

HOUSE FINANCE COMMITTEE
February 06, 2003
1:29 PM

TAPE HFC 03 - 14, Side A
TAPE HFC 03 - 14, Side B

CALL TO ORDER

Vice Chair Meyer called the House Finance Committee meeting to order at 1:29 PM.

MEMBERS PRESENT

Representative John Harris, Co-Chair
Representative Kevin Meyer, Vice-Chair
Representative Eric Croft
Representative Richard Foster
Representative Mike Hawker
Representative Reggie Joule
Representative Carl Moses
Representative Gary Stevens
Representative Bill Stoltze
Representative Jim Whitaker

MEMBERS ABSENT

Representative Bill Williams, Co-Chair

ALSO PRESENT

Edgar Blatchford, Commissioner, Department of Community and Economic Development; Tom Lawson, Director, Administrative Services, Department of Community and Economic Development; Sally Saddler, Legislative Liaison, Department of Community and Economic Development; Ron Miller, Executive Director, Alaska Industrial Development and Export Authority; Daniel T. Seamount, Jr., Commissioner, Alaska Oil and Gas Conservation Commission, Department of Administration; Cammy Oechsli Taylor, Chair, Alaska Oil and Gas Conservation Commission; Valerie Walker, Deputy-Director, Finance, Alaska Industrial Development and Export Authority; Sarah Fisher-Goad, Alaska Industrial Development and Export Authority.

PRESENT VIA TELECONFERENCE

None

GENERAL SUBJECT(S):

DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT
ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY
(AIDEA)
ALASKA ENERGY AUTHORITY (AEA)
ALASKA OIL AND GAS CONSERVATION COMMISSION

The following overview was taken in log note format. Tapes and handouts will be on file with the House Finance Committee through the 23rd Legislative Session, contact 465-2156. After the 23rd Legislative Session they will be available through the Legislative Library at 465-3808.

LOG	SPEAKER	DISCUSSION
	TAPE HFC 03 - 14 SIDE A	
000	Vice-Chair Meyer	Convened the meeting at 1:29 p.m.
		DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT (DCED)
032	EDGAR BLATCHFORD, COMMISSIONER, DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT	Introduced himself and Tom Lawson, Director, Administrative Services, Department of Community and Economic Development, as well as Sally Sadler, Legislative Liaison. He referred to the mission statement as outlined in the overview (copy on file). The general mission of DCED is to promote strong communities and healthy economies. They provide consumer protection, promote economic development, administer loan programs and foster development of local government.
311	Representative Foster	Noted his past experience with the Commissioner during his tenure with Community and Regional Affairs and commended his knowledge and professionalism.
338	Representative Stevens	Referenced Alaska Seafood Marketing Institute (ASMI) and raised a concern about the lack of general funds for the organization. Asked how the legislature could assist ASMI in marketing and other methods of averting crises.
430	Commissioner Blatchford	Noted that the salmon industry must be continued. He explained that the Department of Community and Economic Development (DCED) services sometimes included lending to ensure a healthy seafood industry. He stated that the 2003 season necessitated major decisions to develop solutions to the current problem. He emphasized that the current Administration encouraged flexibility from other cabinet members to offer suggestions.
559	Representative Joule	Referenced municipal revenue sharing. Asked whether revenue sharing was foreseen in the face of five or ten percent departmental reductions.

650	Commissioner Blatchford	Stressed the Department's intent to search for solutions to assist the rural community. He stated that a large part of the Department's mission was to advocate for the unorganized boroughs. He stated that DCED did not have any concrete numbers and was seeking solutions.
744	Representative Joule	Asked for the Department's action plans.
808	Commissioner Blatchford	Noted the premise that each person living in Alaska should have the opportunity for a fruitful life in his or her home community. He stressed that development of natural resources should first be to local residents. He mentioned that, in rural areas, the largest landowners were the regional Native or village corporations. The Administration has asked not to impose any agenda on local areas without cooperation of local residents.
936	Representative Stoltze	Welcomed the Commissioner and expressed appreciation for his commitment. Asked regarding administrative action to change the name of the Department.
1006	Commissioner Blatchford	Responded that the Administration had asked to change the name to Commerce and Economic Development. He noted that the mission of the department was based on a premise that the best social program is a job, and that encouraging a strong economy addresses social ills.
1100	Representative Stoltze	Asked about the impact of dividend payments to rural Alaskans and speculated that not receiving a dividend could prove more disastrous than a lack of revenue sharing.
1143	Representative Hawker	Questioned the policy of the Department regarding the public ownership of the Alaska Railroad Corporation. He noted that the Corporation's tax-exempt status competed against private enterprise, resulting in sometimes a net cost to local community. He referenced his own community of Whittier.
1304	Commissioner Blatchford	Noted that the intent of statute was to promote a healthy Alaska and that this included communities along the railway. He acknowledged the feelings of these communities and vowed to keep them in mind when serving on the Railroad Board.
1412	Representative Hawker	Endorsed Commissioner Blatchford's support of those issues. He thanked him

		for his support of private enterprise.
1446	Representative Joule	Referred to the merger of two departments, which resulted in the current Department (previously Community and Regional Affairs [DCRA] and Commerce and Economic Development [DCED]). He commented that rural Alaska might feel alienated under the current organization and name.
1607	Commissioner Blatchford	Responded that, while working with DCRA, he believed deeply in its mission. He stated that, in the current process, he would keep the interests of rural Alaska at the forefront of DCED's mission to provide for unorganized boroughs. He added that the Governor requested that unorganized boroughs have a say in public policy decisions.
1707	Representative Croft	Referred to last week's presentation by Director Cheryl Frasca, Director, Division of Management & Budget, Office of the Governor (OMB), and questioned the affects of a five or ten percent reduction.
1743	Commissioner Blatchford	Responded that, while working ideas were presented to the Director of Office of Management and Budget, the Department remained in the process of discussion regarding the budget. He stated that his Department would soon present numbers for consideration.
1809	Representative Croft	Asked for rough ideas of potential impacts of a five or ten percent reduction to the Department.
1828	Commissioner Blatchford	Stated that he planned to shore up any reductions with spirit and enthusiasm.
1849	Representative Croft	Referred to AS 37.07.060, and stated his beliefs that documents sent to OMB are public information. He quoted Section G, which says that all goals and objectives, plans programs, and estimated budgets forwarded to OMB by a state agency are public information.
1942	Representative Stevens	Asked regarding the Salmon Task Force, in the area of quality, and the mandatory chilling of fish at time of capture. Pointed out that requiring fishermen to install icing equipment was difficult, in times of financial difficulties. Asked what assistance might be available in terms of loans. Also asked about the Governor's Fish Plan.
2059	Commissioner	Stated that he does not have specifics,

	Blatchford	but stated that they would work with local communities to address the crisis. His Department has been asked to be flexible and look for governmental barriers that impede the industry. They are looking at loan programs in the Division of Investments and reviewing regulations and criteria. Regarding transportation, the Governor has clarified that roads are essential. If transportation was improved, natural resources might be easier to transport.
2245	Representative Stoltze	Asked whether organic labeling to promote agriculture was also a federal problem.
2315	Commissioner Blatchford	Noted that organic labels applied to seafood as well as agriculture. He agreed to provide further answers later in the afternoon.
2411	Representative Hawker	Asked about aquaculture in the State, in particular for shellfish. He noted the involvement in Seward.
2438	Commissioner Blatchford	Explained that shellfish farming was introduced in the 1990s. The idea was to revitalize local opportunities through shellfish farming. He mentioned his involvement in the Native Tribal Council Board, which had discussed shellfish farming. He noted the tremendous potential to revive the industry in coastal areas. He pointed out that this requires cooperation of the Legislature.
2544	Representative Hawker	Asked to hear more proposals on that subject. He also asked regarding promoting salmon aquaculture programs in western Alaska.
2615	Commissioner Blatchford	Mentioned the need to be equitable in distribution of state resources and stated he would respond later in the month.
2643	Vice-Chair Meyer	Mentioned the National Petroleum Reserve-Alaska impact on the North Slope and referenced a report issued in late January. Noted that \$18.6 million had been appropriated through the Impact Mitigation Program. He clarified that this funding was generated through 50 percent federal royalties, and could be redistributed to communities through the impact fee. He asked about the program's success, and whether any remaining funds went into the General Fund. He also asked how further development might affect the program.

2806	Commissioner Blatchford	Referred to Mr. Tom Lawson, Director, Administrative Services, Department of Community and Economic Development.
2826	TOM LAWSON, DIRECTOR, ADMINISTRATIVE SERVICES, DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT	Explained that funds came from lease sales and payments to the federal government, half of which was passed on to the State. The State has received payments over a ten-year period. The \$18 million represents the annual lease payments. In 2004, they expected \$36 million. He summarized that the concept of the program was to provide money to rural areas impacted by leasing exploration and development of oil and gas. He conceded that the program's effectiveness had come into question. He stated the Department's openness to working with legislature. Annually, only \$1.7 million was paid into the General Fund, most of which went into grants. Additional money could go to the General Fund in the next year. Statute directs that, if money remains after grants, 25 percent of the balance goes to the General Fund, .5 Percent to schools, and the remainder for legislative appropriation to the Power Cost Equalization program.
3107	Vice-Chair Meyer	Noted that as more exploration occurred, he foresaw the fund would grow, and wanted to explore this source of revenue.
3144	Representative Hawker	Noted that his career was spent in villages that benefited from this impact program. Funds have gone to develop fundamental infrastructures, such as boat launching, community airports, etc. This is a beneficial program for isolated areas of state. He agreed for the need of judicious and fair allocation of resources.
3251	Representative Joule	Referred to a previous discussion as to the intent for the use of these funds. He believes in the funds are intended for impacted communities to provide basic infrastructure.
3357	Vice-Chair Meyer	Voiced his support of the program.
3418	Commissioner Blatchford	Expressed his appreciation for the opportunity to serve state government. The discussion was concluded.
		ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY (AIDEA)
3447	RON MILLER, EXECUTIVE DIRECTOR,	Noted that he had been hired as Executive Director and introduced Mike Barry,

	ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY	Chairman of AIDEA and AEA, and Valerie Walker, Deputy-Director, Finance, Alaska Industrial Development and Export Authority. He explained that AIDA had been created by the legislature in 1967, and began issuing general obligation bonds in 1980. In 1981, the Authority was capitalized with \$23 million in cash and a loan portfolio of \$166 million. Assets today are over \$1.1 billion. In 1993, the legislature placed the Alaska Energy Authority (AEA) under the overview of AIDEA; the AIDEA board serves as AEA board, and AIDEA staff oversees AEA operations. The programs, however, are separate.
3638	Mr. Miller	Referred to the printed overview (copy on file) outlining programs and mission of organization. He discussed AIDEA's programs: participations, business and export assistance, a Conduit Revenue Bond, Rural Development Initiative Fund (RDIF), and development finance programs. He noted some of their larger projects, such as involvement in the Red Dog mining system, as well as the DeLong Mountain Transportation System. He referred to page 7, which lists recent AIDEA accomplishments, including the Federal Express Aircraft Maintenance Facility, and the Four Dam Pool Project. He also referred to pages 8 and 9, which illustrate the diversity and performance of AIDEA's loan portfolio. Page 10 is a list of finance projects, including shipyards and coal facilities. He also noted AIDEA's investment portfolio of conservative instruments totaling \$370 million. In 1996 a dividend program was created to provide agency stability. The dividend consists of between 25 to 50 percent of the company's net income for the year, two years prior to dividend payment. Since the policy was enacted, the Authority has paid \$129 million in dividends to the State.
3913	Mr. Miller	Explained that AIDEA provides staff to AEA, which includes oversight of operations and maintenance of all AEA owned power projects and management and staffing of the AEA rural and alternative energy programs. The Energy Authority mission is to assist in the development

		of safe reliable and efficient energy systems throughout Alaska. This is accomplished through various programs, including revolving loan funds, power project fund, rural energy programs, alternative energy program, and power cost equalization. He also mentioned training programs, circuit rider program to assist village electric utilities, and various electric programs operated by the Energy Authority. He noted its affiliation with the Denali Commission and private business. He concluded his presentation and invited questions.
4127	Vice-Chair Meyer	Referred to the Alaska Seafood Processing Plant that had closed, and asked whether jobs had been transferred to another country.
4149	Mr. Miller	Noted that this job transfer may have been a one-time occurrence. They have been trying to determine whether any of the product remained on the market.
4215	Representative Stevens	Asked about the new president of ASI (Alaska Seafood International).
4230	Mr. Miller	Stated that John Lowrance, from Leader Creek Fisheries, had been hired as a consultant to decide what to do with the plant and determine product development. He was hired by ASI as an interim replacement for the outgoing CEO.
4300	Representative Stevens	Expressed his support of this appointment.
4318	Representative Stoltze	Referred to page 10 of the handout that lists development finance projects. He asked regarding the DeLong Mountain Transportation System, and also referred to the Red Dog mining project, and asked about Mr. Miller's satisfaction with project success.
4408	Mr. Barry	Responded that in his experience, the programs were providing a large number of jobs and great economic diversification throughout the State. He referred to the list, and acknowledged that the success rates have been varied. He commented on the general success of the Red Dog Mine, as well as the Federal Express Aircraft Facility. He explained that the Authority had saved a great deal of money through refinancing the bonds. He noted that when the bonds are paid off, future revenues will remain in the state of Alaska. He noted that the Healy Clean

		Coal had a very unclear future, and would be examined in terms of the overall State energy policy. He also mentioned that the Alaska Seafood Center was not a successful investment.
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		Continued that these investments operated at a net loss. Goals of new Board at a work meeting will review all projects and programs to ensure that programs will allow for future dividends.
4542	Mr. Barry	Explained that the programs intended for AIDEA when it was established by the legislature do not impact the State's credit. Out of all AIDEA's total assets, only \$10 million is funded by obligations to the State of Alaska.
4442	Mr. Barry	Noted the Suneel coal facility was operational and viable. Discussions are underway on how to save employment, since coal was no longer being shipped to the facility.
4351	Mr. Barry	Observed that the bulk of the non-performing assets was Healy Clean Coal. They comprise less than eight percent of total assets. AIDEA maintains four times their non-performing assets in liquid securities. Mr. Barry stated that AIDEA is sound financially.
4255	Mr. Barry	Noted that a portion of the Skagway Ore Terminal was being demolished. Skagway still wants to keep options for minerals activities in the Yukon to create potential jobs. The Ketchikan shipyard is operational, and AIDEA was negotiating with the local community for them to acquire ownership.
4203	Representative Stoltze	Asked about the construction of new power facilities, and what role AIDEA would play in terms of guidance.
4131	Mr. Miller	Noted that the current role of AIDEA for guidance was conflicting. He pointed out that his agency administered facilities which generate energy. He suggested that another, more objective entity should provide guidance statewide, and that AIDEA would follow that plan.
4037	Representative Stoltze	Asked about the ASI facility, in term of relocating the DEC inspection facility from Palmer to Anchorage. He asked whether this was a wise decision.
4005	Mr. Miller	Was unable to answer this question at this time.

3931	Representative Hawker	Referenced the 2002 Annual Report, and noted that of the \$355 million in cash, cash equivalents and investments securities, none were listed as restricted assets. He asked if these were these truly unrestricted and available for investment at this time.
3849	VALERIE WALKER, DEPUTY-DIRECTOR, FINANCE, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY	Responded that the investments were generally unrestricted. She mentioned a bond covenant requiring AIDEA to maintain \$50 million in US Treasury securities maturing in one year or less, or cash. She termed this as a liquidity covenant. She also noted commitments of \$29 million to fund loans, and \$20 million to fund a dividend as of June 30. She summarized that, from the \$357 million, one would deduct \$100 million that must be maintained. Ongoing responsibilities include \$20 million in loan commitments. She noted that, depending on interest rates and loan demands, payoffs could either exceed loan commitments, or not equal that amount. She maintained that the funds were unrestricted, while at the same time the most secure investment held by the Authority.
3642	Representative Hawker	Observed that, with the \$100 million needed in short-term liquid assets, this reduced the aggregate of unrestricted assets to \$250 million. He asked whether, if the legislature altered the dividend formula, the \$250 million would be the dividend source.
3537	Ms. Walker	Confirmed that this was true.
3523	Representative Hawker	Estimated that if the formula were changed, the dividend would be approximately \$17 million.
3507	Ms. Walker	Clarified that, if you deduct \$91 million in development projects losses, the dividend would be in the range of \$9 to \$18 million.
3449	Co-Chair Harris	Concluded the discussion on this subject.
		ALASKA OIL & GAS CONSERVATION COMMISSION
3404	CAMMY OECHSLI TAYLOR, CHAIR, ALASKA OIL AND GAS CONSERVATION COMMISSION (AOGCC)	Introduced Commissioner Daniel Seamont.
3330	DANIEL T. SEAMOUNT, JR., COMMISSIONER, ALASKA OIL AND GAS CONSERVATION	Referred to handouts outlining their power point presentation (copy on file). He pointed out that the first photograph showed an alpine field being developed by

	COMMISSION, DEPARTMENT ADMINISTRATION	OF the Phillips Corporations, using new industry technologies.
3048	Mr. Seamount	He referred to Page 2 of the handout, and discussed the history of the agency. He also addressed the function and oversight of the agency, as compared to a private oil company and other state agencies.
2941	Mr. Seamount	Discussed the mission statement: to protect the public interest in oil and gas resources.
2832	Mr. Seamount	Observed that the AOGCC regulates operations affecting subsurface oil & gas resources, ensures the reliability of oil and gas flow measurements, and ensures that under-ground sources of drinking water are protected by permitting, inspecting, field studies and investigations.
2711	Mr. Seamount	Noted that the home office is in Anchorage. There are field offices in the North Slope, Cook Inlet and the Mat-Su valley. AOGC has oversight over oil and gas project everywhere in the state except Denali National Park.
2613	Mr. Seamount	Referred the Commission's customers, including Alaskans, oil and gas companies, Alaska Department of Natural Resources, Department of Environmental Conservation, U.S. Environmental Protection Agency and other interested parties.
2454	Mr. Seamount	Outlined the Commission's primary services.
2435	Mr. Seamount	Discussed the Commission's goals and strategies: prevent physical waste, ensure greater ultimate recovery, assess oil and gas development, evaluate and inspect drilling to protect water resources, and evaluate proposals for reservoir development.
2252	Mr. Seamount	Maintained that Alaska will not suffer from the same mistakes made in Texas and other states. He explained that this would be implemented through protecting correlative rights and adjudicating disputes between owners.
2216	Mr. Seamount	Discussed drilling wells. He observed that current technologies enabled extended reach wells, and two well bores to surface location, as well as side tracking.
2132	Mr. Seamount	Referred to the underground injection

		program. Inspections ensure greater recovery and accurate volume measurements. This means more revenue for the state of Alaska.
2046	Mr. Seamount	Showed a map of the North Slope base. He explained the time required to complete inspections. He also noted that, if ANWR is opened, the area of oversight would be greatly increased.
1956	Mr. Seamount	Referred to the Cook Inlet base.
1932	Mr. Seamount	Observed that filed studies review proposed plans of development, evaluate monthly production and injection reports and evaluate reservoir performances.
1853	Mr. Seamount	Discussed key issues and initiatives: permitting - streamline; regulation modification; North Slope Gas Pipeline; Electronic data; UIC program; mature and aging oil fields; audit and compliance capability; and business process review.
1605	Mr. Seamount	Discussed oil and gas activity as it pertained to permitting. He noted that since 1990 there had been a steady increase in the number of permits due to the exploration of satellite development. He stated that the number of wells had risen from less than 500 in 1975, to nearly 4000.
1414	Mr. Seamount	Expressed a commitment to improving the time to process permits. In the recent quarter, the time has decreased to ten days.
1323	Mr. Seamount	Referred to the contact information on the final page of the handout (on file)
1306	Co-Chair Harris	Asked how the agency was funded.
1247	Cammy Oechsli Taylor, Chair, Alaska Oil & Gas Conservation Commission	Noted that they were funded through a regulatory cost charge and a federal grant. They receive no General Fund money.
1230	Vice-Chair Meyer	Asked why exploration activity was declining, even though the number of companies was increasing.
1147	Mr. Seamount	Maintained that their agency had not yet observed a decrease in activity. He mentioned re-drilling and side-drilling of existing wells, which carry an increase, as well as the development of satellite discoveries. He cited aggressive development at this time.
1046	Vice-Chair Meyer	Asked whether development was in area of producing the satellite field, rather

		than exploration drilling. He referred to a previous presentation by Philips.
0956	Co-Chair Harris	Asked whether new techniques were being employed to develop old fields.
0932	Mr. Seamount	Stated that the ability to extend well reaches had been improved by technology.
909	Representative Stevens	Referred to his chairmanship of Department of Administration and Department of Natural Resources subcommittees. He asked about the placement of AOGC.
846	Ms. Oechsli Taylor	Explained that the Commission had been created before statehood, and modeled after a national model act for conservation practices. It was then moved to the Department of Natural Resources. At development of Purdue Bay, the Legislature wanted to separate the two functions, since the State of Alaska is a significant landowner. The potential appearance of conflict of interest led the Legislature to move the department elsewhere.
717	Co-Chair Harris	<u>ADJOURNMENT</u> The meeting was adjourned at 3:11 PM