

1/25/12

BUDGET

OVERVIEW:

**DEPARTMENT OF
ENVIRONMENTAL
CONSERVATION**

<TARGET><BILL></BILL><SUBJECT>1-25-12 BUDGET OVERVIEW
DEPARTMENT OF ENVIRONMENTAL
CONSERVATION</SUBJECT><COMM>HFIN27</COMM></TARGET>



Alaska Permanent Fund Corporation

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MEMORANDUM

TO: Representative Bill Thomas

FROM: Mike Burns

DATE: January 25, 2012

SUBJECT: Review of HB 194

In the House Finance Committee meeting on Monday, January 23, Representative Doogan asked the Alaska Permanent Fund Corporation to prepare an analysis of HB 194, which would place \$10 billion in the principal of the Alaska Permanent Fund. Specifically he asked the APFC to outline any potential problems that would result from this deposit and to propose accompanying solutions.

In our review, we did not see any problems that would result specifically from depositing \$10 billion directly into the principal of the Fund at one time. What we do see are two issues that will eventually come before the Legislature, and may be hastened by this deposit.

1. Inflation proofing

The value of the Fund's principal has been determined to be the sum of all deposits to date: mineral royalty deposits, inflation proofing and special appropriations. While the total value of the Fund moves with the markets, the principal can only grow in value. And as the principal grows in value, the statutorily required inflation proofing transfer for the most part also grows in value. Inflation varies from year to year, but with the underlying multiplier for principal growing each year, inflation proofing is projected to show a general growth trend as well.

What this means is that in certain years, a perfect storm of circumstances could create an earnings reserve that is small enough to be cleaned out by even a partial payment of the inflation proofing transfer. This would impact the ability to pay the full calculated amount of the following year's dividend, and perhaps impact dividends for several years to come. In recent years, the Permanent Fund has come close to this situation, but market upswings have saved the day. This may not always be the case.

The solution? Although both the dividend and the inflation proofing transfer are mandated in state law, they also require Legislative appropriation through the operating budget bill. The Legislature would have to make decisions regarding which appropriations to make if this situation were to arise. As mentioned above, this is a problem that the Legislature may have to face even without the \$10 billion deposit, but it could happen sooner as a result.

2. **Staffing**

There is not a direct correlation between Fund size and the number of staff needed to prudently manage and account for its investments, but it is anticipated that some growth in staff will be necessary as the Fund increases in value. To some degree, growth in the size of the Fund will require more staff as the underlying number of investments within certain asset classes becomes greater and requires more oversight. And as the Fund grows, the Trustees will need to assess the overall diversification of the portfolio, potentially adding new asset classes that will require additional investment and accounting staff. And while a steady growth of \$10 billion over a number of years might be absorbed, a single deposit could create unforeseen opportunities and challenges that would require additional internal support.

This growth in staff is not easy to quantify and will depend on a number of factors in addition to the simple total value of the Fund. But as with the inflation proofing issue, immediately growing the Fund by \$10 billion may bring some of these staffing requests sooner rather than later.

This is not a problem, simply an item that should be in the back of the Legislature's mind: over time the APFC will need more staff to invest a growing Fund.

Helen Phillips

From: Ausel, Joey K (DEC) <joey.ausel@alaska.gov>
Sent: Tuesday, January 31, 2012 9:57 AM
To: House Finance Legislation
Cc: James Armstrong; Joe Michel; Peter Ecklund; Joan Brown; Cherian, Thomas V (DEC); Beason, Laura K (DEC); Danith Watts; Mauseth, Kym E (GOV)
Subject: Response to question during HFC Overview re: Ocean Rangers

Good morning,

During the House Finance Committee presentation by the Department of Environmental Conservation on January 25, Representative Stoltze asked for the number of Alaskans hired by the Ocean Ranger Program.

Cruise Season	Alaskan Hired as Ocean Rangers	Total of all Ocean Rangers Hired
2008	1	32
2009	4	34
2010	5	21
2011	5	16

The Department has undertaken a variety of efforts to increase the number of Alaskan Ocean Rangers including: intensive retention efforts; implementing an aggressive ad campaign targeting Alaskans; using federal and educational maritime databases to identify prospective Alaskan candidates, then calling them directly; recruiting at maritime institution career fairs; and pursuing and accepting word of mouth applicants. Each year Alaskans were welcomed and hired at any time during the season. Crowley and DEC have held individual training for late-season Alaskan candidates.

There are a variety of reasons that Alaskans have either declined to apply, or have applied and not been accepted. (1) Qualified Alaskans already have had gainful employment in other jobs; (2) potential applicants were members of a different collective bargaining unit and chose not to change bargaining units; (3) failure to successfully pass one or more non-licensure requirements such as background checks, physical standards for licensing; or USCG required minimum training.

The reduction of the total number of Ocean Rangers in 2011 was a direct result of the increasing costs of cruises while revenues remaining unchanged. Though the total number of rangers has been reduced, the Program has been successful in retaining qualified Ocean Rangers and strives to continue this good retention.

Joey K. Ausel, MBA
Budget Services Manager

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Department of Environmental Conservation

House Finance Overview
Commissioner Larry Hartig

January 25, 2012

DEC's Mission

Protect human health and the environment.



Responsibilities & Functions

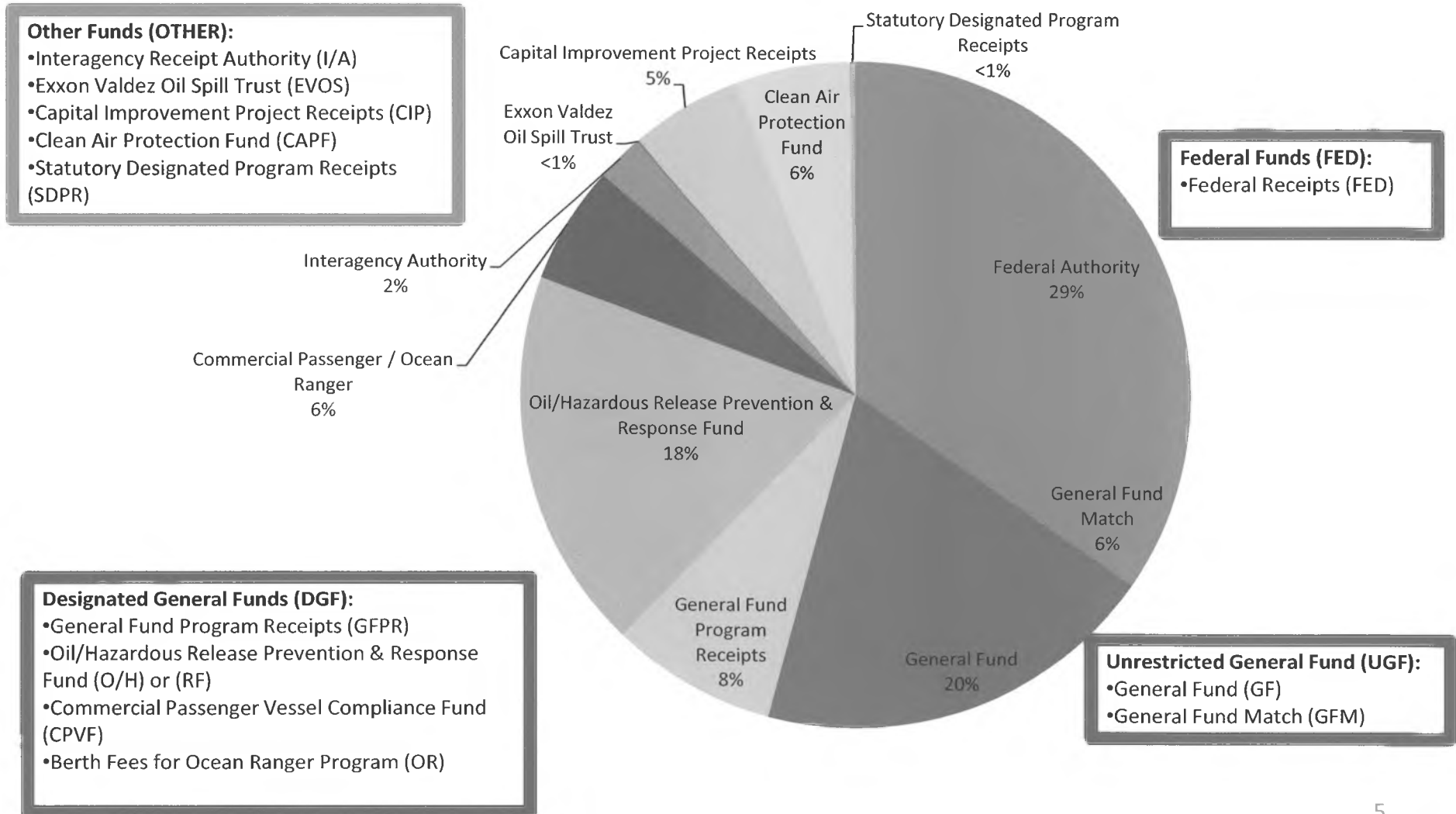
- Develop standards
- Issue permits
- Provide compliance and financial assistance
- Respond to spills of oil and other hazardous substances
- Safeguard the quality of food and seafood
- Operate the State Environmental Health Lab
- House the Office of the State Veterinarian
- Regulate pesticides and certain types of use
- Educate and assist the public
- Interact with our federal agency counterparts
- Investigate violations and enforce state law

Current Capacity & FY13 Request

	Undesignated General Fund (UGF)	Designated General Fund (DGF)	Federal (FED)	OTHER	TOTAL	PFT	PPT	NP	% Total UGF
FY12 Management Plan	\$19,884.2	\$26,334.4	\$23,215.2	\$10,576.1	\$80,009.9	546	0	11	24.9%
FY13 Governor's Operating Request	21,062.8	26,967.6	24,227.8	11,294.1	83,552.3	541	0	11	25.2%
Change from FY12 to FY13	\$1,178.6	\$633.2	\$1,012.6	\$718.0	\$3,542.4	-5	0	0	

FY13 Capital Budget Request: \$94,680.9

Breakout of Budget By Fund Source



Divisions

- Administration
- Environmental Health
 - Building Maintenance and Operations
- Air Quality
- Spill Prevention and Response
- Water

Division of Administration

Components:

- Commissioner's Office
- Administrative Services
 - Environmental Crimes Unit
 - Information Services
 - Financial Services
 - Budget Services
 - Procurement & Building Management
- State Support Services

Commissioner: Larry Hartig

Deputy: Lynn Kent

Director: Tom Cherian

Division of Environmental Health

Components:

- Director's Office
- Food Safety & Sanitation
- Laboratory Services
- Drinking Water
- Solid Waste Management

Also:

- Building Maintenance & Operations

Director: Kristin Ryan

Challenges:

- High Risk Food Safety Inspections
- Paralytic Shellfish Poison Testing



Seafood Testing Programs

Paralytic Shellfish Poison (PSP) Testing

- PSP Occurs Naturally
- Ensures Product Integrity
- State Subsidized
- No Testing Offered Commercially

Fish Tissue Testing Program

- Export Markets
- Economic Impacts
- Monitors Environmental Changes
- Long Term Data Need
- Lost Federal Funding

Division of Air Quality

Components:

- Director's Office
- Air Quality

Director: Alice Edwards

Challenge:

- Fairbanks Air Quality



Division of Spill Prevention & Response

Components:

- Director's Office
- Industry Preparedness & Pipeline Operations
- Prevention & Emergency Response
- Contaminated Sites Program
- Response Fund Administration

Director: Larry Dietrick

Challenge:

- Declining Prevention Account Balance



How the Response Fund Works

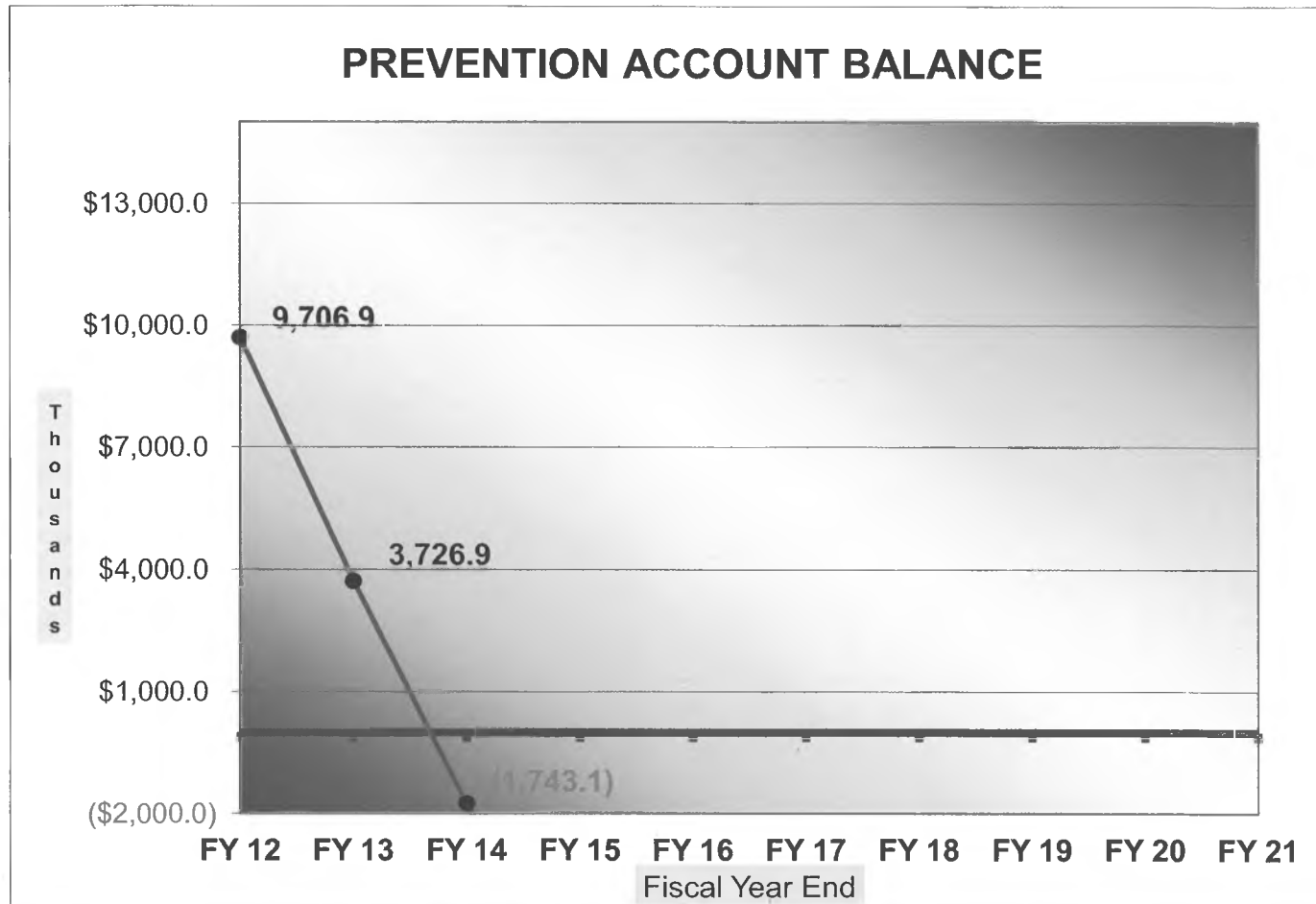
- Response Account
 - Funded by 1¢ surcharge on each barrel of oil.
 - Surcharge suspended when fund exceeds \$50 Million.
 - Pays for situations deemed emergency or imminent threat.
- Prevention Account
 - Funded by a 4¢ surcharge on each barrel of oil.
 - Pays for the programs within the Spill Prevention & Response Division and associated capital projects.

Response Fund Revenue

- Each 1¢ surcharge generates about \$1.9 Million annually.
- Cost recovery is initiated on any identified responsible party.
- Fines, settlements and cost recovery deposited back into the appropriate Mitigation account.

Status of the Prevention Account

PREVENTION ACCOUNT - BALANCE PROJECTION
12.16.11 UPDATE - Current 4¢ Surcharge



NOTE: Change to surcharge rates must be implemented 1 year prior to actual need. For example, to realize revenue in FY14 a surcharge increase would need to be implemented on July 1, 2012.

Division of Water

Components:

- Water Quality
- Facility Construction
 - Village Safe Water Program
 - Municipal Grants & Loan Program



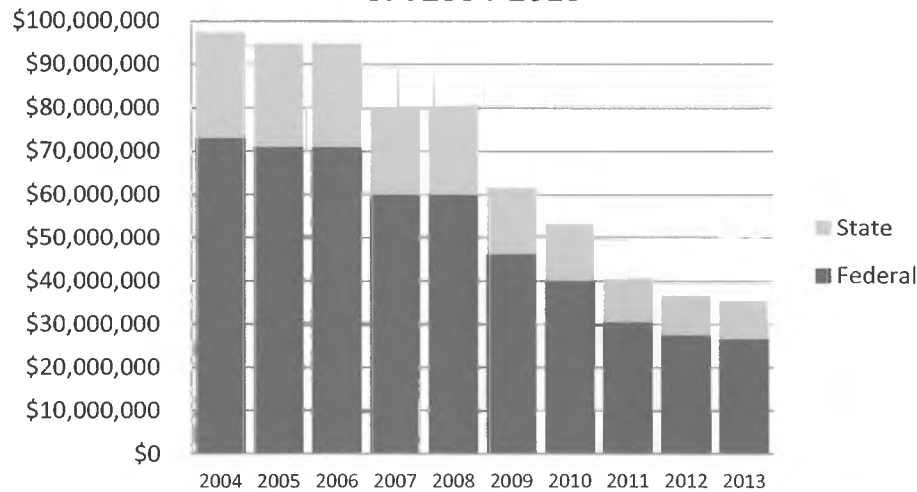
Director: Michelle Bonnet

Challenges:

- Declining Federal Funding in the Village Safe Water Program
- Completing and Maintaining Permitting Primacy

Rural Alaska Water & Sewer

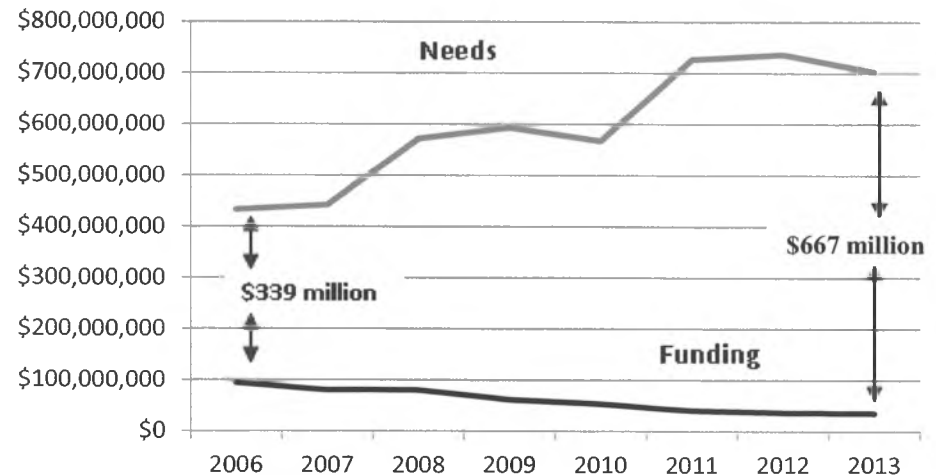
**Funding for Rural Alaska Sanitation Projects
SFY2004-2013**



Funding for rural Alaska sanitation projects has declined by over \$61 Million, or 64% between 2004 and 2013.

The graph on the right includes two types of needs:

1. First time service for homes without piped or covered haul.
2. Upgrades or replacement to address substantial health threats.



Village Safe Water – New Technology

- \$700 Million = Current Cost of unfunded critical health related water and sewer needs in rural Alaska.
- No longer enough state/federal funding to construct new systems or ensure continued functionality of aging systems.
- Innovative and cutting-edge technological approaches are needed in Alaska villages in order to cut operating costs of providing running water and sewer.
- Challenges the private sector.
- Three-Phased Approach:
 - FY13: Request For Proposals (RFP) and selection of top two for funding.
 - FY14: Demonstration of projects, research and development.
 - FY15: Initial pilot testing and refinement for implementation.

Highlights of Long Range Plan

** Operating **

- Operating Budget
- Estimated to increase 8.6% over 10 years. This figure does not include bargaining unit adjustments.
 - Includes a \$6,000.0 fund source change from the Oil & Hazardous Fund to General Funds to address shortfall in fund revenue.
 - Continues Departments phasing in of a plan to better address food safety and sanitation needs.
 - Includes funding for drinking water to maintain primacy and protect public health.
 - Includes funding for water quality programs to reflect increases in industry activities.

Highlights of Long Range Plan

** Capital **

- Capital Budget
 - **VSW Program:** Federal appropriations are declining. The Department estimates these federal funds would then need to be replaced with General Funds to continue the program in future years.
 - **Continuation of long-time DEC programs:** Municipal Grants & Loan program, Contaminated Site Cleanup and Oil & Hazardous First Responder Equipment Preparedness.
 - **Village Safe Water New Technology Approaches:** Three-phased program proposed.

Highlights of FY11 Performance

- **Protecting Human Health**

- ↑ 36% of permitted retail food establishments were inspected in FY 2011, up 10% from the previous year.

- ↓ 5% of the needed health related rural water & sewer projects were funded in FY11, a 16.8% decrease from FY05.

- **Protecting the Environment**

- ↑ 65% of the State's polluted land and waterbodies have been restored for public use as of the end of FY11, a 13% increase from FY05.

- 98.7% of new oil and hazardous substance spills in FY11 were cleaned up or in monitoring status, a level maintained for more than five years.

Questions?

