



**STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU**

**Questions and Answers:
Senate Finance – 3:00 PM – October, 27 2015**

Senators MacKinnon and Dunleavy:

Please provide information about the structure and framework of how the State will allow Alaskans, either as individuals or as corporations, to invest in the AKLNG project.

Department of Revenue (DOR) Response:

Individual participation in the project is a shared goal of the Legislature and the Administration. Lazard and the State finance team are analyzing a number of options for individual Alaskan residents, municipalities and regional corporations to participate alongside the State in the success of the AKLNG Project. Such options include, but are not necessarily limited to, a Permanent Fund dividend allocation option, a Permanent Fund Earnings Account investment (structured as equity, preferred equity or debt), and a private Alaska investment vehicle (owned by individual Alaska residents, municipalities and/or regional corporations) that could potentially participate alongside the State. Each of the options will be evaluated based on the feasibility of implementation (e.g., federal securities law (Securities Act of 1933) provides certain structural challenges for direct individual investors, which we are still examining) and how well they meet the objectives identified in SB 138. The final Lazard report will provide a more detailed assessment of the various options.

Senator MacKinnon:

Would DOR provide more information on personal services funding request? And, could Pat Pitney work with legislative finance on funding tax positions in the budget?

DOR Response:

The bill currently before the Alaska Legislature (HB3001, SB3001) includes supplemental budget requests from the Department of Natural Resources and the Department of Revenue. Both agencies are requesting FY16 supplemental appropriations for personal services that have been, and will continue to be used on the AKLNG project.

In the recent past, DNR's North Slope Gas Commercialization Office's (NSGCO) FY2016 included an additional \$4.2 million ask, about \$1.8 million of which was for an RSA to DOR for services being provided in support of the AKLNG Project, including personal services, contracts, and other expenses. In spring 2015, the NSGCO - AK LNG Budget was reduced, DNR did not receive its additional funding request, and the DOR did not receive any money to fund the work the Tax

Division is doing in support of the AKLNG Project. Without funding availability early in the fiscal year, the division could not procure temporary services.

For the Department of Revenue, these personal services include a high percentage of time for a deputy commissioner, two Audit Masters, and one Commercial Analyst. It also includes some time for three economists and three state investment officers. These positions were previously dedicated to work in the Tax and Treasury Divisions of the Department of Revenue. The amount of time dedicated to the AK LNG Project by the three Tax Division personnel is high due to the fiscal and commercial nature of the work. The repurposing of these Tax Division positions has impacted the Tax Division, primarily in two ways.

First, the positions that have been shifted to AKLNG constitute among the highest tenured professionals at the Tax Division, thereby primarily impacting the management staff and the ability to carry out large projects. With the Department's dual focus on AKLNG and Fiscal Sustainability, the Department's upper management staff has been spread very thin. The persons dedicated to AKLNG could have taken on some of that work. Second, the Tax Division does not have the option to just "not get work done," so the work that is being completed is being done with far fewer resources and on a slower timeline than it would if the Tax Division were fully staffed. This constraint on resources is unsustainable long-term as the Tax Division anticipates as heavy, if not heavier workloads in the future. Therefore, because several months have lapsed, we may be able to absorb the diminished resources in the current fiscal year. We will continue re-assessing the Tax Division staffing needs and may be requesting additional consideration in future budgets for these "lost positions."