

HOUSE FINANCE COMMITTEE
January 22, 2002
8:53 AM

TAPE HFC 02 - 7, Side A

CALL TO ORDER

Co-Chair Mulder called the House Finance Committee meeting to order at 8:53 AM.

MEMBERS PRESENT

Representative Eldon Mulder, Co-Chair
Representative Bill Williams, Co-Chair
Representative Eric Croft
Representative John Davies
Representative Richard Foster
Representative John Harris
Representative Bill Hudson
Representative Ken Lancaster
Representative Carl Moses

MEMBERS ABSENT

Representative Con Bunde, Vice-Chair
Representative Jim Whitaker

ALSO PRESENT

Kim Duke, Executive Director, Arctic Power;

PRESENT VIA TELECONFERENCE

Representative Gary Stevens; Jim Sykes, Oilwatch Alaska, Mat-Su; Pamela A. Miller, Anchorage; Deb Moore, Northern Environmental Center, Fairbanks; Mary Shields, Fairbanks; Todd Burnside, Fairbanks; Patricia Walsh, Fairbanks; Gary Newman, Fairbanks; Gary Newman, Fairbanks; Arthur Hussey, Fairbanks, Stacey Fritz, Fairbanks; Carolyn Kreners, Fairbanks; Debbie Miller, Fairbanks.

SUMMARY

HB 334 "An Act making appropriations for a grant to Arctic Power to promote the opening of the Arctic National Wildlife Refuge for oil and gas

exploration and development; and providing for an effective date."

HB 334 was REPORTED out of Committee with a "do pass" recommendation.

#hb334

HOUSE BILL NO. 334

"An Act making appropriations for a grant to Arctic Power to promote the opening of the Arctic National Wildlife Refuge for oil and gas exploration and development; and providing for an effective date."

KIM DUKE, EXECUTIVE DIRECTOR, ARCTIC POWER noted that the urgency of additional funding for Arctic Power stands from the extension of the campaign into 2002. The \$2 million dollar grant for 2001 was purposely expended through the year. There was an expectation of success, which was not realized. The campaign needs to be extended into the next three months. She acknowledged that the energy policy regarding the Arctic National Wildlife Refuge (ANWR) is controversial. Arctic Power plans to do an intense three-month campaign. They have swung another member of Congress: Georgia Democrat, Zell Miller. There are indications that the President will be addressing the issue in the State of the Union address on January 29. There have been other positive signs. The Chicago Tribune has changed their editorial stance in support of opening ANWR.

Representative John Davies asked for more information about the appropriation for union outreach. Ms. Duke explained that union outreach was one of the original categories in the grant. The item supported tours of union officials to the North Slope. There was also a contribution to an advertising campaign coordinated by the unions. The 5 percent administration fee goes to Arctic Power.

Co-Chair Mulder noted that private sector fund raising has been extensive and successful. Ms. Duke observed that they raised over \$175 thousand dollars from the private sector in the Anchorage area. She added that further funds of approximately \$600 thousand dollars were received from unions and industry for advertising.

Representative John Davies felt that industry should provide greater support, but observed that he would not offer an amendment to require a match by industry.

Representative Hudson noted that there is a 2006 sunset date. Ms. Duke clarified that the intent is to use the funds in the next three-months. She did not anticipate that funds would remain after that time.

Co-Chair Mulder pointed out that it is standard language with any capital appropriation.

Co-Chair Mulder provided members with a proposed committee substitute #22-LS1281\F, 1/18/02 (copy on file). Representative John Davies MOVED to ADOPT the proposed committee substitute, #22-LS1281\F. There being NO OBJECTION, it was so ordered.

JIM SYKES, OILWATCH ALASKA, MAT-SU testified via teleconference in opposition to HB 334. He felt that the legislation was not needed. He spoke to the financial ramifications of Arctic Refuge oil. If the Arctic Refuge were opened for drilling, almost two barrels of oil would have to be produced to earn the same amount of royalties the state now receives from one produced barrel. Senator Murkowski told the Palmer Chamber of Commerce, last Wednesday, that the maximum royalty the state could expect from Arctic Refuge oil is 50%, which translates to more than a 44% loss of revenue per barrel compared with oil produced on state lands.

The oil industry, along with federal and state governments, project another 30 years of oil development from lands West of the Arctic Refuge. Add in West Sak heavy oil, which the U.S. Energy Information Administration estimates has three to six billion barrels of potentially recoverable oil, and the estimate rises to 40 years. Additionally, 93% of North Slope's estimated natural gas reserves lie outside the Arctic Refuge.

Mr. Sykes observed that opening the Arctic Refuge would take away the state's leverage to prioritize oil development on state lands, including West Sak heavy oil and natural gas.

Mr. Sykes spoke to who could best support the effort: state of Alaska or industry. He pointed out that the published 2000 Annual reports from Exxon-Mobil, BP and Phillips taken together show a total net profit of \$33.7 billion dollars. When they become available, 2001 reports may have lower

figures, but Exxon-Mobil and BP are among the largest and most profitable Companies in the world. The Alaska Department of Revenue projects a total FY03 state income of \$6.36 billion dollars from all sources. Spending proposals for FY03 total \$7.3 billion dollars. The difference is roughly a billion dollar shortfall.

Mr. Sykes concluded that the legislation is unwarranted and pointed out that industry has billions of dollars for investment. He observed that the state is proposing salary freezes and reductions and emphasized the need to fund public safety, health, and education.

Mr. Sykes recommended revenue-raising measures, such as enactment of a windfall profit sharing tax. Presently, when oil prices rise, the state share decreases. He maintained that if the state and oil industry are truly partners, then rising profits should be split equally. If prices rose as they did from 1999 to 2000, it might mean an extra \$1.5 billion dollars to the state of Alaska, depending on how the tax details are structured. He added that corporate taxes could be equalized in a manner proposed by Representative Croft. Corporate rates would be lowered, but the special tax reduction for oil companies would be removed.

Mr. Sykes summarized that there is plenty of oil and gas available for at least two more generations outside of the Arctic Refuge and that there is no need to fund the appropriation to Arctic Power.

DEB MOORE, NORTHERN ALASKA ENVIRONMENTAL CENTER, FAIRBANKS testified via teleconference in opposition to HB 334. She pointed out that the state is facing a budget shortfall. She felt that it was inappropriate to spend money when half of the state did not support the opening of ANWR. She maintained that Arctic Power is lobbying and stressed that the appropriation raises the question under the Public Purpose Clause of the Alaska Constitution, that state money can only be used for a public purpose. A legal opinion in 1991, by the Attorney General cautioned that the legislature couldn't appropriate money for a partisan political purpose since they rarely qualify as a public purpose.

MARY SHIELDS, FAIRBANKS testified via teleconference in opposition to HB 334. She noted that past appropriations

have not resulted in achieving the goal [of opening ANWR]. She observed that the state funds 70 percent of the effort. She maintained that industry can pay its own way and stressed that the funds could be invested into the Permanent Fund or the Tourism Marketing Fund.

TODD BURNSIDE, FAIRBANKS testified via teleconference in opposition to HB 334. He observed that a third of Alaskans oppose opening ANWR. He maintained that the money is being gambled on a private interest.

PATRICIA WALSH, FAIRBANKS testified via teleconference in opposition. She noted that she is a tour operator. Bookings for 2002 are 40 percent below the past years. She requested that the funds be spent on the Alaska visitor industry. She maintained that public money should not be spent on Arctic power in the current fiscal climate.

ARTHUR HUSSEY, FAIRBANKS testified via teleconference in opposition to HB 334. He pointed out that the state would receive a greater rate of return on drilling on state lands. He recommended that equal funds be spent on non-consumptive, non-extractive uses of ANWR such as guiding, hunting and tourism. It is also questionable if the state should support a lobbying activity.

STACEY FRITZ, FAIRBANKS testified via teleconference in opposition. She maintained that the oil industry can afford their own lobbying and advertising. She stressed that ANWR belongs to all Alaskans and the whole nation, of which a majority oppose drilling. She questioned the legality of the appropriation.

CAROLYN KRENERS, FAIRBANKS testified via teleconference in opposition to HB 334. She maintained that Arctic Power is a private lobbying group that is not supported by a significant number of Alaskans. Public money should not be used for a special interest lobbying group. She maintained that authorization of an additional \$1 million dollars to Arctic Power is unconscionable.

DEBBIE MILLER, FAIRBANKS testified via teleconference in opposition. She noted that many Alaskans favor protection of ANWR. She stressed that the funds do not go to educational purposes and that the funds would be better spent on education in the state. She questioned the legality of the appropriation. She noted that the

appropriation might be in violation of the Alaska Procurement Code. The Attorney General's Office has expressed concerns in past years that grants to Arctic Power may be an attempt to avoid the procurement code in order to receive lobbying services without competition or public involvement. She noted that Arctic Power has received approximately \$10 thousand dollars a day for their effort to open ANWR. She added that the appropriation might also violate AS 37.05.321, which prohibits the legislature from influencing legislative action.

PAMELA A. MILLER, ANCHORAGE testified via teleconference in opposition to HB 334. She noted that there is a lack of accountability. She did not think that the appropriation reflected well on Alaska. She suggested that the funds be spent to provide spill prevention and response to assure adequate oversight. She questioned if funds are coming from the effort to provide support for the natural gas pipeline.

Ms. Miller expressed concern that there was insufficient time for the public to be aware of the meeting. Co-Chair Mulder pointed out that the meeting was advertised under statutory and uniform rule requirements.

Co-Chair Mulder explained that the majority of the funding is coming from a reappropriation for evaluation of the natural gas pipeline. The Administration has indicated that the funding for [evaluation of the gas pipeline] is not needed at this time and would be an appropriate redirection. He felt that Alaskans do support the legislation.

Representative John Davies MOVED to ADOPT Amendment 1. Co-Chair Mulder OBJECTED for the purpose of discussion. Representative John Davies explained that the amendment would appropriate \$100 thousand dollars to the city as Kaktovik. The city is impacted by the effort to open ANWR. Funding would also assist the city in the preparation of a video indicating their support for opening ANWR.

Co-Chair Mulder WITHDREW his OBJECTION.

Representative Hudson spoke in support of the amendment. He noted that Kaktovik is the community most affected by efforts to open ANWR and it is in the state's best interest to provide them assistance.

There being NO OBJECTION, Amendment 1 was adopted.

Representative Foster MOVED to report CSHB 334 (FIN) out of Committee. There being NO OBJECTION, it was so ordered.

HB 334 was REPORTED out of Committee with a "do pass" recommendation.

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ADJOURNMENT

The meeting was adjourned at 10:02 AM.