

SENATE FINANCE COMMITTEE  
March 4, 2015  
9:12 a.m.

[9:12:06 AM](#)

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 9:12 a.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair  
Senator Pete Kelly, Co-Chair  
Senator Peter Micciche, Vice-Chair  
Senator Click Bishop  
Senator Mike Dunleavy  
Senator Lyman Hoffman  
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Sheldon Fisher, Commissioner, Department of Administration;  
John Boucher, Deputy Commissioner, Department of Administration;  
Randall Hoffbeck, Commissioner, Department of Revenue;  
Dan DeBartolo, Director, Administrative Services Division, Department of Revenue;  
Jerry Burnett, Deputy Commissioner, Treasury Division, Department of Revenue;  
Doug Wooliver, Deputy Administrative Director, Alaska Court System.

SUMMARY

SB 27: APPROP: OPERATING BUDGET/LOANS/FUNDS

SB 27 was HEARD and HELD in committee for further consideration.

FY 16 BUDGET OVERVIEWS:

DEPARTMENT OF ADMINISTRATION

DEPARTMENT OF REVENUE  
ALASKA COURT SYSTEM

9:12:15 AM

#sb27

SENATE BILL NO. 27

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

9:13:18 AM

^OVERVIEW: FY 16 DEPARTMENT OF ADMINISTRATION

SHELDON FISHER, COMMISSIONER, DEPARTMENT OF ADMINISTRATION, stated that he would address the previously issued questions from Senator Dunleavy as he reviewed the presentation. He turned to Slide 2, "DOA Mission and Organization." The slide provided the mission of the department: to provide consistent and efficient support to state agencies so that they may better serve Alaskans. He stated that a portion of the departments' efforts were spent serving the public, and a material portion was spent serving other state agencies.

9:14:15 AM

Mr. Fisher moved to Slide 3, "DOA Services Across Alaska." He relayed that the department had a broad geographic reach across the state, driven primarily by the Division of Motor Vehicles, and somewhat by the Public Defenders Agency (PDA).

9:14:30 AM

Mr. Fisher moved to Slide 4, "DOA Services to the Public." He noted that the undesignated general funds (UGF) associated with each division was shown on the slide. He said that as part of the 2015 Management Plan the department had approximately \$88 million in UGF, \$50 million of which was associated with PDA and the Office of

Public Advocacy (OPA). He stated that those agencies had a constitutional mandate to provide certain services and were already stretched for resources. He furthered that both agencies had seen an increased workload over the past few years, which they had been managing with a flat budget; in the current budget exercise, substantial cuts had not been made in those agencies. He relayed that not cutting those agency budgets had resulted in disproportionate cuts spread across other agencies. He referred to the question as to whether the department should make cuts to PDA and OPA that corresponded with cuts that had been made to the Department of Law (DOL); internal discussions determined that it would be inappropriate to aggressively cut the departments at this time. He reiterated that the agencies had been administering their growing caseload with a flat budget, and added that as a result the backlog was growing. He warned that further cutting their budgets in FY 16 would lead to a greater cost to the state in term of ineffective assistance of counsel, and other challenges pertaining to court trials. He believed that funding for the two agencies needed to stay firmly intact.

[9:17:26 AM](#)

Co-Chair MacKinnon asked whether Alaskans could request a public defender, or was it determined by income.

Mr. Fisher replied that the court made the determination based on income level.

[9:18:20 AM](#)

Mr. Fisher noted that the Division of Motor Vehicles was funded entirely by program receipts. He continued that the Division of Retirement and Benefits was funded with a modest amount of UGF.

[9:18:45 AM](#)

Mr. Fisher moved to Slide 5, "DOA Services to the Public." He categorized the four agencies on the slide: Alaska Public Broadcasting Commission (APBC) & AIRRES Grants; Alaska Oil and Gas Conservation Commission (AOGCC); Violent Crimes Compensation Board (VCCB); Alaska Public Offices Commission (APOC), as quasi-independent agencies. He said that APBC was largely funded by UGF, but had no paid employees. He stated that AOGCC had no UGF in its budget

but was funded by receipts from the industry. He related that VCCB received a portion of federal funding, and some funding from the Permanent Fund Dividend (PFD) Felon Fund, but no UGF. He stated that APOC was mostly funded with UGF.

[9:19:47 AM](#)

Mr. Fisher continued to Slide 6, "DOA Services to State Agencies." He said that in the case of each agency, some UGF were used to subsidize and reduce the fee that would otherwise be charged to other agencies. He said that the Division of General Services (DGS) was responsible for administering leases, managing state owned buildings and the centralized portion of departmental purchasing. He continued with Enterprise Technology Services (ETS), which administered the centralized information technology (IT) functions for the state. He noted that the Division of Personnel and Labor Relations (DOPLR) managed the centralized human resources (HR) functions, as well as labor relations and contract bargaining. He spoke to the Department of Finance (DOF), which managed the statewide payroll system, financial audits, and various other systems of financial support.

[9:20:50 AM](#)

Mr. Fisher presented Slide 7, "DOA Services to State Agencies." He noted that the Division of Administrative Services (DAS) was consistent across agencies. The Division of Risk Management (DRM) administered the department's insurance policies and programs and was funded entirely from interagency transfers. He relayed that the budget for the Office of Administrative Hearings was largely inner-agency transfers, but included some GF.

[9:21:31 AM](#)

Mr. Fisher explained Slide 8, "DOA Budget by Division," which was a diagram that highlighted the DOA budget by division; the GF only, FY 15 Management Plan was charted in the thousands. He pointed out to the committee that of the \$88 million budget, \$49 million had been associated with PDA and OPA.

[9:22:00 AM](#)

Mr. Fisher presented Slide 9, "DOA Budget by Division," which organized by bar graph the percent of UGF changes in DOA divisions between the UGF FY2015 Management Plan and the FY2016 Governor Amended UGF totals. He noted that the budget for OPA and PDA had been held flat from year to year and costs had been spread across other divisions. He spoke of the request for information (RFI) that had been sent out by ETS with respect to maintenance and management of the State of Alaska Telecommunications System (SATS) and the Alaska Land Mobile Radio (ALMR) programs and the accepting of proposals. He stated that financial bids had not been sought for the RFI. He thought that combining the management of the two systems would improve efficiencies.

[9:23:16 AM](#)

Mr. Fisher continued to Slide 10, "DOA Budget Change by Division," which showed the DOA budget change by division and ranked by percentage from highest to lowest. He pointed out to the committee that GF for ETS, general services, and personnel labor relations had been reduced by over 20 percent.

[9:23:57 AM](#)

Mr. Fisher explained Slide 11, which contained a pie chart depicting the same percentages illustrated on Slide 10.

[9:24:14 AM](#)

Mr. Fisher showed slide 12, "DOA All Funding Sources," which contained a bar graph focused on fund sources. He spoke to the question of forecasting reductions associated with changes in other departments. He reiterated that a substantial percentage of DOA services related to services that were provided to other state agencies.

[9:25:15 AM](#)

Vice-Chair Micciche referred to Slide 10, and asked how Risk Management was funded.

Mr. Fisher explained that the departments that took advantage of the insurance Risk Management provided paid for the service through an interagency transfer.

Vice-Chair Micciche suggested that Risk Management was in a category by itself and was not charged through federal receipts.

Mr. Fisher stated that he was not aware of any federal receipts that applied to Risk Management. He continued that the department actively worked to reduce insurance premiums and cuts costs wherever possible.

[9:26:27 AM](#)

Mr. Fisher referred back to Slide 12, and the question of how the DOA budget interacted with other departmental budgets. He explained that as other departments shrank, their need for space reduced as well. He shared that when this occurred, the department would attempt to reorganize and move other groups into the space in order to maximize the benefit, while recognizing that sometimes the leases that the department entered into might be multi-year leases that limited flexibility within the fiscal year.

[9:27:38 AM](#)

Mr. Fisher moved to Slide 13, "Position Changes By Division," which showed the headcount reductions contemplated by the amended budget. He spoke to the question of how to think about a vacancy factor. He related that vacancy factors were typical; if there were 100 position control numbers (PCN), and a vacancy factor of 5 percent were applied, the budget would only need to reflect funding for 95 PCNs. He said accompanying the vacancy factor was the need to recognize that there would be some attrition throughout the year. The positions would need to be filled slowly in order to achieve the vacancy factor.

[9:28:39 AM](#)

Senator Dunleavy asked if the department had budgeted for PCNs at 95 or 100 percent.

Mr. Fisher shared that OMB had mandated certain vacancy factors do every department, which varied by the size of the organization. He stressed that cutting a vacant PCN had an effect due to the way that the vacancy factor was applied.

[9:29:40 AM](#)

Senator Dunleavy restated the question.

Mr. Fisher replied that in his example he had budget for 95 percent. He said that the actual vacancy factor varied depending on the size of the organization.

[9:30:07 AM](#)

Co-Chair MacKinnon referred to the negative PCN changes on Slide 13, she asked whether the number represented people or positions.

Mr. Fisher replied that it varied throughout the chart. He said that if there was not a note written into the far right-hand column for the division, then the position was vacant. He observed that the majority of the 15 positions reduced positions had been vacant. He felt that the impact was real when the vacancy factor was applied.

Co-Chair MacKinnon said that the state required other communities to perform a termination study to understand the impact of reducing either positions, or people. She asked whether reducing positions would affect the state's ability to meet its obligations under the retirement system formula and whether the administration would support elimination of the termination studies. She queried the state's responsibility, as compared to the responsibility of municipalities, of the debt within the state's retirement system, and whether the reductions would impact future calculations on termination studies of local communities.

Mr. Fisher responded that when agencies or political subdivisions eliminated an entire class, a termination study was required. He said that the cuts that had been made to date would not implicate the need for a termination study by the state. He thought that it was unlikely that there would be a requirement that the department perform a termination study. He furthered that the elimination of termination studies was under consideration and an approach was being sought that would eliminate the need for the studies while protecting the system. He felt that the administration recognized that termination studies had, at times, gotten in the way of good business decisions at the municipal level, and that a balance between rational decision making and the sustainability of the system needed to be struck.

[9:34:17 AM](#)

Co-Chair MacKinnon reiterated her question pertaining to the responsibility of local municipalities for the overall debt of the retirement system.

JOHN BOUCHER, DEPUTY COMMISSIONER, DEPARTMENT OF ADMINISTRATION, explained that the breakdown was roughly 60/40. He said that it varied from year to year because it was allocated on the payroll at the time; as the payroll shifted the number could change.

Co-Chair MacKinnon wondered whether payment was being shifted onto smaller communities. She asked for further explanation regarding the elimination of job classes triggering a termination study.

Mr. Fisher understood that an entire job classification had to be eliminated before a termination study was required.

Mr. Boucher added that it was unusual to require termination studies for job classes with minimal positions.

[9:36:52 AM](#)

Mr. Fisher moved to Slide 14, which showed that the department had no FY 16 capital budget requests. He shared that the department had \$3 million in deferred maintenance in the Public Building Fund.

[9:37:28 AM](#)

Co-Chair MacKinnon asked for an update on the Integration Resource Information System (IRIS) project, and whether it was on schedule.

Mr. Fisher stated that the current projection was that the project would go live in July of 2015. He said that the project was on target.

Co-Chair MacKinnon asked whether simulated models were being run in expectation of Medicaid expansion.

Mr. Fisher explained that he was very cognizant failed implementations that had happened in the past. He assured the committee that extensive testing and modeling was

underway. He expressed optimism that the project would be smoothly executed.

[9:39:28 AM](#)

Mr. Fisher explained slide 15, "Core Initiatives and Challenges":

**Personnel Costs Savings**

- Wage Negotiations - remain competitive and balanced
- Improve employee productivity

Mr. Fisher asserted that having a motivated, engaged, effective workforce was a critical asset to the state.

Co-Chair Kelly said that he had heard complaints that the business community had experienced trouble retaining employees because everyone wanted a state job. He thought that perhaps the state was too competitive and was paying employees more than the market preferred.

Mr. Fisher intuited that the state started by paying employees below the market average, but had a steeper growth in the outer years, which resulted in above market wages in some cases. He thought that the numbers varied depending on the class of employee; highly skilled people were paid below market. He felt that it was important to be fair to the state and to employees.

Co-Chair Kelly shared that when he worked for the university he saw employees leaving not for the private sector, but for other governmental agencies. He felt that the private sector was having difficulty keeping up with the wages that the state could offer employees.

[9:43:21 AM](#)

Vice-Chair Micciche asked if there was a plan for re-evaluating the continuous COLA increase.

Commissioner Fisher stated that DOA was continuing to examine all of the pay structures in order to assess where the state was compared to the market.

Vice-Chair Micciche noted that there did not seem to be a salary cap for state employees at the higher pay levels.

Commissioner Fisher thought that the issue could be examined.

Vice-Chair Micciche asked about the results of a recently completed salary study.

Commissioner Fisher relayed that the last salary study occurred in 2009. He said he would share the findings with the committee.

[9:45:39 AM](#)

Commissioner Fisher returned to Slide 15:

**Reduction of Unfunded Liability**

- Health Care Spend - continue to bend the cost curve

**Procurement Savings** - Lower costs for what we already buy

- IRIS - updated core statewide administrative systems

**Information Technology (IT)** - Improved services and cost

**Improve Facility Management**

- Utilization of Space - better use our space

Commissioner Fisher spoke to the Unfair Labor Practice that had been filed against the state with respect to the implementation of Universal Space Standards. He said that a number of space standards had been implemented, but work had paused because the administration needed to determine what the government would look like moving forward and did not want to spend money on spaces that would have to be rebuilt in the future. He said that the pause had provided the opportunity to review the situation with the bargaining unit that had filed the claim, which questioned whether the state was even achieving cost savings, and the administration had agreed to examine the dozen completed projects in order to determine any achieved cost savings. He added that he had received grievances from other commissioners and was attempting to address those concerns. He asserted that in a world where the state had a bottom line, saving on space was necessary.

[9:48:26 AM](#)

AT EASE

[9:49:16 AM](#)

RECONVENED

Senator Dunleavy asked about consolidation of insurance plans and whether the administration had looked at the cost savings of consolidating teacher health care plans.

Commissioner Fisher replied that the Hay Group had done an estimate in 2013, and the results had indicated a range of potential savings of \$22 million to \$33 million. He understood that the savings were largely driven by a difference between the employee contributions made in the teacher plans, versus what the state applied. He stated that some school districts had managed effectively and efficiently, and to move to a state plan would increase the costs to those districts. He added that for other districts the move could reduce costs. He said that the administration would be supportive of any political subdivision that found it beneficial to function under Alaska Care.

[9:51:15 AM](#)

Senator Dunleavy asked what role the teacher bargaining unit played in collecting premiums, and were the premiums remitted to the provider or maintained within the financial accounts of the bargaining unit.

Commissioner Fisher understood that the bargaining unit collected the premiums, which stayed within the health trust.

[9:51:41 AM](#)

Vice-Chair Micciche referred to Slide 4. He queried the \$2.3 million UGF expense for retirement and benefits stating that, the UGF cost for managing pension funds should be zero; generally revenue charged the retirement system for costs.

Commissioner Fisher explained that the number related largely to two closed retirement systems that had the need for ongoing support, and was not related to PERS and TRS. He added that a modest amount of those funds was associated with actuarial studies that could be required to support

legislation and other things that could not be charges to the trust.

[9:52:55 AM](#)

Co-Chair MacKinnon asked how many retirees were being managed in the closed plans.

Commissioner Fisher replied that he would get back to the committee on the numbers.

Co-Chair MacKinnon considered that if the number were under 100, \$2 million seemed exorbanent.

Commissioner Fisher thought that the \$2 million was for management and a portion of the benefits that the retirees revived.

[9:53:44 AM](#)

AT EASE

[9:54:19 AM](#)

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[9:54:28 AM](#)

Co-Chair Kelly noted that the department had received a list of questions from Senator Dunleavy's office for subcommittee purposes. He said that the responses would be distributed to member's offices.

[9:54:50 AM](#)

Senator Dunleavy asked when the answers could be expected. Commissioner Fisher thought within the next week.

[9:55:17 AM](#)

AT EASE

[9:57:00 AM](#)

RECONVENED

^OVERVIEW: FY 16 DEPARTMENT OF REVENUE

[9:57:25 AM](#)

Co-Chair Kelly requested, for the purpose of time, that the organizational and philosophy slides be skipped

[9:58:07 AM](#)

RANDALL HOFFBECK, COMMISSIONER, DEPARTMENT OF REVENUE, briefly overviewed Slide 2:

**Alaska Department of Revenue**

The Department of Revenue mission is to collect, distribute and invest funds for public purposes

**Programs, Authorities, and Corporations**

Tax Division

Treasury Division

Permanent Fund Dividend Division

Child Support Services Division

Alaska Housing Finance Corporation

Alaska Permanent Fund Corporation

Alaska Mental Health Trust Authority

Alaska Municipal Bond Bank Authority

Commissioner Hoffbeck related that the department also oversaw: unclaimed property, investments, cash management, debt management, administrative services, criminal investigation unit, and the film office.

[9:58:31 AM](#)

Commissioner Hoffbeck moved to Slide 3, "Major Department Accomplishments in 2014":

**Collections and Enforcement**

Over 98% of known taxpayers filed and paid their taxes on time

The Tax Division is currently in phase 2 of a 3-phase Tax Revenue Management System (TRMS). This is an integrated system for all taxpayers to use for filing and paying their taxes online. It is scheduled to be fully implemented in early 2016.

For every dollar spent on the program, the Child Support Division collects \$3.88.

Despite challenges in retaining and training qualified staff, and a growing caseload, the percentage of child support cases with orders increased to the target goal of 93.5%.

The Criminal Investigations Unit referred a Department-high 39 Child Support cases for prosecution. This is up from 35 in FY 13, and 21 in FY 12.

CIU received 570 PFD Fraud Tips resulting in the closing of 451 investigations. Of these, 14 cases were referred for prosecution to OSPA. Results -1 conviction in Federal Court and 13 convictions in State Court. These created \$119,544.97 in restitution orders.

[10:00:32 AM](#)

Senator Hoffman asked if there was a reward program for Permanent Fund Dividend (PFD) fraud tips.

DAN DEBARTOLO, DIRECTOR, ADMINISTRATIVE SERVICES DIVISION, DEPARTMENT OF REVENUE, replied that there was not an incentive reward program for fraud tips.

Senator Hoffman asked whether the department had considered the benefits of a reward program.

Mr. DeBartolo replied no.

[10:01:33 AM](#)

Senator Dunleavy asked whether \$119,544.97 was the actual amount collected.

Commissioner Hoffbeck replied that the figure represented the restitution order and not the actual amount collected. He said he would get back to the committee on the amount collected.

[10:02:05 AM](#)

Commissioner Hoffbeck moved to Slide 4, "Major Department Accomplishments in 2014":

**Funds Distribution**

The PFD Division exceeded the goal of reviewing 85% of FY 14 (2013 dividend year) eligibility cases by 12%. 97.2% of all Eligibility cases were reviewed by September 15th, 2013.

In FY 14, PFDD paid \$571,390,469.85 to eligible Alaskans (Dividend amount -\$900)

In FY 14 the Bond Bank issued four series of bonds representing \$178.5 million of par-amount and \$191.4 million of project funding in Alaska. The Bond Bank's participation in these projects saved Alaskans an estimated \$14.5 million of financing costs they would have otherwise had to pay.

[10:03:23 AM](#)

Senator Dunleavy asked whether the Bond Bank could handle financing for mega-projects in the state.

Commissioner Hoffbeck noted that the significant expertise within the Bond Bank offered some promise. He thought that more capacity would be needed for a mega-project. He added that the statutory limits on the Bond Bank would need to be reviewed.

[10:04:06 AM](#)

Co-Chair Kelly handed the gavel to Co-Chair MacKinnon.

[10:04:13 AM](#)

Commissioner Hoffbeck related that recently the state had received an AAA rating from the rating agency. He moved to Slide 5, "Major Department Accomplishments in 2014":

#### **Investments and Cash**

Increased the value of the funds invested by the Treasury to \$52.1 Billion

18%+ returns for ARMB assets

Increased retention and credentials (CFA designation) of investment staff

The FY 14 returns for 33 out of 36 funds managed by Treasury met or exceeded the benchmark returns.

PERS and TRS funds returned 18.55% and 18.56% respectively as compared to 12.50% and 12.59% in FY 13.

DOR ACH Contract Savings of 82% over the prior contract, resulting in estimated annual savings of more than \$300,000 for the state.

[10:05:11 AM](#)

Co-Chair MacKinnon asked whether the return for ARMB was independent of the \$1 billion cash infusion.

Commissioner Hoffbeck replied that it was independent of the infusion.

[10:05:54 AM](#)

Mr. DeBartolo presented Slide 6, "FY 2016 Key Budget Changes Overview":

**Department UGF**

FY 15 Management Plan - \$33,831.4  
FY 16 Governor's Amended - \$30,882.0  
Change - (\$2,950.4)

**Department DGF**

FY 15 Management Plan - \$9,761.2  
FY 16 Governor's Amended - \$10,323.4  
Change - \$562.2

**Other**

FY 15 Management Plan - \$254,827.9  
FY 16 Governor's Amended - \$283,178.7  
Change - \$28,350.8

**Positions**

FY 15 Management Plan - 934  
FY 16 Governor's Amended - 924  
Change - (10)

**Capital Summary**

FY 15 Management Plan - \$87,670.1  
FY 16 Governor's Amended - \$60,991.4

Change - (26,678.7)

Mr. DeBartolo said that the increase in designated general funds (DGF) was represented by a fund change primarily from unclaimed property. The remainder of the shifted funds were for PFD salary increases. He noted that the greatest increase under "other" largely represented investment fees. He shared that 16 positions had been eliminated overall, all of which were located in non-corporation areas of the department, with the Tax Division being hardest hit with 11 positions eliminated. He related that there had been 6 positions added to the Treasury Division for two investment officers, totaling \$300,000. He revealed that for every one dollar spent on in-house investment officers, three dollars in management fees could be saved. He stated that the treasury director had done a study on the savings that could be made available. He relayed that any new capital requests would be coming through Alaska Housing Finance Corporation (AHFC).

[10:08:53 AM](#)

Senator Bishop stated that he would like to see the study.

[10:09:13 AM](#)

Mr. DeBartolo moved to Slide 7, FY2016 Key Agency Budget Changes":

<u>Agency</u>	<u>Key Detail Change</u>
<b>Treasury</b>	Delete 1 IT position (\$140.8), add 2 Investment officers -\$300.0, and increase ARMB investment and custody fees -\$18,200.0. Reallocate Unclaimed Property UGF funding portion to DGF.
<b>Tax</b>	Eliminate Film Office -3 positions (\$346.7), and delete 8 additional tax positions (\$913.1). Transfer in 5 CIU positions.
<b>Child Support</b>	Close Wasilla and Juneau leased spaces, and reduce personal services authority (\$156.2). Transfer in 3 CIU positions.

**PFD** Transfer in 2 CIU positions. No DGF reductions.

**ASD** Eliminate 1 IT position.

**Criminal**

**Investigations** Delete investigator position (\$87.0), and transfer out 10 investigators to their originating divisions to reduce admin costs.

**Commissioner's Office**

Delete Legislative Liaison position.

[10:12:01 AM](#)

Senator Dunleavy understood that there had been no budget reduction associated with the deletion of the Legislative Liaison position.

Mr. DeBartolo replied in the affirmative. He added that, historically, the department had found that there was unbudgeted funding that had to be collected during the year in order to meet the budget for both Administrative Services and the Commissioner's Office. He said that in the case of the Legislative Liaison the position was being eliminated in the hope that the department would need to request less money from other agencies in the out years.

[10:12:35 AM](#)

Co-Chair MacKinnon handed gavel back to Co-Chair Kelly.

[10:13:05 AM](#)

Co-Chair MacKinnon referred to Slide 3. She said that Commissioner Hoffbeck had detailed the great work by the department's investigative units. She asserted that the commissioner had said that the units were going to be kept together structurally, but budgetarily separated because they needed better management oversight.

Commissioner Hoffbeck responded that the units would stay physically located together in order to continue to work as a team. He said that they had been put back in their budget units for administrative purposes, and to avoid having a separate administrative overhead. He added that there would

be no change structurally in their operations, but changes in paperwork and money flow.

Co-Chair MacKinnon said that it appeared in the budget that DOR was taking cuts that were actually just transfers of money that would be added back into the budget.

Commissioner Hoffbeck replied that the positions themselves were put back into the budget units, but that the administration would be absorbed within the divisions; additional funds would not be allocated.

Co-Chair MacKinnon said that the thought from the past administration had been that the consolidation had helped investigators to rely on each other for feedback, which had produced the great results indicated on Slide 3.

[10:16:15 AM](#)

Mr. DeBartolo moved to Slide 8, "FY 2016 Key Agency Budget Changes":

<b>APFC</b>	Performance based salary increases - \$290.0. Add2 Investment officers - \$490.0, add 2 investment support positions -\$289.7, and increase investment fees -\$9,200.0.
<b>AHFC</b>	New UGF capital -\$17,891.4
<b>AMHTA</b>	Maintain Trust Authority administrative budget -\$3,426.7

[10:17:27 AM](#)

Senator Dunleavy asked whether the proposed increases were absolutely necessary for the coming year. He reminded the Commissioner of Revenue that the state was looking at a financial shortfall.

Commissioner Hoffbeck explained that the PFD Corporation had justified the requests before the budget subcommittee in the other body; they needed the additional staff in order to manage the growth of the fund. He deferred the question to the as it largely operated out of the control of the department.

JERRY BURNETT, DEPUTY COMMISSIONER, TREASURY DIVISION, DEPARTMENT OF REVENUE, explained that the AHFC capital request, although new, was significantly smaller than the request from the previous year.

[10:19:07 AM](#)

Co-Chair MacKinnon noted that the capital request for AHFC would be scrutinized in subcommittee. She furthered that they would be specifically be looking at the manner in which AHFC spent dividends.

[10:20:21 AM](#)

Senator Bishop spoke to the request for APFC. He understood that there was a \$3 to \$1 return on investment when the state used its own investment manager.

Mr. DeBartolo replied in the affirmative.

Senator Bishop suggested that the request could save the state money, and therefore might be considered revenue neutral.

[10:21:34 AM](#)

Co-Chair MacKinnon asked whether Commissioner Hoffbeck had any influence on management and expenditures of the APFC.

Commissioner Hoffbeck revealed that he sat as a trustee on the board where he offered direct input. He added that he had requested a meeting with the chief investment officer of the fund.

[10:22:31 AM](#)

Co-Chair MacKinnon asked about a budget reduction for unclaimed property. She referred to a bill that proposed to eliminate the film tax credit, and wondered about the request for the film office.

Co-Chair Kelly requested that the questions be taken up in sub-committee.

[10:23:52 AM](#)

AT EASE

[10:25:44 AM](#)

RECONVENED

^OVERVIEW: FY 16 ALASKA COURT SYSTEM

[10:25:56 AM](#)

DOUG WOOLIVER, DEPUTY ADMINISTRATIVE DIRECTOR, ALASKA COURT SYSTEM, referred to the presentation, "Senate Finance Committee, Alaska Court System Overview, Doug Wooliver, Deputy Administrative Director, March 4, 2015"(copy on file). He turned to Slide 2, "Mission Statement":

The mission of the Alaska Court System is to provide an accessible and impartial forum for the just resolution of all cases that come before it, and to decide such cases in accordance with the law, expeditiously and with integrity.

[10:26:45 AM](#)

Mr. Wooliver moved to Slide 3, "Criminal Jury Trials FY12 - FY14":

- Superior Court Felony Trials for FY14 are up 21% from FY12 Trial Totals and up 15% from FY13 Trial Totals
- District Court Misdemeanor Trials for FY14 are up 13% from FY12 Trial Totals and up 28% from FY13 Trial Totals

Mr. Wooliver opined that more cases were going to trial, which affected several areas of the court system.

[10:27:06 AM](#)

Mr. Wooliver continued to Slide 4, "Criminal Case Dispositions by Jury Trial - Fiscal Years 2009 to 2014", which contained a line graph that showed a 60 percent increase in overall trial rates.

[10:27:19 AM](#)

Mr. Wooliver moved to Slide 5, "Criminal Jury Trial Days - FY12 to FY14." He noted that the increase meant that everyone involved spent more days in trial. He pointed out that one aspect of the increased trial rate was a

subsequently increase in the appeal rate. He reiterated the increases impacted the system across the board, as well as the Department of Law.

[10:28:46 AM](#)

Senator Hoffman asked if Mr. Wooliver break down the information provided on slide 5 by region.

Mr. Wooliver replied in the affirmative. He added that Bethel was an areas hardest hit by high trial rates, particularly with jurors suffering from burnout.

Mr. Wooliver turned to Slide 6, "Jury Expenses FY10 - FY14." The slide illustrated that jury expenses had risen considerably over the past 4 years.

[10:29:38 AM](#)

Senator Dunleavy asked whether the upswing in cost had been the result of changes in the court process.

Mr. Wooliver replied that part of the increase from FY13 to FY14 in district court appeared to be related to plea changes. He noted that the increase had started before the policy change. He explained how plea changes could result in additional costs.

[10:31:38 AM](#)

Co-Chair Kelly asked whether the change had been a statutory change or a policy change within the administration.

Mr. Wooliver replied that it had been a policy change.

Co-Chair Kelly understood that the courts had not been involved in the policy change.

Mr. Wooliver replied yes.

[10:32:12 AM](#)

Co-Chair MacKinnon requested the information on Slide 6, broken down by region. She understood that the state had used the same jury selection process for many years.

Mr. Wooliver replied that there were several different ways to select a jury and that the courts had experimented with different approaches.

Co-Chair MacKinnon asserted that the jury selection methods should be reviewed and ascertained for efficiency.

Mr. Wooliver agreed to provide Co-Chair MacKinnon with the various method of jury selection that were used in the state.

[10:33:26 AM](#)

Senator Hoffman asked whether daily jury fees had remained the same for many years.

[10:33:48 AM](#)

Mr. Wooliver moved to Slide 7, "FY16 Operating Budget Increments":

Facility Operations and Maintenance Expenses - \$179.2  
Jury Trial Expenses - \$275.0  
Security Screening - \$320.0  
Computer Replacements - \$100.0  
Data Exchanges with Department of Corrections - \$150.0

[10:34:36 AM](#)

Mr. Wooliver continued to Slide 8, "FY 16 Operating Budget":

Annual Budget Development Process Commences in August  
FY16 Budget Approved by Supreme Court in October 2014  
- Prior to the Severe Decline in Oil Prices  
FY16 Operating Budget Increment Requests Withdrawn  
and Base Budget Reduced

Mr. Wooliver explained that the department understood that, due to the drop in the price of oil, the budget requests would need to be reviewed.

[10:35:05 AM](#)

Mr. Wooliver moved to Slide 9, "Breakdown of FY15 Funding (GF)":

Personal Services Costs - 76%  
Travel Costs - 1%  
Services - 20%  
Supplies/Commodities -3%

Mr. Wooliver assured the committee that the amended budget reflected cuts in each category.

[10:35:34 AM](#)

Mr. Wooliver moved to Slide 10, "FY 16 'Governor's Amended' Budget", which showed what the original budget had been, and how the department had arrived at the amended budget. He shared that there were a number of proposed cuts; the increment requests had been dropped, and mandatory leave without pay (LWOP) would be instituted for all court employees. He added that some positions would be left vacant; beginning in April 2015, the courts would implement a hiring freeze - if a position became vacant it would be refilled only with a waiver from the administrative director. He assured the committee that to the greatest extent possible, vacant positions would not be filled. He stated that in addition to the mandatory LWOP, employees would be allowed to take additional LWOP. He relayed that spending cuts would occur in the area of supplies and computers, and travel expenses would be reduced. He added that the majority of travel costs were associated with flying and housing jurors, and judges flying across the state to cover various court proceedings. He shared that some Therapeutic Court treatment facility contracts had been renegotiated that had resulted in a savings of \$75 thousand.

[10:38:09 AM](#)

Co-Chair MacKinnon asked whether there had been a cost analysis run on allowing employees additional LWOP. She wondered whether employees would be bumping against their cap, which could result in them cashing out leave at a high rate.

Mr. Wooliver replied that he would get back to the committee with the information.

[10:39:37 AM](#)

Senator Dunleavy asked what Savings through Attrition meant on Slide 10.

Mr. Wooliver clarified that Savings through Attrition pertained to employees that had left the court system.

Senator Dunleavy asked whether a drop in caseloads was expected.

Mr. Wooliver replied no. He explained that the courts would have just as much work, but that the budget could not be cut without scrutiny of personnel. He added that the cuts would prove to have a have negative impact over the years.

Senator Dunleavy asked how the figure for the voluntary reduction of hours was determined.

Mr. Wooliver said that the figure was an estimate based on the number of employees who had asked about the option.

[10:41:08 AM](#)

Senator Dunleavy asked about the reduction associated with unpaid days.

Mr. Wooliver replied that the personnel costs associated with the 4 days of leave would result in all courts being closed for 2 of the 4 days.

Senator Dunleavy understood that only the personnel costs would be reduced.

Mr. Wooliver replied in the affirmative.

[10:41:46 AM](#)

Senator Olson referred to action in the other body that reduced approximately \$530,000 in the area of Youth Courts. He asked whether the reduction could result in unintended negative consequences due to cost shifting.

Mr. Wooliver noted that some of the cases in question were diverted from the regular court that would otherwise have come in as delinquency cases. He said that if Youth Courts did not have the funding to operating then those cases would come back to the regular courts. He asserted that the court system supported the Youth Courts.

[10:43:00 AM](#)

Mr. Wooliver contended that many of the proposed cuts were not sustainable; the court could not leave positions empty forever, stop buying computers, or stop training judges. He stated that the cuts were meant to be short-term in order to meet the current fiscal climate. He revealed that the e-filing project that was expected to be implemented in July 2015, was anticipated to garner significant long-term savings. He relayed that the e-filing project was expected to result in the courts operating on a smaller budget in the future.

[10:43:57 AM](#)

Senator Bishop wondered whether there was a chart available that showed the percentage of cases that went to trial.

Mr. Wooliver agreed to provide the information to the committee.

[10:44:46 AM](#)

Senator Dunleavy queried the ratio of civil versus criminal cases.

Mr. Wooliver estimated criminal cases comprised 29 percent of cases. He said he could provide a chart of the information at a later date.

[10:45:22 AM](#)

SB 27 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

[10:45:33 AM](#)

The meeting was adjourned at 10:45 a.m.