a timeline of the state's fiscal response to COVID-19 on slide 2. He detailed that there had been four separate bills on three separate events related to COVID relief. He elaborated that on March 16 [2020] the legislature had passed, and the governor had signed the mental health budget, HB 206. The budget had included an estimated $9 million in federal receipts and $4.1 million in undesignated general funds (UGF). He expounded that at the time the state thought the response to COVID would be quarantining a couple of travelers coming into the state or other smaller activities with lower costs such as renting some hotel rooms out to put people up and some smaller measures for cruise ship traffic that had been expected during the summer.

Mr. Steininger continued to address slide 2. He explained that by April 6 [2020] there had been a better understanding that the initial cost estimates had been very low. He expounded that at that point the state had received some federal receipts from housing and urban development, which were put into the supplemental budget for housing relief. He elaborated that $8.5 million had been put forward specifically for coastal communities, while still anticipating a cruise ship season. Money had been appropriated that would allow communities to mitigate the spread of COVID-19 as a result of cruise ship traffic and workers coming into the state. Additionally, $15 million had been added to the Department of Health and Social Services (DHSS) emergency programs budget related to what the state thought would be the need for pandemic outreach and activities to be undertaken by emergency programs and epidemiology. The operating and capital budget passed slightly later than the supplemental budget contained $75 million UGF (from the Constitutional Budget Reserve (CBR)) for DHSS emergency programs. The disaster relief fund had also been capitalized with $5 million from the CBR and an estimated $9 million in what the administration anticipated from the Federal Emergency Management Agency (FEMA).

Mr. Steininger continued with slide 2. On April 9 [2020] the state had a much better idea of what was going on and things were changing constantly. The disaster declaration bill, SB 241, had been implemented. The bill had contained the authority to draw $10 million from the disaster relief fund and a handful of references to funding in the previously mentioned bills, predominately $9 million from HB 206 in estimated federal funding. He explained that because it had been appropriated as an estimate, the state was able to expand the funding to include a substantial amount of federal funding that came to DHSS for response mitigation. He highlighted that the situation had been rapidly changing between March 16 and April 6. He noted that the dates shown on slide 2 reflected the dates the bills were signed. When the legislature had passed the supplemental and operating budgets there had been very different information about what federal funding would be available when the governor had signed the bills.

Co-Chair Foster noted that Representative Wool had joined the meeting.

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Mr. Steininger turned to slide 3 and discussed the federal fiscal response. On March 6 [2020] the federal government similarly had considered the event would be much smaller in cost and activity. The first federal relief package, the Coronavirus Preparedness and Response Supplemental Appropriations Act, was $8.3 billion, which covered things like vaccines, smaller grants, and humanitarian assistance. The Families First Coronavirus Response Act had been passed on March 18 [2020] allocating $105 billion for paid family leave (for individuals who caught COVID), expanded family medical leave, and an increase in the federal participation for the Medicaid program (collections by 6.2 percent of federal match).

Mr. Steininger continued to review the federal fiscal response on slide 3. The Coronavirus Aid, Relief, and Economic Security (CARES) Act was passed on March 27 [2020] allocating $2.3 trillion. He explained the passage of bills over the time period showed the evolution of understanding of the pandemic. The bulk of the programs discussed resided in the CARES Act including the Paycheck Protection Program, Pandemic Unemployment Assistance, and the Coronavirus Relief Funds (CRF). The act granted $1.25 billion to the State of Alaska with fairly loose spending guidance. He noted most of the funding for the state response had come from the allocation. He highlighted that a couple of the provisions were extended in the Paycheck Protection Program (PPP) and Health Care Enhancement Act, which had expanded some programs and replenished associated funding. On December 27 [2020] the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) had passed, which contained a substantial amount of money for areas like the Department of Transportation and Public Facilities (DOT) and contained similar provisions to the CARES Act (money for school districts and the university had been expanded under CRRSAA). Additionally, CRRSAA changed some of the terms of the CRF and extended the expenditure deadline through another calendar year.

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Representative Josephson asked if the $1.25 billion in federal CARES Act funds allocated to Alaska was the RPL [revised program legislative] portion of the $5.2 billion [shown on slide 3].

Mr. Steininger answered that the RPLs covered many of the different components. He detailed that the bulk of the discussion on community assistance payments and the Alaska CARES small business program had come from the $1.25 billion.

Representative Josephson asked about the remaining [CARES Act] funds of close to $4 billion. He asked if the remainder included funding for PPP and other related programs.

Mr. Steininger replied that the presentation included slides with further detail on the subject.

Vice-Chair Ortiz asked about the $683.8 million allocated to Alaska under CRRSAA. He asked for verification that Mr. Steininger had stated much of the money went to DOT.

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Mr. Steininger responded affirmatively. He elaborated that the large portion of discretionary funds had come from the Federal Transit Authority (FTA) and Federal Highway Administration (FHWA) to DOT. Additionally, a large portion of the funding came in for education related purposes. He detailed that $130 million [$159.7 million] went to school districts and a substantial amount went to the university.

Vice-Chair Ortiz asked if the committee would hear more about the breakdown and how the funds would be spent.

Mr. Steininger replied in the affirmative.

Mr. Steininger turned to a pie chart showing a breakdown of all of the funding coming to Alaska on slide 4. He referenced a spreadsheet in members' packets that broke out the different grants by each federal act, titled "Federal Funding to Alaska for COVID-19 Response," dated 2/27/21 (copy on file). He remarked that due to the numerous federal acts and different programs, tracking and sorting the incoming funding could be complicated. He detailed that the state had received $1.25 billion in unrestricted funding in addition to funding that had passed through the state to public and private organizations and individuals. Approximately $1.5 billion went to public/private entities and individuals had received approximately $1.3 billion. He elaborated that the funding [for individuals] came in the form of employment assistance and tax rebates. The paycheck protection was included in the $1.7 billion to businesses and about $500 million went to tribal organizations throughout the state. The individual grants totaling about $6.3 billion were included on the spreadsheet.

Mr. Steininger clarified that the information was based on what the administration currently knew. He explained it would take time to determine how much money had come into Alaska for things like the PPP or unemployment insurance benefits due to a lag in reporting between when the grant happened and when an individual received it because the funding ran through the state budget. He noted the number would increase over time as some of the programs impacted Alaskan businesses and individuals.

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Representative Wool referenced the $6.3 billion [in grants shown on the spreadsheet] reflected how the amount had been distributed throughout the state.

Mr. Steininger replied in the affirmative.

Representative Edgmon asked if the Department of Commerce, Community and Economic Development (DCCED) or the Office of Management and Budget (OMB) provided oversight over the spending of funds. He looked at the pie chart on slide 4 and believed most, but not all, of the funding had been distributed. He asked who was tracking the information. He stated his understanding that Alaska was one of a handful of states that would be audited in terms of how the funding was expended.

Mr. Steininger responded that the administration of the funds varied by grant. He elaborated that some of the grants were administered by DCCED such as small business grants under the Alaska CARES programs and grants out to municipalities. He elaborated that the Department of Health and Social Services (DHSS) managed a large portion of the $1.25 billion reserves specifically for health and impact mitigation. The Department of Education and Early Development (DEED) managed a large amount of the funds in terms of funding allocated to school districts. Additionally, DOT managed a large amount of the funding. All of the different pots of money and grants listed on the spreadsheet had distinct criteria for record keeping and reporting.

Mr. Steininger shared that early on in the pandemic, the administration had started to establish coding in the state's accounting system in order to track dollars spent from any source on COVID. There had been some lessons learned and shared by individuals who had worked for the state during the American Recovery and Reinvestment Act (ARRA) [in 2009], the last large federal relief effort. He highlighted the importance of upfront expenditure tracking and established reporting processes. He remarked that fastidious recording in the coding system was important because the state had been selected for a desk review of its reporting. He explained that Paloma Harbour was responsible for coordinating with all of the state agencies on a daily basis to ensure the state was meeting federal regulation guidelines. He shared that much of the $6.3 billion did not flow through the state and it did not necessarily have responsibility for how it would be spent because it went straight to recipients. He clarified the state's exposure in reporting was not the entire $6.3 billion. He stated that each grant had its own tracking and reporting criteria. Additionally, OMB also produced and provided expenditure reports to the legislature and on the OMB website.

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Representative Edgmon asked for verification that OMB was the place to go for the information.

Mr. Steininger replied in the affirmative. He relayed that OMB was trying to aggregate the information in one place.

PALOMA HARBOUR, FISCAL MANAGEMENT PRACTICES ANALYST, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, answered that OMB was trying to capture everything it could. She added the money that did not go through state agencies was more difficult to track and capture. For example, some money had gone directly from FTA to the Municipality of Anchorage for transportation that she did not capture in the $6.3 billion and still needed to add. She noted that the numbers were continuously changing.

Representative Edgmon remarked there was plenty to talk about, especially in anticipation of the next tranche of funding coming to Alaska. He thought there may be some lessons learned along the way to capitalize on. He was trying to get a better idea of who to contact to get the information about how much of the funding was encumbered but unexpended. He referenced Mr. Steininger's statement that the deadline for the end of calendar year 2020 had been extended for $528 million or $560 million of the original $1.2 billion in CARES Act funding for communities that had not spent their money.

Representative Edgmon stated that House Finance Committee would have a larger discussion because it had to build the budget for the coming year in addition to factoring in many of the one-time payments that may have some relationship to the budget being constructed. He furthered that what was happening and who was coordinating the information and what information was available would require a more in depth conversation. He could see the legislature hopefully playing some role in terms of overseeing what happened and where the next tranche of money would go in association with its relationship to the budget.

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Representative Josephson stated it would be useful to have a document reflecting the administration's opinion of monies that backfill. He had been frustrated by the June 28, 2019 and April 7 [2020] vetoes [by the governor]. He stated to the extent the vetoes and FY 22 cuts had been ameliorated in some way by the CARES Act funding, it may change his position. He stressed that $6 billion was an enormous sum. He remarked it was difficult enough to do a budget during non-COVID times. He stated that the current situation added another wrinkle in terms of trying to understand. He used public radio for an example, which had $3 million and then $1 million, which was important to rural Alaska. He asked if something came in and covered the issue. He stated if so, it may change his view of the situation.

Mr. Steininger responded that there were reports laying out how the $1.25 billion had been distributed, which was included in members' packets specifying where the allocations were made. He noted the information did not cleanly specify whether funds backfilled other costs; however, the information was shown in some cases. He added that a presumption of eligibility for CRF dollars was expenditures on public safety personnel including the Department of Public Safety and Department of Corrections. The administration had used some CARES Act money to backfill costs in those agencies to avoid supplemental needs in the current fiscal year and to allow the state to lapse money in the prior fiscal year (FY 20). He explained that there had been some actions backfilling costs where there was eligibility to COVID or the CRF. One eligibility stipulation was the cost could not be previously budgeted with some exceptions like corrections and public safety. He stated there was some difficulty in backfilling with CRF dollars; however, the administration had backfilled other areas particularly within DOT where the aforementioned restrictions did not apply. Within DHSS, Medicaid utilized some money that was displaced by additional federal funds to cover future costs. He noted it was not as direct as the method used for DOT, but it was a similar idea.

Mr. Steininger addressed the question about what had been vetoed compared to funding available at present through distributions. He stated that some of the comparisons could be made. He explained that when the vetoes had been made, on education for example, the state had possessed a certain amount of knowledge. The administration had known money was coming in and had thought it may have fewer or more restrictions than it did, and veto decisions had been made based on the limited information. He furthered that the state had been able to utilize the money mostly how it anticipated, but not perfectly. He explained that the money may have covered one cost that enabled a community or school district to free up funds within their own operating general funds to cover costs that may have been supported by a vetoed program. He remarked that there was not a perfect tie or one-to-one, but $6.3 billion coming into the state in one form or another had certainly offset some but not all of the problems occurring due to COVID.

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Representative Wool asked about the $600 and $1,200 checks (depending on the number of kids in a family) that came from the federal government to individuals. He asked if the checks were included in the $6.2 billion.

Mr. Steininger pointed to the $1.3 billion for individuals shown in the orange section of the pie chart on slide 4.

Representative Wool observed that $1.3 billion out of $6.3 billion went to individual checks. He reasoned that $5 billion went to things other private and public businesses or agencies. He remarked that $6.3 billion was twice the statutory Permanent Fund Dividend (PFD) amount of approximately $3.1 billion.

Representative Wool asked if the approximately $6,000 per person was large compared to other states.

Mr. Steininger replied that it was large in terms of population perhaps. He did not know what other states were receiving per capita. He highlighted an analysis released the previous Monday that looked at the impact of COVID on various states' economies and the impact when offset by incoming federal relief. He reported that the State of Alaska was the most impacted even net of federal relief. When access to reserve balances was factored in, Alaska dropped to fifth or sixth on the list. He explained that some of the other greatly impacted states did not have the same reserves as Alaska. He noted that the analysis included the corpus of the Permanent Fund. He advised looking at the analysis net of federal benefits pre-reserves when compared to other states, which showed the impact on Alaska greatly exceeded that in any other state.

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Representative Wool thought that he had just seen the analysis, which showed Alaska was -42.5 percent in revenue. He believed the number pertained to tax revenue. It was his understanding that some states had not taken a big hit because stimulus money helped local economies, which helped sales tax. He stated that Alaska had taken a big hit because oil tax and other revenues had been impacted due to the absence of a sales tax. He asked Mr. Steininger if it was the same analysis he had referenced.

Mr. Steininger agreed and relayed that the analysis was by Moody's. He elaborated that oil and tourism had been hit the heaviest by the pandemic. He explained that because Alaska's state revenue was reliant on oil and community revenues were reliant on tourism, it put Alaska at a disadvantage on a national scale when looking at the impact of the pandemic.

Representative Wool stated that $6 billion was a significant stimulus to the state's economy. He noted that many other states realized a stimulus in their revenue portfolios due to things like state sales tax, which enabled them to have a much better post-COVID recovery. He reasoned that Alaska may have realized some help, but it did not show up on the state revenue side.

Mr. Steininger replied that while the federal funding coming to Alaska was a huge amount, it did not fully offset the impact to the state. In other states that did not have revenues as uniquely tailored towards industries impacted by the pandemic, net of federal relief, those states were financially better off from a state perspective. He added that Alaska was not financially better off.

Co-Chair Foster noted that Representative Johnson had joined the meeting earlier.

Representative Rasmussen looked at page 2 of the spreadsheet showing just under $600 million. She asked if the amount reflected the $1,200 stimulus payment people received.

Mr. Steininger confirmed the amount was for the $1,200 stimulus payments paid during the summer. He noted the amount did not include additional stimulus payments because the data was not yet available.

Representative Rasmussen asked if OMB had the number of individuals who had received a stimulus payment.

PALOMA HARBOUR, FISCAL MANAGEMENT PRACTICES ANALYST, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR replied that she did not have the number of individuals who received the stimulus payment, only the amount that came to individuals in the state.

Representative Rasmussen stated that she believed many people did not receive the stimulus payment based on average household income. She remarked that many people in the oil industry had been impacted financially or laid off due to the pandemic. She explained that the individuals' prior year income exceeded the guidelines set by the federal government [to receive a stimulus payment]. She thought that if money was put out into the economy and it went to families using the funds to stay alive and not as discretionary income, it likely would not have the same impact as a dividend that people could use as they chose. She pointed out there was more than one factor when it came to economic impact from the pandemic.

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Mr. Steininger turned to a pie chart on slide 5 showing federal funding to state agencies. The chart reflected funding the state had visibility into and responsibility for. The largest portion was CRF dollars followed by unemployment compensation via the Department of Labor and Workforce Development. The chart included nutrition and emergency relief grants of slightly over $250 million that ran through DEED and a large allocation to airport and transit stimulus through DOT. He shared that recently the Alaska Housing Finance Corporation (AHFC) received $164 million through CRRSA for housing relief and rental assistance programs. Additional items in the chart were a handful of much smaller items comparatively, but still large dollars and impactful programs.

Ms. Harbour added that the amounts would grow as they did not yet include CRRSA funding. She detailed that the Centers for Disease Control and Prevention funding had not been increased by funding that would come to Alaska for CRRSA vaccinations and other things.

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Mr. Steininger relayed that Ms. Harbour would provide more detail about the CRF and additional history and timing over the past year.

Ms. Harbour advanced to slide 6 and spoke about Coronavirus Relief Fund guidance and frequently asked questions. She detailed that CRF funds were a part of the CARES Act enacted at the end of March. The CARES Act had three broad parameters for the expenditure of funding. First, expenditures had to be necessary and incurred due to the public health emergency. Second, expenditures could not be accounted for in the most recently approved budget for the state. Third, expenditures had to be incurred between March 1, 2020, and December 30, 2020. She highlighted that CRRSA extended the expenditure deadline to December 31, 2021.

Ms. Harbour shared that when the [federal] funding had been enacted there was a lack of guidance or direction to recipients on how funds could be spent with the exception of the three broad parameters. She elaborated that Treasury released its original guidance and frequently asked questions document on April 22 containing four questions and answers, which were essentially the three broad categories restated. She explained that the state had very limited information on how the funding could be spent and restrictions beyond the three basic categories when the state was developing revised programs that came to the legislature for review and approval. The administration had developed the programs it could based on what was known, including community relief grants and small business relief grants.

Ms. Harbour relayed there were considerable iterations of the guidance from Treasury that significantly changed the administration's understanding of the programs. She listed organizations that had been coordinating with Treasury to get better spending guidance including the National Governor's Association, the National Association of State Budget Officers, the National Association of State Auditors, Comptrollers, and Treasurers, and the National Conference of State Legislatures. She relayed that there had been concern by recipients that they would think they were spending funds correctly but end up having to repay the money. The administration had done its best in developing some revised programs to help meet the needs of the state that fit within the funding parameters.

Ms. Harbor reported that the guidance kept changing. She explained that the administration had to submit its first official report to the federal government on September 21 [2020], which had included all expenditures from March 1 to June 30. The guidance for the report had not been available until July 31. She elaborated that at that time, the state had already received five months of spending reports from communities and the administration had to make them redo the reports based on the updated guidance from Treasury. She noted the reporting categories had increased from six to eighteen. The administration had worked with the Alaska Municipal League and DCCED to get the revised reports from communities. She remarked that communities had done an amazing job updating the reports quickly.

Ms. Harbour pointed to the September 2 date highlighted in purple on slide 6, which reflected the last major revision to the guidance and frequently asked questions from Treasury, which were federally registered.

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Representative Josephson looked at slide 6 and referenced the CRRSA funding extension. He used a Yupik village with 400 residents that had received $100,000 in funding as an example. He asked for verification the village would have until the end of the current year to spend the funds.

Ms. Harbour replied in the affirmative.

Representative Josephson thought state agencies likely had to hire staff to manage the monitoring of all of the incoming funds. He asked for detail.

Ms. Harbour answered that DCCED had tried to establish a position to help with CARES Act funding, specifically the Small Business Relief Program to ensure adequate reporting. The department had no success in filling the position. She elaborated that until the position could be filled, DCCED had handled local government staff. She reported that all of the agencies including DHSS, DCCED, and OMB had to absorb the work with existing staff. She relayed that OMB had been able to hire a temporary staff to help with the federal reporting.

Mr. Steininger added that one piece of the report OMB sent to the legislature included personal services costs. He elaborated that much of the costs pertained to time that an otherwise budgeted person was spending on COVID. One of the frequently asked questions addressed what point 2 [on slide 6] - specifying that funding could not go to expenses that were accounted for in the most recently approved budget - meant for existing staff who began spending most of their work time on COVID. He explained there were numerous staff employed by the state who had jobs and were now spending most of their time on COVID. For example, many staff in DHSS, DEED, and OMB were working on COVID related issues. He noted there were a couple of non-permanent positions, one at OMB, and contract tracer positions. He relayed the state was trying to make do with what it had and COVID was effectively the focus of the year.

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Representative Edgmon referenced the discussion in the morning meeting about a desk review from the federal government. He considered a desk review to be something like a management review. He asked for detail about what was expected with the review. He referenced strings attached to the $1.25 billion the state had received in April. He asked about the prospect the state may be on the hook for money that had been mismanaged or misspent.

Ms. Harbour answered that she did not know presently whether there would be any questioned costs. She explained that the desk review would primarily look at what the state had reported in supporting documentation and whether there had been adequate internal controls. She noted it was very low level. She elaborated that if the review found something of concern, it could be expanded into a full-fledged audit. She expounded that if the review developed into an audit, questioned costs could be identified at that point. She detailed that if questioned costs were identified, the state had the opportunity to identify other eligible costs to substitute for the questioned costs. She furthered that if a local community received the funding and had questioned costs, the state would work with the community to identify and substitute other costs that were eligible. She noted that hopefully the state would not have to go through the entire process.

Representative Edgmon asked if there was adequate infrastructure available at the state agency or OMB level if an audit were to be required.

Mr. Steininger answered that the state would certainly respond to any requirements that came forward from the [U.S.] Office of Inspector General (OIG). He elaborated that if questioned costs were discovered and a community or the state had spent money that did not meet [federal] guidelines or had spent the funds prior to updated guidance that changed the nature of eligible expenditures, the ability to substitute other eligible costs gave a level of insurance the state would not necessarily have to pay money back to the federal government. He stated that one of the slides illustrated the amount of CRF dollars that had been allocated versus unallocated at present. The administration knew there were eligible costs far in excess of the amount that had been allocated. For example, places where state staff had diverted their work to COVID and places where money had been spent within the bounds of the operating cost of an agency that any questioned costs could be applied to. The administration was not concerned there would be a payback necessarily. He stated that the state's ability to work through the questioned costs with federal partners was sufficient if needed.

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Representative Edgmon looked ahead in the presentation [at slide 7] and observed that $568 million of the $1.25 billion in CARES Act funding had gone to communities. He considered a worst case scenario where funds were found to be spent incorrectly. He asked whether the misspent funds would be limited to the $568 million portion of the $1.25 billion and the broader $6.3 billion. Alternatively, he asked if there would be other categories included in the focus.

Ms. Harbour replied that any of the funding categories could be included. She explained that the state had substitutable costs for funding received by state agencies. Her biggest concern with the funding received by communities was that communities had to have incurred substitutable costs. She explained that if expenditures by communities were questioned and they did not have substitutable costs, they would be in a situation.

Mr. Steininger added that when the state entered into the agreements with communities and control of expenditures were handed over to communities, part of the agreement was the community was agreeing to spend the money per CRF guidelines. He stated that the state had communicated to communities that the guidelines from OIG and Treasury were prone to change and it was their responsibility to make sure they managed to the changing guidelines. He elaborated that if a community did not have a substitutable cost and had a cost that was not CRF eligible, per the agreement with the state, the communities were responsible for returning funding to the federal government. However, the state also had the opportunity to find substitutable costs within state payments because the state was the prime recipient of the grant. He furthered that the $1.25 billion needed to be spent on allowable costs anywhere underneath the umbrella, which included the community distribution.

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Ms. Harbour added that the early review and extended deadline to December 31, 2021, assisted the state. She elaborated that if a community's current expenditures were not allowable, but they could make a plan for allowable expenditures prior to December 31, the funding could be expended on eligible costs.

Ms. Harbour moved to slide 7 and addressed a pie chart titled "Alaska Coronavirus Relief Fund Allocations." She detailed that 45 percent of the funding or $568.6 million was distributed in the form of community relief grants, $290 million had been distributed for small business relief, $50 million for nonprofit support through the Alaska Community Foundation, $10 million was distributed as housing support through AHFC, and $331.4 million had been provided to DHSS to cover other COVID related costs. She elaborated that of the funding given to DHSS, $133 million went out in the form of non-state agency support costs and services and $153.4 million went to state agency costs including COVID leave, personnel services, and other. She would provide more detail on a later slide. She noted that $45 million had not yet been distributed and was in reserve for other anticipated COVID costs.

Mr. Steininger added that the spreadsheet with the green header in members' packets [titled "Office of Management and Budget Alaska Coronavirus Relief Fund Allocations and

Expenditures" updated February 26, 2021 (copy on file)] provided a breakdown of the $331.4 million in other COVID relief that ran through DHSS.

Ms. Harbour noted that the sheet showed the amount expended.

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Mr. Steininger noted there were subject matter experts available online to answer detailed questions on the upcoming slides. He turned to slide 8 related to unemployment insurance payment and trust fund details. He noted there had been a spike in unemployment claims over the past year. He detailed that from March 1 through February 4 regular unemployment insurance payments from the state UI Trust Fund totaled $323.6 million, federal pandemic unemployment compensation was $530 million, pandemic unemployment assistance (100 percent federal) was slightly over $68 million, emergency unemployment compensation (100 percent federal) was $57 million, and FEMA lost wages assistance (100 percent federal) was just under $59 million. He reported that as of February 24, the UI Trust Fund had a balance of $286.1 million. He stated that while the balance was within the targeted range, it was at the lower end.

Representative Josephson looked at the second bullet on slide 8 related to federal pandemic unemployment compensation. He asked if the compensation was being considered for extension and perhaps retroactively to November or sometime when it had expired.

Ms. Harbour replied that she believed CRRSA had extended all of the programs [on slide 8], but perhaps not retroactively. She noted that the new relief may apply retroactively. She would follow up with the information.

Representative Wool looked at the regular unemployment insurance cost of $323 million and the total fund balance of $286 million. He asked if the figures meant there would not be sufficient funding for a draw the following year to cover regular unemployment insurance. Alternatively, he asked if the fund was constantly replenished from outgoing paychecks. He understood there were currently fewer paychecks going out. He asked how the UI Trust Fund looked going forward for the next year.

Ms. Harbour replied that there was a subject matter expert available online. She relayed that the balance was within a healthy range.

Representative Wool asked for verification that Ms. Harbour had stated the balance was in a healthy range.

Ms. Harbour replied that the balance was healthy. She elaborated that revenue would be coming into the fund from paychecks over the course of the next year. She relayed the department anticipated regular unemployment insurance payments would decrease because it was only possible to be unemployed for a given period of time while receiving regular unemployment insurance payments. She explained that the pandemic emergency unemployment compensation would extend eligibility and was 100 percent federally funded. She elaborated that reliance on state funds would decrease as reliance on federal funding increased.

Representative Wool asked for verification that all assistance and compensation listed on slide 8 with the exception of the regular unemployment insurance was fully federally funded. He asked how frequently the UI Trust Fund balance was replenished.

Ms. Harbour answered that payments were made quarterly.

2:33:38 PM

Mr. Steininger moved to slide 9 to discuss the higher education relief details. The CARES Act had included $7.9 million to the University of Alaska in addition to $71,000 for the Alaska Vocational Technical Center (AVTEC). The CARES Act required that 50 percent of the funds go directly to students in the form of direct relief. The remaining half of the funding could be used by institutions for eligible costs. Students had received $3.9 million through the university and $35,700 through AVTEC. Additionally, the university received $2.6 million allocated to minority serving institutions.

Mr. Steininger addressed higher education relief details under the CRRSA Act on slide 9. He reported that under CRRSA the amounts were extended, but a larger portion went to the institutions. He stated that the institutions had been greatly impacted in terms of revenues from enrollment, student housing, and other areas that changed the way business was done due to COVID by eliminating some congregate settings. The university had received $17.4 million from CRRSA of which $3.9 million went to students. He stated that rather than 50/50 a flat amount went to students.

Mr. Steininger highlighted that AVTEC had received over $250,00 of which, $35,700 went to students. He noted that the administration had included a supplemental appropriation of $750,000 to AVTEC in the supplemental budget. He remarked that even with relief coming in from higher education items as well as other cost saving methods, the loss of revenue to AVTEC had been significant. The agency required additional funds to operate its facility even after the receipt of federal funds. He stated that unfortunately because CRF had restrictions on revenue replacement, the state was unable to tap any other federal COVID relief efforts to satisfy the need. He explained that the supplemental request was not duplicative of the federal amounts.

2:36:26 PM

Representative Wool looked at the first $7.9 million federal appropriation to the University of Alaska where students had received $3.9 million. He understood funding had gone to students due to the disruption of the semester and many students had to go home. He asked about the reasoning for the second appropriation of $3.9 million to students. He stated his understanding that enrollment at certain campuses had even increased.

Mr. Steininger answered that it had been a federal requirement of the monies. He did not know the federal justification for the specific funding. He would follow up.

Mr. Steininger turned to slide 10 and addressed K-12 education relief details. He highlighted two different funds related to education relief. The first was the Elementary and Secondary School Emergency Relief (ESSER) that brought in $38.4 million under the CARES Act, which was distributed to school districts (referred to as local education agencies on the slide). Additionally, $3.8 million was allocated to the state education agency DEED. He noted there was a cap of $192,000 for administrative expenses. He explained there were rules around the funding related to how it could be used that were different than the rules surrounding some of the other programs. There were restrictions on use for administrative expenses and the types of grants the department could issue.

Mr. Steininger addressed the second fund on slide 10 called the Governor's Emergency Education Relief (GEER) that brought in $6.5 million from the CARES Act. He explained that the money was more open-ended in terms of its application to specific education related items and was more at the discretion of the state than the ESSER funding. He detailed that $3.7 million had been used for grants to school districts to help fill the gap between vetoed education funding and the amount available to districts. Additionally, $1.5 million was allocated to the university to cover added COVID impacts above and beyond impacts covered by the CARES Act. The funding had also been used for competitive grant awards to education-related entities and the Alaska Native Science and Engineering Program. He noted the next slide covered similar programs under CRRSA.

2:40:05 PM

Mr. Steininger moved to slide 11 and addressed education relief details included in CRRSA. He relayed that the same programs [shown on slide 10] received additional funding in December. There was $159.7 million in ESSER funds for local education agencies and the state education agency. He noted he had inadvertently misstated the figure as $130 million earlier in the meeting. Local education agencies received $143.7 million of the funding and DEED received $15.2 million for education-related grants with a cap on administrative expenses. The GEER received another $2.8 million and emergency assistance for non-public schools received $2.4 million [slide 11 shows the number at $5.4 million] with caps on administrative expenses.

Representative Josephson stated that CRRSA was the December 27 act, which was very recent. He asked for verification that the 53 local school districts had received $143 million.

Mr. Steininger agreed.

Representative Josephson asked what the money could be spent on within education.

Mr. Steininger deferred the question to DEED.

2:42:03 PM

LACEY SANDERS, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR (via teleconference), replied that all CARES Act and CRRSA funding [directed to education] was to address the impacts of the COVID-19 pandemic. The recent CRRSA included an expanded list of available activities to address learning loss and summer programming such as summer school and school repairs to prevent the spread of the virus and improve air quality. She summarized that the CARES Act and CRRSA were aimed at reducing COVID-19 impacts, but CRRSA was expanded specifically for learning loss.

Vice-Chair Ortiz asked if there was a breakdown showing the amount received by each district throughout the state.

Ms. Sanders answered in the affirmative. The department's website and documents to be provided to the committee showed a breakdown on the CARES Act funds and CRRSA by school district. She noted that the authority for districts to spend the funding was fairly broad, which gave the school districts the ability to determine how to use the funds within the federal guidance.

2:44:36 PM

Representative Wool referenced an earlier conversation where it had been discussed that Alaska was deficient 2,000 students. He had stated that his district had lost 2,000 students to home schooling outside the district. He stated that the enrollment loss translated to about $20 million. He asked for verification the federal funding could be used to cover the loss. He asked if districts had not yet received the funding, which was causing some panic.

Ms. Sanders responded that the original CARES Act had passed in March [2020]. The department had been working with school districts to get their applications and budgets as early as FY 20. She reported that school districts had been able to use the funding. The department had been working with districts most recently on their FY 21 applications. She noted the funding was available for an extended time period through September 30, 2022. The department had just been able to get the applications for the CRRSA funding in mid-February and it was now working with school districts to make sure the money was available and approved. The CRRSA funding had an extended time period through September 30, 2023. She believed there was a lot of planning that districts needed to do as they looked at their current budget based on the formula and determined how to use the federal funds over the next several years.

2:47:16 PM

Mr. Steininger turned to transportation relief details on slide 12. Under the CARES Act the department had received funding from the Federal Aviation Administration (FAA) and the Federal Transit Administration (FTA). Under CRRSA the department had received funding from the FTA and the Federal Highway Administration (FHWA). He detailed that the $82.5 million from the FAA was focused on maintenance and operations of state airports. He detailed that $49.4 million had come in to aid the state with its management of a large number of rural airports. Additionally, $33 million went to the Alaska International Airport System for operations and maintenance of international airport systems in Anchorage and Fairbanks. He detailed that the funding was fairly open ended as long as it was related to operation and maintenance of the airports. He noted that the funding offset a significant amount of general fund spending.

Mr. Steininger highlighted that the governor's FY 22 budget included use of the federal FAA funding to offset fund spend in maintenance and operations for DOT. He noted the FTA money was narrower in scope toward transit related activities including the Alaska Marine Highway System (AMHS). He detailed that money from the grant had also gone to the railroad and municipal transit throughout the state. Under CRRSA the FTA amount had been increased to $55.8 million directed to communities with transit authorities and the state transit including the railroad and AMHS. The FTWA added $124.4 million, and the state had received the federal spending guidance the previous week outlining how the money could be utilized. Thus far, the funding had been utilized to reopen some maintenance stations on highways to cover snow clearing and other related activities. A portion had not yet been allocated to a specific purpose. He informed the committee that the governor's budget amendments included a capital project identifying the amount of money available, but it did not specify exactly where the funds should be spent as the guidance document had not yet been received.

Representative LeBon looked at the piece for the Alaska International Airport System of $33 million. He recalled that approximately $27 million to $28 million went to the Anchorage airport and about $5 million went to the Fairbanks airport. He asked if his statement was accurate.

Mr. Steininger answered that he did not have the specific information. He explained that the FAA allocation had included a list of every airport in the country including an associated dollar amount. He detailed that the funding had gone to whoever owned and managed the airports and it could be redistributed within the airports they owned. For example, DOT managed over 100 airports and the department did not have to spend to the dollar what the distribution had been for each airport. Similarly, the Alaska International Airport System could distribute the money between the two airports differently than it had been lined out in the list.

Representative LeBon recalled that Merrill Field had received about $18 million in funding. He asked if the funding was from the rural airport system allocation of $49 million.

Mr. Steininger believed Merrill Field was outside of the $49.4 million. He noted that DOT was available online for more detail.

Representative LeBon remarked asked what formula directed $18 million to Merrill Field while only directing $5 million to the Fairbanks International Airport.

2:52:34 PM

DOM PANNONE, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR (via teleconference), replied under the CARES Act allocation formula there were a number of variables the FAA looked at including debt services, operating expenses, and revenues. He explained that Merrill Field's number had come out where it did due to the formula used by the FAA. He added that

Merrill Field was not owned, operated, or managed by the state.

Representative LeBon asked if Merrill Field had received about $18 million from the CARES Act.

Mr. Pannone replied that the number sounded like it was in the ballpark.

Representative LeBon expressed his hope that the Fairbanks airport would be allocated under the same formula as Merrill Field.

Representative Josephson asked if the sums shown on slide 12 were direct grants the governor could allocate. He asked if RPLs had been done for any of the items on the slide.

Mr. Steininger answered that RPLs had been done for CARES Act items to allow DOT access to the funds. He elaborated that RPLs had been done for CRRSA funds to reopen some of the maintenance stations. The remainder of the funding was subject to legislative appropriation.

Representative Josephson asked for verification that the $122 million [in FHWA funds shown at the bottom of slide 12] was in the hands of the legislature to appropriate as long as session was underway. He stated his understanding that because the governor had not yet spent the funding, it was in the hands of the legislature to speak to first.

2:55:02 PM

Mr. Steininger replied, "Roughly speaking, yes." He elaborated that OMB did not have the information specifying what the grants would be when it had developed the budget in December. The administration had released budget amendments that would cover the continued operation of the maintenance stations included in the RPL package. The administration had not put forward a specific proposal on the additional FHWA funding. He explained that the guidance document specifying how the funds could be spent had not been available at the time. The administration believed the maintenance station support would be allowable, but it had not been certain what the other funding boundaries were. The administration had identified the amount available but did not make a specific recommendation in its budget amendments. The funding was up for legislative appropriation. He stated that once the FHWA guidance document was understood, the administration would likely come forward with a recommendation.

Representative Josephson reasoned that there must be a funding deadline. Consequently, he believed it would be negligent if the funds were not included in the capital budget before May. He asked for verification that it was necessary to find a way to use the funding on something meaningful that adhered with federal guidance.

Mr. Steininger agreed. He elaborated that knowing the amount of money during the legislative process provided the information to have an appropriation for the funds rather than needing to utilize the Legislative Budget and Audit (LB&A) process. He stated that the LB&A process had been used heavily the previous year because the administration did not have information about the money coming in before the legislature adjourned. He noted that it was not the case in the current situation.

2:57:27 PM

Representative Johnson looked at slide 12 related to grants for airports. She asked if municipal airports (e.g., in Kenai and Palmer) received money through the state or directly from the federal government.

Mr. Steininger answered that the formula had been done by the FAA and had been outside of the state's control. For example, the allocations for specific airports like Merrill Field versus Fairbanks International Airport had not been decided by the state but were based on a federal formula. He confirmed that other municipalities that owned and operated their own airports (e.g., the Juneau International Airport was run by the city) received allocations through the formula as well. He relayed the list was available online.

Representative Wool recalled from meetings the previous year that the calculation for airports (Anchorage and Fairbanks in particular) had been somewhat based on loss of revenue and loss of airline and cargo traffic. He asked if Anchorage had experienced a loss or increase in cargo traffic during the pandemic. He considered that many people had ordered goods during the pandemic and wondered if perhaps the anticipated loss of revenue had not materialized.

Mr. Steininger deferred the question to DOT.

Mr. Pannone replied that CARES Act funding allocated from the FAA for international airports were used largely to keep operations at status quo and had been used for debt service payments. He shared that the department's deputy commissioner had a great presentation on an increase in cargo traffic and a decrease in passenger traffic and how the airport relies heavily on revenue derived from passengers. He offered to present the information at another time.

Mr. Steininger relayed that OMB would include the statistics in its answers to questions.

3:00:43 PM

Ms. Harbour turned to slide 13 and discussed community relief grants. She highlighted that 45 percent of the state's Coronavirus relief funds went to community relief grants to enable local governments to meet the unique needs in their communities for residents and businesses. The slide included information as of February 26. She informed the committee that the January 31 expenditure reports from communities were not due until the current week; therefore, the information in the slide was not the most current. She added that within a week OMB should have more information from communities. She reported that as of February 26 there were 26 communities that had not entered into a grant agreement with the state. She detailed that when Coronavirus relief funds were first available, a number of communities chose not to enter into an agreement because of the tight expenditure timeline and due to concerns about eligibility of expenditures. The administration was currently working through the process with a number of communities that had indicated they were ready to enter into an agreement because the expenditure deadline had been extended. She noted that the funding that had not been granted was approximately $2.3 million and OMB anticipated the number would shrink.

Ms. Harbour continued to review slide 13. She highlighted that 37 communities had grant agreements with the state but still had payments pending. She explained that the state had split the payments into three tranches. To ensure communities were spending the funding, they were required to spend up to 80 percent of the previous tranche prior to receiving the next allocation. She reported that 50 communities had fully expended their funding as of December 30.

Ms. Harbour moved to slide 14 showing community spending by category as of February 26. She noted that new reports were expected in the current week and the numbers would be updated. She relayed that $504.6 million had been spent including 35 percent on payroll for public health and safety, 22 percent for small business assistance, 15 percent for other economic support, 8 percent for housing support, 7 percent for public health expenses, 6 percent for medical expenses, 2 percent for other payroll and much smaller percentages for other categories including facilitating distance learning, administrative, improving telework capabilities, food programs, testing and contact tracing, and nursing home assistance.

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Representative Rasmussen stated that one of the controversial issues in Anchorage was the local government's decision to spend about one-third of the funding on homeless housing. She believed the figure was about $60 million. She wondered where the expenditure was reflected in the chart [on slide 14].

Ms. Harbour did not believe the expenditures were incurred as originally intended; however, if they were, they would be included in the housing support category.

Representative Rasmussen looked at slide 7 showing a breakdown of small business relief and community grants. She asked if the state felt that the small business relief program was functional and could serve the entire state rather than "bypassing" the money to various communities. She asked if state was equipped to handle distributing the funds if more money came in rather than putting small business relief out to individual communities.

Mr. Steininger answered that under the CARES Act distribution relief had been given to small businesses in multiple ways. He highlighted the state Alaska CARES program run through DCCED by Alaska Industrial Development and Export Authority (AIDEA). Additionally, there were smaller programs within communities. He detailed that small business assistance of $109 million [on slide 14] was in addition to the $290 million that went to Alaska CARES. He stated there had been a bit of a mix between the two. He explained that when the state had been making decisions in the spring the previous year it had tried to send the funds to smaller political subdivisions to allocate based on their individual community needs. Simultaneously, the state had aimed to balance the statewide approach through things like Alaska CARES. He believed the balance had been good in terms of allocating money through DCCED with a statewide perspective, while also providing independent allocations for personal business relief. He thought the combination of the different methods had been successful. He added it was difficult to speculate how additional funding coming into the state would be allocated. He noted it would depend on how much discretion the state got from the federal government and what other resources were available for small businesses. He believed the administration would want to retain the ability to balance between the two methods.

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Representative Rasmussen believed the more the state could streamline the process to get money out to communities the better. She hoped her colleagues shared the view. She noted that Southeast Alaska would be impacted in a major way by the decisions related to cruise ships. She asked if the state could handle distributing more money directly to small businesses and bypassing communities. She thought it would eliminate confusion for small business owners trying to navigate applications. She reasoned housing the process in one place would benefit the public and provide transparency to policy makers to see how the money was moving around.

Ms. Harbour moved to state agency COVID-19 expenditures by type on slide 15. She noted that the expenditures were reported monthly to the legislature. The majority of the expenditures incurred by the state related to COVID had been supported with federal funds and the majority had gone out in the form of grants to communities and small businesses. However, the state had incurred expenditures on state funds in other categories including COVID leave. She elaborated that one of the federal acts had expanded family medical leave and other leave programs for all employers including the state. She explained it was a mandate that CRF funds were able to cover. There were other COVID-related payroll costs and a number of agencies had to focus on COVID mitigation and response across the board. She highlighted modest travel expenses related to COVID, $137 million in services costs, about $40 million in laboratory supplies, $38 million in other supplies, and a modest amount for capital outlay and equipment.

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Representative Johnson referenced the document titled "Federal Funding to Alaska for COVID-19 Response" and highlighted the row labeled "fisheries stimulus thru DCCED (anticipate $50K to ADFG for assistance." She observed the federal funding for the item was $50 million. She then pointed to an item near the top of page 2 labeled "COVID-19 Fishery Relief thru Pacific State Marine Fisheries Commission - expected AK request." She asked if the two items were separate amounts for a total of $100 million. She asked about the impacts on fisheries thus far. Additionally, she asked what the federal funds would be used for.

Ms. Harbour answered that the two federal appropriations for fisheries relief were separate. She detailed that the appropriation received under the CARES Act was $50 million and the administration expected the second appropriation under CRRSA to be about the same amount. She pointed out that the administration had expected the funds to go through DCCED, but that had not been the case. She elaborated that the funding was awarded directly by the Pacific State Marine Fisheries Commission and applicants had to apply with the commission. She relayed that the Department of Fish and Game (DFG) had a guidance letter to fisheries participants on how to apply. She noted that the applications were available online as of the current day.

Ms. Harbour advanced to slide 16 titled "State COVID-19 Lost Revenue Estimates." The Department of Revenue estimated the total revenue loss including petroleum and other revenue to be approximately $500 million in FY 20, closer to $600 million in FY 21, and $576 million in FY 22. She noted that the loss varied significantly from program to program. The university had been hit significantly as students had to leave and tuition was refunded. She detailed that the university lost $9.3 million in FY 20,

$31.6 million in FY 21, and $22.5 million in FY 22. The Alaska Marine Highway System had been hit significantly with revenue losses. The commercial passenger vessel revenue to the state was down due to the absence of cruise ships. She administration assumed cruise ships would be back online in FY 22. She noted that the numbers reflected estimates and if cruise ships operated in 2021, the revenue loss would not be realized. She noted the slide only showed major program losses. The full report showing losses by all agencies broken out by fiscal year was available and could be provided to the committee.

3:14:53 PM

Representative Josephson remarked that the presentation had been enormously helpful. He looked at slide 16 that showed $50 million per fiscal year, yet the administration believed was 10 times more. He asked for an explanation.

Ms. Harbour answered that the number at the top of the slide was from DOR and reflected total estimated revenue [loss] including oil and gas taxes. She explained that the table on the lower portion of the slide reflected the impacts to state agency program revenue.

Representative Wool asked if revenue loss labeled "petroleum and other" was mostly petroleum.

Ms. Harbour replied in the affirmative. She noted that petroleum had been the most significantly hit related to COVID.

Mr. Steininger clarified that the petroleum and other related to UGF revenue, while the program revenue primarily showed up as designated general funds (DGF) in most agency budgets related to fees and usage charges. For example, the Fish and Game Fund was impacted by tourists not purchasing fishing licenses.

Representative Wool asked for clarity on the petroleum revenue loss. He highlighted that production had been roughly the same. He understood the pipeline had throttled down for about one month. He remarked that there had been a decrease in oil price and a supply glut. He noted the chart [on slide 16] showed fairly constant revenue loss [from FY 20 through FY 22]. He wondered how the loss was all COVID related. He highlighted that some of the oil price drop happened prior to COVID. He understood there was a large drop in oil price, but it was currently in the $60 [per barrel] range. He asked how the three-year $500 million [per year] decline was attributed to COVID.

Mr. Steininger answered that there were many factors that went into oil price, production, and revenues. He detailed the DOR released its annual fall revenue forecast in early December. He explained that OMB had compared the fall 2019 revenue forecast - that had come out just before COVID started to impact things like oil demand in China - to the most recent revenue estimates from December 2020. He elaborated that most of the impact to revenues was related to price declines in 2020 where prices had gone negative for some metrics on oil. He relayed that most of the impacts, while not fully tied to the virus, were the result of changing global market conditions.

Mr. Steininger stated that projecting volatile revenue out into the future became difficult and was more art than science. He noted that the 2019 pre-COVID projection was the last one available to compare to. He expounded that as they got further from the event a divergence would start to occur and losses would no longer be as attributable to COVID. He added given that the world was still experiencing COVID in a very real way, many of the impacts to price and demand for oil were still related to the pandemic. He stated that whether or not the full $576 million [in FY 22] represented on the slide was entirely attributable to COVID was an academic question. He noted it was the data that was available.

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Representative Wool remarked that the cruise ship industry would be purchasing oil as it was expected to bounce back in FY 22. He stated there would be a return from a pre-COVID world in the cruise ship industry. He remarked that the 10-year forecast was fairly flat, which he imagined did not only look at the one year of COVID. He referenced Ms. Harbor's statement about the university returning student tuition, which he surmised occurred in FY 20. He noted that students were in school in FY 21. He stated that there had been tuition reimbursement from March to May. He thought the funding had been covered in the money the students received. He reasoned that FY 21 and FY 22 would not have a tuition reimbursement; however, he observed that the loss increased in FY 21 and remained high in FY 22 [shown on slide 16].

Ms. Harbour replied that funding to students did not cover the University of Alaska's loss of tuition. She explained that the funding had gone to students to cover their cost to travel home and other. She detailed that the university had received about $7.9 million. She elaborated that $3.9 million of the total had gone to students for their costs, yet the university still had to reimburse the students, which resulted in lost revenue. In terms of cost estimates from the university there were details including cancelations in housing and restricted occupancy for auxiliary services (e.g., housing and dining), the university projected continued lost revenue associated with capacity issues and other COVID compliance requirements. She explained that the university did not know when the impacts would end, which was part of the lag.

Representative Josephson looked at slide 9 and $17.4 million to the university under CRRSA to offset enrollment and housing losses. He asked if the funds would help ameliorate the $31.6 million [in lost revenue] reflected in the current fiscal year [FY 21].

Ms. Harbour answered that the university could use funds it did not have to pass to students to cover its costs. She stated there had been COVID related costs and lost revenue. She explained that the university had $31.6 million in lost revenue in addition to any COVID costs incurred by the university to make dorms compliant and other.

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Representative Josephson thought it sounded like along with severe cuts that had come from the compact, the university had other losses that were not satisfied.

Ms. Harbour asked for clarification on the question.

Representative Josephson thought it sounded like the university had other losses that were not covered by all of the federal generosity.

Ms. Harbour replied affirmatively.

Representative Rasmussen referenced the conversation about government agencies that had been impacted by COVID and not made whole. She thought it would be interesting to know whether the state had information on the number of small businesses impacted and the number of Alaskans who had not been able to work. She did not believe Alaskans had been made whole. She remarked that the information would be helpful.

Mr. Steininger confirmed that it was definitely the case. He considered the loss to the state's GDP compared to incoming federal relief funding in the past year. He relayed there was still a very significant loss to the state's overall economy even with the $6.3 million in federal funds. He stated the loss was in the billions of dollars and was borne by small and large businesses and individuals. He remarked that while the focus of the presentation was on state finances, which was OMB's daily focus, it was important not to lose sight that the relief had not satisfied the loss outside of the state system either.

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RECONVENED

KELLY TSHIBAKA, COMMISSIONER, DEPARTMENT OF ADMINISTRATION (via teleconference), introduced herself.

LESLIE ISAACS, TS'AANG GAA'Y, ADMINISTRATIVE SERVICE DIRECTOR, DEPARTMENT OF ADMINISTRATION, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, introduced himself as Ts'aang Gaa'y from the Koos Gaa Dee (Eagle/Frog/Beaver) clan. He shared that he is from the village of Klawock located on Prince of Wales Island. He was honored to testify before the committee. He introduced a PowerPoint presentation titled "Pandemic Preparedness Plan Program Allocations: Alaska Department of Administration," dated February 9, 2021 (copy on file). He began on slide 2 titled "CARES Act Funding." He shared that in April 2020, the governor had asked the Department of Administration (DOA) to prepare a plan to deal with the COVID outbreak. As a result, DOA had developed the Pandemic Preparedness Plan (PPP), which included Phases I through III and a final quality assurances (QA) phase. He noted the department believed the QA phase was the most important phase of the plan. He explained that the QA phase allowed DOA to set up assurances that the state's investment in the plan would be well utilized. The governor had asked the department to make certain it could ensure worker safety and maintain continuity of government services and operations.

Mr. Isaacs continued to review slide 2. He reported that DOA had received $58,180,000 million, which was less than 1 percent of the federal funds discussed in the OMB presentation. The expenditures for Phases I through III accounted for $52,842,529, which included the amount DOA expected to spend in FY 21. He stated that the amount put the department under budget by $5.3 million. The department had informed the governor and OMB that it had the unallocated and unspent funds available if they were needed elsewhere.

Mr. Isaacs informed the committee that Phase I evaluated the state's existing core services. The department looked at which services and processes could be digitized. Phase II looked at the state's telework infrastructure and AspireAlaska, the state's digital performance management system and learning management system for supervisors. He stated that Phase III was more convoluted and pertained primarily to the Office of Information Technology. He relayed there were numerous things that needed to be done to enable teleworking. He noted that the things done prior to his hire date in August allowed him to be a permanent teleworker from his village in Klawock. He shared that his eight children and sixteen grandchildren all attended school in Klawock, which helped with economic development in the villages. Phase III also included the Service Management System: AlaskaNow. The system would automate over 160 manual processes across the state including onboarding, recruitment, and time sheets.

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Mr. Isaacs turned to slide 3 outlining the six phases of Alaska's PPP Plan. He noted that because December 30, 2020 had been the finish line for the initial use of Coronavirus Relief Funds (CRF), Phases IV through VI had to be taken off of the plan to be completed. He explained that if DOA was given additional CRF funds to continue it would have the ability to implement Phases IV through VI. He highlighted that the all of the CARES Act requests were run through the department's Division of Finance to ensure the state was adhering to CRF rules. He noted that the expenditure rules changed frequently in the beginning.

Mr. Isaacs looked at slide 5 showing a map highlighting states with similar CRF expenditures aimed at improving telework and keeping workers safe. He noted that Missouri and Oklahoma had been added to the slide deck.

3:47:19 PM

Mr. Isaacs advanced to slide 6 titled "Quality Assurance." He discussed that QA had been set up first as a priority to ensure all PPP projects were completed and that legislators received value for their investment. He shared that one of the department's main contractors was Wostmann and Associates in Juneau. The firm had been hired to ensure all of the work being done was beneficial and complete for the state. He noted that DOA had established a governance team to ensure project success and effective, realistic project management and execution. He stated it was a new way for DOA to work with other departments to make certain they were on board with the way DOA was proceeding with projects.

3:48:41 PM

Mr. Isaacs turned to slide 7 and stated that core services evaluation under Phase I was complete. He detailed that under Phase I, DOA assessed and analyzed what the state was doing and how it could modify tasks, services, and business processes in order to be best performed from home offices in a telecommuting environment. Phase I also identified and prioritized a list of 128 tasks, services, and business processes that could be modified for improved function during the pandemic. The initiatives were the substance of the PPP Phases IV through VI. Slide 8 highlighted 23 of the 128 projects identified in Phase I.

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Mr. Isaacs spoke to Phase II referred to as the Pathway Project (slide 9). He detailed that the Pathway Project had enabled the department to launch AspireAlaska aimed at automating, training, and performance management. He elaborated that the program offered over 2,000 online training courses to employees, facilitating remote learning and professional development; and enabling the state to manage employee development, create career progressions, and develop mastery paths. He highlighted a list of objectives on the right side of the slide. He relayed that the program had allowed people like himself to telework from villages that have a reliable high-speed internet connection. He shared that one of his coworkers reported meeting [virtually] via Teams messaging more often than in person during the pandemic.

Mr. Isaacs addressed Phase III focused no enabling technology including connectivity, collaboration, security, productivity, and automation (slide 10). He referenced an earlier question by a committee member about how much of the department's budget had been replaced by CRF funds. He reported that the department had not replaced any of its operating expenditures with the exception of hiring short-term non-permanent help when it had procured and deployed 4,300 laptops for employees to telework.

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Mr. Isaacs spoke about the fiscal responsibility DOA had shown through Phases I through III of the PPP plan. Phase I had a total allocation of $780,000 and the department had come in slightly under budget with a remaining balance of $3,758. Phase II had a total allocation of $11.4 million and there was currently a remaining balance of $3.69 million. He explained that Phase III had the broadest reach in terms of the enabling technology and DOA planned on using the full allocation of $41.4 million. He stated that according to the Division of Office of Information Technology, the division could use more funding if received.

Representative Edgmon asked for verification that Mr. Isaacs did his entire job teleworking.

Mr. Isaacs replied in the affirmative.

Representative Edgmon thought it was impressive. He asked for verification that the concept of teleworking had been brought on by the pandemic and it had grown into a model that other state agencies may be able to use.

Mr. Isaacs answered affirmatively. He stated that teleworking and the ability to hire qualified people to fill state positions who live in rural villages was the silver lining to the pandemic. He relayed that without the pandemic it would not have made his personal situation possible.

Representative Edgmon asked if Mr. Isaacs would have the ability to continue working from his village after the pandemic.

Mr. Isaacs replied that he had been told he would be a permanent teleworker. He noted that if leadership changed with an election there was potential for the situation to change. As things currently stood, he would continue serve the people of Alaska from his village in Klawock.

3:56:15 PM

Representative Edgmon asked how significant the cost savings could be by full implementation of Phase III. He was trying to understand the magnitude of order.

Mr. Isaacs responded that DOA was working with OMB to do a space study analysis of leased space throughout the state. The department would work with other departments to determine how many of their staff could be permanent teleworkers and what those savings may implicate for the state. He relayed that the DOA commissioner supported teleworking. He added that supervisors had to approve whether a position was teleworking capable. He explained there were some positions within DOA that did not fit the telework model, simply because handling paper was required. However, there were many things the enabling technology allowed work to be digitized.

3:58:27 PM

Vice-Chair Ortiz thanked Mr. Isaacs for his presentation and was glad to hear a person from the community of Klawock could work from home. He asked if there was a certain point where there was an evaluation of the impact on the overall quality and delivery of services from people working from home. He wondered if teleworking would bring overall positive benefits to the state in the delivery of services.

Commissioner Tshibaka answered that the department had done a survey in 2020 to determine how telework was impacting the departments during the pandemic. The department had found across the board from employees, supervisors, and executive management that more was being achieved with telework; however, some of the concerns expressed were about the loss of things like trust, collaboration, and values that came with culture. She explained it was part of what was sacrificed when people did not see each other in person. She stated that with the ability to move back into offices it would be necessary to assess how often to bring teleworkers in in order to reclaim some of the in-person values that were important to developing workforce.

Commissioner Tshibaka shared that she had experience creating staggered work schedules and in-person meetings where employees worked on a project for a specific purpose, while still achieving the maximum benefits of telework. She reported that DOA intended to continue using surveys and polls to measure what was happening in the workforce. She explained it was part of the continued effort of the Pathway Program under the Phase II implementation throughout 2021. The department was continuing to measure workforce through its performance plan.

Commissioner Tshibaka noted that the department had to change the way it did performance planning and metrics because previously employees had been measured on things like number of work hours or number of hours in the office and less on things like outcome. She furthered that the method had been changed to match a telework workforce. Supervisors had expressed they did not know what their employees were doing, which put them in a tenuous spot. She expounded that 7,000 employees had gone through the Pathway Program the past year, which provided a much better idea of exactly what employees were doing from their telework location. The work could be measured daily, weekly, and throughout the performance year cycle.

4:01:58 PM

Vice-Chair Ortiz asked how much telework was being done by people living outside Alaska resulting in resources, salaries, and money being circulated in areas outside the state.

Commissioner Tshibaka answered that about 55 to 60 people across all of the state departments were working out-of-state. She relayed that telework agreements had to be approved by commissioners. She elaborated that the department was almost finished revising the telework policy that would further limit out-of-state telework agreements. She explained that because of the change in the nature of COVID (i.e., there was a vaccine available and the number of cases had decreased) the department felt comfortable limiting out of state telework to individuals needing to leave the state to care for someone who was sick or for their own medical care. She clarified that exempt employees were required to get commissioner approval, while bargaining unit employees were required to get their union's approval as well. She communicated that the standard for getting an out-of-state telework agreement would be high going forward.

Mr. Isaacs added that one of his duties was to sign off on the telework agreements. He informed the committee that currently, agreements were being approved and reviewed on a quarterly basis.

Representative LeBon remarked that he did not believe there should be any state employees working from out-of-state. He understood it happened, but he hoped the commissioner would take a hard look at the issue. He stated that the private sector dealt with worker's compensation within the office. He referenced the statement that 7,000 state employees were working from home. He asked if an employee was injured at home if it was a worker's compensation event.

Commissioner Tshibaka answered that it depended on what a person was doing and where and when the activity took place. She explained there were several factors that came into play. For example, she was currently in her work location and would be covered by worker's compensation if she were to get hurt. She reported that the state's worker's compensation claims had decreased dramatically since there had been a high increase in telework, which was positive news for the state.

4:05:41 PM

Representative Edgmon recalled the committee had been told recently there were approximately 20,000 state workers. He asked for verification that 7,000 state employees were currently teleworking.

Commissioner Tshibaka responded that the current number of state employees teleworking ranged between 5,300 to 6,000. She noted that the number fluctuated depending on the need at the time. She used the Public Defender Agency under DOA as an example. She explained that depending on what the court was doing and depending on their clients' needs there would be more attorneys in the office meeting with clients or more would go home. She expounded that it also depended on what was happening in the office in terms of health. She explained that there had been a health scare in one of DOA's offices and employees who had all been in the office the previous week were all out of the office during the current week. She reported the peak number of teleworkers had been about 6,000 during COVID. The 7,000 number reflected the number of positions that went through the Pathway Project (a new performance planning development system), resulting in a revised performance plan system that was teleworkable.

Representative Edgmon thought Alaska was on the vanguard of the effort nationwide. He asked for the accuracy of his statement.

Commissioner Tshibaka replied that when DOA had started the process, only one other state had started to use money for telework capability. The department had also identified that most of the other states had already started teleworking. When the State of Alaska started at the beginning of COVID, less than 1 percent of its employees were teleworking. She elaborated that there had not been a telework infrastructure in Alaska, heightened VPN capacity for cybersecurity on the state's network, or deployed an extensive amount of state laptops [prior to the pandemic]. She reported that prior to the pandemic the state did not have DocuSign to enable documents to be signed digitally. She explained that the state had to set up an infrastructure that none of the other 49 states had to set up from scratch. Additionally, the work had to be done on an expedited timeframe because the original guidance mandated being done by December 30.

Commissioner Tshibaka referred to setting up numerous information technology deployments on the tight timeline under budget and without error as a government miracle. She stated that all of the credit went to the government employees working in DOA who had worked around the clock to get the work done. She believed states had been surprised Alaska had been able to pull off such an extraordinary feat in changing its business practices. Additionally, other states had looked at Alaska and determined they could follow a similar process because it ensured worker safety. She added that the state had not lost a single day of operations because of the work the DOA employees had done. Additionally, there had not been super spreader events in state buildings because of the high number of teleworkers. She remarked that the two items were big wins the DOA staff had added to the Coronavirus response.

Representative Josephson asked if the $53 million spent was entirely federal funding.

Commissioner Tshibaka confirmed that the money was entirely comprised of Coronavirus funding.

4:09:56 PM

Vice-Chair Ortiz looked at slide 8 showing 23 of 128 projects identified in Phase I. He looked at the DMV [Division of Motor Vehicles] category and asked for detail about the project in relationship to car titling, driver's license knowledge tests, and other.

Mr. Isaacs deferred the question to the commissioner. He stated that the work had been done prior to his hire date. He shared that he had recently bought his wife a new car. He provided his experience with DMV and stated that the current process worked very well.

Commissioner Tshibaka answered that the 23 projects highlighted on slide 8 were the top projects identified by the department that would bring an easy return on investment by converting work currently done in person to a digitized process. The DMV projects identified could be digitized and would not require in person work.

4:11:58 PM

Vice-Chair Ortiz had heard some concerns from his constituents that some individuals may not have the knowledge or access to digital processes. He stated that some constituents had been very frustrated by the change. He asked if the department had heard similar things.

Commissioner Tshibaka answered in the affirmative. She clarified that customers would still have the ability to go to DMVs for in-person service. She explained that the project created an alternative access point. She detailed that currently no one had the option to access the three services digitally. The goal was to offer alternative options. She reported that the services were currently creating lines, backlogs, and delays at DMVs. She stated they could clear out a lot of traffic from the DMV by making an online option available. She shared she had been working with other stakeholders and partners to determine when internet would be available across the state. She was hearing from partners that within two years there should be internet available across the state regardless of location. She stated it was something she was considering when pushing digital initiatives for the state. She agreed it was unfair that digital services would only be available to people living in places with internet. She reasoned that if it took about one to two years to provide digital options, it synced with the timing when internet access would be available to everyone.

Vice-Chair Ortiz appreciated the efficiencies being found; however, he stated it was one thing to say that individuals could still come in if there continued to be an open DMV office. He had seen a list of six or seven DMV offices slated for closure. He was concerned about how people without digital access could access the services.

Commissioner Tshibaka answered that the department's proposal was to transition those DMVs to public private partnerships. She used the partnerships the U.S. Postal Service had with FedEx as an example. The administration would transition the DMVs to private partnerships so there would be DMV services available in those communities. The idea was to eliminate the cost to the state while continuing to provide services to community members. She elaborated that people who did not want to use the private partnership could drive to a state DMV up the road or access services online or via mail.

Representative Josephson noted there was concern by Alaskans about shifting to a public/private partnership. He remarked that some Alaskans were aware that DMV was a money maker for the state. On the whole he believed the public was satisfied with the services they were getting. He shared Vice-Chair Ortiz's concerns.

4:16:20 PM

Commissioner Tshibaka answered that she understood the concerns. She highlighted that the ideas were proposals offered to the legislature as the policy making body. She believed the state was facing a significant challenge with a budget [gap] exceeding $2 billion. She detailed commissioners were all given the task of coming up with cost savings to bridge the gap. She reported that the department was trying to come up with cost savings ideas without eliminating services. She asked the legislature to consider the private partnership in each location individually because the situation in each location was unique. She understood that everyone involved was struggling with the challenges of how to bridge the gap. She noted that one side of the bridge pertained to revenue and the other side pertained to the cost of government. There were other proposed solutions including digitizing 128 other initiatives. She noted it would cost $25 million to make the changes, but once implemented it would save $89 million per year. She stated there were different things that could be done within the department to achieve the goals and the items in the presentation were all just ideas.

Mr. Isaacs shared that when he got his driver's license when he turned 16, he had gone to Craig where the DMV was a public/private partnership with the City of Craig. He stated that the proposed model was not new to the State of Alaska DMV and was tried and true for many years.

HB 69 was HEARD and HELD in committee for further consideration.

HB 71 was HEARD and HELD in committee for further consideration.

Co-Chair Merrick reviewed the schedule for the following morning.

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ADJOURNMENT

4:18:54 PM

The meeting was adjourned at 4:18 p.m.