

ALASKA LEGISLATURE

1888

HOUSE and SENATE FINANCE COMMITTEE FILES, 1999 - 2000

Department of Law

State of Alaska, Single Audit for the Fiscal Year Ended 1997

Purpose of the Audit

The purpose of the State Single Audit is three-fold. These are to determine whether: (1) the State of Alaska's general-purpose financial statements in the Comprehensive Annual Financial Report are fairly presented; (2) the State has materially complied with the state laws and regulations related to the general-purpose financial statements; and, (3) the State has materially complied with the federal laws and regulations in its administration of federal financial assistance programs.

Conclusions and Recommendations

- The State Single Audit included one recommendation for the Department of Law (DOLaw) to resolve a revenue shortfall. Resolution of potential revenue shortfalls has been an on-going recommendation for DOLaw due to the untimeliness of billings. However, uncollectible revenues rather than untimely billings caused this revenue shortfall. DOLaw's billing procedures, including timeliness improved significantly during FY 97.

Legal Service Contract Review, August 29, 1997

Purpose of the Audit

Purpose of the audit was to review the adequacy of the Department of Law's management of legal service contracts.

Conclusions and Recommendations

- DOLaw solicited the services of a professional consulting firm in FY 90 to evaluate the State's relationship with outside counsel. The outcome of this review was a report titled *Management of Outside Counsel* which identified specific aspects of the process of managing outside counsel. Four of the aspects; contract management, administration, training and on-going support, and contractor evaluation were identified and used as a basis for our analysis on contract management procedures at DOLaw.

The benefits of an adequately managed contract include appropriate use of outside legal assistance, consistent performance and representation of the State, and carefully managed legal resources. On the other hand, a poorly managed contract

may result in inefficient use of outside counsel time resulting in higher costs, overbillings, and unsatisfactory legal representation.

- We found that DOLaw has no standard method for managing, administering, or evaluating outside counsel. The individual project manager and particular legal issue directs the method by which that outside counsel will be managed. Most contracts reviewed were being adequately managed under this informal process. However, there are a few instances of poorly managed contracts. A common element in each of the poorly managed contracts reviewed was: (1) ill-defined roles between the contractor and the project manager, and (2) the lack of clear directions by DOLaw's senior management on the priority of contract management.
- We recommended the deputy attorney general develop basic guidelines on contract management for assistant attorneys general responsible for managing contracts with outside counsel.

Since the completion of the audit, the department did pull together a presentation outlining the finer points of contract management. This presentation was given to the supervising attorneys. As time permits the department is looking to formalize the concepts included in the presentation into a desk manual which will be provided to all attorneys that manage contracts with outside counsel.

Department of Revenue

State of Alaska, Single Audit for the Fiscal Year Ended 1997

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Conclusions and Recommendations

- The Department of Revenue's (DOR) five recommendations in the State Single Audit all involve the Child Support Enforcement Division (CSED). Four of the five are federal compliance related issues. One recommendation calls for resolution of a CSED revenue shortfall caused by uncollectible revenues.
- CSED's inability to keep up with its caseload and meet federal performance requirements has been an on-going issue for a number of years. During FY 97 CSED made significant strides in managing its workload. While CSED did not meet certain performance timelines in FY 97, there are no federal sanctions because the agency did complete most of the required actions within the additional federal grace period.
- In addition to following-up on these recommendations during the next audit, we also have been requested to conduct a performance audit on this division.

Gaming Policies, Procedures, and Operations, April 9, 1997

Purpose of the Audit

To evaluate the regulation of gaming operations in the State of Alaska by the Department of Revenue.

Conclusions and Recommendations

- The gaming program as administered by the Division of Charitable Gaming (which was dissolved in FY 98 with certain functions being transferred to the

Division of Income and Excise Tax (Income and Excise) suffered from administrative inefficiencies and burdensome statutes.

- Characteristics of permittee organizations give operators and directors of multiple beneficiary permittees undue power and impede the State's ability to adequately regulate gaming.
- Our review included 13 recommendations. In general, we recommended improving investigative and audit presence, establishing control over pull tab inventories, developing a procedure to ascertain whether gaming expenses are reasonable and bona fide, improving industry compliance with report requirements, revising applications to comply with statutes, and pursuing statutory changes.
- With the reduction of budgetary resources for FY 98 operations, the present gaming section has a very difficult task of administering the program as it is now structured.
- Since our audit was released, the gaming application process has been simplified and the forms changed to comply with statute. Gaming staff also claim that progress has been made to bring the audit process current.
- Income and Excise staff made progress in automating the reporting process by moving gaming data from the outmoded system used by the Division of Gaming to its more sophisticated and efficient system. The conversion process is not complete. No gaming statistics were reported for FY 96 because no gaming data for permittee organizations were captured electronically. Further, the FY 97 report on gaming due to the legislature April, 1998 is just being finished.
- Income and Excise has moved the responsibility for entering gaming data into the computer system from its gaming personnel to its document processing staff. This has freed up gaming resources to be used for other gaming related duties.
- Gaming personnel have contributed a large portion of their time and energy to help in the State's recent move to prosecute gaming industry members accused of swindling money rightly belonging to permittee organizations. Gaming personnel have also made efforts to correct suspected improprieties of several multiple beneficiary permittees.
- There have been no significant statutory changes that would have impacted our report findings.

Sunset Audit Alcohol Beverage Control Board Sunset Date June 30, 1999

Purpose of the Audit

We examined the activities of the Alcoholic Beverage Control Board (ABC Board) to determine if the board has been operating in an efficient and effective manner and whether the board should be reestablished. The legislature extended the board one year during the last session, so under current statute it terminates on June 30, 1999.

Conclusions and Recommendations

- The Alcoholic Beverage Control Board is operating in an efficient and effective manner and should continue to regulate the manufacture, sale, barter, and possession of alcoholic beverages in Alaska in order to protect the public's health, safety, and welfare.
- In our opinion, the ABC Board has met the various statutory sunset criteria. With the exceptions noted in the Findings and Recommendations section, we believe that the board is effectively meeting its statutory responsibilities. Accordingly, in our audit we recommended the board be extended to June 30, 2002.
- The board should take steps to ensure that objections from affected neighborhoods are considered prior to the issuance, transfer, or renewal of a license. There appears to be a lack of communication between the board and most municipalities. The board expects local governing bodies to consider neighborhood objections regarding the issuance, transfer, or renewal of a license when deciding whether to file a protest of licensure.

From our review, we believe the board considers denial of a license based solely on neighborhood objections to be tantamount to overriding the local governing body's wishes. However, only one of the thirty municipalities responding to our survey indicated that neighborhood objections were considered when deciding whether to file a protest to a licensing decision.

- The board should review the liquor license fee sharing program to ensure that those funds are used properly. The purpose of liquor license fee refunds to municipalities is to provide an incentive for them to actively enforce ordinances, laws, and regulations relating to the manufacture and sale of alcoholic beverages. However, the board has no mechanism in place to determine if the refunds are used for such enforcement.
- The board should take measures to ensure that license fees refunded to municipalities as part of the revenue share program are correct.

Auditor Comments

- ABC board staff investigates illegal gambling and prostitution. The Department of Public Safety has delegated certain police functions to the ABC Board and the board has conducted criminal investigations. However, such investigations are contrary to statute. The Department of Public Safety is the State's police force and is "geared up" to perform this type of function. To splinter off police functions may not be effective or efficient.

Department of Education

State of Alaska, Single Audit for the Fiscal Year Ended 1997

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Conclusions and Recommendations

- The Department of Education (DOE) has five recommendations in the State Single Audit for FY 97. Three of these recommendations concern the administration of federal programs relating to personal services and indirect cost recovery.
- DOE paid state expenditures from the funds recovered from the Adak School District without legislative authorization.
- The assumption of the Division of Vocational Rehabilitation (DVR) accounting functions by the administrative services section continued to have weaknesses. The administrative responsibilities for DVR programs were not clearly defined resulting in a number of problems, none significant by itself, but together evidenced a weakness in DOE's accounting function.

Division of Vocational Rehabilitation Selected Issues, March 23, 1998

Purpose of the Audit

We conducted a review of selected issues raised regarding the operation of the Division of Vocational Rehabilitation (DVR). Our review specifically addressed the following issues:

1. The provision of health insurance benefits to the director of DVR beyond that normally available to state employees;
2. DOE travel policies and DOE review of employee travel reimbursement claims;

3. Third party payment for travel related expenditures; and,
4. DOE's use of intra-agency reimbursable service agreements.

Conclusions and Recommendations

- DOE conducted an internal audit of several of the issues raised in the Legislative Budget and Audit Committee audit request. Due to the confidentiality provisions set out at AS 39.25.080 and advisory direction from the Department of Law, we are unable to fully disclose the results of the DOE review. However, we can disclose that as a result of DOE's internal audit of expense accounts there was a reimbursement to the State by the director of DVR in the amount of \$1,382.80.
- The administrative action taken by DOE, to the extent it made the State treasury financially whole, was acceptable. Additionally, in this report we have made recommendations to the department that will strengthen controls over travel and provide improved guidance that may prevent similar problems in the future.
- In the present case, subject of the DOE internal audit and to a certain degree this review, we are barred from disclosing to the legislature and the public actions taken by a political appointee that resulted in a personnel action by the department. We believe actions taken by elected officials and their appointees in fulfilling the public trust and managing the public treasury should be subject to public scrutiny and those individuals held accountable to the public.
- DOE provided the DVR director with special "bridge" insurance coverage for the first year of employment. This was a special arrangement provided because of the medical needs of the director and the restrictions of the current state employee medical insurance coverage of what is termed "pre-existing" conditions. However, such an arrangement is not available, as a matter of policy, to similarly situated prospective employees with special medical needs. As a matter of fairness, we suggested DOE work closely with the Department of Administration to establish an equitable application of medical insurance benefits to all disabled employees or prospective employees of the State of Alaska.
- DOE should adopt new travel policies clearly establishing which travel related expenditures are reimbursable and improve the pre-audit function of travel expense reimbursement claims.
- The Department of Education should establish travel policies that specifically address the issue of third party payment for travel related expenditures incurred by employees that require other parties to accompany the employee to provide personal assistance.
- The Department of Education should only use intra-agency reimbursable services

agreements for clearly defined services and those RSAs should be based upon identifiable estimated costs of service.

Auditor Comments

The circumstances surrounding this review contributed to the initiation of SB 358, which was considered, but not passed, during the last session. The legislation amended the state personnel act's confidentiality provisions at AS 39.25.080. The amendment was to allow disclosure as to "*the purpose for which state funds were used...*" in circumstances where a personnel action is taken in response to inappropriate expenditure of state funds.

We endorse such legislation, especially for circumstances such as those involved with this audit, where a partially-exempt appointee of the governor, benefited by having a personnel action taken against him, which made much of the activity that generation the action confidential by law.

Pupil Transportation Program Review of Costs and Procedures, January 20, 1998

Purpose of the Audit

We conducted a review of Department of Education's (DOE), Pupil Transportation Program. We had four main objectives:

1. To identify what, if any, cost containment measures are in place at DOE and at local school districts to address the steady increase in pupil transportation costs over the last five fiscal years. In order to do that, we identified factors contributing to an increase in pupil transportation reimbursements of 32% between FY 91 and FY 96. In addition, we reviewed the actions taken by DOE in response to a 1996 amendment to the pupil transportation reimbursement statutes that required the department to establish "*an appropriate amount of eligible transportation reimbursement to a school district.*"
2. To review the training and certification program in place for school bus drivers, and determine if various school district contractors are complying with state requirements related to their drivers.
3. To review the alcohol and drug testing programs in place in 10 of the larger recipient districts to determine if the programs in place comply with state requirements and provide adequate assurance that drivers are drug and alcohol-free.

4. To review the school bus inspection program administered by DOE through an agreement with a private-sector contractor to determine if inspections and related remedial actions are being performed in a timely manner, and in accordance with state regulatory requirements. In conjunction with evaluating safety, we analyzed accident reports involving school buses in the Anchorage School District for the years 1994, 1995, and 1996.

Conclusions and Recommendations

- Higher operating costs, reflected in increasing bids, along with greater demand have led to increased budgets. Based on our analysis we estimate that 15% of the budget increase in costs is attributable to increased operating costs, reflected in the higher bids received by school districts in recent years. Another 12% of the overall increase is attributable to increased need for school buses to respond to growing enrollment and the need for additional special education buses.
- DOE expanded the department's analysis of Anchorage School District (ASD) costs in response to 1996 change in school bus statute.
- Overall operational safety, as measured by accident rates, appears to be comparable between contractor and Anchorage-district operated school buses.
- While most districts have adequate drug testing programs, there were some isolated exceptions. We did note mostly minor exceptions in our review such as:
 - Untimely or lack of pre-employment testing.
 - Inconsistent follow-up on scheduled drug and alcohol tests when individuals are originally designated as "not available."
 - Individuals supervising testing were also among covered personnel.
 - Alcohol testing not performed.

We recommended that DOE develop and make available to districts and district contractors guidance on how to conduct an appropriate alcohol and drug testing program.

- Bus driver training records were consistent and complete.
- Bus inspection reports were complete and consistent with requirements
- We also suggested that the department consider allowing districts more flexibility in the structuring and pricing of pupil transportation bids.

Auditor Comments

We continue to be concern about the rising costs of this program. To some degree we believe the increase in costs can be attributed in part to the lack of competition among

pupil transportation contractors. DOE officials are considering having local districts align upcoming bids in such a way as to perhaps attract additional competition into the State.

Implementation of the Individuals With Disabilities Act, March 9, 1998

Purpose of the Audit

To review the effectiveness of the method and procedures used by DOE to promote compliance of the more than 50 school districts in the State with the provisions of the federal Individuals with Disabilities Education Act (IDEA). Essentially, IDEA establishes the law governing what is more commonly called special education programs.

Conclusions and Recommendations

- The U.S. Department of Education (USDOE) monitors DOE's administration and supervision of the local school districts' special education programs. The most recent USDOE report, issued in May 1997, identified three areas where DOE was deficient in its monitoring practices of local school districts. USDOE reviewers felt DOE staff did not consistently ensure that:
 1. local school districts implemented all required aspects of transition services;
 2. local districts were providing counseling services to eligible students; and
 3. local districts provided follow-up written notice to parents when they attended individualized education program (IEP) meetings and agreed with the contents of the IEP.
- In our view, based on reading the report and an interview with the individuals who conducted the review, these findings while somewhat significant, were not considered critical defects in the State's implementation of IDEA.
- USDOE has requested DOE address the deficiencies in the State's upcoming, new implementation plan. Such a plan is required to be developed by all states due to changes brought on by the reauthorization of IDEA. Implementing corrective action through submittal of a revised plan is not the standard practice for USDOE. However, as a matter of efficiency, on this occasion USDOE has requested corrective action to be included in DOE's implementation plan.
- DOE effectively monitors local school districts to ensure compliance with the federal IDEA.
- Based on our review of compliance monitoring reports, for FY 95, FY 96, and FY 97, local school districts were requested to reimburse DOE approximately

\$129,000 for amounts received in excess of their validated special education child counts during those three years.

- It is unclear if districts are spending special education revenues on related services. We compared school districts' special education expenditures to foundation funding generated by special education students. On average, 24 out of the 53 school districts report spending less on special education programs than allocated for special education under the foundation formula program.
- One policy option would be to require categorical funding for special education. Such a requirement would provide the "floor" for special education expenditures at the amount set by the school foundation formula. However, DOE administrators report, such a policy option would be inconsistent with current public policy which is to promote local school board control over how funding is to be allocated among all education programs in the district.

Auditor Comments

The local school district remains primarily responsible for providing a free and appropriate education for special education students in accordance with IDEA. Although if the local district cannot effectively do so, it is then the responsibility of what the federal government calls the state education agency – which is DOE for Alaska.

Currently, DOE has developed and is overseeing a remedial program in the Ketchikan School District involving the special education program. The state agency took action after receiving and investigating numerous complaints from the parents of district children. We have an audit scheduled in the spring, to review the progress, and hopefully, the completion of the Ketchikan response.

Alaska Commission on Postsecondary Education, Review of Management Practices, Student Financial Aid Division, September 11, 1998

Purpose of the Audit

We reviewed the management practices followed within the Student Financial Aid Division (SFAD) at ACPE.

Conclusions and Recommendations

- We concluded that SFAD's management practices effectively implement ACPE's personnel bylaws.

- SFAD has developed and implemented a procedural manual that standardizes practices and unit functions, a training program to assist employees in preparing for their specific job tasks, and unit performance standards in the due diligence and customer service units to achieve divisional and unit goals and objectives.
- ACPE has not developed performance standards for the loan servicing unit, but recognizes the need and has plans for this in the near future.
- We also believe ACPE has implemented appropriate management tools to gather employee and customer service information from both internal and external sources. These tools include employee exit surveys, employee morale surveys, and customer service questionnaires. However, the information obtained is not fully analyzed by, or disseminated to, agency personnel.
- We recommended that ACPE should fully utilize employee and customer service information gathered to improve unit procedures and investigate criticisms. The agency established operating procedures to obtain employee and customer service information from both internal and external sources. External information is obtained from borrowers via the Alaska Student Loan Customer Service Questionnaire while internal information is obtained through employee exit surveys and employee morale surveys. Although the agency has exerted effort to gather this information, it has not been fully utilized at this time.

Department of Health and Social Services

State of Alaska, Single Audit for the Fiscal Year Ended 1997

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Conclusions and Recommendations

- The Department of Health and Social Services (DHSS) has seven recommendations in the State Single Audit for FY 97. All of DHSS' recommendations for this year concern the administration of federal programs in compliance with federal laws and regulations.
- Four recommendations relate to weaknesses in controls over the Medicaid program that ensure that benefit payments are legitimate. The Division of Medical Assistance administers the Medicaid program.
- The internal controls over the Supplemental Food Program for Women, Infants, and Children (WIC), which is administered by the Division of Public Assistance, continued to deteriorate in FY 97. The computer system has been unable to meet the needs of the WIC program to ensure that expenditures were made for eligible individuals for a few years. A new computer system, which DHSS expects to be able to meet the control needs of the WIC program, was schedule to be fully implemented sometime in FY 99. Two recommendations concern this situation.

Divisions of Medical Assistance and Mental Health and Developmental Disabilities Community Mental Health Center Program Selected Issues, September 1, 1997

Purpose of the Audit

To identify aspects of the divisions' of Medical Assistance (DMA) and Mental Health and Developmental Disabilities (DMHDD) operations that hinder their effectiveness in regard to the community mental health center programs.

Conclusions and Recommendations

- Total costs for community mental health centers (CMHC), including the DMHDD grant program and DMA Medicaid program, have risen from approximately \$33 million in FY 92 to over \$55 million in FY 97. Medicaid community mental health center expenditures have increased over 580%, from approximately \$4.5 million to over \$30.9 million. During that same period, the number of Medicaid clients served has grown by 75%.
- The causes of for the rise in community mental health costs are numerous, but most derived from flaws in the design, implementation, and integration of Medicaid into community mental health services, an effort referred to as Medicaid refinancing. Poorly written regulations, unsupported rates, lack of a timely and cohesive quality assurance program, and incompatibility between the Medicaid system and general fund grant system, all have created systemic problems resulting in escalating costs.
- The creation of a fee-for-service Medicaid payment system that is expected to function in concert with a long standing "categorically funded" grant system has established management barriers to controlling total community mental health funding. The Medicaid program pays for specific services provided to eligible clients. Therefore, expenditures can be tracked by service, by client, and by provider. In contrast, the grant program pays for a category of service such as services for chronically mentally ill adults that is not tracked by client. The incompatibility of the two systems creates an inherent risk for what is termed "double dipping." Conceivably, a provider could pay for costs of services with its grant and bill these same services to Medicaid.
- DMHDD feels it can avert the risk of "double dipping" through regulation. By providing grants to providers based upon predetermined client need and verifying client services provided by the Medicaid program, the inherent risk of the State paying twice for a service can be eliminated. In addition, it plans on reviewing Medicaid and grant payments to providers through a more aggressive quality control program.
- We have recommended that DMA and DMHDD continue to pursue development of managed care to achieve long-term cost containment while maintaining accessible and effective mental health services. The 1994 and 1996 legislature has encouraged the Department of Health and Social Services (DHSS) to implement managed care pilot projects. A pre-authorization program for mental health services has been put in place by DMA. Both DMA and DMHDD have been planning and considering a primary care case management (PCCM) pilot program. However, no PCCM programs have been implemented as of January 1999.

- We have recommended that DMA and DMHDD revise the State's Medicaid mental health regulations to clearly define eligible services and to ensure that rates are reasonable. Most providers found the regulations to be confusing and ambiguous. Frustration resulted from not knowing what services were allowable and what documentation requirements were necessary to validate their respective Medicaid billings. In addition, we encouraged DHSS to ensure the Medicaid mental health rates are reasonable.
- DMA and DMHDD have been working with providers to adopt regulations that would clarify and clearly define those services that are eligible. They believe that effective regulations can be put in place by early this summer. They are also attempting to address the excessive rate structure that has existed. For example, they plan on reducing the rates paid to providers for clients in group therapy settings. Rather than pay the full rate for each client, a reduced group rate will be placed in regulation.
- DMHDD has collected selective mental health client data from providers for many years using a management information system (MIS). However, the type of information collected is not adequate to measure the number of clients served by the State's grant system. Inherent system weaknesses such as no mandatory provider participation requirements, no data verification process, and a varying definition between providers of who qualifies as a "client" makes the reliability of the data suspect.
- DMHDD and DMA are currently revising the MIS so that it will have a unique identifier for each client. This will enable DMHDD to gather accurate information regarding the number of clients being served. In addition, the system will have cross-referencing capabilities to other divisions within DHSS. A confidentiality law may have to be pursued by DMHDD as is currently being challenged by certain providers in claims that specific client information is confidential.
- DMHDD does not collect sufficient data to measure the effectiveness of Alaska's community mental health services. We have recommended that DMHDD work with providers, the Alaska Mental Health Board, and the Alaska Mental Health Trust Authority to implement a system that will collect the measurement data necessary to evaluate the effectiveness of community mental health services in Alaska.
- DMHDD and DMA have been developing performance indicators as requested by the Senate Finance Committee. In addition, they have been awarded a two-year grant by the federal government to develop program measures considered crucial to an effective mental health program. They plan on presenting the progress of developing outcome measures to the legislature during this session.

- We noted several weaknesses in DHSS' quality assurance (QA) program including flaws in its sampling methodology and not verifying, in some cases, with clients to authenticate the services claimed. In addition, we noted that just Medicaid client records were examined.
- According to DMHDD, it is in the process of enhancing its QA program. It will be integrating a review that will include other divisions within DHSS. In addition, it plans to include certain programmatic factors in the reviews and review such indicators as "quality of life" and "consumer satisfaction."

Division of Family and Youth Services, Selected Child Protection Issues, March 26, 1998

Division of Family and Youth Services, Child Protective Services, Custody and Termination Decisions for Selected Cases, August 11, 1998

Purpose of the Audits

Over the past 15 months we have completed two separate audits of the Division of Family and Youth Services (DFYS) in the area of Child Protective Services. One audit took a macro look at child protective services, while the other was more of a micro look at selected cases where DFYS took custody of children.

Conclusions and Recommendations

- Our review of various aspects of FY 97 operations showed DFYS did not consistently meet either its statutory mandates nor the agency's own internal measures of effective casework. In our view, it is clear that the primary reason for the agency's failure to effectively operate is the lack of enough qualified, trained, line social workers.

We recommended the legislature consider authorizing and funding additional social worker positions in order for the Division of Family and Youth Services to better meet the agency's statutory mandates.

- The agency has contributed to this lack of resources, by the manner in which it allowed its personnel to be deployed during the year. The division maintained a vacancy rate in excess of the need to meet its budget.
- DFYS staff training efforts have suffered from lack of coordination, consistency, and funding. Case carrying social workers also expressed concern regarding the need for training specific to their job. It is critical for investigators to receive training relevant to their jobs as they are required to determine whether children

should remain in or be removed from their homes, and often must justify, in court, their decision to remove the child.

- The DHSS director of administrative services should ensure expenditures for the retirement incentive program (RIP) are made in accordance with legislative appropriations.
- The director of DFYS should develop and implement a clear and consistent policy regarding when reports of harm can be left uninvestigated.
- The director of DFYS should continue efforts to develop an integrated professional development and training program in conjunction with the University of Alaska and pursue available funding to offset the costs involved.
- DFYS needs to both improve its current management information system and continue to develop a new system that will provide the information needed to best allocate staff resources.
- The director of DFYS should develop an updated, accurate, and relevant workload measurement model.

Department of Labor

State of Alaska, Single Audit for the Fiscal Year Ended 1997

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Conclusions and Recommendations

- The Department of Labor (DOL) has six recommendations in the State Single Audit for FY 97. All six recommendations involve the internal controls used to administer the Unemployment Insurance program. Primarily the computer system has not been able to produce reliable financial reports supporting its expenditures, especially the federal expenditures. Legislative Audit has made recommendations regarding the computer system for a number of years now.

During FY 97, DOL made progress in resolving these issues. Particular system problems were isolated and alternative procedures established to ensure that current activity is reasonably reported. However, there is a potential liability up to \$1.9 million for inaccurate federal billings. DOL must complete additional research, which may reduce or eliminate this liability. Due to other operational matters, DOL does not expect to complete this until after FY 2000.

Employment Security Division, Reorganization and Consolidation of Agency Operations, December 8, 1998

Purpose of the Audit

We reviewed ESD's reorganization of its Unemployment Insurance (UI) and Employment Services (ES) functions. The reorganization primarily entailed the consolidation of UI services into three telephone processing (referred to as "call centers") locations while maintaining ES operations in 19 local offices around the State.

The purpose of the audit was to:

1. Determine whether the reorganization actually resulted in savings in personal services costs in both the ES and UI functions.
2. Assess what impact the consolidation of UI functions into three call centers had on operational performance and services provided to UI claimants.

Conclusions and Recommendations

- ESD's budget declined by \$3.6 million between FY 96 and FY 98, however actual expenditures remained relatively stable over the same time period. During these years the Employment Security Division was reorganized in an effort to align the funding sources with the actual functional operations of the division.

The agency claims the reorganization improved service to its two clienteles – individuals who file and receive UI in addition to those needing help finding employment (referred to as “labor exchange” services). The reorganization was accomplished by centralizing the UI function in three offices in the State, and having individuals file for benefits over the phone. Additionally, the ES function was maintained, to varying degrees, in 19 local offices.

- While budgeted positions were reduced, actual personal services costs remained virtually the same. ESD eliminated 34 full-time positions and reclassified 38 full-time positions to seasonal positions in the course of its reorganization. While it would seem such action would reduce personal services costs significantly, our analysis shows ESD realized relatively minimal savings.
- Little in the way of actual expenditures were saved because most of the positions eliminated were already vacant for most, if not all, of FY 96 or FY 97 (depending on which year the position was eliminated). Accordingly, the elimination of these positions actually resulted in little or no savings in payroll costs.

The \$770,000 reduction in personal service expenditures between FY 96 and FY 98 is not due to a reduction in regular or premium pay, but rather reflects reductions in employee leave and other benefits.

- Setting up centralized UI call centers resulted in some higher operating costs. Besides realizing little or no payroll savings through the centralization of the UI function, other operating expenditure categories increased significantly as a result of the reorganization.

It is difficult to determine which of the increased expenditures are attributable to the reorganization and which are the result of other variables occurring during the same time period. Though increased capital outlay expenditures for

communications equipment and installation seems directly linked to the division's decision to use UI call-in centers, that decision was not necessarily driven by the reorganization. Other increased costs, such as those for data processing operations and support, increased grants and benefits to individuals and travel costs are not so clearly linked with the reorganization. ESD management expects that toll costs for the UI function may continue to increase in FY 99.

- There are indications that operations have improved, although changing standards limit comparison. In January 1997 the U.S. Department of Labor (USDOL) regional executive for Alaska noted significant improvement in Alaska's UI processing in two major areas. In correspondence to the ESD director, the USDOL official stated that the "*primary indicator of service to claimants is timely first time payments.*"

According to the USDOL official, over the last six months of 1996 (the first six months of FY 97 – after much, but not all of the reorganization had taken place) the State had paid over 90 % of first time claimants in a timely manner. This was a significant improvement over the 79% reported for all of federal FY 95.

- DOL reports reorganization improved client satisfaction with UI claim processes and ES services. Through customer satisfaction surveys, conducted in November 1997 and April 1998, DOL determined that UI clients were generally either equally or more satisfied with the service they received after the ESD reorganization. In the November 1997 survey just over 85% of the UI claimants surveyed (374 out of 437) rated the UI services as either good (49.9% or 218 of the 437) or excellent.

Department of Commerce and Economic Development

Division of Tourism, Contracting Procedures, August 13, 1998

Purpose of the Audit

To evaluate whether the sole source agreements entered into by the Division of Tourism (DOT) and Adventure Media International (AMI) were in accordance with state procurement practices and procedures.

Conclusions and Recommendations

- Due to decreases in the tourism development budget, the DOT director pursued innovative contracting procedures by consummating agreements with AMI whereby AMI would retain all advertising revenues in lieu of billing the State for production costs of Alaska travel guides. The agreements also provided for DOT to pay for most of the distribution costs, which approximated \$17,500.
- According to the State chief procurement officer, DOT should have submitted a "Request for Alternative Procurement" for his approval since the estimated production costs exceeded DOT's delegated procurement authority.
- DOT's contract files contain no documentary evidence that the sole source requirements were met nor did the contracting process include an analysis to initially estimate DOT's production costs as suggested by the chief procurement officer.
- DOT's innovative contracting should be governed by established procedures that are consistently applied to ensure compliance with appropriate budgeting and accounting practices. For a similar contract to a different contractor, DOT properly entered the production expenses and revenues received by the contractor in the State accounting system. In the case of AMI, there is no record of DOT entering the brochure costs and revenues into the accounting system.
- The director of DOT should strengthen policies and procedures to require source documents be used to support payment of bills paid by the Department of Commerce and Economic Development. The AMI agreement provided that DOT would reimburse the contractor for freight charges incurred. DOT approved payment based upon a billing invoice from the contractor without first verifying the actual freight company invoices.

- Certified payments were made to reimburse the contractor for freight charges prior to the actual approval of the agreement. AMI printed and shipped German travel brochures to Frankfurt, Germany in June 1996 without the benefit of a valid agreement. The letter of agreement wasn't signed with AMI to produce the travel brochures was not signed until November 20, 1996.

Division of Occupational Licensing, Real Estate Surety Fund, September 9, 1998

Purpose of the Audit

We reviewed the funding history and current balance of the real estate surety fund (RESF) administered by the Real Estate Commission with the assistance of the Division of Occupational Licensing, Department of Commerce and Economic Development.

Essentially, state law requires the fund be maintained at a level no less than \$250,000. This represents the fund's floor. Alaska Statute 08.88.450 establishes the ceiling of the fund at \$500,000. Any fund balance greater than the floor of \$250,000 but less than the ceiling of \$500,000 may be used to pay claims against the RESF and to fund education for real estate professionals.

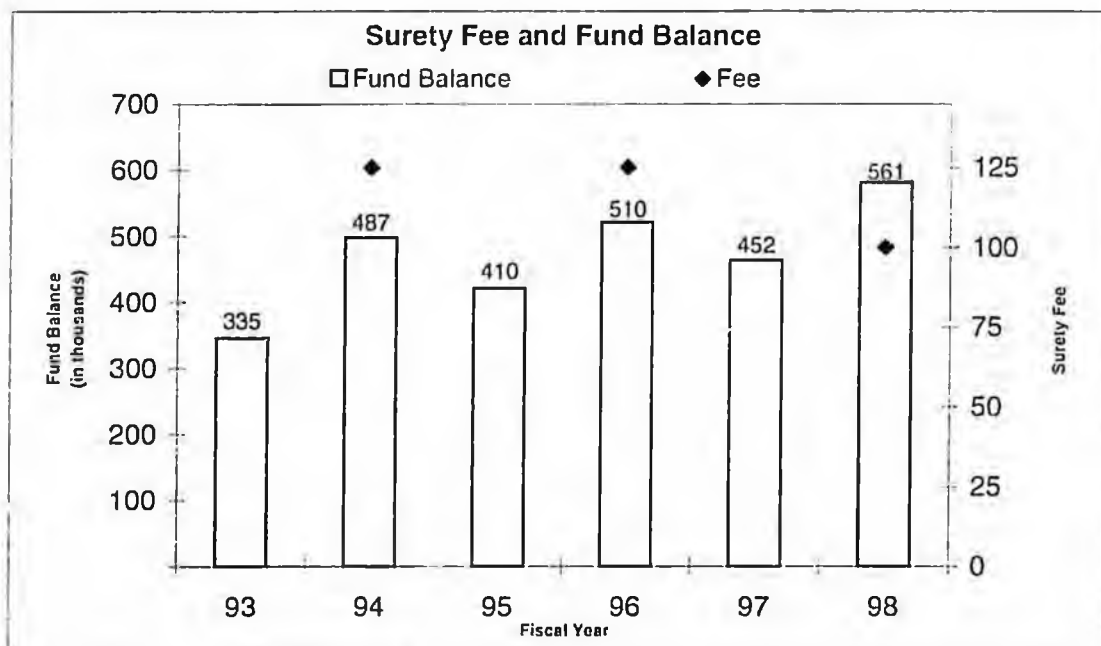
The surety fee is set by the Real Estate Commission. It is capped at \$125 but may be adjusted downward by the commission as long as the fund is maintained at a level that can pay claims against it without going below the minimum fund balance of \$250,000.

Conclusions and Recommendations

- We prepared a Schedule of Revenue, Expenditures, and Changes in Fund Balance that classifies revenues and expenditures according to funding source and type of expenditure. We determined that no overhead operational costs were charged to the fund. Additionally, we found no costs billed by the Department of Law were charged to the fund.
- The scope of our review covers three licensing periods, FYs 94, 96, and 98. The fund balance exceeded \$500,000 in FY 96 and FY 98. The Real Estate Commission was not aware of the FY 96 overage. However, the commission did reduce the surety fee in an attempt to prevent such an occurrence in the next licensing period. See table on the next page.
- According to an advisory memorandum from the Attorney General's Office, any real estate surety fund monies in excess of the \$500,000 cap should lapse into the General Fund.

- To prevent the fund from exceeding \$500,000 in the future, we recommend that the director of the Division of Occupational Licensing improve accounting procedures and administrative oversight of the fund.
- We also recommended that the Real Estate Commission improve the methodology it uses to set the surety fee.

The table below compares the surety fee paid by the real estate profession with the corresponding RESF balance over the period of our review.



Division of Occupational Licensing, Occupation Fee Setting Policies and Regulatory Costs, October 3, 1997

Purpose of the Audit

The purpose of the audit was to review the cost accounting used by the Division of Occupational Licensing. Specifically: (1) determining the Division's compliance with AS 08.01.065(c) regarding financial self-sufficiency for each occupation, (2) ascertaining if the cost allocation methodology used by the division provided a fair and equitable distribution of costs to each occupation, and (3) to determine if the costs incurred by the division were properly recorded.

Conclusions and Recommendations

- OccLic is not in full compliance with AS 08.01.065(c) regarding financial self-sufficiency at the occupation level. Generally the tracking of expenditures by occupation is not the problem, rather sorting revenue collections by occupation seems to be the main problems. As a result of OccLic's revenue recording process, it is also unable to establish regulatory fees for the occupation to ensure the fee equals the cost of regulation. This process results in cross subsidization between occupations within a given board.

The agency has not changed its accounting procedures to provide a tracking mechanism for revenues collected by occupation.

- We found that the allocation method is fair. OccLic allocates indirect costs (both board and division) to occupations using the ratio of the occupation's number of licensees to the total number of regulated licenses. This process results in an equitable distribution to all licensees of common regulatory costs, however some improvements are still needed when recording expenditures to the division's indirect cost pool.
- OccLic paid for hearing officer costs that should have been paid for by other divisions in the Department of Commerce and Economic Development. A supplemental appropriation was passed last session that funded expenditures paid from the improper appropriation in FY 96 and FY 97.

Auditor Comment

In discussing the concept of financial self-sufficiency the department indicated that some boards are more comfortable with a board-level rather than occupational-level financial self-sufficiency. While that may have some merit as a more economical approach, to date the department has not sought a legislative change.

Sunset Audit, Board of Certified Direct-Entry Midwives, Sunset Date June 30, 1998

Purpose of the Audit

We conducted a review of the Board of Certified Direct-Entry Midwives as part of the legislative sunset review process. The law currently specifies that the board will terminate on June 30, 1998 and will have one year from that date to conclude its affairs. The legislature did not extend the board last year. If the board is not extended in statute this year it will be terminated.

Conclusions and Recommendations

- Creation of the board has served as a means to make people practicing midwifery aware of the level of experience and education expected of them. Also, by having a board, individuals in the midwifery practice can now be held accountable to an established standard of care. Elimination of the board would likely result in the same lack of oversight that existed prior to the creation of the board in 1992. The board has displayed an ability to conduct its business in a professional, competent, and efficient manner. The board continues to propose changes to statute and regulation to improve its effectiveness.
- Due to the fees charged for licensure, continued licensing of Direct-Entry midwives is problematic over the long term. We believe the board is safeguarding the public interest by promoting the competence and integrity of those who hold themselves out as licensed midwives or midwife apprentices. We recommend that the legislature extend the board until June 30, 2004.

Auditor Comments

- In 1992, the legislature approved establishment of the Board of Certified Direct-Entry Midwives without a dissenting vote. Such a vote suggests the legislature accepted and was in full agreement regarding the prospective public policy benefits that such a board licensing structure would provide. However, since the board was established, circumstances have developed that have limited realization of those perceived public policy benefits.

With one exception, the licensing fees required of midwives are higher than those of any other profession licensed by the Division of Occupational Licensing. The fees have increased from an original two-year fee of \$350 to \$1,550 for the current two-year period.

As of July 1997, there were only 15 licensed Certified Direct-Entry Midwives (CDMs), along with 5 apprentice midwives active in the State. These 20 licensed individuals were required to cover estimated operating costs of almost \$31,000 — a relatively modest operational cost for a licensing board. Alaska Statute 08.01.065 requires the licensed CDMs, like all professions, to cover these operational costs. Specifically, the statute requires the Division of Occupational Licensing to establish fee levels so that “the total amount of the fees collected for an occupation approximately equals the actual regulatory costs for the occupation.”

- There is some concern given the market situation for many CDMs, that high licensing fees serve as a barrier to entry into the profession as well as economic hardship to those currently practicing. The fees may be required to be set so high,

that they prove to be a significant disincentive for qualified individuals to seek licensure as a CDM.

- In our view, the amount of license fees do represent a significant problem to continued effective regulation of CDMs. Whatever public policy benefits may have been envisioned by the enhanced regulation of midwives, may be compromised in total or in part by the fee structure and its impact of the continuing viability of the profession.

In order to better accomplish the public policy benefits of the board, the legislature should consider the various policy options related to both license fee costs and Medicaid reimbursement. Such consideration may require a reevaluation of the established self-sufficiency policy for occupational boards in addition to developing an avenue to allow Medicaid reimbursement for midwifery services. Such actions may be necessary in order to provide greater opportunity and incentive for individuals to enter and continue practicing in the direct-entry midwife profession.

Sunset Audit, Board of Pharmacy Sunset Date June 30, 1999

Purpose of the Audit

We conducted a review of the activities of the Board of Pharmacy prior to its scheduled sunset date at the end of the current fiscal year. The primary objective of our review was to advise the legislature whether the board should continue or be dissolved.

Conclusions and Recommendations

- If no action is taken by the legislature, the Board of Pharmacy will be dissolved June 30, 2000 – after the one-year wrap-up year permitted under state law.
- The regulation and licensing of qualified professionals and pharmaceutical facilities benefits the public's health, safety, and welfare. By establishing minimum educational and practical experience requirements, the board provides reasonable assurance that individuals licensed are qualified to practice. Assurance that licensed individuals act in a manner consistent with the public interest is also promoted by active investigation of complaints and license revocation or suspension when appropriate.
- In our opinion, the Board of Pharmacy serves an important public purpose. It should be continued in statute and its termination date should be extended until June 30, 2005.

Sunset Audit Board of Marine Pilots Sunset Date June 30, 1999

Purpose of the Audit

We conducted a review of the activities of the Board of Marine Pilots (BMP) prior to its scheduled sunset date at the end of the current fiscal year. Consequently, if no action is taken by the legislature, BMP will be dissolved June 30, 2000 since under state law each board has a year to wrap-up its administrative affairs after not being extended.

The primary objective of our review was to advise the legislature whether the board should continue or be dissolved.

Conclusions and Recommendations

- During the period covered by this review (July 1, 1993 to June 30, 1998) BMP has substantially improved its performance at operating in the public interest compared to the previous review period (1990-93).
- The issues of competition versus monopoly, training, and tariff-setting have not been totally resolved, but there is a great deal more consensus between BMP, marine pilots, and shippers that are subject to the board's oversight. There is a greater acceptance of BMP's rulings, and this has almost eliminated the continual legal confrontations that hampered the board's activities from 1990 to 1994.
- The 1995 amendments to the State's marine pilot statutes changed BMP's role in setting how much pilot organizations could charge for services. The approach developed, as set out at AS 08.62.046, allows local pilot organizations flexibility to negotiate rates with shippers operating out of their local ports. The process allows for competition between organizations where it might exist, while giving shippers an avenue of appeal and review when they believe rates may be excessively high in regions of the State where there is no competition.
- The restructure rate-setting oversight role has enabled BMP to concentrate more on the public safety aspects of its mandate. The board was able to work with the pilot associations in reaching satisfactory solutions to the controversial issue of whether tariffs should and could be set by BMP or whether pilotage fees should be set by the competitive market.
- The regulation and licensing of qualified marine pilots benefit the public's safety and welfare. The steady increase in tourist passenger ships in recent years has made BMP's role increasingly more important. The board provides reasonable

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assurance that the individuals licensed to pilot passenger and cargo ships in Alaskan waters are qualified to do so. Extension of the board will take it through a period that, prospectively, appears to be one of intensive activity. BMP has begun improving training and continuing education of Alaska marine pilots. The board has successfully worked with the pilot associations in resolving many of the problems identified in the 1994 audit and has contributed to improving marine safety in Alaskan waters.

- The Board of Marine Pilots should work with the pilot associations, the U.S. Coast Guard, the shippers, and other maritime interests to develop a database against which the competency of both trainees and licensed pilots can be better measured.
- BMP should consult the Department of Law regarding the practicality of enforcing the current piloting exemption statutes. After such consultation, the board should develop proposed statutory changes for the consideration by the legislature.

In our view, if statutes are impractical to enforce in a consistent manner, consideration should be given to amending or eliminating the law involved. We suggest BMP seek advice from the Department of Law regarding public policy reasoning behind exempting certain types of vessels from pilot requirements, and the enforceability problems related to the current statute. After obtaining the advice and perspective of the attorney general, BMP should develop proposed legislation for consideration by the legislature.

Alaska Science and Technology Foundation. Grant Procedures
September 30, 1998

Purpose of the Audit

The purpose of the audit was to review the foundation's overall grant procedures and those applied to Alaska Power Systems specifically. We also reviewed ASTF's contract with a public relations firm and reviewed the process ASTF uses in determining the disposition of assets purchased with grant funds.

Conclusions and Recommendations

- Statutory changes since 1995 have allowed the foundation extraordinarily broad authority to fund a wide variety of grants. Overall, ASTF's grant procedures are generally consistent with that broad authority. The board is committed to funding those projects that have potential to generate beneficial results for Alaskans.
- We do have some concerns about the foundation's monitoring of ongoing grants and its lack of enforcement of post-grant reporting requirements. We made several recommendations designed to assist the foundation in this area.
- In regard to the grants to Alaska Power Systems or its wholly-owned, limited-liability company, Distributed Systems LLC, we found that
 - ❖ The foundation appropriately took public testimony prior to awarding the grant.
 - ❖ There were, however, unresolved questions on existing ASTF grants.
 - ❖ Prior to awarding the grant, the board was aware of many obstacles to achieving success on this project.
 - ❖ Many of the benchmarks contained in the original grant agreement had not been met, but funding of the grant continued until May 1998.
 - ❖ In recognition of the additional risk being assumed by ASTF, the grant repayment provisions were enhanced.
- In regard to the contract with the public relations firm we found that while some services being provided are an appropriate use of public funds; other activities could be construed as intending to directly or indirectly influence legislative decisions on funding. And that is an inappropriate use of state funds.

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- Finally, in regards to disposition of assets acquired with grant funds, we found the foundation's methodology to be reasonable. Grantees usually request that title to equipment purchased with grant funds be signed over to the grantee at the completion of the project. In the case of grantees with successful projects this request is almost always granted.

Alaska Railroad Corporation. Real Estate Leasing Activities. April 14, 1998

Purpose of the Audit

The purpose of this review was to determine if the ARRC's property leasing activities were appropriate, reasonable, and in compliance with the statutes.

Conclusions and Recommendations

- The railroad continues to lease high-interest real estate on a "*first come, first served*" basis. We believe that an open public process based upon competition is preferable. Without it, the railroad may not know what the highest and best use for a parcel is or what it is worth.
- Lease options on the utility corridor extend up to 60 years. Legislative approval is required, by statute, for property commitments in excess of 35 years. These renewals circumvent that approval process.
- The railroad gave away exclusive rights to install fiber optic cable in 25-foot wide sections of the utility corridor, even though restricting "*other parallel uses of the utility corridor*" is prohibited by statute.
- Some of the financial provisions in the utility corridor permits were ambiguous and did not adequately protect the railroad. We recommended that the railroad's chief financial officer staff be included in the contract review process.
- ARRC has engaged Charlie Cole to conduct a full ethics review of the activities of its real estate manager. However, it has been almost a year since that referral and his report has not yet been completed.
- We recommended that ARRC be brought under the Executive Branch Ethics Act. The railroad's ethics rules were much weaker than the State's Ethics Act. This change was accomplished last session.

Alaska Railroad Corporation Review of Selected Contracts, August 12, 1998

Purpose of the Audit

The primary purpose was to provide a status report on the ARRC's major real estate projects. We also looked at employee termination payments.

Conclusions and Recommendations

- Almost \$1.3 million has been paid to LoPatin, the Ship Creek developer, with no return benefit to the railroad. This development project is starting over from scratch and will likely be done in-house, rather than through a private developer.
- The Chena Landings development attempted in Fairbanks was also not successful and is starting over.
- The lease between LoPatin and the railroad on the old General Office Building was not in the railroad's best interest. Four years into a possible 20-year lease, ARRC had received no rental income. Furthermore, at the end of the lease, ARRC may owe LoPatin $\frac{3}{4}$ of a million dollars because of a complicated rent credits calculation included in the lease.
- The financial status of the Comfort Inn hotel investment remains unclear. The railroad is in the process of assuming the role of managing partner and we encouraged it to have a full-scope audit conducted of the partnership accounting.
- The contract with the Flamingo Brothers Partnership, for gravel extraction, has not provided a return to ARRC. We had outlined a number of weaknesses in this contract in a previous audit.
- Termination payments to management employees ranged from \$26,000 to \$200,000 and averaged \$95,000. This average has dropped to \$36,000 since 1997, which reflects the philosophy of the new management team.
- We recommended that ARRC's enabling statutes be amended to make certain personnel information publicly available. Including:
 - ❖ Names and Positions
 - ❖ Dates of Appointment and Termination
 - ❖ Compensation Authorized

Auditor Comments

- The legislature should consider including the railroad in the Executive Budget Act. We believe the State would benefit from direct legislative oversight of its railroad.

- We saw several employee and contractor settlements where the railroad appeared to be "buying its way out of trouble." This sets bad precedent. While in a given situation it may seem less expensive than litigation, this may not be true in the long run. If the railroad is seen as having deep pockets that are easy to get at, it will certainly encourage claims – even those without merit.

Department of Fish and Game

State of Alaska, Single Audit for the Fiscal Year Ended 1997

Purpose of the Audit

The purpose of the State Single Audit is three-fold. These are to determine whether: (1) the State of Alaska's general-purpose financial statements in the Comprehensive Annual Financial Report are fairly presented; (2) the State has materially complied with the state laws and regulations related to the general-purpose financial statements; and, (3) the State has materially complied with the federal laws and regulations in its administration of federal financial assistance programs.

Conclusions and Recommendations

- DFG is not maintaining adequate records to support the costs charged to its various federal programs. Without adequate support federal reimbursement of these costs could be jeopardized.
- DFG has put significant efforts, including department-wide training of its staff, into correcting this documentation problem.

Review of Funding and Operations of Private NonProfit Hatcheries, August 22, 1997

Purpose of the Audit

To review various issues surrounding the funding for and operation of private nonprofit hatcheries. The review focused on the Fisheries Enhancement Revolving Loan Fund (FERLF) administered by the Department of Commerce and Economic Development and hatchery permitting and monitoring by the Department of Fish and Game.

Conclusions and Recommendations

- This review determined that while the goal of the state hatchery program to improve fisheries resources has been met, the financial condition of many hatcheries and the FERLF is questionable.
- We also recommended the legislature should consider amending the full utilization requirements set out in AS 16.05.831 to permit private nonprofit

hatcheries to obtain full economic value from hatchery fish that cannot be economically harvested under the "full utilization" concepts.

The financial condition of most hatcheries is such that many cannot service their debt to the State. As a means of increasing revenues to the hatcheries and thereby enhancing their ability to repay loans to the FERLF we believe that hatchery fish whose flesh has no commercial value should be fully utilized from an economic perspective. To protect the State's investment in private nonprofit hatcheries we believe that statute and regulation should be modified to allow roe extraction from salmon that exceed hatchery broodstock requirements. This would impact only those fish that cannot be marketed due to deterioration of quality and which would die normally.

An aspect of this recommendation is currently the subject of review by the Alaska Supreme Court. Basically at issue is whether the commissioner of the Department of Fish and Game has the authority to regulate fisheries within designated special harvest areas and whether the commissioner has the authority to promulgate regulations that may designate other uses of the hatchery salmon resources that may conflict with existing wanton waste statute.

- Since our audit was released, the FERLF has established new problem loan modification procedures. In the past, loan modifications were basically limited to an annual work out, that is, trying to address the problem loan issues within a one-year cycle. The FERLF now employs a "super modification" process. The super modification restructures troubled loans whereby all monies paid by a borrower are applied to principal only over a five-year period. During this five-year period interest continues to accrue on the outstanding principal balance, however, that outstanding balance is declining with the dedication of all proceeds against the loan principal. After the five-year period, funds are then applied to principal and deferred interest. Under this process the FERLF takes a more long-term approach to working out those troubled loans.
- There have been no additional Chapter 13 bankruptcy filings by borrowers since our report was issued. One borrower has filed Chapter 11 protection as a result of a court-determined judgement against the hatchery, until such time the terms of the judgement can be negotiated.

Current Loan Portfolio Status

As of January 22, 1999:

- There were 160 operating and capital FERLF loans totaling \$84.8 million. This compares to 191 loans totaling \$93.6 million as of March 31, 1997. The decrease is mainly attributable to the bankruptcy of a borrower and the write-off of the corresponding receivable.

- Total FERLF deferred interest receivable was \$20.6 million, up from \$15.5 million as of March 31, 1997.
- Total cash available for loans was \$2.4 million. The agency anticipates committing these funds in the second half of fiscal year 1999.

There were 12 borrowers, same number as of March 31, 1997.

Estimated FY 97 Board Attendance Costs. December 5, 1997

Purpose of the Audit

The purpose of the audit was to determine the costs associated with attendance at the Board of Fisheries, Board of Game, Joint Board meetings and related local advisory committee meetings

Conclusion and Recommendation

- We estimate that over \$1 million was spent in "attending regulatory related board meetings. Most state employees attending the meeting were from DFG.
- The cost of attending meetings suggests that expanded use of conferencing technologies could save the state money by reducing the travel costs associated with attendance at regulatory meetings.
- Generally, DFG employees who make presentations to the board believe that the value of their presentation would be diminished in a teleconferencing situation, either because of the format they use in making the presentation, or because ready interaction with board members may be reduced.
- There has been no significant change in the way that regulatory meetings are conducted since the audit was released

Sport Fish Revenue Review, November 10, 1998

Purpose of the Audit

To evaluate expenditures made with designated fish revenues by divisions at the Department of Fish and Game (DFG) other than the Division of Sport Fish (DSF).

Examine the programs at DSF that substantially benefit commercial fishing interests and evaluate the usage of sport fish revenues.

Conclusions and Recommendations

- The usage of sport fish license revenues are statutorily limited to programs intended to directly benefit sport fish programs. However, due to the nature of the fisheries, sport fish programs funded with sport fish revenues will, in most instances, provide a benefit to all competing users, which includes the commercial, sport, subsistence, and personal use fisheries. In FY 98, the sport fish budget was distributed with approximately 48% going to salmon management and assessment programs, 28% to hatchery programs, and less than 25% allocated between resident species, ground fish, and shell fish programs.
- Of 25 sport fish projects reviewed, 80% related to stock assessment and harvest monitoring of chinook, coho, or sockeye salmon stocks. By examining project documents, we found that there had been an increase in the coho stock assessment programs statewide, funded with both federal and state sport fish monies. Our analysis showed that recreational anglers harvest up to an average 6% with the commercial fisheries harvesting 94% of the coho salmon fisheries. Using harvest data as a measurement indicator, it appears that the commercial fishing interests substantially benefit from the coho stock assessment projects paid for by DSF.
- We noted a funding shift trend whereby fish and game funds are supporting fishery programs that historically received partial funding from general funds. One example of a clear shift in funding from general funds to sport fish revenues is the hatchery programs. In the mid 90's, some of the state hatchery programs that were funded primarily with general funds were transferred to DSF. Over time, DSF has also absorbed the assessment function for the Taku River chinook and coho salmon escapement projects, which were once funded by general funds.
- DSF has adopted "angler days of effort" as a measurement indicator in its sport fish program. Even though sport fish effort has been increasing since approximately 1986, we were unable to develop, nor can DFG demonstrate a relationship between direct benefit and "angler days of effort." Further, there is no substantial information to support the relationship of expenditures per project, benefit gained by the sport fisheries, and angler days of effort.
- Without an adequate measurement methodology for comparing benefits derived by user groups to costs expended by the divisions at DFG, there is a potential for increased use of sport fish revenues to fund programs that benefit multiple fishing interests. This concern is heightened due to the increase in sport fish revenue in recent years and the decrease in available general funds.

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- We are recommending that DFG and its divisions that represent various fishery user groups develop a joint measurement tool to ensure that competing user groups pay their equitable share of the costs associated with their respective programs. As found throughout our review, there is an increasing likelihood to provide funding from sport fish revenues for projects that benefit all user groups.

Department of Natural Resources

Agricultural Revolving Loan Fund, March 31, 1998

Purpose of the Audit

The purpose of this audit was to evaluate ARLF's loan approval process, its financial health, the probability of repayment on recent loans, and its efforts to collect on older loans in default. We also looked at how it managed its inventory of repossessed farm property and its overall impact on the State's agricultural development.

Conclusions and Recommendations

- In contrast with past audits, ARLF is now complying with the required loan approval procedures. Loans made in recent years are more likely to be repaid on time.
- ARLF and its assistant attorney general need to develop a more effective strategy for collecting old court judgments. We made a number of case-specific suggestions in a confidential letter directly to the attorney general's office. Several of these old judgments are being cleaned up.
- The fund's cash balance is declining, but it should be sufficient for the next five years. At that time, program and funding decisions will need to be made.
- ARLF has not adequately managed its repossessed properties. It still has an inventory of these properties dating back into the 1980s. These properties should not be held forever. As such, we recommend ARLF contract for property management services to preserve the inventory and arrange for its sale.
- Greenhouses, not livestock, have emerged as the fund's success story. ARLF's efforts to duplicate traditional Lower 48 farming have been offset by the continuous "conveyor belt" of container ships from Seattle, the tremendous air cargo activity through Anchorage, and the national buying power of the large food chains.

Division of Agriculture, Matanuska Maid, September 30, 1998

Purpose of the Audit

The purpose of the audit was to evaluate Mat Maid's performance, financial health, and its role as an asset of the State in the development of Alaska agriculture.

Conclusions and Recommendations

- In the early 1980s, Mat Maid filed for bankruptcy. The State foreclosed on the unpaid ARLF loans and took over. The idea was to run it for a short while and then sell. This would temporarily protect the State's interest in various ARLF loans and would provide a market for area dairy farms. However, the State has never developed a strategic plan as to how and when privatization would occur. And, so it has not occurred.
- Mat Maid's continuation in state ownership can no longer be justified in terms of collateral protection, recoupment of past investments, economic diversification, or preservation of Alaska employment. The State's perpetuation of Mat Maid primarily promotes the occupational choices of the dairy's own workers and five Anchorage-area farmers, rather than an entire industry or an economy.
- Mat Maid is unable to compete in the modern fluid milk market in terms of retail competition, raw material cost, and shelf-life technology. Current technology of Lower 48 competitors allows a 60-90 day shelf life through ultra high-temperature pasteurization. Mat Maid buys 60% - 70% of its milk from Seattle and DNR requires it to pay extraordinarily high rates when it buys local milk. The company has attempted to diversify into "niche" products, but these efforts have not been successful.
- The dairy is not adequately capitalized to be viable in the long run. The plant would need substantial updating to be technologically competitive. Limitations of the existing site mean that a new plant would need to be built at another location.
- We recommend that DNR retain a specialized dairy broker and aggressively seek purchase offers from the major dairy corporations involved in the nationwide consolidation trend.

Auditor Comments

- The candid response we received from the department on this audit indicates that it has no plans to retain a dairy broker and attempt to sell Mat Maid. Thus, if the legislature wants to dispose of Mat Maid, it will need to directly intervene.

Departments of Natural Resources, Law, and Fish and Game, Waterway Management Issues, March 28, 1997

Purpose of the Audit

This audit evaluated the effectiveness of the State's programs regarding its ownership of submerged land, rights to management of fisheries within navigable waterways, protection of public access, and allocation of water among competing users. In addition to DNR, we also reviewed the efforts of the Department of Fish and Game and the Department of Law.

Conclusions and Recommendations

- The State's piecemeal approach to its waterway litigation has had little impact on the resolution of important issues such as ownership of submerged land, division of state-federal authority for particular waterways, and allocation of water among competing users.
- We believe resolution through Alaska's basin-wide adjudication statute should be considered. Through a comprehensive approach such as this, the majority of these water-related issues can be resolved at one time. But even with this approach, it will take many years to finalize Alaska's water issues.
- We found that the administration had not articulated a unified, decisive strategy to its departments regarding waterway issues. The mixed messages and leadership void contributed to a troubling level of friction among some classified personnel expected to coordinate waterway activities between departments and even between divisions.
- We also found that the State had made virtually no effort to review, correct, or appeal BLM's findings on navigability. If the State is to challenge these findings, it must be done in a timely manner. We recommended that DNR review and document its position on all BLM navigability determinations.
- On the other hand, the State consistently reviewed and responded to BLM's public easement notices. However, we did note that the public easement process involved little public input and that the existence and location of many easements is not made readily available to the public. Meaningful public access is further negated by a lack of easement marking on the ground. We made several recommendations designed to encourage citizen input, get the easement information out to the public, and to improve easement marking.
- We also recommended the Attorney General enforce the State's rights to easements promised 20 years ago by landowners involved in an ANCSA litigation settlement. Federal regulations indicate that these easements could be lost if not in use by 2001.

Departments of Labor and Natural Resources. Oil Company Hiring,
Procurement and Contracting Issues August 31, 1997

Purpose of the Audit

To evaluate the oil industry's policies, procedures, and history related to resident hiring, procurement, and contracting.

Conclusions and Recommendations

- Increases in nonresident hire correlate with the State's lack of enforcement of local hire requirements. In the years before 1996, oil industry officials characterized the local hire issue as "not a high priority." During that same time, the Department of Natural Resources (DNR) waived and reduced resident reporting requirements contained in existing oil lease and reduced the requirements of resident reporting in new leases. The Department of Labor (DOL) reduced the scope and detail of its annual *Nonresidents Working in Alaska* report. According to the 1996 *Nonresidents Working in Alaska* report, resident hire in the oil patch has continued to decline. While the percentage of nonresident oil patch employees in 1995 was about 27%, the ratio for 1996 is just over 29%. According to DOL, 1997 statistics will be released by January 31, 1999.
- The revised lease for the Northstar oilfield included unique resident hire reporting requirements for contractors and subcontractors. While the Northstar lease requires the lessee to submit an annual report to the director, division of oil and gas that "*details the specific measures lessee and its contractors and subcontractors have taken or are planning to take to recruit qualified Alaska residents for available jobs, describes on-the-job training opportunities, and describes lessee's efforts to hire Alaska firms for work in connection with this lease . . .*" subsequent leases only "*. . . encourage lessee to hire and employ local and Alaska residents and companies, to the extent they are available and qualified, for work performed in the leased area.*"
- Though the Northstar amendment to the lease was unique to that project, the oil industry as a whole began to take measures to increase local hire. These measures included one oil company establishing a position for a local hire manager and several companies implementing various educational and on the job training programs.
- Our review included three recommendations. We recommended that DNR ensure that lease provisions related to reporting on resident hire are consistently enforced and not waived. We further recommended these reporting requirements be expanded with newly negotiated leases and permits. We also recommended DOL provide in its annual *Nonresidents Working in Alaska* report a detailed analysis of

the effect of nonresident employment in the State. Additionally, we recommended that DOL use statistical information from the Occupational Data Base to provide feedback to major employers within the State and to assist with employment assistance and training efforts.

- DNR's response to our audit recommendation that the agency enforce lease requirements left us pessimistic that the recommendation would be followed without further direction from the legislature. After commenting on the department's perceived inability to enforce local hire reporting requirements, the response additionally responded to our recommendation on enforcement of lease provisions related to reporting: *"I question whether implementing such recommendations will cause the industry to be any more aware of their non-residential hire rates or take action to improve those rates. A legislative oversight hearing would seem to be a more effective means to accomplish your stated goals."* The agency response continues in this vein while discussing standards for determining residency status and consequences for not complying with reporting requirements contained in leases: *"Unless and until some standards and consequences, I see little point in gathering deficient information. The Legislature could pass a reporting requirement law setting forth the standards and the consequences of the failure to comply with them, if it thinks your recommendations have merit."*
- DOL has made significant progress toward responding to our recommendation that the *Nonresidents Working in Alaska* report should include detailed analyses on the effects on the Alaskan economy of nonresident hire. The *Nonresidents Working in Alaska* for 1996 contains a much more detailed section on this aspect than reports from recent years.

Department of Environmental Conservation

State of Alaska, Single Audit for the Fiscal Year Ended 1997

Purpose of the Audit

The purpose of the State Single Audit is three-fold. These are to determine whether: (1) the State of Alaska's general-purpose financial statements in the Comprehensive Annual Financial Report are fairly presented; (2) the State has materially complied with the state laws and regulations related to the general-purpose financial statements; and, (3) the State has materially complied with the federal laws and regulations in its administration of federal financial assistance programs.

Conclusions and Recommendations

- The Department of Environmental Conservation (DEC) has six recommendations in the State Single Audit for FY 97. Four recommendations are regarding state compliance and accounting matters. Two recommendations concern the administration of federal programs relating to allowable costs and cash management.
- DEC improved its cash management procedures for the Village Sewerwater program during FY 98. However, it was unclear if the improvements were sufficient. We recommended that DEC review its procedures for Village Sewerwater projects to ensure that they efficiently and effectively met the needs of the program without excessive drain on the General Fund.
- DEC continued to have a problem with expenditure and revenue transfers between appropriation without proper approval and reasonable support. Although DEC has policies to require these transactions to have proper approval and supporting documentation, several of the transactions we tested had neither.
- DEC had three appropriations with revenue shortfalls and two overspent appropriations totaling almost \$300,000. The agency is working to resolve these to the extent possible without a supplemental appropriation. However, it appears a supplement may be needed for the last \$1,800.
- DEC resolved eight of the twelve recommendations presented in the FY 96 State Single Audit. The eight resolved recommendations were primarily federal compliance issues.

Village Safe Water Program, Force Account Construction and Sovereignty Issues, August 13, 1997

Purpose of the Audit

This audit involved various aspects of the Village Safe Water (VSW) program. Specifically, we reviewed the following aspects of the VSW program:

1. The use of what is termed the force account construction method. DEC engineers and local communities make widespread use of force account method in constructing various VSW projects. We specifically reviewed the merits of the force account method compared to the design-bid-construct approach more traditionally used for public works construction. Particular emphasis was given to the implications of force account construction in such public policy areas as procurement, operational dependability, and local autonomy over grant funds.
2. The public policy implications of constructing VSW projects in communities claiming native sovereignty. In this aspect of our scope, we were concerned with how the State deals with local governing entities that assert and maintain native sovereignty. In particular, we were directed to assess what, if any, legal protection is in place to provide the State appropriate oversight of the project. Additionally, we assessed what impact such sovereignty claims would have on the accountability of public funds which are controlled, in part, by the local sovereign entity.

Conclusions and Recommendations

- Force account construction is consistent with the requirements of the VSW statutes. The VSW law gives DEC extensive discretion over how to carry out the construction of VSW projects. The program's statutes direct DEC's commissioner *"to provide for the construction"* of water and sewage facilities which can be done either *"by contract or through grants to public agencies and private nonprofit organizations."*

Given this discretionary language, it is our view that the use of force account construction, which places more control and responsibility on the local recipient community, is consistent with the law. Regardless of the specific precepts related to bidding, procurement, and public construction found elsewhere in statute, DEC has the authority to utilize force account construction methods in carrying out the department's responsibilities under the VSW statutes.

- Force account construction best satisfies socioeconomic aspects of the VSW statutes. The VSW statute also addresses socioeconomic concerns when setting out provisions for the construction of water and sewer facilities. In a somewhat unique provision, the statute requires at AS 46.07.040(b) that in construction of

facilities, "workers from the village in which the facility is being constructed shall be utilized to the maximum extent feasible."

An important aspect of force account construction is that it best satisfies this statutory requirement. Typically, more village workers are hired to build a facility using the force account method than are utilized when a contractor is awarded a bid to build essentially a "turn key" project.

- Force account construction promotes "sense of ownership" in the operation of the project. According to VSW project managers this helps inculcate a more protective attitude toward the system, which in turn promotes more consistent long term maintenance and upkeep on the part of the community.
- VSW projects built through force account construction are as operationally reliable as other projects. We reviewed the annual reports submitted by Remote Maintenance Worker (RMW) contractor agencies. These RMW contractors are scattered throughout the State and serve to provide both routine and emergency technical assistance to communities in operating and maintaining the local water and sewer facilities.

From our review, we identified the various emergency situations to which RMW staff responded during FY 95 and FY 96. For each of these situations we reviewed the identified cause of the operational failure to see if it could be attributable to design or construction deficiency of a force account constructed project. For each of the emergencies responded to by RMWs in either FY 95 or FY 96, the situation could be attributed to severe weather conditions or failure of a mechanical part. We saw no evidence that any emergency situation could be attributed to a construction oversight of a project built using the force account method.

- The option to engage in force account construction is favored by local government officials.
- VSW grant terms negate claims of sovereign immunity on the part of recipients.

**Division of Facility Construction and Operation, Village Safe Water Program,
Rural Sanitation 2005 Action Plan, October 2, 1998**

Purpose of the Audit

We reviewed various aspects of the Rural Sanitation 2005 Action Plan. This plan represents a comprehensive strategy to provide adequate water and sewer facilities to all communities by the year 2005. Involved in our review was developing an understanding of historical state and federal funding trends, and the progress state and federal

governments have made addressing substandard rural water and sewer conditions. We also address the benefits associated with these projects and the potential for privatization of the State's Village Safe Water (VSW) program and utility support services.

Conclusions and Recommendations

- While progress has been made, much remains to be done before all Alaskan communities have access to adequate water and sewer facilities. As of September 1997, according to records maintained by the Department of Environmental Conservation (DEC), adequate water and sewer facilities exist in approximately 70% of the housing units in Alaska's 272 rural communities. The remaining communities present the greatest challenge from an economic, management capability, and/or engineering perspective.
- Rural sanitation projects have received significant funding over the last ten years. From 1988 to 1998 state and federal capital appropriations totaled \$561.9 million. During this same time period, the State made appropriations of over \$37 million for VSW operating costs and other support services.
- Rural sanitation systems will continue to require extensive amounts of capital investment. As with all public infrastructure, rehabilitation and replacement costs are inevitable. Up to \$50 million in annual replacement and rehabilitation will be needed if the construction goals of the Rural Sanitation 2005 Action Plan are to be met.
- The benefits of rural water and sewer projects are numerous, but difficult to quantify. Very little documented evidence exists to support the alleged benefits associated with water and sewer construction in rural communities. However, professional opinion and anecdote strongly supports continued funding of these construction projects. Accordingly, we recommended that DEC should coordinate state and federal effort to identify and document the benefits associated with rural water and sewer facility construction.
- In our view, a limited opportunity exists for further privatization of the Village Safe Water program. VSW relies extensively on the private sector to conduct business. Our review indicates that further privatization of VSW and other support programs, which provide service to rural water and sewer facilities, may compromise public accountability and program efficiency.
- In our view, DEC should create a comprehensive, accurate, statewide inventory of all village sanitation systems for purposes of accountability and planning. Current data maintained by VSW is insufficient. As the primary state entity responsible for constructing water and sewer projects in rural Alaska, the Village Safe Water program needs to develop a database of rural sanitation facilities to assist in documenting and assessing the sanitation needs of Alaska's rural communities.

Department of Corrections

State of Alaska, Single Audit for the Fiscal Year Ended 1997

Purpose of the Audit

The purpose of the State Single Audit is three-fold. These are to determine whether: (1) the State of Alaska's general-purpose financial statements in the Comprehensive Annual Financial Report are fairly presented; (2) the State has materially complied with the state laws and regulations related to the general-purpose financial statements; and, (3) the State has materially complied with the federal laws and regulations in its administration of federal financial assistance programs.

Conclusions and Recommendations

- The State Single Audit included one recommendation directed to the Department of Corrections for resolution of two revenue shortfalls.

Department of Transportation and Public Facilities

State of Alaska, Single Audit for the Fiscal Year Ended 1997

Purpose of the Audit

The purpose of the State Single Audit is three-fold. These are to determine whether: (1) the State of Alaska's general-purpose financial statements in the Comprehensive Annual Financial Report are fairly presented; (2) the State has materially complied with the state laws and regulations related to the general-purpose financial statements; and, (3) the State has materially complied with the federal laws and regulations in its administration of federal financial assistance programs.

Conclusions and Recommendations

- The State Single Audit included one recommendation for the Department of Transportation and Public Facilities regarding an accounting matter involving how the department reports state obligations at year end.

Capital Construction Project Costs, July 25, 1997

Purpose of the Audit

The purpose of the audit was to review the process of selecting capital projects and the methodology employed to track project costs.

Conclusions and Recommendations

- Our review concluded that DOTPF basically complies with legal financial reporting requirements that mandate capital expenditures be accounted for on an appropriation basis.
- DOTPF's project accounting successfully tracks expenditure activity for the scope of work defined as a project. The main deficiency noted during our review concerns DOTPF's inability to report expenditure activity for discrete output.

The general public's perception of DOTPF is based on discrete output easily detected by the passerby. Therefore, the public expects to be able to obtain information in terms of completed undertakings. In contrast, DOTPF perceives capital projects in terms of approved scopes of work. The department has no simple method for reporting expenditure information for discrete output because

January 27, 1999

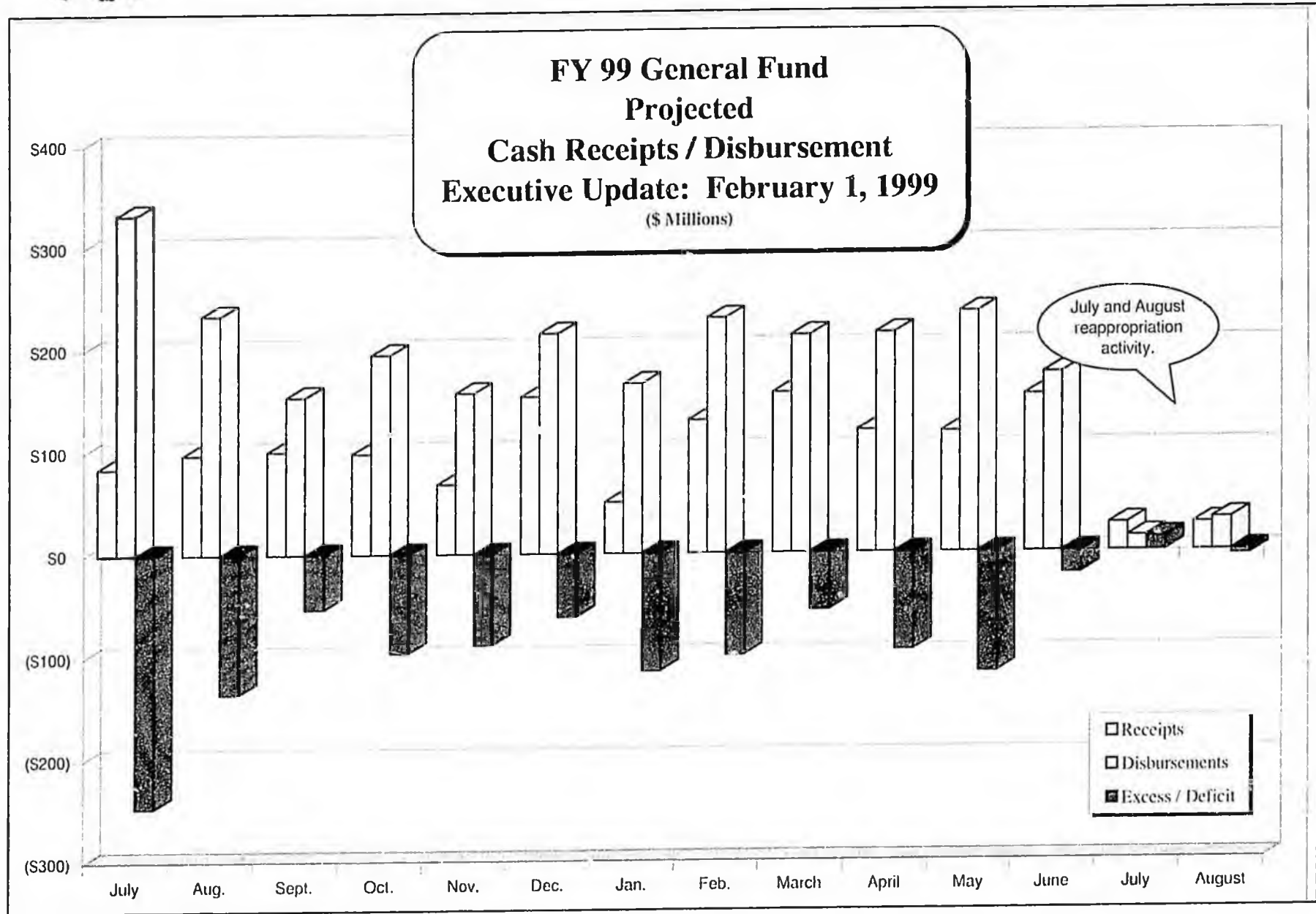
expenditure activity is tracked for the scope of work internally defined as a project.

- The expectation gap is caused by DOTPF's practice of segmenting a scope of work into multiple projects when the general public typically perceives the work as a single discrete project. While multiple projects may have a common purpose, the accounting system does not link the individual expenditure information.

Although DOTPF complies with legal reporting requirements, it falls short in being able to readily provide information on an output basis. We believe that the department is aware of the difficulty in communicating existing internal financial information to individuals outside the department.

- Maintaining more user-friendly information is a possibility, but it may not meet a cost/benefit analysis.

Receipts Chart



FY 99

SUMMARY
CASH FLOW PROJECTION
DEPARTMENT OF REVENUE
 Executive Update: February 1, 1999
 \$(Millions)

Borrowing Needed
 Above \$700m cap:
 Feb - \$124.6
 Mar - \$69.4
 Apr - \$76.6
 May - \$116.2
 Jun - \$99.1
 Total \$425.9

	ACTUAL 1998						PROJECTED 1999						Reapprop. Only*		FY 99 TOTAL
	JULY	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	
General Fund															
Beginning Available Cash Balance	190.5	143.3	107.2	253.8	157.2	168.2	204.7	139.7	214.8	228.0	209.4	208.7	150.0	163.5	
Current year Cash Revenues	79.5	61.2	100.3	98.2	67.9	153.1	50.5	129.5	156.1	118.8	117.4	153.1	27.1	27.1	1,339.7
Prior year Cash Revenues	4.9	36.0													
Current year Cash Expenditures	(279.5)	(161.2)	(153.7)	(194.8)	(156.9)	(214.9)	(165.5)	(229.0)	(212.2)	(214.0)	(234.3)	(174.3)	(14.2)	(31.4)	(2,435.9)
Prior year Cash Expenditures (reapprop.)	(52.1)	(72.1)													
Borrowing from Constitutional Budget Reserve Fund For FY98 Deficit	-	-	-	-	-	98.3	-	S50m borrowed 2/3/99		-	-	-	-	-	98.3
Projected Borrowing From The Constitutional Budget Reserve Fund	200.0	100.0	200.0	-	100.0	-	50.0	174.6	69.4	76.6	116.2	39.1	0.7	4.4	1,130.8
Projected Repayments To The Constitutional Budget Reserve Fund	-	-	-	-	-	-	-	-	-	-	-	(76.5)	-	-	(76.5)
Ending Available Cash Balance	143.3	107.2	253.8	157.2	168.2	204.7	139.7	214.8	228.0	209.4	208.7	150.0	163.5	163.5	

	1998						1999						Reapprop. Only*		FY 99 TOTAL
	JULY	AUG	SEPT	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	
Constitutional Budget Reserve Fund															
Beginning Asset Balance	3,559.1	3,383.5	3,292.0	3,173.7	3,185.0	3,106.0	3,020.1	2,989.7	2,830.1	2,792.9	2,757.6	2,676.2	2,744.5	2,743.9	
Repayment To General Fund For FY98 Deficit	-	-	-	-	-	(98.3)	-	-	-	-	-	-	-	-	(98.3)
Borrowing by General Fund	(200.0)	(100.0)	(200.0)	-	(100.0)	-	(50.0)	(174.6)	(69.4)	(76.6)	(116.2)	(39.1)	(0.7)	(4.4)	(1,130.8)
Repayment by General Fund	-	-	-	-	-	-	-	-	-	-	-	76.5	-	-	76.5
Other Activity	-	-	-	-	-	-	-	-	-	3.1	2.9	(0.1)	-	-	5.9
Investment Income	5.3	8.5	76.2	5.0	21.0	12.0	17.6	13.9	14.6	14.0	14.2	13.4	-	-	215.7
Federal MMS S(G)	-	-	-	-	-	-	-	-	-	6.6	-	-	-	-	6.6
Oil/Gas Tax Dispute Resolution	19.1	-	5.5	6.3	-	0.4	2.0	1.0	17.6	17.6	17.6	17.6	-	-	104.7
Ending Asset Balance	3,383.5	3,292.0	3,173.7	3,185.0	3,106.0	3,020.1	2,989.7	2,830.1	2,792.9	2,757.6	2,676.2	2,744.5	2,743.9	2,739.5	

NOTES:

ANS Mkt price per barrel: 12.29 13.01 12.83 14.41 12.01 11.47 9.31 10.20 10.35 10.84 11.05 11.25 11.58
 Production (millions): 1.164 1.180 1.151 1.115 1.229 1.199 1.197 1.189 1.189 1.189 1.189 1.189 1.178

Average

GF Cash revenues are detailed on Schedules A.
 GF Cash expenditures are detailed on Schedule B.
 CBRF transfers to GF are detailed on Schedule C.
 GF Actual Cash Revenue & Expenditures based on current AKSAS information
 CBRF - Projected investment income assumes a 6.08% median five year expected return (applied as simple APR on beginning balance).
 * Does not include FY2000 cash activity.

FY99 / FY00 ALL FUNDS FISCAL SUMMARY

(\$ millions)

	FY99 Authorized				FY00 Governor			
	GF/CBRF/ ILTF	Federal	Other	Total	GF/CBRF/ ILTF	Federal	Other	Total
REVENUES								
Unrestricted GF Fall 98 Forecast Update	1,287.0			1,287.0	1,299.0			1,299.0
Revenue Adjustments	-63.5			-63.5	-17.7			-17.7
AIDEA Transfer to General Fund	16.0			16.0	0.0			0.0
Federal and Other Funds		1,470.2	2,859.6	4,329.8		1,581.0	2,558.4	4,139.4
TOTAL AVAILABLE	1,239.5	1,470.2	2,859.6	5,569.3	1,281.3	1,581.0	2,558.4	5,420.7
EXPENDITURES								
Operating (1)	2,159.4	864.7	1,001.3	4,025.4	2,232.2	924.6	1,046.4	4,203.3
Agency Operations (Non-Formula)	1,095.0	475.1	844.1	2,414.2	1,144.1	508.0	891.5	2,543.5
Formula Programs	1,064.4	389.6	157.3	1,611.2	1,088.2	416.7	155.0	1,659.8
Debt Service	46.0	0.0	30.7	76.7	5.7		59.9	65.6
Capital including Mental Health	85.4	586.4	530.9	1,202.7	112.9	640.9	185.6	939.4
Loan Fund Capitalization	3.8	19.1		23.0	3.1	15.5		18.6
Special Appropriations & Fund Transfers	17.2		9.4	26.6	16.6		14.0	30.6
Permanent Fund Dividends/Inflation Proofing			1,287.3	1,287.3			1,252.5	1,252.5
Supplementals (2)	16.5			16.5	15.4			15.4
New Legislation (3)								0.0
TOTAL APPROPRIATIONS (4)(5)	2,328.4	1,470.2	2,859.6	6,658.2	2,386.0	1,581.0	2,558.4	6,525.4
Less Duplicated Expenditures			-434.7	-434.7			-484.8	-484.8
UNDUPLICATED EXPENDITURES	2,328.4	1,470.2	2,424.9	6,223.5	2,386.0	1,581.0	2,073.6	6,040.6
From Constitutional Budget Reserve (6)	1,088.9			1,088.9	1,104.7			1,104.7

Revenue Assumptions:	Price \$/BBL	Production MMbd
FY99 Updated Fall 98 Forecast	11.58	1.177
FY00 Updated Fall 98 Forecast	12.50	1.117

Notes:

- (1) Shared Taxes and Fishery Enhancement Tax Receipts are not included-those items are off-budget.
- (2) Supplemental figures are estimates. Note that the \$16.5 million estimate of FY99 general fund supplemental needs appears to be unrealistically low. The footnotes to the "Governor's Budget Comparison for FY99 - FY00" state that the administration's estimate of FY99 supplemental needs is \$35 million plus an unspecified amount for the Y2K compliance effort.
- (3) The "Governor's Budget Comparison for FY99-FY00" includes a reduction of \$5.3 million in general funds resulting from the estimated cost of selected pieces of legislation that the Governor intends to sponsor. We will incorporate the costs of the Governor's legislation as it is introduced and fiscal notes are prepared.
- (4) Total appropriation figures do not include RPLs.
- (5) FY00 total appropriations figures do not include the \$15.0 million in general fund budget reductions reflected in the "Governor's Budget Comparison for FY99 - FY00". We will incorporate those reductions into this document as specific amendments to the budget and/or legislation are proposed.
- (6) Further legislative action will be required to withdraw any amount greater than \$700 million from the CBR for FY99.

legislative fiscal analyst overview of the governor's request

legislative fiscal analyst overview of the governor's request

POSITION COMPARISON

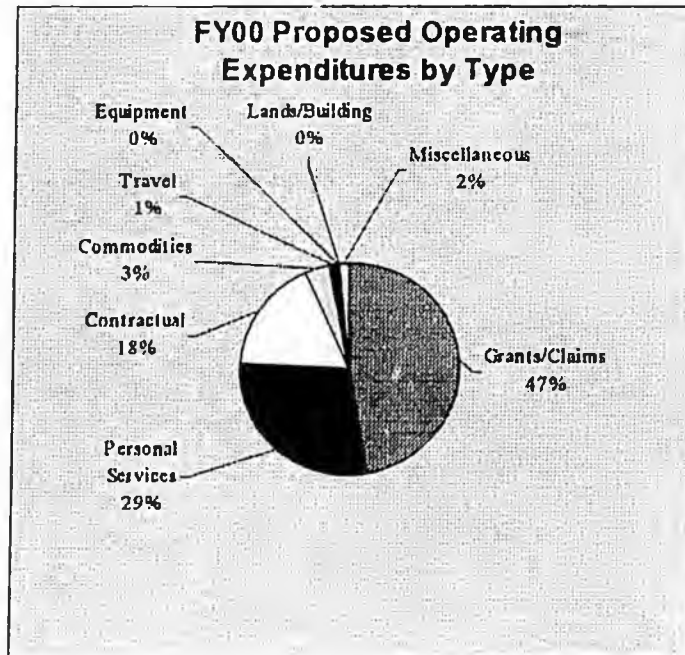
Department	FY99 Authorized PFT	FY00 Authoriz ed PFT	Change PFT	FY99 Authorized PPT	FY00 Authorized PPT	Change PPT
Administration	1262	1372	110	114	106	-8
Commerce & Economic Dev.	343	370	27	10	8	-2
Community & Regional Affairs	168	185	17	3	3	0
Corrections	1360	1405	45	1	0	-1
Education	465	479	14	104	108	4
Environmental Conservation	488	503	15	5	5	0
Fish and Game	805	820	15	879	914	35
Office the Governor	187	181	-6	5	5	0
Health and Social Services	2073	2250	177	58	68	10
Labor	564	561	-3	111	96	-15
Law	443	451	8	14	14	0
Military and Veterans Affairs	210	219	9	1	3	2
Natural Resources	556	578	22	247	243	-4
Public Safety	757	746	-11	28	27	-1
Revenue	782	790	8	32	30	-2
Transportation/Public Facilities	2735	2821	86	647	645	-2
University Alaska	3387	3446	59	233	233	0
Alaska Court System	665	671	6	50	53	3
Legislature	218	218	0	271	271	0
TOTALS	17468	18066	598	2813	2832	19

legislative fiscal analyst overview of the governor's request

OPERATING BUDGET

The Governor proposes a total operating budget of \$4.2 billion for FY00. This request is \$178 million more than FY99 Authorized. The Governor proposes a general fund increment of \$73 million for a \$2.2 billion total general fund operating budget in FY00.

Expenditure by Type	<u>FY00</u>
Personal Services	\$1,219.7
Travel	45.5
Contractual	737.9
Commodities	142.4
Equipment	19.4
Lands/Building	0.3
Grants/Claims	1,970.9
Miscellaneous	<u>67.1</u>
Total Operating	4,203.3



Because the operating budget includes money for purposes other than state operations, it is useful to separate expenditures into two categories shown below.

Formula Programs include payments to municipalities, non-profits and individuals. They generally require increases proportionate with Alaska's population.

Agency Operations (non-formula) include costs associated with management and implementation of the state's services as required by federal law, state statute or regulation, or discretionary programs.

	FY98	FY99	FY00	FY99 Auth –
	Actuals	Auth	Gov	FY00 Gov
Formula Programs	\$ 1,054,656.9	\$ 1,064,362.1	\$ 1,088,168.9	\$ 23,806.8
Agency Operations	\$ 1,076,176.4	\$ 1,095,033.0	\$ 1,144,054.4	\$ 49,021.4
Operating GF Total	\$ 2,130,833.3	\$ 2,159,395.1	\$ 2,232,223.3	\$ 72,828.2

In the Governor's FY00 request, general funds make up approximately 66% of the total formula program funding and 46% of the agency operations funding. For comparison, general funds made up approximately 69% of the total formula program funding and 52% of the agency operations funding in the FY95 authorized budget.

legislative fiscal analyst overview of the governor's request

CAPITAL BUDGET

The Governor's FY00 budget proposes total capital spending of approximately \$939 million, a reduction of approximately \$264 million from FY99. This overall reduction is due to the absence of the \$200 million AHFC and \$179 million International Airport bond packages appropriated in the FY99 capital bill. The reduction is offset by proposed increases in the amounts of federal receipts, general funds, AIDEA corporate receipts, and International Airport Revenue Funds included in the FY00 capital budget.

The Governor's FY00 capital budget proposes to increase capital spending from general fund sources by approximately \$27.5 million (from FY99 \$85.4 million to FY00 \$112.9 million). As noted in previous sections of this overview, the Legislative Finance Division classifies revenue and expenditures from the proposed increase in the motor fuel tax as general funds. Of the proposed \$50.6 million appropriation to the Department of Transportation and Public Facilities for federal highway project match, \$26.7 million is predicated on proceeds of the increased motor fuel tax.

The proposed use of \$18.8 million in AIDEA corporate receipts for capitalization of the Municipal and Unincorporated Capital Matching Grant Funds and other capital projects is a noteworthy change from past capital budgets. Direct appropriation of this funding for capital projects and grants would preclude its use as a source of revenue to the general fund. The Legislature may wish to review this proposal in the context of significantly reduced forecasts of unrestricted general fund revenues for FY00.

Project details for federal highway projects are expected to change when the Statewide Transportation Improvement Program (STIP) has been completed and reviewed by the public.

FY99 / FY00 ALL FUNDS FISCAL SUMMARY

(\$ millions)

	FY99 Authorized				FY00 Governor			
	GF/CBRF/ ILTF	Federal	Other	Total	GF/CBRF/ ILTF	Federal	Other	Total
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Capital including Mental Health an Fund Capitalization	85.4 3.8	586.4 19.1	530.9	1,202.7 23.0	112.9 3.1	640.9 15.5	185.6	939.4 18.6
Special Appropriations & Fund Transfers	17.2		9.4	26.6	16.6		14.0	30.6
Permanent Fund Dividends/Inflation Proofing Supplementals (2)	16.5		1,287.3	1,287.3	15.4		1,252.5	1,252.5
New Legislation (3)								15.4
TOTAL APPROPRIATIONS (4)(5)	2,328.4	1,470.2	2,859.6	6,658.2	2,386.0	1,581.0	2,558.4	6,525.4
Less Duplicated Expenditures			-434.7	-434.7			-484.8	-484.8
UNDUPLICATED EXPENDITURES	2,328.4	1,470.2	2,424.9	6,223.5	2,386.0	1,581.0	2,073.6	6,040.6
From Constitutional Budget Reserve (6)	1,088.9			1,088.9	1,104.7			1,104.7

Revenue Assumptions:	Price S/BBL	Production MMbbl
FY99 Updated Fall 98 Forecast	11.58	1.177
FY00 Updated Fall 98 Forecast	12.50	1.117

Notes:

- (1) Shared Taxes and Fishery Enhancement Tax Receipts are not included-those items are off-budget.
- (2) Supplemental figures are estimates. Note that the \$16.5 million estimate of FY99 general fund supplemental needs appears to be unrealistically low. The footnotes to the "Governor's Budget Comparison for FY99 - FY00" state that the administration's estimate of FY99 supplemental needs is \$35 million plus an unspecified amount for the Y2K compliance effort.
- (3) The "Governor's Budget Comparison for FY99-FY00" includes a reduction of \$5.3 million in general funds resulting from the estimated cost of selected pieces of legislation that the Governor intends to sponsor. We will incorporate the costs of the Governor's legislation as it is introduced and fiscal notes are prepared.
- (4) Total appropriation figures do not include RPLs.
- (5) FY00 total appropriations figures do not include the \$15.0 million in general fund budget reductions reflected in the "Governor's Budget Comparison for FY99 - FY00". We will incorporate those reductions into this document as specific amendments to the budget and/or legislation are proposed.
- (6) Further legislative action will be required to withdraw any amount greater than \$700 million from the CBR for FY99.

legislative fiscal analyst overview of the governor's request

legislative fiscal analyst overview of the governor's request

POSITION COMPARISON

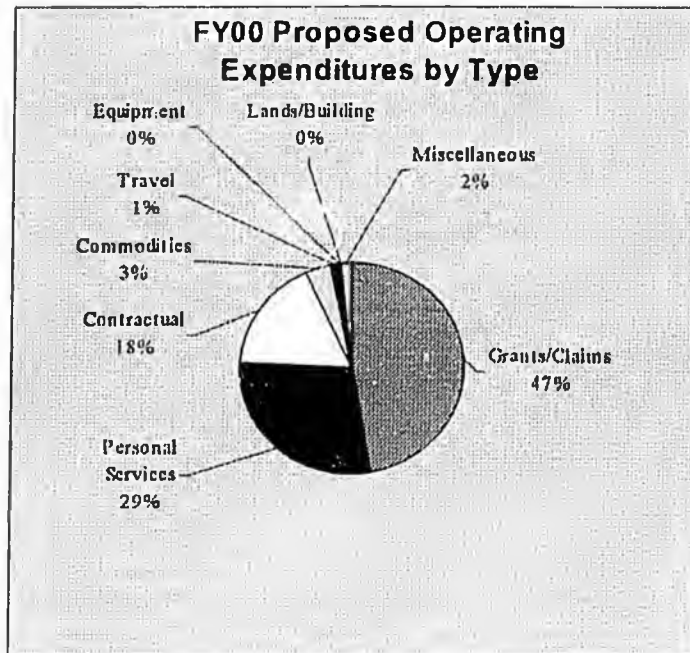
Department	FY99 Authorized PFT	FY00 Authoriz ed PFT	Change PFT	FY99 Authorized PPT	FY00 Authorized PPT	Change PPT
Administration	1262	1372	110	114	106	-8
Commerce & Economic Dev.	343	370	27	10	8	-2
Community & Regional Affairs	168	185	17	3	3	0
Corrections	1360	1405	45	1	0	-1
Education	465	479	14	104	108	4
Environmental Conservation	488	503	15	5	5	0
Fish and Game	805	820	15	879	914	35
Office the Governor	187	181	-6	5	5	0
Health and Social Services	2073	2250	177	58	68	10
Labor	564	561	-3	111	96	-15
Law	443	451	8	14	14	0
Military and Veterans Affairs	210	219	9	1	3	2
Natural Resources	556	578	22	247	243	-4
Public Safety	757	746	-11	28	27	-1
Revenue	782	790	8	32	30	-2
Transportation/Public Facilities	2735	2821	86	647	645	-2
University Alaska	3387	3446	59	233	233	0
Alaska Court System	665	671	6	50	53	3
Legislature	218	218	0	271	271	0
TOTALS	17468	18066	598	2813	2832	19

legislative fiscal analyst overview of the governor's request

OPERATING BUDGET

The Governor proposes a total operating budget of \$4.2 billion for FY00. This request is \$178 million more than FY99 Authorized. The Governor proposes a general fund increment of \$73 million for a \$2.2 billion total general fund operating budget in FY00.

Expenditure by Type	<u>FY00</u>
Personal Services	\$1,219.7
Travel	45.5
Contractual	737.9
Commodities	142.4
Equipment	19.4
Lands/Building	0.3
Grants/Claims	1,970.9
Miscellaneous	<u>67.1</u>
Total Operating	4,203.3



Because the operating budget includes money for purposes other than state operations, it is useful to separate expenditures into two categories shown below.

Formula Programs include payments to municipalities, non-profits and individuals. They generally require increases proportionate with Alaska's population.

Agency Operations (non-formula) include costs associated with management and implementation of the state's services as required by federal law, state statute or regulation, or discretionary programs.

	FY98	FY99	FY00	FY99 Auth -
	Actuals	Auth	Gov	FY00 Gov
Formula Programs	\$ 1,054,656.9	\$ 1,064,362.1	\$ 1,088,168.9	\$ 23,806.8
Agency Operations	\$ 1,076,176.4	\$ 1,095,033.0	\$ 1,144,054.4	\$ 49,021.4
Operating GF Total	\$ 2,130,833.3	\$ 2,159,395.1	\$ 2,232,223.3	\$ 72,828.2

In the Governor's FY00 request, general funds make up approximately 66% of the total formula program funding and 46% of the agency operations funding. For comparison, general funds made up approximately 69% of the total formula program funding and 52% of the agency operations funding in the FY95 authorized budget.

legislative fiscal analyst overview of the governor's request

CAPITAL BUDGET

The Governor's FY00 budget proposes total capital spending of approximately \$939 million, a reduction of approximately \$264 million from FY99. This overall reduction is due to the absence of the \$200 million AHFC and \$179 million International Airport bond packages appropriated in the FY99 capital bill. The reduction is offset by proposed increases in the amounts of federal receipts, general funds, AIDEA corporate receipts, and International Airport Revenue Funds included in the FY00 capital budget.

The Governor's FY00 capital budget proposes to increase capital spending from general fund sources by approximately \$27.5 million (from FY99 \$85.4 million to FY00 \$112.9 million). As noted in previous sections of this overview, the Legislative Finance Division classifies revenue and expenditures from the proposed increase in the motor fuel tax as general funds. Of the proposed \$50.6 million appropriation to the Department of Transportation and Public Facilities for federal highway project match, \$26.7 million is predicated on proceeds of the increased motor fuel tax.

The proposed use of \$18.8 million in AIDEA corporate receipts for capitalization of the Municipal and Unincorporated Capital Matching Grant Funds and other capital projects is a noteworthy change from past capital budgets. Direct appropriation of this funding for capital projects and grants would preclude its use as a source of revenue to the general fund. The Legislature may wish to review this proposal in the context of significantly reduced forecasts of unrestricted general fund revenues for FY00.

Project details for federal highway projects are expected to change when the Statewide Transportation Improvement Program (STIP) has been completed and reviewed by the public.

1/28/99

Overview:

DOT

SFIN

FILE

Alaska Housing Finance Corp.

Analysts: Peter Block, San Francisco 415-765-5044, Pamela Berkowitz, San Francisco 415-765-5012

NEW RATING

CREDIT PROFILE

\$93.25 mil state cap proj bonds ser 1999A-1 and 1999A-2 dtd Dec 1, 1998 due Dec 1, 2005 AA-
 Sale date: Dec 2, 1998
 Investment banker: Merrill Lynch & Co

UPGRADED	TO	FROM
\$66.75 mil hsg dev bonds	AA-	A+
\$150 mil euro comm pap prog	A-1+	A-1
\$199.96 mil gen hsg purp bonds	AA-	A+
Issuer credit rtg	AA-	A+
\$33 mil govt purp bonds (Univ of Alaska) ser 1997A dtd Dec 3, 1997 due Dec 1, 2027	AA /A-1+	A+/A-1

OUTLOOK: STABLE

RATIONALE The ratings upgrade on Alaska Housing Finance Corp.'s (AHFC) debt largely reflects the corporation's strengthening relationship with the state legislature, which included the following statement in the legislation authorizing the state capital project bonds: "The legislature intends to ensure the prudent management of AHFC to protect its excellent rating by the nation's financial community and to preserve it as a valuable asset of the state." Standard & Poor's views this action as a clear commitment by the legislature to maintain the corporation's strength and health. In addition, the state's use of AHFC as part of a broader capital needs funding plan appears to be reasonable and affordable for the corporation. However, the rating continues to be limited by Alaska's highly concentrated, oil-based economy and lack of a long-term state financial and capital plan.

Credit strengths include:

- AHFC's central role as the provider of affordable housing for the state,
- A large and liquid unrestricted asset base available to absorb potential loan losses,
- An excellent earnings profile during times of Alaskan economic stability, and
- Strong management.

Risks continue to include the mortgage loan portfolio's high-risk profile and a GO pledge to all debt obligations, many of which mature beyond current forecasts of significant oil production and revenues to the state.

Proceeds of the state capital project bonds will be used to finance various housing and nonhousing-related state capital projects. The state will not reimburse AHFC for payment on the bonds because debt service is considered a payment in lieu of cash transfers to the state's general fund.

OUTLOOK

The outlook reflects AHFC's financial and managerial strength and the expectation that asset transfers and capital expenditures for the state will remain at affordable and predictable levels.

FINANCES

In fiscal 1998, AHFC earned about \$95 million on assets of \$4.4 billion for a 2.2% return on assets. AHFC's mortgage loan portfolio has declined 20% since 1993 because the state's economy has stabilized and now accounts for 47% of the total asset base. Mortgage loan characteristics continue to be higher risk with most (58%) uninsured and vulnerable to defaults from the state's potentially volatile economy. However, AHFC's strong capitalization partially mitigates this risk. The corporation continues to maintain 25% of its assets in the general fund, restricting between 55% and 65% of its total assets as collateral for mortgage revenue bonds. The investment position accounts for a large percent of assets based on AHFC's need to remain liquid. At June 30, 1998, AHFC had nearly \$700 million of investments in the general account, of which about \$680 million was invested short term.

FINANCING PLAN

The state of Alaska recently enacted legislation authorizing AHFC to spend \$721 million over seven years to fund deferred maintenance and construction for housing, schools, and harbors throughout the state. The legislation was enacted by the state in response to identification of more than \$1.5 billion in deferred maintenance needs. Alaska has historically funded its capital budget on a pay-as-you-go basis from unrestricted general fund revenues, 80% of which is derived from oil-related activity in the state.

The law minimally obligates AHFC to issue \$224 million of state capital project bonds and annually cash fund a capital budget. The state legislature will appropriate corporation funds for the capital budget based on AHFC's earnings, which are available in excess of debt service on the bonds. The corporation's total outlays will be capped at AHFC's total net income from the preceding fiscal year.

AHFC management projects that \$103 million of earnings will be available on an annual basis to pay debt service on the bonds and fund the capital budget. Standard & Poor's expects that the corporation's total annual outlays will not exceed the targeted \$103 million amount despite a provision in the law that allows for legislative appropriation of additional amounts. Standard & Poor's opinion in this regard is based on precedent involving a net income-based transfer agreement that previously existed between AHFC and the state commissioner of revenues. The state fully complied with the terms of the nonbinding agreement, which required the corporation to annually pay \$103 million to the state—split between a \$50 million general fund transfer and a \$53 million capital budget. **SPD**

The city currently borrows about \$16.5 million a year on infrastructure upkeep, such as street paving and bridge improvements.

The goal of using cash to fully fund those needs will start being realized next year, when Minneapolis will trim its borrowing by nearly \$1 million. The cash portion of the capital budget is expected to increase by \$900,000 each subsequent year.

It will also decrease the amount it bor-

retired to achieve that goal. The city isn't planning to accelerate its debt-service payments.

Once the transition to cash financing is complete, the city expects to save about \$5 million in interest annually. Those savings would be invested back into infrastructure.

Mayor Sharon Sayles Belton included a 3% hike in the city's property tax levy in her \$842 million 1999 budget proposal in order to raise the needed

vice and Standard & Poor's rate the city triple-A.

"Their debt level is high but manageable, so this would strengthen them further because it will reduce the growth of that burden," said Dianne Golub, vice president at Moody's.

Nearly 25% of the city's budget is earmarked for costs associated with debt service on \$819 million of outstanding general obligation bonds, although much of it relies on various dedicated revenue

used with the outstanding bonds by speaking to their scarcity," said Elizabeth Howell, senior portfolio manager of the Delaware-Voyageur Funds.

The city wrapped up its bonding for 1998 with an \$80 million transaction last month that refinanced capital appreciation bonds issued in 1993 to fund improvements to the city's sewer system. The deal also included a new-money portion to pay for a new downtown parking ramp. □

S&P Views Alaska Housing Agency's Ties With State Worthy of Upgrade

By Michael B. Marois

SAN FRANCISCO — For the third time in three months, Standard & Poor's has raised its debt rating on a housing agency in the Western U.S.

On Friday, Standard & Poor's elevated its underlying rating on the Alaska Housing Finance Corp. to AA-minus from A-plus, affecting \$66 million of housing development bonds, \$199.96 million of GO bonds, and \$33 million of government purpose bonds.

Standard & Poor's also assigned the AA-minus rating to the AHFC's upcoming \$93.25 million state capital project bonds, the first series of debt by the corporation under an agreement with the state legislature to use AHFC bonding authority to pay for state public works projects.

Standard & Poor's said the AHFC upgrade largely reflects the corporation's strengthening relationship with the state legislature, saying language in the legislation authorizing the corporation's new bonds is a clear commitment by the legislature to maintain AHFC's health.

In particular, Standard & Poor's cited with approval the following statement in the legislation: "The legislature intends to ensure the prudent management of AHFC to protect its excellent rating by the nation's financial community and to preserve it as a valuable asset of the state."

"The Alaska agency was always strong traditionally," said Thomas J. Sheridan, a director with the rating agency. "But to come out and make a statement about

tion, and that has to be recognized," said Dan Fauscke, AHFC's executive director.

Earlier this year, state lawmakers enacted legislation authorizing AHFC to



The state Legislature "is trying to protect the credit strength of the corporation," says Alaska Housing's Dan Fauscke.

protecting the rating signals to us that the legislature does understand our concerns."

The rating agency said the state's use of AHFC as part of a broader capital needs funding plan appears to be reasonable and affordable. But, the rating continues to be limited by Alaska's oil-based economy and lack of a longer term state financial and capital plan.

"Here we have a legislature that has acknowledged properly that it is trying to protect the credit strength of the corpora-

tion, and that has to be recognized," said Dan Fauscke, AHFC's executive director. Earlier this year, state lawmakers enacted legislation authorizing AHFC to spend \$721 million over seven years to fund deferred maintenance and construction for housing, schools, and harbors throughout the state.

Alaska has historically funded its capital budget on a pay-as-you-go basis from its general fund, 80% of which is earned from oil-related activity in the state. But with \$1.5 billion worth of deferred maintenance, lawmakers have been looking for new ways to come up with the capital.

The law requires AHFC to issue \$224 million of state capital-project bonds and to cash fund a capital budget annually. The debt is secured and paid from the corporation's unrestricted assets.

The state will not reimburse AHFC for payment on the bonds, since debt ser-

vice is considered a payment in lieu of annual cash transfers AHFC makes to the state's general fund.

The upgrade marks the third state housing agency issuer credit rating that Standard & Poor's has put into the double-A category in as many months.

In September and October, Standard & Poor's upgraded the Utah Housing Finance Agency and the California Housing Finance Agency's issuer credit ratings, respectively, to AA-minus from A-plus.

The AHFC was the first housing finance agency which Standard & Poor's assigned an issuer credit rating, in October 1992. Since then, Standard & Poor's has assigned issuer credit ratings to 19 housing finance agencies, six in this year alone.

Standard & Poor's said in a recent analysis of housing finance agencies that the issuers are showing improved financial strengths that have positive, near-term and long-term rating consequences if current trends continue.

In particular, single-A rating agencies, which tend to be newer than the double-A credits, are increasing their asset bases and improving their fund balances quicker than double-A rating agencies.

"We are coming of age," said Cleon Butterfield, treasurer of the Utah housing agency. □

Legislative Briefing

**Department of Transportation
and Public Facilities**



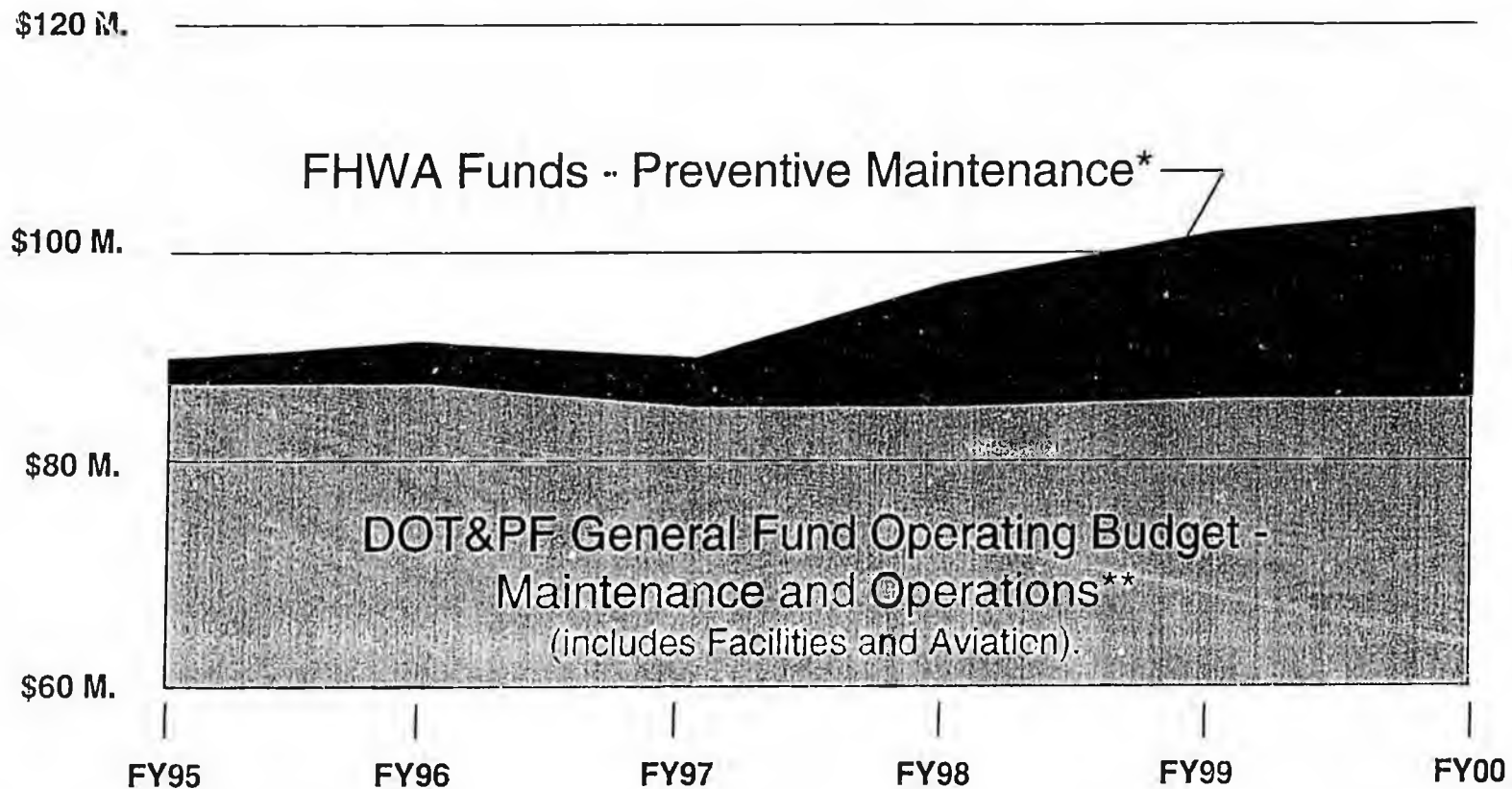
January 28, 1999

DOT&PF Legislative Briefing

January 1999

- 1. Introductions / General Overview**
- 2. State of DOT&PF**
- 3. Response to Smaller Budgets**
- 4. Federal Funding – TEA-21**
- 5. STIP Process Overview**
- 6. National Highway System**
- 7. State Pavement Program**
- 8. Alaska Marine Highway System**
- 9. DOT&PF Regional Plans**
- 10. Federal Aviation Administration (FAA) Airport Improvement Program (AIP)**
- 11. AIP Program Development Process**
- 12. Federal Funding for the AIP**
- 13. Overview of Airport Development**
- 14. Alaska International Airport System**
- 15. Gateway Alaska**
- 16. Harbors**
- 17. Alaska Railroad Corporation**
- 18. Legislative Issues**
- 19. Summary**

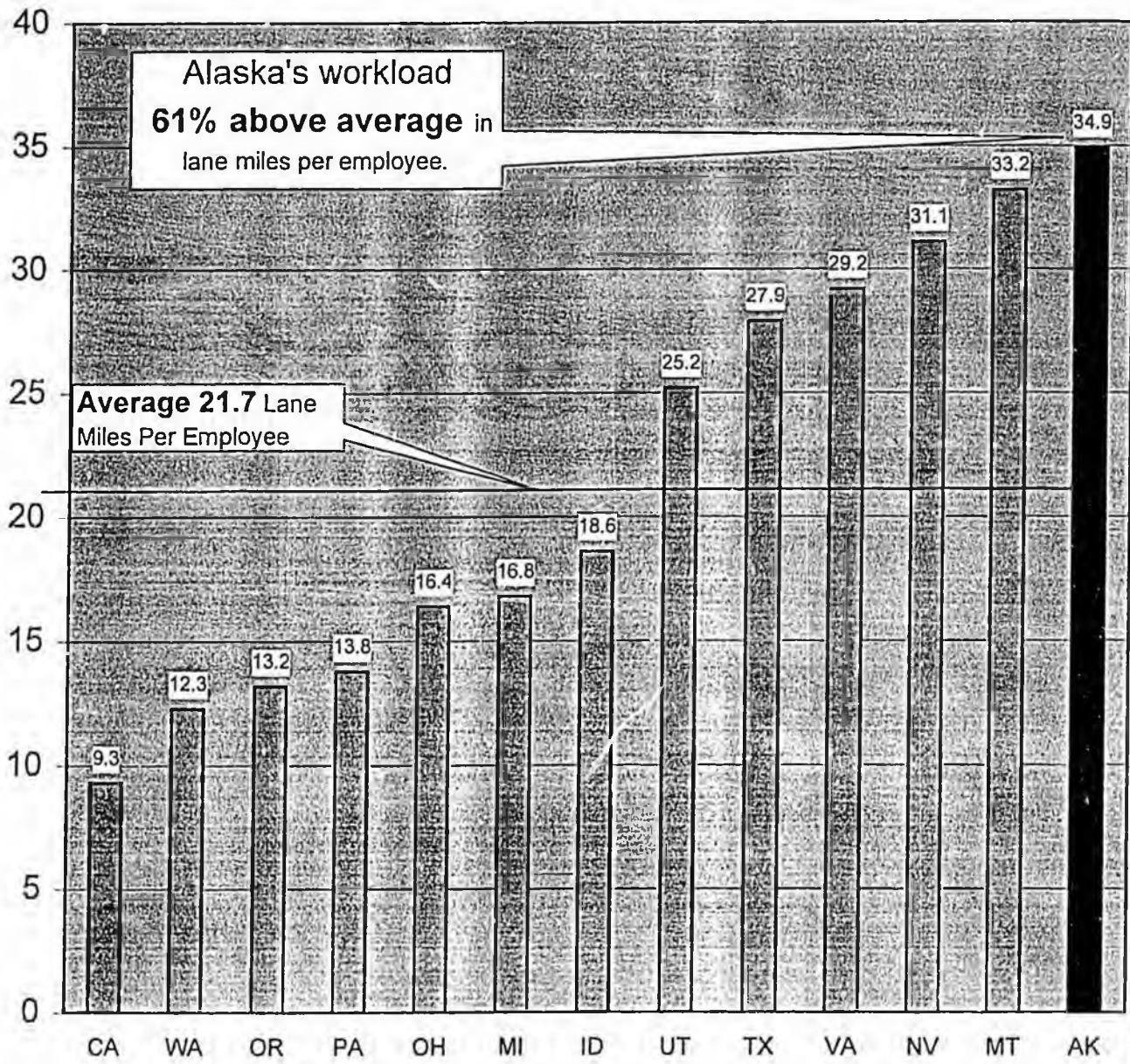
Sources and Levels of Maintenance Funding



* Preventive maintenance includes: Chip sealing, pavement markings, crack sealing, bridge repair (summer work).

** These funds are nearly exclusively spent on items ineligible for FHWA preventive maintenance, such as: winter maintenance, lighting and traffic operations, and other ineligible work.

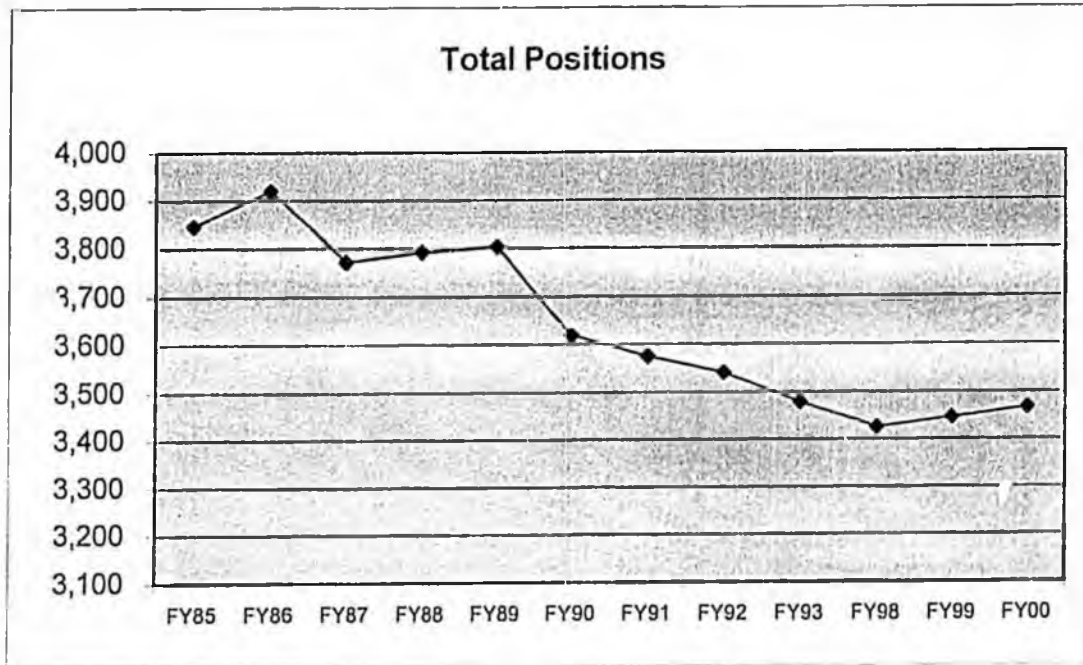
State of Alaska Comparison Lane Miles Per Field Employee



Notes:

1. Data Source: 1993 Washington State, *Maintenance, Management, and Administration Evaluation Report* using survey respondents and the *1993 Highway Statistics*, Federal Highway Administration data.
2. **1993 average** of these 13 reporting states is **21.7 lane miles per employee**.
3. The equivalent lane miles of the 261 airports managed by the State of Alaska are included in this data.
4. Employees are represented in FTE (Full Time Equivalents).

DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES AUTHORIZED POSITIONS



	<u>FY85</u>	<u>FY2000</u>	<u>% Change</u>
Administration	264	220	-16.7%
Program Development	144	81	-43.8%
Design & Construction*	1,450	932	-35.7%
State Equipment Fleet	169	187	10.7%
Maintenance & Operations	732	665	-9.2%
International Airports	326	420	28.8%
Alaska Marine Highway	761	894	17.5%
Measurement Standards		68	
Total	3,846	3,467	-9.9%

* Professional Engineers and Architects

Classification	Budgeted Positions
Engineer/Architect I	52
Engineer/Architect II	32
Engineer/Architect III	33
Engineer/Architect IV	18
Engineer/Architect V	7
Technical Engineer I/Architect I	21
Technical Engineer II/Architect II	15
Total	178

TEA-2I: The Big Picture

- **Philosophically like ISTEA**
- **National funding levels tied to gas tax receipts**
- **94% of authorized highway funding “guaranteed”**
- **Nearly all states receive more funding**
- **More Discretionary program funding**
- **More Congressionally designated projects**

TEA-21 Available Funding		1999	2000
		(firm)	(projected)
Regular Program			
	Obligation Formula Limit	188.6	220.0
	Minimum Guarantee	65.4	68.0
	Exempt Minimum Guarantee	20.9	22.0
	August Adjustment	5.1	5.0
	Total Federal (90% Fed)	280.0	315.0
	AK Ferryboat (AK/NJ/WA) (80%) ¹	10.0	10.0
	AK/HI Ferryboat (FTA) (80%) ¹	10.0	10.0
	Ferryboat Discretionary (80%) ¹	0.0	8.2
	Public Lands Discretionary (100%) ²	10.0	16.4
	Bridge Discretionary (80%) ³	0.0	27.3
	HP Project/Demos (80%)	10.3	12.4
	Alaska Shakwak (100%) ⁴	25.5	31.6
	Scenic Byways Discretionary (80%)	0.3	0.3
	National Corridor Preservation Grant (90%)	0.0	10.9
	Coordinated Border Infrastructure Grant (90%)	1.4	0.0
	Intelligent Transportation System (80%)	1.5	2.0
	Total Federal Funding	349.0	444.1
	State Match	46.5	50.6
	State Match Appropriated ⁵	44.0	0.0
	Total Federal Plus Match	395.5	494.7

¹Restricted to AMHS ferry and terminal projects

²FFY 1999 includes \$3.9K for Kenai project earmark

³FFY2001 includes Ketchikan Gravina Island Bridge funding

⁴Restricted to Haines Highway and Southeast Ferries

⁵Assumes flexibility in moving match funding.

Estimates of State and Federal Gasoline Taxes as of July 1998

(cents per gallon)

State	State Excise ^a	Other State Taxes ^b	Total State Taxes	Total Federal & State Taxes ^c
Alabama	16.0	3.4	19.4	37.8
Alaska	8.0		8.0	26.4
Arizona	18.0	1.0	19.0	37.4
Arkansas	18.5	0.2	18.7	37.1
California	18.0	9.2	27.2	45.6
Colorado	22.0		22.0	40.4
Connecticut	32.0	3.1	35.1	53.5
Delaware	23.0		23.0	41.4
Dist. of Columbia	20.0		20.0	38.4
Florida	13.0	15.1	28.1	46.5
Georgia	7.5	3.4	10.9	29.3
Hawaii	16.0	20.4	36.4	54.8
Idaho	25.0		25.0	43.4
Illinois	19.0	5.2	24.2	42.6
Indiana	15.0	3.6	18.6	37.0
Iowa	20.0	1.0	21.0	39.4
Kansas	18.0	1.0	19.0	37.4
Kentucky	15.0	1.4	16.4	34.8
Louisiana	20.0		20.0	38.4
Maine	19.0		19.0	37.4
Maryland	23.5		23.5	41.9
Massachusetts	21.5		21.5	39.9
Michigan	19.0	6.1	25.1	43.5
Minnesota	20.0	2.0	22.0	40.4
Mississippi	18.0	2.4	20.4	38.8
Missouri	17.0		17.0	35.4
Montana	27.0	0.8	27.8	46.2
Nebraska	23.5	0.9	24.4	42.8
Nevada	23.0	10.0	33.0	51.4
New Hampshire	18.0	1.7	19.7	38.1
New Jersey	10.5	4.0	14.5	32.9
New Mexico	17.0	1.0	18.0	36.4
New York	8.0	22.4	30.4	48.8
North Carolina	21.6	0.3	21.9	40.3
North Dakota	20.0		20.0	38.4
Ohio	22.0		22.0	40.4
Oklahoma	16.0	1.0	17.0	35.4
Oregon	24.0		24.0	42.4
Pennsylvania	12.0	14.3	26.3	44.7
Rhode Island	28.0	1.0	29.0	47.4
South Carolina	16.0	0.8	16.8	35.2
South Dakota	21.0	2.0	23.0	41.4
Tennessee	20.0	1.4	21.4	39.8
Texas	20.0		20.0	38.4
Utah	24.0	0.5	24.5	42.9
Vermont	19.0	1.0	20.0	38.4
Virginia	17.5	0.7	18.2	36.6
Washington	23.0		23.0	41.4
West Virginia	20.5	4.9	25.4	43.8
Wisconsin	25.4	3.0	28.4	46.8
Wyoming	13.0	1.0	14.0	32.4
U.S. Average^d	17.8	4.8	22.6	41.0

^a State excise taxes represent rates effective as of July 1998.

^b Largely excludes local taxes which are estimated to average approximately 2 cents per gallon nationwide. However, some local county taxes in Alabama, California, Florida, Hawaii, Nevada, New York, and Virginia are included. Includes state sales taxes, gross receipts taxes, and underground storage tank taxes. State sales taxes, expressed in cents per gallon, are based on selected city average retail gasoline prices as of April 1998. See notes to tax tables for individual states.

^c Includes 18.4 cents per gallon federal excise tax and volume-weighted average U.S. total state taxes.

^d Represents the average of state tax rates multiplied by state gasoline consumption records.

Sources: API Field Operations Issues Support, "State Gasoline and Diesel Excise Taxes, July 1998," the Federal Highway Administration, "Monthly Motor Fuel Reported by States"; and the U.S. Energy Information Administration, "Motor Gasoline Watch." and "On-Highway Diesel Retail Prices."

High Priority Projects - Cash Flow Plan With Adjustment for Reduced Spending Authority

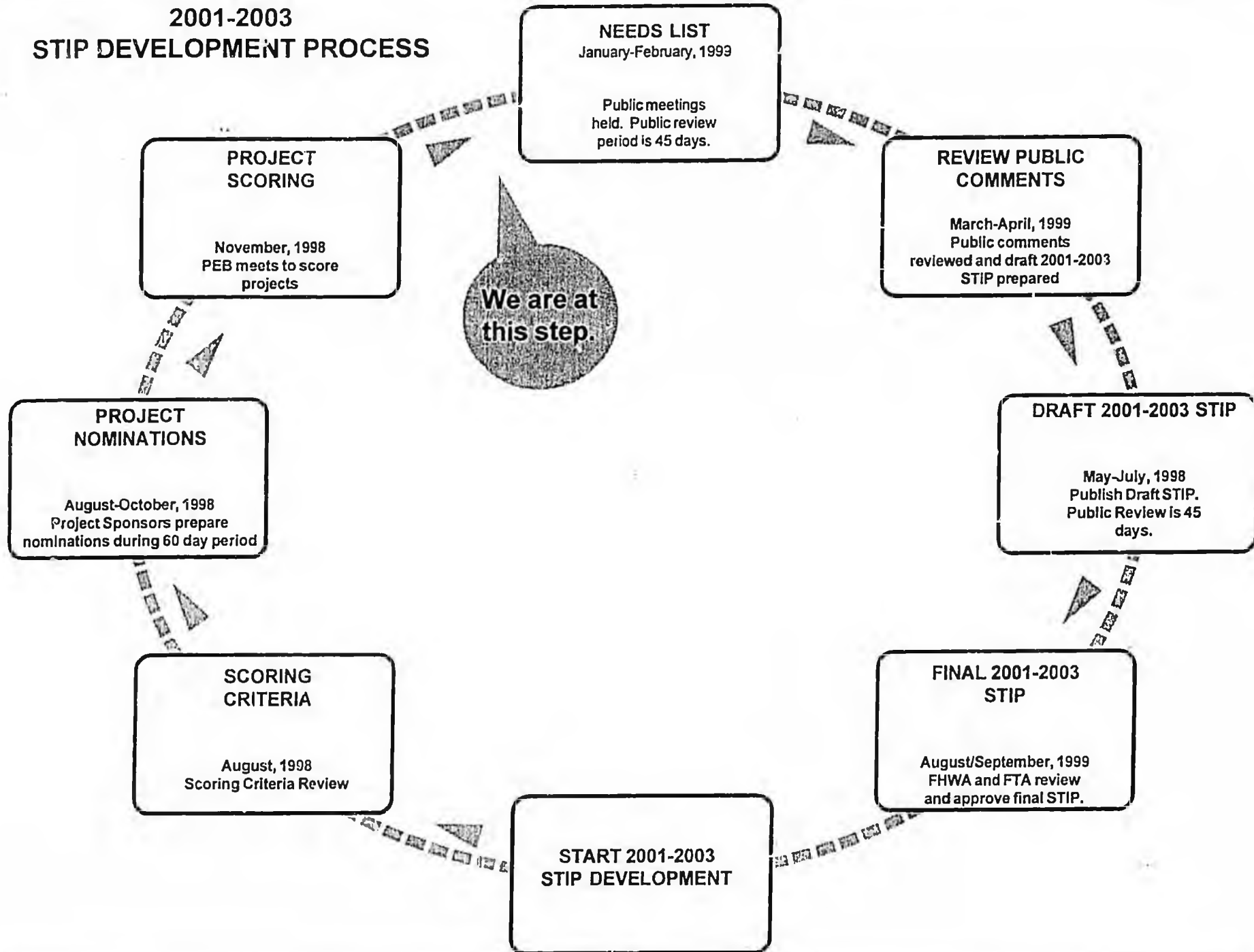
(Excludes Local or State Match of 20%)

Project Name	Auth. Federal Totals	FY '99	FY '00	FY '01	FY '02	FY '03	Spending Auth. Totals
		88.6%	88.0%	88.0%	88.0%	86.0%	
Soldotna - Spruce Ck. Bridge	262.5	-	-	-	231.0	-	231.0
Seward AMHS Intermodal Freight and Passenger Facility	4,500.0	1,027.3	960.1	1,980.0	-	-	3,967.4
Kotzebue Roads	1,762.5	-	-	220.0	1,331.0	-	1,551.0
Pt. MacKenzie Intermodal Facility	6,750.0	4,653.5	1,320.0	-	-	-	5,973.5
Coffman Cove Ferry	2,250.0	-	-	1,980.0	-	-	1,980.0
Dalton Highway Improvements	3,750.0	3,323.9	-	-	-	-	3,323.9
Kenai Spur Road Extension	6,000.0	-	-	440.0	440.0	4,400.0	5,280.0
West Douglas Highway Extension	2,475.0	219.4	1,960.2	-	-	-	2,179.6
Gravina Island Bridge	15,000.0	2,396.6	-	2,057.0	9,515.7	4,037.7	18,007.0
Gravina Island Bridge	5,443.0	-	-	-	-	-	-
NW Railroad Access	2,500.0	265.9	1,056.0	-	-	880.0	2,201.9
North Denali Access Route	1,500.0	-	-	-	-	1,320.0	1,320.0
Prince of Wales Island Marine	750.0	664.8	-	-	-	-	664.8
AMHS Ketchikan Ferry Terminal Facilities	2,250.0	886.4	1,100.0	-	-	-	1,986.4
Ketchikan Dry Dock Improvements	750.0	664.8	-	-	-	-	664.8
Ship Creek Route	11,943.0	1,772.8	4,515.3	4,234.6	-	-	10,522.6
Bradfield Canal Road	1,000.0	-	-	-	-	880.0	880.0
	68,886.0	15,875.4	10,911.6	10,911.6	11,517.7	11,517.7	60,733.9
							60,733.9

The funding amounts in these cells have been discounted by difference between authorized amounts in TEA-21 and actual spending authority provided by Congress.

DOT&PF as Project Sponsor will provide match funds.
 Local or Other Sponsor provides match funds.

2001-2003 STIP DEVELOPMENT PROCESS



AMHS Project Evaluation Criteria

Standards	Scoring Criteria				
	(5)	(3)	(0)	(-3)	(-5)
<p>1. Economic benefits following construction.</p> <p>Weighting: 3</p>	Significant economic benefits; endorsed as an economic development project by local, borough or state government.	Expanded capacity or new access specifically built to support regional or local industrial, commercial or resource development	Provides minimal, speculative or temporary economic opportunities or benefits or provides non-crucial benefit to existing economic activity.	N/A	N/A
<p>2. Health and quality of life</p> <p>Weighting: 3</p>	Project's primary objective is passenger public health.	Project's secondary objective is passenger public health.	Project's objective is not public health.	N/A	N/A
<p>3. Safety.</p> <p>Weighting: 5</p>	Project's primary objective is passenger safety.	Project's secondary objective is passenger safety.	Project's objective is not safety.	N/A	N/A
<p>4. Improves intermodal transportation or lessens redundant facilities.</p> <p>Weighting: 3</p>	Greatly improves the connection between modes and coordination and integration of passenger and freight systems and services and/or would clearly reduce the need for significant capital investment in another mode.	Moderately improves the connection between modes and enhances coordination and integration of passenger and freight systems and/or would clearly reduce the need for moderate capital investment in another mode.	Minimal or no affect on transportation system connectivity, or coordination and integration of passenger and freight systems and services and does not change the requirement for investment in other modes.	Moderately decreases the connection between modes or decreases coordination and integration of passenger and freight systems and/or would clearly require the need for moderate capital investment in another mode.	Greatly decreases the connection between modes or decreases coordination and integration of passenger and freight systems and/or would clearly require the need for significant capital investment in another mode.
<p>5. Local, other agency or user contribution to fund capital costs.</p> <p>Weighting: 2</p>	Contribution of state match, design, right-of-way, and/or materials totals 25% or more of project cost.	Contribution of state match, design, right-of-way, and/or materials: 1 point per each 5% of project cost.	No contribution.	N/A	N/A

AMHS Criteria (continued)

Standards	Scoring Criteria				
	(5)	(3)	(0)	(-3)	(-5)
<p>11. Would improvements reduce M&O costs; address M&O priority?</p> <p>Weighting: 5</p>	<p>Yes, M&O priority a major reason for project; significant M&O cost reduction; or local organization will assume full maintenance.</p>	<p>Yes, M&O priority a partial reason for project; moderate M&O cost reduction; or local organization will assume partial maintenance.</p>	<p>Not an M&O priority negligible positive or negative affect on M&O costs.</p>	<p>New facility or vessel; would increase M&O costs moderately; no assumption of maintenance by local organization.</p>	<p>New facility or vessel; would increase M&O costs significantly; no assumption of maintenance by local organization.</p>
<p>12. What is current utilization factor of the terminal or service?</p> <p>Weighting: 3</p>	<p>Volume/capacity ratio or traffic volume in top third of eligible projects.</p>	<p>Volume/capacity ratio or traffic volume in middle third of eligible projects.</p>	<p>Volume/capacity ratio or traffic volume in bottom third of eligible projects.</p>	<p>New facility or service. No established traffic volume. Traffic projections support project.</p>	<p>New facility or service. No established traffic volume. Traffic projections do not support project.</p>
<p>13. Is the project required to comply with regulatory requirements?</p> <p>Weighting: 5</p>	<p>Yes.</p>	<p>N/A</p>	<p>No.</p>	<p>N/A</p>	<p>N/A</p>
<p>14. Other factors not specified.</p> <p>Weighting: 2</p>	<p>Project exhibits significant innovation, creativity or unique benefits not otherwise rated.</p>	<p>Project exhibits moderate innovation, creativity or unique benefits not otherwise rated.</p>	<p>Project exhibits no innovation, creativity or unique benefits not otherwise rated.</p>	<p>N/A</p>	<p>N/A</p>

Total Weight = 47

Remote Roads and Trails Criteria (continued)

Standards	Scoring Criteria				
	(5)	(3)	(0)	(-3)	(-5)
5. Local, other agency or user contribution to fund capital costs. Weighting: 2	Contribution of state match, design, right-of-way, and/or materials totals 25% or more of project cost.	Contribution of state match, design, right-of-way, and/or materials: 1 point per each 5% of project cost.	Contribution covers no capital costs; contributes nothing.	N/A	N/A
6. Local, other agency or user contribution to fund M&O costs. (For non-DOT or DOT unsuited to long-term ownership). Commitment must be in writing before points will be assigned. Weighting: 5	Sponsor will assume ownership if currently a DOT&PF facility; or sponsor will assume ownership of another DOT&PF facility of similar M&O cost.	Sponsor will assume full M&O responsibility; or sponsor will assume full M&O of another DOT&PF facility of similar M&O cost.	Sponsor contributes nothing. Continued sponsor ownership & operation of locally-owned facility = 1 pt.; And results in significant local maintenance savings = 2 pts.	N/A	N/A
7. Departmental M&O priority (Use for DOT&PF facilities.) Weighting: 5	Very high M&O priority.	Moderate M&O priority.	Not an M&O priority.	Not an M&O priority; would increase M&O costs moderately.	Not and M&O priority; would increase M&O costs significantly.
8. Public support. Weighting: 3	Preponderance of public record including a resolution from the local elected body shows support for project and fully supported in official state/local plans.	Majority of public record shows support for project; and nominally supported in official state/local plans.	Public record is divided or undocumented toward project	Majority of public record shows opposition to project; and not supported in official state/local plans.	Preponderance of public record shows opposition to project including a resolution from the local elected body and contravenes official state/local plans.
9. Environmental approval readiness Weighting: 2	Environmental approval likely with Categorical Exclusion or already complete.	Environmental approval likely with Environmental Assessment or draft documents circulated.	Environmental approval likely with Environmental Impact Statement.	Environmental approval extremely difficult 50/50 chance.	Environmental approval unlikely.

Rural and Urban Streets and Roads Project Evaluation Criteria

(on the Contiguous or AMHS System but Not on the NHS)

Standards	Scoring Criteria				
	(5)	(3)	(0)	(-3)	(-5)
<p>1. Economic benefits following construction.</p> <p>Weighting: 2</p>	Supports significant new, identifiable, permanent economic opportunities or benefits of statewide or interstate scope.	Supports moderate new, identifiable, permanent economic opportunities or benefits of regional or local scope.	Supports minimal, speculative or temporary economic opportunities or benefits or provides non-crucial benefit to existing economic activity.	N/A	N/A
<p>2. Health and quality of life (Air and water quality, neighborhood continuity, access to basic necessities)</p> <p>Weighting: 1</p>	This project provides a significant contribution to improved health or quality of life, or reduces or removes a significant existing negative factor.	This project provides a moderate contribution to improved health or quality of life, or reduces or removes an existing negative factor.	Project will have no affect either positive or negative on quality of life issues.	This project provides a moderate degradation to health or quality of life.	This project provides a significant degradation to health or quality of life.
<p>3. Safety.</p> <p>Weighting: 5</p>	HSIP priority = 5 60% - 80% = 4 80% - 100% = 5	5% - 20% = 1 20% - 40% = 2 40% - 60% = 3	Less than 5% of project addresses safety.	N/A	N/A
<p>4. Improves intermodal transportation or lessens redundant facilities.</p> <p>Weighting: 2</p>	Would clearly reduce the need for capital investment in another mode and result in a reduction in operating costs by reducing redundancy in our system or greatly improves the connection between modes for travelers or freight.	May reduce the need for capital investment in another mode and result in a reduction in operating costs by reducing redundancy in our system or would moderately improve the connection between modes for travelers or freight.	Does not impact other mode requirements.	May increase demand on another mode possibly requiring additional capital expenditure.	Will increase demand on another mode requiring additional capital expenditure.
<p>5. Local, other agency or user contribution to fund capital costs.</p> <p>Weighting: 4</p>	Contribution of state match, design, right-of-way, and/or materials: no point limit - 1 pt per each 5% of project cost.	Contribution of state match, design, right-of-way, and/or materials: 1 point per each 5% of project cost.	Contribution covers no capital costs; contributes nothing.	N/A	N/A

* This category may also be used to score roads of a similar character not on the contiguous system such as Nome-Council.