

MINUTES
SENATE FINANCE COMMITTEE
March 27, 2001
6:05 PM

TAPES

SFC-01 # 54, Side A
SFC 01 # 54, Side B

CALL TO ORDER

Co-Chair Pete Kelly convened the meeting at approximately 6:05 PM.

PRESENT

Senator Dave Donley, Co-Chair
Senator Pete Kelly, Co-Chair
Senator Lyda Green
Senator Gary Wilken
Senator Alan Austerman
Senator Lyman Hoffman
Senator Donald Olson

Also Attending: SENATOR JOHN TORGERSON; SENATOR GENE THERRIAULT;
PAT CARTER, Staff to Senator Drue Pearce; HUGH BROWN, Alaska
Conservation Voters; SUSAN SCHRADER, Alaska Conservation Voters;
CAROL CARROLL, Director, Division of Support Services, Department
of Natural Resources;

Attending via Teleconference: From Anchorage: TOM BRIGHMAN,
Director, Division of Statewide Planning, Department of
Transportation and Public Facilities

SUMMARY INFORMATION

SB 59-FEDERAL FUNDS TO MUNICIPALITIES FOR ROADS

The Committee heard from the sponsor and the Department of
Transportation and Public Facilities. An amendment was considered
but not adopted. The bill was held in Committee.

SB 4-MUNICIPAL PROPERTY TAX EXEMPTION

The Committee heard from the sponsor. A committee substitute was
adopted. Three amendments were considered and two were adopted. The

bill moved from Committee.

SB 136-RESOURCE DEVELOPMENT: BD./GRANTS/FUND

The Committee heard from the sponsor, the Alaska Conservation Voters and the Department of Natural Resources. The bill was held in Committee.

SB 59

CS FOR SENATE BILL NO. 59(CRA)

"An Act relating to awards of federal funds to municipalities for road projects; and providing for an effective date."

This was the first hearing for this bill in the Senate Finance Committee.

SENATOR JOHN TORGERSON noted that the subject of this legislation has been considered for several years. He explained this bill directs the Department of Transportation and Public Facilities to make \$20 million in federal funds available to municipalities that have "road powers" to address municipal road needs. He pointed out that the Senate Community and Regional Affairs committee substitute places a \$3 million limit as the maximum amount that could be allocated to any single municipality in a fiscal year. He stated that this is intended to prevent allocation of all the funds to only one community. He noted that the municipalities would provide matching funds, thus explaining the negative \$1.5 million fiscal note reflecting the amount of state funds required under the existing procedure. He added that this legislation also stipulates a priority for any state-owned roads being considered for a transfer to local ownership.

Senator Hoffman relayed that he was informed of the existing option for municipalities to receive this funding through a Memorandum of Agreement (MOA) through the Department of Transportation and Public Facilities. He asked why this legislation is therefore necessary.

Senator Torgerson replied that it is true that some projects were undertaken under the MOA program, but that they are done on a case-by-case basis, and not an annual appropriation. He stressed that the intent of this legislation is to make funds available each year to allow municipalities to plan projects.

Senator Hoffman also understood that the Department of Transportation and Public Facilities presently spends approximately \$40 million on locally owned roads.

Senator Torgerson responded, "I would be real surprised at that."
[Note: teleconference sound quality is poor.]

TOM BRIGHMAN, Director, Division of Statewide Planning, Department of Transportation and Public Facilities, testified off net via teleconference from Anchorage that the differences between the department and the legislature are not philosophical but rather practical. He shared that the department funds local projects in two different ways. He stated that the department has made a number of agreements with municipal governments over time, to allow the local governments to manage their own projects using federal funds. He pointed out that the department also manages and executes federal funded projects that improve local roads in addition to state-owned roads. He affirmed Senator Hoffman's statement that the department expends \$40 million to \$50 million annually on these kinds of projects.

Mr. Brigham asserted that the federal funds utilized for these projects are not grants. He pointed out that although the state may allocate funds to municipalities, the federal government still holds the department responsible for the project, and therefore, the department is still involved.

Mr. Brigham next stressed that the department does not "get money from the federal government that we then put in the bank and spend on other projects." He clarified that the state, or the local government must first provide the required matching funds, less a machinery reimbursement, for a specific project according to federal regulations.

Mr. Brigham noted there are a number of aspects to projects, such as environmental and right-of-way issues that are "fairly complex," which local governments and many consulting engineers are not equipped to address. He stated that oversight or errors made in these matters have the effect of adding to the overhead costs of a project.

Senator Hoffman asked the witness if local municipalities are required to provide the matching funds up front before a project could begin, why the department opposes this legislation.

Mr. Brigham responded that if the process worked perfectly, there would be no objection. However, he stressed that there are few local governments equipped to address all the federal requirements and the department is still forced to be involved in project management. He reiterated the increased overhead expenses.

Senator Lemman requested an explanation of language on page 1, line 9 of the committee substitute, "The maximum amount awarded to a single municipality may not exceed \$3,000,000." and asked the reason for this provision.

Senator Torgerson relayed that the concern was that one municipality could have a project with a high cost, which could prevent other municipalities from participation in the program.

Senator Lemman asked why the maximum level is set so low and wanted to know if the amount could be higher for larger municipalities.

Senator Torgerson answered that the intent is for more than one municipality to be able to partake in using the funds. He surmised that a larger municipality with a larger project could phase in the project.

Amendment #1: This conceptual amendment increases the maximum amount awarded to a single municipality from \$3 million to \$10 million.

Co-Chair Donley moved for adoption and stressed that he could not support this legislation with such a low cap. He remarked he wanted the allocations to reflect per capita and "volume of use" considerations "more accurately."

Senator Torgerson countered that one project should not receive all the funds. He suggested that the large project in question might not be in Anchorage but perhaps the Ketchikan bridge project at \$120 million. He stated that the intention is to distribute the funds across the state.

Senator Green objected to the amendment saying she agreed with the sponsor. She then asked if the legislation places any restrictions on the type of road projects, such as new roads, maintenance or reconstruction on an existing road.

Senator Torgerson responded that maintenance would not qualify. He stated that any project that qualifies for federal funding, which he described as projects that increase the life of an existing road, would be allowable under this program.

Senator Green pointed out that some roads are heavily used by drivers who do not reside in the municipality where the road is located. She also spoke to the major effort for smaller communities to undertake some projects.

A roll call was taken on the motion.

IN FAVOR: Senator Leman and Co-Chair Donley

OPPOSED: Senator Wilken, Senator Austerman, Senator Green, Senator Hoffman, Senator Olson and Co-Chair Kelly

ABSENT: Senator Ward

The motion FAILED (2-6-1)

The amendment FAILED to be adopted.

Senator Green offered a motion to move from Committee, CS SB 59 (CRA), with accompanying Department of Transportation and Public Facilities zero fiscal note.

Co-Chair Donley objected stating that he wanted additional time to work with the sponsor on addressing his concerns with the legislation.

Senator Green WITHDREW her motion to move the bill from Committee.

Co-Chair Kelly ordered the bill HELD in Committee.

#SB4

CS FOR SENATE BILL NO. 4(CRA)

"An Act relating to a mandatory exemption from municipal property taxes for certain residences; and providing for an effective date."

This was the third hearing for this bill in the Senate Finance Committee.

SENATOR GENE THERRIAULT, sponsor, reminded members of the proposed committee substitute that he hoped the Committee would take action on.

Senator Wilken moved to adopt CS SB 4, 22-LS0190\P, as a working draft.

AT EASE 6:22 PM / 6:27 PM

There was no objection and the committee substitute was ADOPTED.

Amendment #3: This conceptual amendment reduces the assessed value limit in Section 2(a) on page 2, line 18 of the committee substitute as follows.

Delete:

(1) exceed the assessed value of \$40,000 [\$10,000] for any one residence; or

Insert:

(1) exceed the assessed value of \$30,000, or 20 percent of the assessed value, whichever is less, [\$10,000] for any one residence; or

New Text Underlined [DELETED TEXT BRACKETED]

Senator Austerman moved for adoption.

Senator Therriault did not oppose the amendment, noting it is sensitive to the threat to the state treasury. He shared that this amount would still triple the local government's ability and that the 20 percent provision is an existing mechanism in the Fairbanks North Star Borough (FNSB) ordinance.

Without objection the amendment was ADOPTED.

Senator Therriault addressed the fiscal note at Co-Chair Kelly's request. Senator Therriault stated that the estimated \$1.6 million potential reduction in state revenues applied to the original version of the bill and reflected the scenario that every municipality that currently exercises the residential property tax exemption immediately increased from the current \$10,000 cap to the proposed \$50,000 cap and compensated for their lost revenue solely by raising the overall mil rate to the oil and gas properties. However, he noted that because the Senate Community and Regional Affairs committee substitute deleted the applicable section of the bill, the original fiscal note is dropped.

Senator Therriault pointed out that with the action taken by this Committee in adopting the committee substitute Version "P" the projected potential reduction is cut in half. He added that the committee substitute eliminates the service areas' mil rates from the tax exemption option. He explained that without this change, the service areas would have no option for increasing revenue except for raising overall mil rates, which would impact state revenue from oil and gas properties.

Senator Therriault emphasized that the FNSB is considering other revenue sources to fund services rather than increasing the mil rate.

Senator Green referred to a March 19, 2001 letter to Senator

Therriault's office from Steve Van Sant, State Assessor, Department of Community and Economic Development. [Copy on file.] She read, "The only issue that might address any funding is the fact that the municipality will lose, in this example, \$600,000 of assessed value upon which a property tax can be levied, thus requiring either an increase in the local mil rate, an alternative source or revenue, a decrease in services so the revenue loss may be made up without increasing the levy or a combination of these." She asked how the committee substitute impacts this situation.

Senator Therriault believed this statement was in response to Senator Green's earlier question about the possible impact on the education foundation funding formula. He explained that it addresses the issue in the event that the municipality chooses to exercise the tax exemption option and suffers a loss in revenues. He again stressed his doubt that the municipalities would choose an increase in the mil rate to recoup lost revenues. He pointed out the changes made in the committee substitute saying they have "drastically reduced" the likelihood.

Senator Green wanted an adjustment on the cited \$600,000 figure given as an example in the statement.

Senator Therriault asserted the amount would be less.

AT EASE 6:33 PM / 6:39 PM

Amendment #4: This conceptual amendment inserts language to Section 2 to provide, "The increase in Sec. 2(a)(1) is only available to those governments with a debt service less than \$15,000 per person."

Co-Chair Donley moved for adoption noting this is the standard provided in existing statute.

Senator Austerman objected for explanation.

AT EASE 6:41 PM / 6:42 PM

Senator Austerman wanted clarification of the amendment, what it accomplishes and why it is necessary.

Co-Chair Donley explained that in order to qualify for the increased cap of \$30,000, the municipality would have to have a per capita bonded indebtedness of less than the statutory limit of \$15,000.

Co-Chair Kelly stated that there is a current limitation on bond

indebtedness of \$15,000 and that this amendment "reinforces" existing statute. He noted that municipalities that currently comply with this statute would be eligible to apply for this discount.

Senator Austerman asked if the provision is in current statute, why it is necessary in this legislation.

Co-Chair Donley responded, "Because not everybody follows the statutes."

Co-Chair Kelly elaborated that the bond indebtedness limitation is in statutes and that without this amendment, the tax exemption would be available to those municipalities.

Senator Hoffman requested comment from the bill sponsor.

Senator Therriault understood Co-Chair Donley's concern agreeing, "It's a big issue". However, he preferred this limitation not be included with this legislation.

Senator Austerman maintained his objection.

A roll call was taken on the motion.

IN FAVOR: Senator Leman, Senator Wilken, Senator Green, Co-Chair Donley and Co-Chair Kelly

OPPOSED: Senator Austerman, Senator Hoffman and Senator Olson

ABSENT: Senator Ward

The motion PASSED (5-3-1)

The amendment was ADOPTED.

Amendment #1: This amendment makes the following changes to CS SB 4 (CRA) as follows.

Page 1, line 1, after "relating":

Insert to limitations on municipal taxation of oil and gas production and pipeline property and"

Page 2, following line 11:

Insert new bill sections to read:

Sec. 2. AS 29.45.080 is amended by adding a new subsection to read:

(f) Notwithstanding AS 29.45.090(a) and regardless of whether the municipality levies the tax under (b) or (c)

of this section, a municipality may not, during a year, levy a tax on property taxable under AS 43.56 for any purpose in excess of 1 8 percent of the assessed value of that property.

Sec. 3. AS 29.45.100 is amended to read:

Sec. 29.45.100. Applicability of [NO] limitations on taxes to pay bonds. The limitations provided for in AS 29.45.080 - 29.45.090 do not apply to taxes levied or pledged to pay or secure the payment of the principal and interest on bonds issued before January 1, 2002. Taxes to pay or secure the payment of principal and interest on bonds issued before January 1, 2002~ may be levied without limitation as to rate or amount, regardless of whether the bonds are in default or in danger of default. The limitations provided for in AS 29.45.080(a) - (e) and 29.45.090 do not apply to taxes levied or pledged to pay or secure the payment of the principal and interest on bonds issued on or after January 1, 2002, regardless of whether the bonds are in default or in danger of default.

New Text Underlined [DELETED TEXT BRACKETED]

Co-Chair Donley announced that he would NOT OFFER this amendment.

Amendment #2: This amendment changes the title of the committee substitute to read as follows.

"An Act relating to a mandatory exemption from municipal property taxes for certain residences; relating to an optional exemption from municipal taxes for residential property and prohibiting a municipality from replacing tax revenue lost as a result of the optional exemption with revenue generated from a tax on certain oil and gas production and pipeline property; and providing for an effective date."

The amendment also inserts language in Section 2 on page 2 of the committee substitute making the subsection read as follows.

(a) A municipality may exclude or exempt or partially exempt residential property from taxation by ordinance ratified by the voters at an election. However, the municipality may not replace tax revenue lost as a result the exclusion or exemption with revenue generated from a tax levied under AS 29.45.080 on property taxable under AS 43.56. An exclusion or exemption authorized by this subsection [SECTION] may not

(1) exceed the assessed value of \$40,000 [\$10,000] for any one residence; or

(2) be applied with respect to taxes levied in a service area to fund the special services.

New Text Underlined [DELETED TEXT BRACKETED]

Senator Lemman moved for adoption noting this addresses concerns raised at an earlier hearing regarding reducing taxes on residential properties but recouping subsequent lost revenues by increasing the levy on other properties. He assured this amendment would preclude this and that any increase in revenue would have to come from a source other than an increase in property tax on oil and gas production and pipeline properties. He explained that increasing property taxes on these properties would result in lost revenue to the state.

Senator Olson and Senator Hoffman objected.

Senator Hoffman requested the bill sponsor comment on the amendment.

Senator Therriault relayed his consultation with the bill drafter Ms. Tamara Cook, Director, Division of Legal and Research Services, where he was told this language is not operable. He gave an example whereby if a municipality exercised this tax exemption increase, suffered a loss in revenue and recouped that loss with a sales tax, and in the future proposed an unrelated mil rate increase. He remarked that there would be no way to verify whether the municipality was attempting to recoup lost revenue from the tax exemption option. He warned that adopting this language into law "would trigger a series of lawsuits" about whether the local government has such power, whether the increases are funding new services or facilities, etc.

Senator Lemman countered that in Senator Therriault's example, this municipality "would have done exactly what they would need to do so they would not violate the intent of the amendment." He stated that he explained this to Ms. Cook and this amendment contains the language she prepared. He stressed his intent is the municipalities would replace the lost revenue from tax exemptions with another source and so long as that alternative is in place, any future mil rate increases would be eligible.

Senator Therriault surmised, "it becomes somewhat of an accounting nightmare" speculating on the various scenarios of a growing tax base that a new facility may or may not create and whether the new revenues would be considered as recouping the lost revenues from a previous tax exemption.

Senator Wilken told Senator Leman, "This whole bill is about local control and local decisions." He spoke for the FNSB that the "property tax rebellion bell has been rung and we've heard it loud and clear." He stated that the 20 mils collected on oil and gas properties could all be allocated to municipalities, "if local governments have the courage to raise property taxes, not only on 4356 properties but my home and my business and Fort Knox and everywhere else." He suggested that when this legislation passes, the burden is then placed on local assemblies to determine whether to lower services, institute alternative revenue sources or raise property taxes on all property in the municipalities.

Senator Wilken appreciated the attempt to protect the state's revenues in the general fund. However, he stressed that this is not the bill to limit local options of municipalities facing the property tax limitation attempts, such as the proposed ballot measure that failed in the November 2000 general election. He remarked that this legislation merely, "allow those folks to exercise their decision capabilities and their courage."

Senator Wilken expressed that he would therefore be voting against the amendment.

Senator Olson asserted that this amendment restricts the municipalities' options and because of this, he would also vote no on the adoption of the amendment.

Co-Chair Donley supported the amendment due to his concern of the potential loss to the state treasury if a municipality was to exercise the tax exemption option in a manner not anticipated by the sponsor of the legislation. He understood that Senator Therriault did not think it would happen, but stressed that it is still a possibility. Co-Chair Donley concluded that this amendment would protect the state treasury from an unpredicted loss.

Co-Chair Kelly noted changes made to the bill in the committee substitute preclude any significant loss to state revenue.

A roll call was taken on the motion.

IN FAVOR: Senator Green, Senator Leman and Co-Chair Donley

OPPOSED: Senator Austerman, Senator Hoffman, Senator Olson, Senator Wilken and Co-Chair Kelly

ABSENT: Senator Ward

The motion FAILED (3-5-1)

The amendment FAILED to be adopted.

Senator Therriault asked if the co-chair would request an updated fiscal note from the Department of Revenue to reflect the changes made in the committee substitute.

Co-Chair Kelly replied that he would.

Senator Wilken moved to report CS SB 4, 22-LS0190\P, as amended, from Committee with a forthcoming fiscal note from the Department of Revenue.

Co-Chair Donley objected. He opined, "The bill is much better than the original proposal." However, he expressed concerns about the potential threat to the state treasury.

AT EASE 6:54 PM / 6:55 PM

Co-Chair Donley removed his objection after making a statement on the record. "I am concerned about the potential fiscal impact and that I would be looking forward to seeing the fiscal note because we'd still know that before we have a final vote on here in the Senate."

The committee substitute was MOVED from Committee.

#SB136

SENATE BILL NO. 136

"An Act relating to resource development and to grants for the purpose of promoting resource development from appropriations of a portion of the revenue derived from the extraction of certain state natural resources."

This was the first hearing for this bill in the Senate Finance Committee.

PAT CARTER, staff to Senator Drue Pearce, testified that this legislation establishes the Resource Development Board, which is tasked primarily with facilitating public education and promoting responsible resource development. He suggested, "If you begin with the premise that Alaska is going to be largely dependent on natural resource extraction for the foreseeable future to fuel our state's economy, it would therefore make sense to invest in that future by providing financial support to most of those activities."

Mr. Carter pointed out recent studies show that resource extraction

and the tourism industry play a significant role in the workforce and therefore the economy. He noted the majority of jobs from the tourism industry are low paying and seasonal, and that the studies show diversified jobs are necessary to sustain a healthy economy. However, he charged that the majority of the "environmental community" does not support this concept since "they continue to oppose nearly all development of our natural resources while offering no economical alternative plan."

Mr. Carter stated the intent of this legislation is to "strike a balance" between development and protection of the environment and "avoid the extreme positions." He suggested the best way to protect the environment is through a strong diversified economy.

Mr. Carter asserted that Alaska's environmental protection laws are among the strongest in the world. However, he stressed that by opposing natural resource extraction, the environmental community continues to "push development offshore to third world countries assuring the exploitive development in the absence of adequate environmental protection laws."

Mr. Carter emphasized the approximate \$6.5 million investment made in the tourism industry and additional financial support provided to the seafood industry through the Alaska Seafood Marketing Institute (ASMI). He stressed these efforts are to strengthen the state's economy. He added that the promotion of the diverse mineral resources, timber and oil and gas development would be a "wise investment".

Mr. Carter concluded the creation of the Resource Development Board would further the constitutional mandate to develop natural resources by making them available for maximum use in an environmentally responsible manner.

Senator Austerman noted the language in the bill does not appear to contain perimeters on how the money would be expended.

Mr. Carter responded the intent is that the seven-member board would create perimeters regarding what is deemed worthy of the grants this legislation would also provide. He suggested accounting methods would be established. He noted that if the legislature wanted allocation restrictions in statute, the sponsor would be willing to amend the legislation to reflect these.

Senator Austerman reminded that the Committee has recently passed a fast track supplemental appropriation for FY 01 granting \$1.5 million to Arctic Power to promote oil and gas development. He asked if the \$2.6 million proposed for distribution in this

legislation could be entirely allocated to Arctic Power if that was the board's desire.

Mr. Carter affirmed it could if that were the board's desire. He qualified that this is not the intention, but that it is possible. He assumed that the board would require a follow-up accounting of how the money was spent.

Senator Hoffman asked if the board could award grants to non-profit organizations that would support or oppose initiatives for constitutional amendments or candidates for public office.

Mr. Carter responded that the issue of supporting candidates had not been considered. He noted it is not the intended use for the grants to promote one candidate over another, but that the intent is to provide a "balanced message." He shared, "We feel that we are lacking in that regard today where we have what seems to be a ever-expanding amount of money coming in to environmental organizations from Lower 48 groups. They are unfamiliar with issues in Alaska. We think that they skew the message."

Senator Hoffman asked why the seafood industry is not represented as a member of this board. He stressed that the seafood industry is one of the largest industries in the state. He listed by-catch, interception, trans-boundary issues and other pertinent issues.

Mr. Carter assured there was no intent to "cast disparage" to the seafood industry, only that it would be redundant given the existence of ASMI. He suggested that the legislature could instead appropriate general funds directly to ASMI, in addition, or in place of, the revenues generated from industry taxation. He noted that the tourism industry was excluded for similar reasons and emphasized that all these industries are important to Alaska's economy.

Senator Austerman assumed the timber industry is omitted for the same reasons.

Mr. Carter informed that the timber industry is included in the board make-up.

Senator Austerman understood the proposed \$2.6 million in royalties is otherwise deposited into the general fund.

Mr. Carter affirmed this is not new revenue, but rather taken from the general fund and used as an investment.

AT EASE 7:05 PM / 7:09 PM

The Committee next took public testimony.

SFC 01 # 54, Side B 07:09 PM

HUGH BROWN, Alaska Conservation Voters, testified that he saw the bill as an investment in Alaska, which he agreed is required by the constitution, but noted he shared Senator Austerman's concerns with the vagueness of the legislation. Mr. Brown stressed the need for "a balanced message to all segments of the community." He proposed amending the bill to insert direction to the board that the message the board sends is developed by a diverse group of people, including minorities, women, those representing non-profit organizations and local advocates. He indicated that the recipients of the grants should also be diversified. He stressed that many are unaware that timber and mining are resources and that this should be conveyed through the board's action. He spoke of the importance of educating youth to the importance of science and math. He understood this would increase the cost and suggested an increased fiscal note.

SUSAN SCHRADER, Alaska Conservation Voters, testified in Juneau to read a statement into the record as follows.

Alaska Conservation Alliance and Alaska Conservation Voters are sister nonprofit organizations dedicated to protecting Alaska's environment through public education and advocacy. Our 44 member organizations and businesses represent over 35,000 registered Alaskan voters, who, as most Alaskans, work hard to support their families. Conservationists throughout the state are committed to maintaining a healthy economy for the benefits it provides all Alaskans. We agree with Senator Torgerson, the bill's sponsor, that we can promote responsible development of our resources while protecting the environment. And we believe resource development industries can prosper and meet shareholders' expectations while complying with state and federal environmental laws.

The concept of the state using general funds for grants to non-profits to promote for-profit industries, many of whom are huge, trans-national corporations that employ significant numbers of nonresidents, is nonsensical. We believe most Alaskans will not endorse the idea of taking state revenues that could go to improving education, social services, road maintenance, or any number of other significant needs and using those monies to do the promotion and advertising work that the resource industry can easily accomplish themselves.

Instead, we would encourage the legislature to fully fund the outreach activities of existing state agencies and programs that facilitate responsible resource development, such as the Division of Community and Business Development at DCED. Further, we would encourage resource industries and businesses to enhance their financial support of local and regional economic development councils and similar organizations. The large corporations doing the business of extracting Alaska's resources are clearly able to contribute to the promotion of development that will benefit the smaller players in our state economy.

The mining industry in Alaska was valued at \$1.12 billion in 1999, while 30.7% of their workforce in Alaska was non-resident. Should Alaskan families be helping to pay this industry's advertising and marketing bill? Should the legislature be diverting public funds to trade organizations that should be funded by the private sector?

Alaska Conservation Voters urges legislators to oppose SB 136.

CAROL CARROLL, Director, Division of Support Services, Department of Natural Resources, testified in Juneau to address the fiscal note. She stated that \$2.6 million would be relocated from the general fund to the resource development fund for this program. She noted that most of this revenue would be generated from oil and gas royalties paid to the state.

Ms. Carroll expressed that there would be a cost to operate the program and that the department attempted to be "reasonable" in assessing these. She shared that it is assumed that the board would request an Executive Director and an Administrative Assistant to assist in the grant activities and board operations. She stressed the detail required in this work, which the board would depend upon when making its decisions. She then noted indirect costs to the department, pointing out that no new positions would be added for accounting personnel. She stated that the impact on the department would depend upon the number of grants the board issues.

Ms. Carroll told the Committee that the department supports the legislation.

Senator Leman opined that administering this program would not require an Administrative Assistant and an Executive Director. He suggested that existing staff should be instructed to undertake these duties. He was concerned with incremental increases to government.

Ms. Carroll understood, but stressed that the department has been operating for several years under the "do more with less" theory. She stated that there is insufficient existing staff to undertake additional duties. She admitted that the board could decide to forgo the Executive Director position, but that staff would be required to do the administrative tasks. She noted that other expenses such as office space leasing, computer maintenance and supplies have not been placed in the fiscal note and would be absorbed in the department's existing operating budget.

Senator Leman countered that it is "not that big of a deal" to administer grant funds. He stated his frustration by the "continuing creep" of new positions and new expenditures.

Senator Austerman spoke to basic concerns he had with the legislation. He cited language on page 3 of the bill regarding promotions, marketing, research, advertising, education, establishing and operating a system for responding to inquiries, publishing and distributing information, and establishing and maintaining Internet sites. He understood the desire for promotion of resources to ensure the greatest value, but noted other industries that provide matching funds like tourism and still others, such as the seafood industry, that has no general funds and must provide for these costs itself. He wanted to consider whether the minerals industry should be required to contribute matching funds.

Co-Chair Kelly noted other questions that were raised at this hearing. He expressed that these funds should not be utilized for a political candidate and he did not think they could be used to campaign for or against a ballot initiative due to other statutory provisions.

Mr. Carter noted that he had researched the matter and learned that because these are state grants, they are subject to the state accounting process, including an audit trail. He added that the funds could not go to political candidates or initiatives because no state funds are allowed for these election purposes.

Co-Chair Kelly asked Co-Chair Donley if this was correct.

Co-Chair Donley did not know if there was a prohibition on using state funds for ballot initiatives.

Co-Chair Kelly requested the sponsor to meet with Senator Austerman to address his concerns.

The bill was HELD in Committee.

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ADJOURNMENT

Co-Chair Pete Kelly adjourned the meeting at 07:25 PM