Representative Scott Jiu Wo Kawasaki

Alaska State Legislature District 1 Fairbanks

February 21, 2017

SUBCOMMITTEE MEETINGS:

The House Finance Budget Subcommittee for the Department of Military and Veterans' Affairs held six meetings with the Department during the review of the FY18 budget request.

The Subcommittee discussed a variety of issues during the meetings, including the effectiveness of meeting program missions and the cuts to date for the following divisions and programs: Alaska Military Youth Academy, Office of Veterans' Affairs, Air and Army National Guard, Alaska State Defense Force, Office of the Commissioner, Homeland Security & Emergency Management and Local Emergency Planning Committee.

Subcommittee members include Chair Kawasaki, Rep. LeDoux, Rep. Parish, Rep. Rauscher, Rep. Reinbold, Rep. Saddler, Rep. Spohnholz and Rep. Tuck.

RECOMMENDATIONS:

The Chair of the House Finance Budget Subcommittee for the Department of Military and Veterans' Affairs recommends that the House Finance Committee accept the Governor's FY18 Amended Budget with further amendments:

The budget without subcommittee amendment totals:

Fund Source: (dollars are in thousands)

Unrestricted General Funds (UGF)	$16,560.3
Designated General Funds (DGF)	28.4
Other Funds	10,180.6
Federal Funds	30,995.1
Total	**$57,764.4**

The FY18 budget with recommended subcommittee amendment totals:

Fund Source: (dollars are in thousands)

Unrestricted General Funds (UGF)	$16,349.4
Designated General Funds (DGF)	28.4
Other Funds	10,180.6
Federal Funds	30,995.1
Total	**$57,553.5**

The Unrestricted General Fund (UGF) difference from FY15 Management Plan to FY18 Governor Amended Budget is an approximate reduction of $7.6 million, a decrease of 31.5 percent. From FY17 Management Plan, the FY18 Governor Amended Budget reflects a UGF increase of $311.6, an increase of 1.9 percent.

Positions:

Permanent Full-time	269
Permanent Part-time	2
Temporary	1
Total	**272**

The following budget amendment proposals are submitted by the subcommittee chair to the House Finance Committee for consideration:

1. Eliminate $210.9 Increment Request for Rural Engagement Initiative in the Office of the Commissioner allocation. Due to current budget deficit, the subcommittee does not wish to expand or create new programs at this time.

   This amendment proposal received a vote of 6 yeas and 1 nay.

   Subcommittee Discussion
   While the Department affirmed that failure to fund this request in FY18 would not preclude the ability to fund it in future fiscal years, the Department cautioned the level of emergency preparedness statewide may not be at the level aimed for in the future, citing the need for a centralized response force trained and ready for service. In response to this proposal, the Department cited future statewide expansion of the Alaska State Defense Force (ASDF) could become more difficult without an abiding active state militia, less presence in smaller communities and fewer local veterans and individuals available to serve.

   Members expressed strong support for the ASDF and the mission of the proposed Rural Engagement Initiative, with concerns that more increments may be requested each year after the first may be funded. The opponent to this amendment proposal considered ASDF to be one of the most cost effective public safety programs in the State and expanding it could motivate more volunteers.

2. Insert Intent Language for the Alaska Military Youth Academy. It is the intent of the Legislature that the Department of Military and Veteran's Affairs develops a report to the Co-Chairs of the Finance committees and Legislative Finance Division by December 1, 2017, identifying funding options available to the Alaska Military Youth Academy to generate revenue. The report shall include recommendations and limitations for tuition and fee structures based on income levels of applicants' households, and how to incorporate those recommendations into Fiscal Year 2019 budget for the Department. The report shall

also include the impact of those recommendations on federal matching dollars and the Unrestricted General Fund budget.

This amendment proposal passed without objection.

Subcommittee Discussion
A member interpreted the intent language to be a two-step process: 1) If it is possible to obtain revenue through the Alaska Military Youth Academy (AMYA), and 2) whether or how the State should obtain revenue.

The Department acknowledged there are no specific prohibitions for AMYA to generate revenue. However, the U.S. Department of Defense Master Cooperative Agreement requires that for every dollar acquired by AMYA, $0.75 must be sent back to the federal government, leaving $0.25 of each dollar potentially available for the program. The Department views this intent language as encouragement to look for creative opportunities to generate more UGF funds for the program.

While AMYA does not receive private funding directly, a 501(c)(3) nonprofit administered independent from the State of Alaska takes donations from private entities to help support AMYA. The $0.75 federal/$0.25 state split does not apply to the nonprofit's funds.

Members were clear the purpose of this intent language is not to inhibit any of the operational or program structure of AMYA.

The following statutory recommendations are submitted to the House Finance Committee:

1. Amend AS 26.27 to provide statutory authority to the Alaska Aerospace Corporation to issue dividends to the State of Alaska. This change is necessary because the corporation stated intentions to provide dividends to the State in the future, but does not currently have the statutory authority to do so.

   This recommendation received a vote of 4 yeas and 3 nays.

   Subcommittee Discussion
   In an earlier subcommittee meeting, Alaska Aerospace Corporation (AAC) testified the State had invested $58.7 million UGF in AAC since its inception while AAC received $324 million in new outside revenue. Subcommittee members voiced concern the State had not seen a dividend issued from AAC as a return on investment, similar to how the State receives dividends from Alaska Industrial Development & Export Authority.

   A member voiced support of the proposal as a way to diversify the economy and bring revenue back to the State due to Alaska's strategic geographical location being attractive to AAC customers. The member viewed this proposal as a two-stage function: 1) To offer the potential authority to issue dividends to the State, and 2) consider under what conditions dividends may be best for the AAC business plan and the State's interests.

After hearing from AAC leadership, the same member agreed it may be too soon to provide dividend issuance authority so as not to risk losing customers. He echoed AAC in that the Legislature ought to give the AAC's Board of Directors an opportunity to consider what other options are available to pay the State.

AAC leadership said the corporation intends on repaying the State $37.3 million for operations and sustainment, while supporters of the proposal reiterated the recommended statute change may be needed in order to do so. Members echoed these concerns, both those in support and opposition of this proposal, and would consider the detailed concerns AAC provided in a memo dated February 16, 2017, while drafting potential legislation.

2. Move Alaska Aerospace Corporation from Title 26, the Department of Military and Veterans' Affairs, to Title 14, the Department of Commerce, Community and Economic Development. This change is important because several public corporations are housed in DCCED, including Alaska Energy Authority, Alaska Railroad, Alaska Gasline Development Corporation and the Alaska Industrial Development & Export Authority, several of which have bonding authority, issue dividends, can purchase land and have tangible assets. AAC was originally housed in DCCED until 2011 when moved by Executive Order 115.

   This recommendation received a vote of 4 yeas and 3 nays.

   Subcommittee Discussion
   Supporters of the recommendation wished to look more into the impact of this proposed statutory change. Opponents expressed moving AAC a second time in six years may create organizational structure interruptions.

   Some members believed housing AAC in DMVA is more appropriate given the customers of the corporation are primarily public military defense entities and private contractors that work with military entities. Members expressed the AAC leadership's military service is appropriate for its business interests. Some members were concerned about the recommendation's impact of the corporation's credibility to current and future customers.

   AAC provided a memo in response to this proposal, dated February 16, 2017, objecting to the proposal because AAC's primary customer is the Missile Defense Agency, a public entity under the U.S. Department of Defense. AAC expressed concern that the move between departments would be misconstrued by its primary customer that the State is no longer interested in their contracts.

OTHER INFORMATION:

1. An amendment proposal was offered that would have reduced $388.0 UGF from personal services in the Office of the Commissioner, an approximate 20 percent reduction from post-vacancy amount. The sponsor offered the proposal as flexibility to reduce UGF spending in the Office of the Commissioner.

   This proposal received a vote of 3 yeas and 3 nays.

   Subcommittee Discussion
   The Department said the $388.0 deletion would impact 46 PCNs that specialize in human resources, budget submissions, equipment procurement, internet technology and others that support 270 personnel across the state, including those who oversee the development and submission of its operating, capital and federal budget requests.

   The Department was confident the amendment would layoff staff and would not be able to meet the mission of human resources requirements or have sufficient resources to bill the federal government, procure equipment or provide other support needed to meet the Department's mission.

   Opponents voiced concern this proposal would harm the mission of the Department and the Department's service population.

2. An amendment proposal was offered that would have reduced $273.0 UGF from services in the Office of the Commissioner, a 15 percent reduction of services from the Governor's FY18 Amended Budget. The sponsor offered the amendment to scale back on recent years increases.

   This proposal received a vote of 3 yeas and 3 nays.

   Subcommittee Discussion
   The Department responded this 15 percent reduction would preclude acquisition of most, if not all new assets and supplies. The Department said certain costs could not be shifted to the federal government for reimbursement due to cooperative agreements, resulting in lower level of service to the Department's service population.

   In response to the sponsor, the Department said travel costs are incurred to serve Alaskans in remote populations within the state, not travel outside the state for conferences. This budget line also helps fund simple office supplies including toner for copiers.

ATTACHED REPORTS:

Transaction Detail – House Structure Amendments Recommended by Subcommittee
Transaction Allocation Summary – House Structure Amendments Recommended by Subcommittee

Respectfully submitted,

Representative Scott Kawasaki, Chair
House Finance Budget Subcommittee for the Department of Military and Veterans' Affairs