

HOUSE FINANCE COMMITTEE
February 27, 2023
1:38 p.m.

1:38:32 PM

CALL TO ORDER

Co-Chair Johnson called the House Finance Committee meeting to order at 1:38 p.m.

MEMBERS PRESENT

Representative Bryce Edgmon, Co-Chair
Representative DeLena Johnson, Co-Chair
Representative Julie Coulombe
Representative Mike Cronk
Representative Alyse Galvin
Representative Sara Hannan
Representative Andy Josephson
Representative Dan Ortiz
Representative Will Stapp
Representative Frank Tomaszewski

MEMBERS ABSENT

Representative Neal Foster, Co-Chair

ALSO PRESENT

Ryan Anderson, Commissioner, Department of Transportation and Public Facilities; Dom Pannone, Administrative Services Director, Department of Transportation and Public Facilities; Adam Crum, Commissioner, Department of Revenue; Katheryn Katherine Keith, Deputy Commissioner, Department of Transportation and Public Facilities.

SUMMARY

HB 39 APPROP: OPERATING BUDGET/LOANS/FUND; SUPP

HB 39 was HEARD and HELD in committee for further consideration.

HB 41 APPROP: MENTAL HEALTH BUDGET
HB 39 was HEARD and HELD in committee for further consideration.

CONSIDERATION OF GOVERNOR'S APPOINTEES: ADAM CRUM,
COMMISSIONER, DEPARTMENT OF REVENUE

OVERVIEW: FY 2024 BUDGET OVERVIEW: Department of
Transportation and Public Facilities

#hb39

HOUSE BILL NO. 39

"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."

#hb41

HOUSE BILL NO. 41

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

^CONSIDERATION OF GOVERNOR'S APPOINTEES: ADAM CRUM,
COMMISSIONER, DEPARTMENT OF REVENUE

[1:38:39 PM](#)

Co-Chair Johnson reviewed the meeting's agenda.

[1:39:44 PM](#)

Adam Crum, Commissioner, Department of Revenue, introduced himself. He offered a brief history of his background, education, and his vision for the Department of Revenue (DOR). He thanked the committee for the hearing. He spoke from prepared remarks:

I'd like to give you a brief history of my background, education, work history, and my vision for the Department of Revenue.

I was born and raised in Alaska, one of five siblings. Growing up in a cabin in the small town of Anchor

Point, which allowed for a life outdoors fishing, camping, hiking, and hunting. I graduated from Homer High School as valedictorian, then earned a scholarship to play football at Northwestern University. I graduated with a bachelor's degree in psychology with a focus in pre-med. After college I returned home to Alaska and started working at my family company as a safety professional and trainer on projects around the state. This allowed me to travel and see all regions of Alaska, with extensive time in the villages across the North Slope. To further my career, I pursued an advanced degree from Johns Hopkins University, graduating with a Master of Science in Public Health.

My diverse educational and professional background allowed me to work as a consultant and project lead for large oil and gas companies, pipeline companies and transportation companies. Some of the work performed includes contract negotiations, organizational development, leadership development and risk management. Almost a decade ago, my siblings and I purchased the family company and have grown it to include a commercial construction company and many commercial real estate holdings. Being an entrepreneur with a diverse portfolio provides a lot of very real experience with banking, real estate investments, and corporate finance. You have to learn in a hurry all the nuances of procurement, grants, corporate governance, and all the other aspects of running businesses. From this background, I have been able to develop organization and strategic expertise, putting together a history of developing high performing teams and a positive culture.

I was able to bring these skills to bear four years ago, when Governor Dunleavy appointed me as Commissioner for the Department of Health and Social Services (DHSS), the largest department by positions and budget. Suffice to say, my tenure at DHSS was not... routine. Less than a month into the role we were notified by federal partners that the Alaska Psychiatric Institute (API) was at risk of losing its authority to operate as a hospital, so we took immediate measures by bringing in management consultants to stabilize the situation. We were granted leave to continue operating, and with focused

efforts from API staff and management, they have been able to grow their census count to levels not seen in years and have had multiple successful site surveys by accrediting organizations.

Then, in early 2020, we were hit with a global pandemic. The next 2.5 years of ALL our lives were wrapped up in dealing with COVID-19 and its after-effects: supply chain disruption, great resignation, long-covid, rampant inflation, and economic turmoil. Looking back on the pandemic, I am beyond proud at how Alaska responded as a State and as a people. From its inception, Governor Dunleavy stressed partnership and clear communication, and I feel like we were successful when you gauge how Alaska fared in relation to other states in a multitude of health statistics. The level of responsibility that fell to the health department was unprecedented, and we took our roles seriously. Some examples: Coronavirus Aid, Relief, and Economic Security (CARES) Act funding - this was sent to states with very little guidance from the United States (US) Treasury. But we were deliberate and labored to create a defensible, fair program, partnering with many community groups, such as the Alaska Community Foundation to help payout \$50 million in relief to non-profits across all sectors. Funds were used also for direct hospital and clinic relief, to purchase testing equipment and Personal Protective Equipment (PPE), and to pay for modified operations at state agencies. In just over a year, we disbursed \$500 million in CARES relief funding. We also set up an airport testing program that was first in the world and did it in just over a week's time, it ensured safety to Alaskans while supporting our tourism economy.

He also worked with cruise ships to get them returning to Alaska in 2021. This was a coordinated effort with our federal delegation to get temporary federal law changed to allow cruise ships to come to Alaska, and then a focused effort from Health and state Emergency Management to develop safety plans, communicate with local communities, and negotiate with international cruise lines on responsibilities.

In the midst of this was an earnest and robust effort to reorganize the Department of Health and Social

Services so it could work on system redesigns to better serve Alaskans. It took two Executive Orders and one full year of extensive, exhaustive stakeholder outreach, but in July 2022, we were successful in splitting DHSS into the two departments - Department of Health and Department of Family and Community Services. This was the largest organizational structure change for state government in almost 40 years. The primary purpose of this was to have a narrower focus and span of control so systemic issues can be addressed and programs revamped for better service delivery.

All of this leads to where I am now, Commissioner-designee for the Department of Revenue. The department has had quite a bit of change at the commissioner position for the past 6 years, this culminated this past fall when Governor Dunleavy was going to be without a named revenue commissioner one day after the November election. He didn't wish to name another interim that only lasted until the end of the term in December. He wanted this critical department to have stability in leadership, and he wanted someone that could step in on short notice and succeed. Based upon our level of trust and my track record, the Governor offered me the position. What I bring to this role is stability and managerial expertise. And I also bring credibility, both with the public and I hope with the legislature. I also bring aptitude and adeptness - the ability to rapidly learn and employ knowledge. I've demonstrated the capacity to learn the necessary skills of any role in order to hire the right personnel and put them in position to succeed. This is evident by the statewide awards presented to me by the Alaska Chamber of Commerce and Commonwealth North in 2021. These awards are a recognition of the responsive, hard-working organization I was able to build at Health, and all the great work the staff did.

The Department of Revenue plays a critical role in our state by taking primarily role in collecting taxes and revenue that help fund state government, investing billions of state funds, determining eligibility, and administering the Permanent Fund Dividend, and enforcing and managing child support. The department is lucky to have a lot of experienced, dedicated staff that are very good at their jobs. Treasury Division

has a long-tenured, well-respected director and a high performing chief investment officer. The Division of Tax has experienced, brilliant staff that administer our complex programs. The list goes on. It's my job to support and enable these teams to perform at the highest level possible for Alaskans.

[1:47:11 PM](#)

In the role of Commissioner of Revenue, I am the fiduciary of nearly \$9 billion. This is a legal requirement to manage the funds for the maximum benefits of Alaskans. This entails regular investment review and risk meetings with our qualified staff, advisors and consultants, and sharing this info with the public and the legislature. Also, in this role I sit on the boards of Alaska Housing Finance Corporation, Alaska Industrial Development and Export Authority, Alaska Municipal Bond Bank Authority, Alaska Retirement Management Board, and as a trustee for the Alaska Permanent Fund Corporation. Combined, these groups manage and invest over \$100 billion.

My vision is to have a renewed focus on economic development for the department. Governor Dunleavy has made this a key focus of his second term and has instructed all of the executive branch to work together on diversifying our economic base and finding ways to bring more people into the state. My goal is to use my position as Commissioner of Revenue to work on this by supporting local community economic development by sharing the knowledge and resources we have at Revenue and by building relationships and connecting with investment banks, financial firms, credit rating agencies and industry leaders to sell the story of Alaska. I continue to serve because I love and believe in this state. I want my daughter and all Alaskans to have amazing opportunities to thrive and enjoy this beautiful place, well into the future.

[1:48:07 PM](#)

Representative Coulombe asked for his view of the biggest challenge in DNR and how he would correct it. Commissioner Crum responded that the biggest challenges were ensuring that the department had the right risk profile in its investment asset allocation and cybersecurity. He believed that the global economic market was in disarray and spoke to the Federal Reserve raising interest rates. He addressed

the state's perspective from looking at the Permanent Fund (PF) and Treasury investments and compared their benchmarks to active management, which mitigated prospected losses. He observed that managing the state's assets warranted an active review process. The department recently formalized its review process and engaged in quarterly meetings using third party consultants to seek advice on its investment strategy. The meetings were open to the public.

He continued by emphasizing that protecting Alaskans from cybersecurity attacks was critical. He discussed the crucial importance of protecting Alaskans' personal data as well as corporate taxpayer information. He shared that DOR carried out ongoing assessments, employed a chief risk officer and were looking to implement an enterprise risk management system. Cybersecurity was an ongoing process, and it was necessary to remain one step ahead to ensure data was protected.

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Representative Hannan relayed that she had informed Commission Crum that she would ask him the following question on the record. She expressed concern that he was the head of a prior department [formerly Department of Health and Social Services (DHSS)] that was left in "shambles" which affected the most vulnerable in the state. Her constituents had warned against leaving the most vulnerable behind as the department was divided into two. She recounted that the department suffered a cyber-attack and knew with the emergency order [COVID-10] expiring recipients would need redetermination and re-eligibility, yet 82,000 Alaskans were left without food benefits [Supplemental Nutrition Assistance Program (SNAP)] since October of 2022. She asserted that it happened under Commissioner Crum's leadership. She did not see leadership when the issues became a crisis and reminded the committee that the issues were known ahead of time. She was concerned that Commissioner Crum was in charge of the state's money as commissioner designee of DOR.

Commissioner Crum answered that he had not taken the situation lightly. He related that DHSS had "at any one time five burning fires" and it was difficult to determine where to offer attention. He listed programs and stated that every departmental program served vulnerable Alaskans. He spoke to the "limited leadership structure" of the department versus the obligations of the department that

were many, demanding, and constant, which was the "norm" at the best of times. He indicated that piled on top of all of the already existing difficulties, the cyber-attack and the pandemic exacerbated everything. Billions more federal dollars flowed through the department creating a number of new programs the department had to administer on top of existing programs. Some of the emergency programs expanded eligibility like the emergency allotment SNAP benefits and some entries had to be manually entered on a monthly basis. He reported that one of the benefits of the Executive Order [Executive Order 121, issued January 18, 2022, effective July 1, 2022] that restructured the department was the acknowledgement that there was "never fully ever since the history of DHSS got to the point where we had manageable fires." He spoke to the structure of the two new departments; the Department of Family and Community Services was facilities based like the Alaska Psychiatric Institute (API) and Pioneer Homes, versus the Department of Health housing Medicaid, Public Assistance, and Public Health. He added that "the department knew there were holes in the system" but underestimated the extent of the problems in the Division of Public Assistance (DPA). He relayed prior efforts like "big technology upgrades, electronic document management, virtual call centers," etc. He believed that situations coalesced around stressed staff, the expiring emergency health order, the oncoming Medicaid redetermination and a "perfect storm of events hit." He stated that there was currently a "renewed focus" by the governor's office and Commissioner Heidi Hedberg, (Commissioner, Department of Health). He "felt bad for all of the Alaskans that were left in the lurch" and thanked all of the advocates and stakeholders that were continuing to support the individuals left without benefits.

[1:55:44 PM](#)

Representative Josephson asked about an issue that occurred with Commissioner Crum's predecessor [prior Commissioner Lucinda Mahoney, Department of Revenue, 2020-2022]. He recounted that Commissioner Crum's predecessor proposed on behalf of the Governor, that the Earnings Reserve Account (ERA) be overdrawn one time by \$3 billion and that the overdraw would not affect future balances. He had disagreed with the policy call. He noted that the Commissioner also sat on the Board of Trustees of the Alaska Permanent Fund Corporation (APFC) and felt that it was "odd" because the APFC did not endorse an overdraw. He pointed to repeated

resolutions by APFC trustees resolving not to overdraw the fund. He wondered how the prior Commissioner managed the situation of holding opposite policy positions and thought it was problematic. He asked how Commissioner Crum would have handled the situation. Commissioner Crum responded that the legal counsel of the Department of Law (DOL) and the APFC had done a great job "of explaining the importance of fiduciary status" and the important role of the person acting in a fiduciary capacity. He explained that as a trustee of APFC he acted as a fiduciary. He weighed the goal of management for the best health of the fund. The trustees made resolutions regarding what was best for the fund's health based on advice from consultants and the risk perspective. He felt that policy calls in the role of Commissioner, working for the executive branch, changes things and it was a "difficult position" he hoped to avoid. Representative Josephson hoped that Commissioner Crum could avoid the situation and commented that it seemed an impossible situation.

[1:59:26 PM](#)

Representative Galvin thanked him for his service. She asked about the state's credit rating. She knew that historically the state earned a high credit rating. She inquired if there was anything further the Commissioner could do regarding credit ratings. Commissioner Crum answered that the credit rating involved "selling the story of the state." He shared that he was looking forward to engaging with credit rating agencies in "a more robust manner." He delineated that he had initial discussions with the rating agencies, which affected two ratings: one from negative to stable and one from stable to positive. He had a robust plan to travel to New York and meet with multiple credit rating agencies to discuss the overall status of the state and how to move forward. He opined that it was an intriguing process to engage in business development for the state. He relayed to the credit rating agencies what the state was working on in the areas of policy and regulatory and statutory authority. He remarked that the carbon credits were an "intriguing prospect" to the rating agencies because they like the idea of state sponsored carbon programs and it had a "new revenue diversification" aspect. He indicated that the credit rating agencies favored the growth in the percent of market value (POMV), which would be a greater share in the coming year's revenue because it was a stable revenue source. He concluded that

anything DOR could do to bring stability helped the overall prospects of the state's ability to borrow money. He perceived that the state's ability to borrow money played a role in whether private industries' banks felt secure to invest in projects. He recognized his Deputy Commissioner [Fadil Limani, Deputy Commissioner, Department of Revenue] and valued his years of investment experience.

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Representative Tomaszewski appreciated that economic development was one of the Commissioner's priorities. He asked if he could list one priority within economic development the Commissioner intended to focus on.

Commissioner Crum spoke about the outmigration problem in the state. He wanted to find ways to mitigate the situation based on economic opportunity and sufficient housing. He announced that he sat on the boards of Alaska Housing Finance Corporation (AHFC) and the Alaska Industrial Development and Export Authority (AIDEA) and relayed that housing was an item that was being addressed by both bodies and between the Department of Natural Resources (DNR), the Department of Commerce, Community and Economic Development (DCCED), and the Department of Environmental Conservation (DEC). He spoke to areas in Fairbanks that experienced legacy spills and they were looking into what the state could do to help with environmental clean up to make it affordable for developers to build housing. The approach was multi-faceted in meeting the needs of inventory and access to capital and what could be done across the board to help grow the state.

[2:05:13 PM](#)

Representative Cronk thanked Commissioner Crum. He appreciated that he answered tough questions. Commissioner Crum replied that the job required offensive skills to handle criticism and make sure his actions were correct.

[2:06:12 PM](#)

Co-Chair Johnson asked about how he was leaving the former Department of Health and Social Services behind and the "hands he was leaving the department in" and how he could help as a member of the administration. Commissioner Crum replied that he had hired new people before he left DHSS, and a number of the leadership team were still in place

addressing the issues. He stressed the value of relationships and partnerships that were developed during the COVID 19 Emergency that were still in place to help with the transition.

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Co-Chair Johnson OPENED public testimony.

[2:08:47 PM](#)

Co-Chair Johnson CLOSED public testimony.

[2:09:19 PM](#)

Co-Chair Edgmon MOVED to forward the commissioner designee's name to a joint session.

[2:10:02 PM](#)

Co-Chair Johnson the motion The MOTION PASSED unanimously.

[2:10:24 PM](#)

AT-EASE

[2:16:08 PM](#)

RECONVENED

^OVERVIEW: FY 2024 BUDGET OVERVIEW: Department of Transportation and Public Facilities

[2:16:36 PM](#)

Ryan Anderson, Commissioner, Department of Transportation and Public Facilities, introduced himself and his staff. He began a PowerPoint presentation "Alaska Department of Transportation and Public Facilities: FY 2024 Operating Budget Overview," dated February 27, 2023 (copy on file). He commented that the operating budget enabled the department to "get the work done" and supported the administration staff. The mission of the Department of Transportation and Public Facilities (DOT) was to "keep Alaska moving." He wanted the department to be modern, resilient, and adaptable in the changing world of transportation. He focused on safety and taking good care of the state's infrastructure. He considered things like economic vitality, resiliency, and sustainability. He

wanted to achieve efficiency in the state's multi-modal transportation system.

Commissioner Anderson began on slide 2 titled "DOT&PF Organization:"

14 Divisions:

Commissioner's Office
Administrative Services Division
Northern Region
Central Region
Southcoast Region
Program Development & Statewide Planning
Statewide Design & Engineering Services
Alaska Marine Highway
Measurement Standards & Commercial Vehicle Compliance
Statewide Aviation
Statewide Equipment Fleet
Facilities Services
Anchorage International Airport
Fairbanks International Airport

Commissioner Anderson spoke to the 14 divisions within DOT. He pointed to the three regions and explained that was where DOT's planning, construction, design, infrastructure projects, and maintenance and operations happened. He mentioned the services provided to other departments, such as the statewide equipment fleet, facilities services, etc. He highlighted support services like program development and statewide design and engineering services. He communicated that the goal was to think of DOT as a team despite there being many different divisions. He thought there had been success in achieving a team approach. Each one of the divisions reports either to the Commissioner or one of the other two deputy commissioners.

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DOM PANNONE, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, continued on slide 3 titled "DOT&PF Structure" and spoke to the budget structure. He explained that the department's operating budget was complex and there were 19 fund sources. He pointed to the 7 budgets areas listed on the slide called "Results Delivery Units" (RDU). In addition, there were 52 discreet budgetary components each with its own personal

services, travel, contractual, and commodities lines. The presentation focused on the seven RDUs: Administration and Support, Design, Engineering and Construction, Facilities Services, State Equipment Fleet, Highways, Aviation and Facilities, International Airports, and Marine Highway System.

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Commissioner Anderson continued on slide 4 titled "DOT&PF Services:"

Services of Department

Modernizing Alaska's Infrastructure:

- Project Delivery
- Obtain Right of Way
- Project Design
- Utilities Identification & Coordination
- Environmental Permitting
- Advertise for Bids
- Construction Administration
- Project Close Out

Operating Alaska's Infrastructure:

- Traffic Signal Management
- Assure Functional Traffic
- Timing Optimization & Adjustment
- Snow & Ice Management
- Removal of Snow
- Application of Traction Aides
- Avalanche Mitigation
- Traffic Operations
- Responding to Illumination Outages
- Surface Marking
- Surface Sweeping
- Visibility Management
- Provide Travel Information to Drivers/Public
- Operate Certificated Airports
- Rural Airport Safety and Security
- Wayside Maintenance & Management

Preserve Alaska's Infrastructure:

- Abandoned Vehicle Removal
- Infrastructure Repair
- Incident and Disaster Response
- Routine Preservation (signage, lighting,

guardrail replacement, drainage, pothole
repair, lighting repair, brush-cutting)
Bridge Inspection & Preservation
Regulatory Compliance

Providing Transportation Services:

Alaska Marine Highway System
Anchorage International Airport
Fairbanks International Airport
Airline Terminal Facilities & Services
Airport Concessions
Airport Parking
Business Marketing and Acquisition
Passenger Services
Rural Airport Leasing
Whittier Tunnel Operation
Commercial Permitting
Measurement Device Certification

Shared Services:

Statewide Equipment Fleet
Division of Facilities Services

Commissioner Anderson cited Modernizing Alaska's Infrastructure and noted that much of it was focused on project delivery. He discussed all of the ways DOT operated Alaska's infrastructure listed on the slide. He stated that preserving Alaska's infrastructure was a large service and reported that abandoned vehicle removal was a new function intended to keep the state's right of ways and other areas clean and clear. He highlighted Bridge Inspection and Preservation and indicated that every state bridge was inspected every two years.

[2:23:18 PM](#)

Representative Tomaszewski asked about the Manh Choh Project [Gold Mine, TOK, Alaska]. He had heard concerns raised. He was aware the department had a Transportation Advisory Committee and applauded DOT's outreach in working with the people of the area. He wondered what the cost to the state would be regarding the project. Commissioner Anderson responded that the department was tackling the question internally as well as with the advisory committee. He was considering and calculating the daily maintenance and increased costs of the highway due to road repair from increased traffic, anticipated increase in maintenance for

things like snow removal, etc. He noted that the public process would be carried out through the advisory committee to bring awareness of operational costs and safety considerations of the project.

[2:25:18 PM](#)

Representative Josephson referred to Operating Alaska's Infrastructure on slide 4 and inquired about the Snow and Ice Management listing. He reported that Anchorage had 3 major snowstorms that shut down the city in 2022. He knew that snow removal was part of DOT's Maintenance and Operations section. He asked if DOT had received a larger appropriation was there enough staff and equipment to have assisted Anchorage better. Commissioner Anderson responded that additional resources were needed to properly address such problems and increase levels of service. He explained that the department used a priority ranking system of roads from number 1 to 4 that was based on how quickly the roads could be cleared after a storm event. The more plows in service the quicker priority 2 and higher roads could be cleared. The department had done more contracting out when vacancies were high, which was problematic at times. He perceived that additional resources and funding would enable DOT to work through its priority system effectively.

[2:27:13 PM](#)

Representative Coulombe referenced slide 3 and asked what the Public Building Fund was. Mr. Pannone answered that it was a "sinking fund" for specific state office buildings. The fund was previously managed by the Department of Administration until the prior budget cycle. He elaborated that the department collected fees for the maintenance and operations of state buildings and to depreciate building improvements it made, which allowed DOT to reinvest for current and deferred maintenance needs of state office buildings. Representative Coulombe asked for an estimated balance of the fund. She wondered if the fund could be used for other expenses. Mr. Pannone would follow up with the balance and replied in the affirmative adding that the legislature could appropriate the funds in any manner.

[2:28:40 PM](#)

Mr. Pannone continued on slide 5 titled "Commodities:"

Since the pandemic, highway construction costs have increased 16.8%. The components of this index align and closely with elements of highway maintenance & operations.

FY2022 saw fuel increases of \$2/gallon on average, creating a \$1.4M increase fuel costs for facilities and \$3.9M in fuel for equipment.

Mr. Pannone discussed that one challenge for the operating budget was the cost increases for commodities. He pointed to the graph showing the amount budgeted for commodities by department that demonstrated DOT purchased a significant amount especially when compared to other agencies. He pointed to the graph on the right that depicted the National Highway Construction Cost Index. He offered that since the pandemic, highway construction costs increased 16.8 percent, which correlated to the increased costs for DOT's maintenance and operations and had a significant impact. He listed some of the commodities that were needed: equipment, lighting, signals, signs, guardrails, raw materials, etc. amounting to \$23 million for commodities in the maintenance and operations budget alone.

Co-Chair Johnson commented that she received a phone call from a road construction contractor. He was trying to bid on projects and there were a number of places that were not even quoting prices yet because materials were so unstable. She asked how that would affect the construction season. Commissioner Anderson answered that he had heard from contractors that things were getting tougher. The department "constantly bid out contracts" and he had observed increased bid prices, which rose with uncertainty. He mentioned alternative procurement methods like bringing in the contractor earlier during the design and working together on timelines and supply chain issues. The department was focusing on the issue.

Commissioner Anderson referenced slide 5 and added that the weather was also a major factor affecting the commodities budget. The department was having to do more to help in extreme weather conditions. The department was also doing some things to bring costs down, such as removing old sodium streetlights across the state and replacing them with LED lights for a significant savings and he was considering switching to electric vehicles where it made sense.

[2:33:31 PM](#)

Commissioner Anderson advanced to slide 6 titled "Vacancy Rates:"

Vacancy Rates* for Highways & Aviation LTC Positions:

- Annual rate, sampled monthly for calendar year 2022.
- Constantly changing.
- Only one part of the staffing challenges.
- Doesn't capture turnover, other absences, experience.

Commissioner Anderson voiced that the vacancy rate was one of the most significant challenges facing the department. He pointed to the charts that showed the vacancy state by the 3 DOT regions. He observed that not all areas had staffing challenges, yet other had very high rates up to 50 percent.

[2:34:50 PM](#)

Representative Stapp referred to the Dillingham and King Salmon locations and noted they were listed in different regions on the slide. He asked what the reason was behind having the two locations in different regions. Commissioner Anderson responded that DOT defined the regional boundaries and implemented a change in the regions roughly 10 years ago. The change resulted in reducing the Central Region and spread the Southcoast Region into Southwest Alaska and the Aleutians. He was a big advocate for working across boundaries when warranted. Representative Stapp thought there was a geographic hole on the map because Dillingham was between King Salmon and other communities. He did not understand the boundaries.

Mr. Pannone interposed that the northern region extended the length of the state, which was due to the pipeline and included all roads that ran parallel to the pipeline. He acknowledged that "it could be misleading" to see some of the locations in the Northern Region.

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Representative Hannan pointed to slide 6 "Aviation LTC Positions" and asked what it meant. Mr. Anderson responded

that it was an acronym for the Labor Trades and Crafts union who worked for both highways and aviation. Representative Hannan asked if there were aviation positions that were not labor trades and crafts positions listed on the slide. Commissioner Anderson replied that some aviation positions were in the Supervisory or General Government units. He added that in rural Alaska there were contractors that maintained rural airports.

[2:37:44 PM](#)

Representative Cronk noted that half of the Northern Region was in his district. He pointed to Birch Lake with 3 positions and no vacancies and Northway with 5 positions and one vacancy. He wondered how the two by two schedule was working on the Haul Road [Dalton Highway]. Commissioner Anderson replied that it was successful in keeping vacancy rates down. Representative Cronk asked what the biggest factor in the vacancy rate was. Commissioner Anderson responded that it was tough to pinpoint, people left for a number of reasons. The department competed for higher paying seasonal construction work, which was a challenging situation.

[2:39:48 PM](#)

Representative Josephson calculated that DOT currently had the resources to hire 53 additional staff in the Fairbanks North Star Borough. He wanted clarification that his assumption was correct.

Mr. Pannone responded that the column on the left showed the number of positions in the budget total and the column on the right showed the vacancy rate.

[2:40:30 PM](#)

Representative Coulombe wanted to determine what happened in Anchorage during the snowstorms. She observed that the vacancy rates in Anchorage were low. She guessed that it might have been about the amount of money appropriated or whether the reason was the amount of snow. She acknowledged that staffing for the municipality was insufficient. She relayed that she lived in the Hillside neighborhood. She asked if there was something more that the department could have done to prevent the road debacle. Commissioner Anderson responded that the department was not staffed for

big storm events and when they happen, it worked overtime. He offered that DOT had been working arduously overtime to clear the snow and state roads often ended into municipal roads where it was difficult to track the municipality's priorities. The department wanted to improve its communication with the municipality.

[2:42:32 PM](#)

Commissioner Anderson continued on slide 7 titled "Vacancy Rates: Tracking." He indicated that the department received weekly vacancy rate reports, tracked trends, and acted proactively to mitigate low staffing levels. He discussed the tools the department used to offset low staffing levels by things like flying in staff to rural areas and enacting mission critical incentive pay to encourage position growth.

Co-Chair Johnson expressed a perception that too much funding was spent on administration, and she asked what the best way was to go about appropriating more money exclusively for road or other services. Commissioner Anderson answered that he always viewed things by services provided. He noted intent language in the prior year that wanted DOT to ensure that its road priorities were aligned with the public's expectations. He deferred further answer to Mr. Pannone.

Mr. Pannone added that the highways and aviation components were the components where operators and services were provided and most of the indirect support was budgeted in other components. He suggested appropriating more money in the highway and aviation components, which would send a message.

[2:45:22 PM](#)

Representative Galvin asked if one of the departmental tools employed was training younger people. She illuminated situations where the individual was trained for free and then left for higher pay elsewhere. She wondered if the scenario applied to DOT. Commissioner Anderson responded that the department was currently "tackling" the training problem. The department offered a Commercial Driver's License (CDL) scholarship program, which could cost up to \$30 thousand. Some of the federal programs allowed DOT to spend funding on those types of programs. He reported that

there had been some success. They had enacted some strategies in rural Alaska like hiring a [road] grading trainer and sent him to rural Alaska to offer basic training. He was currently strongly focused on training for entry level positions for the Marine Highway. Representative Galvin asked if he was doing anything in particular or had an incentive program to retain the trained hires. Commissioner Anderson replied that retention was a tough problem to tackle.

[2:47:58 PM](#)

Mr. Pannone continued on slide 8 titled "Budget Scenario Comparisons," which was a bar graph that showed last year's actuals for FY 2022, the current year's FY 2023 expenditure and the FY 24 request. He elucidated that the final column showed the magnitude of the change from the current year and the requested budget. Each year was broken down by fund group; the orange represented the "Other" funding and was largely duplicate funds. He detailed that \$183 million was from DOT's capital improvement project receipts, \$109 million came from International Airport Revenue Funds, and \$128 million was for shared services such as facility services or statewide equipment. He pointed to the grey section of the bar that depicted Federal funding. The two drivers were for the Alaska Marine Highway System (AMHS) and Covid relief funding, which was used to offset Undesignated General Fund (UGF). Finally, the blue and gold sections of the bar represented UGF and Designated General Funds (DGF). He listed the DGF funding: motor fuel tax, marine highway revenues, program receipts, and vehicle rental tax. Overall, the FY 24 request increased operation costs by \$35 million. The increases were driven by the AMHS, the international airport system, \$8 million for negotiated salary adjustments and a small amount for maintenance and operations for highways and aviation.

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Representative Ortiz asked whether the slide represented DOT's overall budget. Mr. Pannone responded in the affirmative. Representative Ortiz perceived that the FY 24 grey bar would be significantly larger due to the Infrastructure Investment and Jobs Act (IIJA). He wondered why that was not the case. Mr. Pannone responded that federal funding in FY 22 was largely the COVID relief funds used to forward fund the ferry system and offset UGF. He

delineated that in FY 23 and FY 24 federal funding was comprised of the rural ferry grant program, part of IIJA and some continued UGF displacement. The increases from IIJA would largely be seen in the capital budget.

Representative Hannan asked about DGF in FY 24 and matching funds from farebox recovery or tolls for IIJA monies. She thought there would be a decrease in DGF for FY 24 because some of the toll revenue would be needed in the capital budget as match for IIJA federal monies. She noted the anticipated increase in DGF. Mr. Pannone answered that the operational increase for the ferry system budget totaled \$13 million to maintain the level of service that was budgeted for. The funding was coming from ferry system revenue. He elaborated that the toll credits were credits for prior dollars spent on capital improvements and were being used in the capital budget to match the capital grants. He maintained that in the operating budget UGF and DGF was used as matching funds for the federal grant of \$45 million.

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Mr. Pannone advanced to slide 9 titled "FY 2024 Governor's Amended:"

Administration & Support

- Highway Safety Office \$805.4 (CIP/OTHER)
- Statewide Safety & Emergency Management, Program Coordinator \$150.0 (OTHER)
- Public Employee Retirement System (PERS) rates, Health Insurance and Salary Increases \$893.7 (\$514.8 CIP/OTHER, \$116.0 UGF)

Mr. Pannone relayed that the Highway Safety Office was a federally required program under Title 23. The office was being given its own component and its focus was to reduce traffic accidents on the roadways and public safety. He cited the second bullet and noted that it was also a new component focused on departmental safety training and disaster response. He furthered that the department wide safety training program created by DOT was implemented in 2015 and had reduced the department's Workers Compensation claims by half, from \$6 million to \$3 million and continued

the downward trend to under \$500 thousand in FY 22. In addition, the component coordinated with the Department of Military and Veterans Affairs (DMVA) for state disaster response and implemented incident command training, which was the DOT response to disasters and emergencies.

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Commissioner Anderson moved to slide 10 and continued to discuss the FY 24 governor's amended budget:

Design, Engineering & Construction

- Public Employee Retirement System (PERS) rates, health insurance and salary increases \$2.7M (CIP/OTHER)
- Transfer of authority within Northern Region for Public Information Officer \$130.0 (CIP/OTHER)
- FY2023: Combined "Northern Design, Engineering & Construction Component."

Commissioner Anderson offered that the component was where the IIJA work was happening. It was represented in the \$1.6 billion capital budget as project delivery that was comprised of in-house staff and contract work. He reported that DOT was combining closely related components to create increased administrative efficiency.

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Mr. Pannone continued with the FY 24 budget request on slide 11:

Highway Aviation and Facilities

- Reversals of other one time federally funded swaps, and Rural Airport Paint Striping
- Rural Aviation use of Federal COVID Relief Funds, UGF swap \$9.8M (FED)
- Commodities increases for road maintenance \$1.3M (UGF)

- Maintained increment for Chitna, Birch Lake, Silvertip \$1.4M (UGF)
- King Salmon Airport federal authority \$868.0 (FED)
- Maintained increment for ice roads \$200.0 (UGF)
- Sitka Airport Fund Swap \$350.0 (UGF), -\$350.0 (IARF)
- Wayside Maintenance Improvements \$385.0 (UGF)
- Maintained Increment for Dalton 2x2 Shift \$1.3M (UGF)

Mr. Pannone elaborated that DOT shared maintenance with the US Air Force for the King Salmon Airport. The arrangement was recently renegotiated, and it was agreed that DOT would pay the maintenance costs upfront and the Air Force would reimburse the department. He pointed out that the ice road increment was added last year by the legislature and the department was moving it into its base budget. He noted that Sitka was no longer designated as an emergency diversion airport and was not eligible to receive international airport revenue funds and the funds were replaced with UGF.

Commissioner Anderson interjected that the department wanted to improve its wayside maintenance and upkeep on its facilities. He noted the importance of keeping the Chitna, Birch Lake, and Silvertip maintenance camps open.

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Commissioner Anderson further discussed the governor's budget request on slide 12:

Facilities Services

- Facilities Services & Leases was reduced from six to two components
- Public Employee Retirement System (PERS) rates, health insurance and salary increases \$538.0 (OTHER)

Commissioner Anderson reported that facilities was a shared service and reiterated his commitment to administrative efficiencies and providing better service to other agencies. He delegated more construction authority to other agencies and provided training in procurement.

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Mr. Pannone continued to address the FY 24 budget on slide 13:

Statewide Equipment Fleet

- Public Employee Retirement System (PERS) rates, health insurance and salary Increases \$587.0 (OTHER)
- 1 additional non-perm mechanic \$64.0 (OTHER)

Mr. Pannone mentioned that statewide equipment was another shared service funded by the Highway Equipment Working Capital Fund, which was a duplicate fund. The department paid for 80 percent of the costs, while the Department of Public Safety (DPS) State Troopers were the second largest customer carrying 8 percent of the costs, and the Department of Natural Resources and the Department of Fish and Game (DFG) combined made up 5 percent of the costs. The remainder from other departments was minimal.

Mr. Pannone underlined the next RDU from the FY 24 budget request on slide 14:

International Airport System

- Funding for 25 new positions to meet business needs \$2.7M (IARF/OTHER)
- Business operations and administration expenses \$463.1 (IARF/OTHER)
- Contracted snow removal outside of tarmac and airfield and operational areas \$450.0 (IARF/OTHER)
- Mission critical incentive pay for Emergency Services Dispatch, Maintenance Specialists, Equipment Operators \$3.7M (IARF/OTHER)

- Commodities & energy cost Increases \$3.9M (IARF/OTHER)

Mr. Pannone indicated that the system was funded through the International Airport Revenue Fund (IARF) and was self-supporting through its rates and fees. The international airport system experienced increased traffic up by 30 percent since 2019, therefore were requesting commensurate funding authority to meet the demands of the airport industry.

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Commissioner Anderson added that there was a "vacancy challenge" at the Anchorage International Airport in the prior summer and fall and utilized mission critical incentive pay, which mitigated the problem and paid off by having sufficient staff when the massive snowstorms arrived. He noted that the Fairbanks and Anchorage airports were a system and some of the new positions were in Fairbanks to maintain its support for the Anchorage airport.

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Representative Hannan referred to slide 13 and inquired why the additional mechanic was a non-permanent position. Commissioner Anderson responded that the position was for a summer seasonal service worker. He added that DOT had a lot of full-time mechanic positions open and wanted to fill them. Representative Hannan asked if they could be hired as a seasonal permanent position. Mr. Pannone responded in the affirmative. He furthered that that instead of permanently adding positions that were needed in certain locations, they added a non-permanent position that was often moved to another lateral permanent position as a way of not increasing the number of positions unnecessarily.

Co-Chair Johnson asked about the International Airport System increase from 2019. She wondered how the COVID years played a role in the increase. Commissioner Anderson answered that the additional positions reflected current needs and offered to provide the comparison information.

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Representative Galvin asked about the mission critical incentive pay and asked for more information. She wondered if it was additional pay or incentive pay for existing employees. Commissioner Anderson replied that it was offered as an incentive for existing employees or for new hires when trying to attract employees. He emphasized that it was only offered when DOT's mission was threatened by very high vacancy rates. The Anchorage airport incentive pay was 20 percent and the vacancy rate stayed flat through the prior summer. The department increased it to 30 percent, which was successful in attracting candidates and lowered the vacancy rates. He noted that DOT needed to have the additional funding and negotiate with the unions before implementing incentive pay.

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Representative Cronk referenced equipment purchases and asked what the price of graders and plow trucks were and how it worked. Commissioner Anderson answered that the price changed often, and it was difficult to give an estimate and the timeframes could be long. The amount for equipment was budgeted and DOT worked via contracts to try to procure the best prices. He offered to provide further information on costs. Representative Cronk mentioned the roads from Tok to Fairbanks and listed the Gerstel River Bridge and Johnson River bridge. He asked if they were the two oldest trestle style bridges left in the state. Commissioner Anderson was uncertain and responded that there were a lot of old bridges in the state. He confirmed that they were World War Two era bridges and were slated for replacement. He noted that they were currently structurally safe. Representative Cronk identified the Robinson River Bridge and remarked on the narrowness of the bridge. He asked whether it was considered for replacement. Commissioner Anderson affirmed that the bridge was narrow and listed for replacement.

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Representative Josephson asked if the three prior named bridges were selected for replacement because of the Manh Cho Project. Commissioner Anderson responded that the bridges had been on DOTs replacement list prior to the project but had reprioritized its list to consider economic development in the area.

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Mr. Pannone concluded with the FY 25 governor's budget request on slide 15:

Alaska Marine Highway System (CY 2024)

- Budgeted for consistent service levels to communities throughout the year.
- Increases in operational costs \$13.5M (AMHS Revenue / DGF)
- Federal Backfill Language, Marine Highway System Fund, HB 39 Sec. 20

Mr. Pannone reported that the AMHS budget was calculated for a calendar year and was based on the current calendar year 2023 budget. The significant increase was funded at \$13.5 million in farebox receipts. He added that \$10 million of the increase was related to collective bargaining increases, \$2.7 million were projected fuel cost increases, and there were increases in employee travel expenses. He referenced the budget breakout by fund source and pointed to Federal and UGF funds, that was based on the amount the legislature appropriated in the prior year; \$83 million slated for the Rural Ferry Grant Program created in IIJA. He elaborated that currently DOT only received \$45 million of the operating grant. He based the federal amount by what was set by the legislature and included backfill language stating that if the department was unsuccessful when working with the Federal Transit Administration (FTA) and Alaska's Congressional delegation in obtaining all \$83 million, DOT could access Fairbox receipts to backfill funding.

Commissioner Andersons spoke to the recruiting challenges with AMHS. The system could not operate all of its ships because there were not enough employees. The situation would be evident in the upcoming 2023 summer schedule. He stressed that the department was examining all its options to ensure it would provide the best service as possible.

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Representative Ortiz pointed to the first bullet point on slide 15 relating to providing consistent yearly service. He remarked that would include operating 9 ships but the

plan was to only run six ships even though the budget allowed for nine. He asked whether he was correct. Commissioner Anderson answered in the affirmative. He acknowledged that operating 6 ships was the current level of service and that was what he was "shooting for." Representative Ortiz asked if the best scenario would be six. Commissioner Anderson responded in the affirmative and voiced that with the current staffing levels the system would operate 6 ships. Representative Ortiz asked what happened to the excess money, when they budgeted for 9 ships but operated 6. Commissioner Anderson deferred to Mr. Pannone for the answer but mentioned that the department was attempting to provide basic supplemental services to communities, which added to its costs.

Mr. Pannone clarified that the budget was for 10 months in the future, and he was hopeful that the situation would improve. He furthered that in FY 2021 the AMHS was budgeted for roughly \$108 million, but due to COVID restrictions it spent \$96 million, and the remaining funds lapsed. In the present situation, UGF or DGF (farebox funds) funding would remain in the system revenue funds for future appropriation if unexpended. Representative Ortiz wanted to understand the fundamental issue of why the AMHS was unable to provide the budgeted level of service. He observed vacancy rates for airports and highways but not for the AMHS. Mr. Pannone responded that the marine highway system managed its personnel differently in its exclusive system used for staffing due to requirements for personnel being fit to sail and the availability of relief positions. He offered to provide more information.

Commissioner Anderson offered to provide information regarding the number of positions necessary to operate the ships. He emphasized that the system was lacking skilled positions. He acknowledged that the ships had been running with minimal relief, which put more stress on the crews.

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Representative Hannan asked about the DGF line on slide 15 that showed zero reporting in fairbox recovery in the FY 23 management plan and \$13.5 million in the FY 24 amended budget. She asked what happened to the fairbox recovery in FY 23 and whether it represented operating 6 ships.

Mr. Pannone responded that in FY 23 the legislature removed the fairbox receipts from the budget. The receipts were appropriated in the capital budget for the annual vessel overhaul for approximately \$20 million. He pointed out that currently, the revenue fund balance was \$20 million and would continue to increase as the year progressed. He offered to provide the projections for FY 24.

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Representative Cronk recounted that two of the newest ferries were not being used and he wondered if money was appropriated to operate them. Commissioner Anderson answered that Representative Cronk was referring to the Alaska Class Ferries. He indicated that the M/V Hubbard was near completion of the work to install crew quarters and should be running by May 1, 2023. The Tazlina had been operating as a fill in vessel. He emphasized that if the system was fully staffed both ships would be running.

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Representative Ortiz mentioned the crew issue for the new ships and inquired if both were not fully operational due to the staffing issues. He asked whether he was correct. Commissioner Anderson replied in the affirmative. Representative Ortiz wondered how scheduling worked with low staffing. Commissioner Anderson replied that the scheduling had been challenging. He related that AMHS took into consideration the many events in SE Alaska and DOT issued a draft schedule for public comment. In addition, many other factors weighed into scheduling. Representative Ortiz asked if those in charge of scheduling remained in charge. Commissioner Anderson answered that it was a team approach. He noted that recently the AMHS received a civil rights review from the Federal Highway Administration (FHWA) because it believed that some factors were missed or undocumented when providing services to communities. The commissioner's office worked with the scheduling team, and all attempted to do its best to provide services to Alaskans. Representative Ortiz asked if the scheduling team had recently changed. Commissioner Anderson replied in the negative.

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Representative Tomaszewski referenced slide 14 and pointed to the contracted snow removal outside of tarmac and airfield increment of \$450 million. He asked if there was an equal decrement to balance the increment. He asked if DOT utilized contracted services for wayside maintenance. Commissioner Anderson responded that it was difficult to make those types of comparisons. Typically, when they were struggling to meet a service, DOT paid overtime for existing staff and were "burning out employees. Therefore, contracting was used as a "relief valve." He tried to use contracting services where it worked best. The department was unable to make the correlation between a contracted amount and not spending the same amount elsewhere. He noted that contractors had different rate structures, and DOT had to bid for contractor services. The department did account for overtime rates and vacancy rates, etc.

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Co-Chair Johnson reviewed the agenda for the following day's meeting.

#

ADJOURNMENT

The meeting was adjourned at 3:33 p.m.