

HOUSE FINANCE COMMITTEE  
April 29, 2004  
8:44 A.M.

TAPE HFC 04 - 101, Side A  
TAPE HFC 04 - 101, Side B

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 8:44 A.M.

MEMBERS PRESENT

Representative John Harris, Co-Chair  
Representative Bill Williams, Co-Chair  
Representative Kevin Meyer, Vice-Chair  
Representative Mike Chenault  
Representative Eric Croft  
Representative Hugh Fate  
Representative Richard Foster  
Representative Mike Hawker  
Representative Reggie Joule  
Representative Carl Moses  
Representative Bill Stoltze

MEMBERS ABSENT

None

ALSO PRESENT

Senator Gary Stevens; Terry Harvey, Staff to Representative Weyhrauch; Tim Arnold, Vice President and General Manager, Coeur Alaska; Mr. Donald Bremner, Tlingit & Haida Central Council

PRESENT VIA TELECONFERENCE

Jim McMillan, Alaska Industrial Development & Export Authority (AIDEA), Anchorage

SUMMARY

HB 556

An Act relating to a port development project at Lynn Canal, providing legislative approval for the Alaska Industrial Development and Export Authority to issue bonds or otherwise provide financing for the project; and providing for an effective date.

CSHB 556(FIN) was REPORTED out of Committee with a "do pass" recommendation and with one previously published fiscal impact note.

HCS FOR CS FOR SB 273(FSH)

An Act amending the size, membership, and powers of the board of directors of the Alaska Seafood Marketing Institute and making a corresponding change in the quorum requirement; authorizing the establishment of the seafood marketing assessment at a rate of 0.5 percent or 0.6 percent of the value of seafood products produced; providing for an election to retain, terminate, or increase the seafood marketing assessment; providing for the repeal of the salmon marketing tax and provisions related to the salmon marketing tax; and providing for an effective date.

SB 273 was heard and HELD in Committee for further consideration.

CCSSB 286(FIN)

An Act relating to direct marketing fisheries businesses, to the fisheries business tax, and to liability for payment of taxes and assessments on the sale or transfer of fishery resources; and providing for an effective date."

SB 286 was POSTPONED.

SB 315

An Act relating to the administration of commercial fishing entry permit buy-back programs.

SB 315 was POSTPONED.

SB 322

An Act relating to the rate of the salmon enhancement tax.

SB 322 was POSTPONED.

#HB556

HOUSE BILL NO. 556

An Act relating to a port development project at Lynn Canal, providing legislative approval for the Alaska Industrial Development and Export Authority to issue bonds or otherwise provide financing for the project; and providing for an effective date.

TERRY HARVEY, STAFF TO REPRESENTATIVE WEYHRAUCH, explained that HB 556 is a revenue bond bill for the Kensington Mine project located about 50 miles northwest of Juneau. He stated that the Kensington Mine is nearing completion of its permitting process and construction could begin next year. The Alaska Industrial Development & Export Authority (AIDEA) has helped to draft the bill. The revenue bonds are for the port infrastructure at Cascade Point and Lower Slate Cove to help transport mine supplies and workers.

Co-Chair Harris asked the amount that AIDEA has the authority to bond without legislative approval. Mr. Harvey said about \$10 million, and clarified that the bill gives AIDEA authorization.

JIM MCMILLAN, DEPUTY DIRECTOR OF CREDIT AND BUSINESS DEVELOPMENT, ALASKA INDUSTRIAL DEVELOPMENT & EXPORT AUTHORITY, VIA TELECONFERENCE, ANCHORAGE, expressed that AIDEA supports the bill. He noted that AS 44.88 gives AIDEA the authority to issue bonds, and the bonds would be in excess of \$10 million. The current project status includes conceptual costs and designs.

Mr. McMillan stressed two points. The preliminary costs of \$7 million are "very soft," and AIDEA is concerned that costs could exceed \$10 million. The IRS code with tax exempt financing of a dock facility allows for financing of related upland improvements, which will be part of the due diligence process. He said that it is uncertain whether any uplands development will be included, but the financing could reach well above \$10 million.

Mr. McMillan explained that HB 556 is simply an authorization allowing the project to proceed to the due diligence process. The financing approval by AIDEA's board of directors depends on several statutory requirements including a feasibility analysis, a financial plan, and a finding of the economic, social and environmental effects. He noted that this is the beginning of a long process. Authorization is required only when the project is to be financed under AIDEA's development finance program, known as "the own and operate." AIDEA would own the docks because the IRS code requires government ownership to qualify for tax-exempt financing. Tax exempt financing also requires the likelihood of public use of the dock facilities. The AIDEA would seek a determination from the IRS that the two facilities qualify for public use.

Mr. McMillan said that AIDEA estimates 250-300 construction jobs, and 110-250 permanent jobs at Kensington Mine. The tax-exempt financing would assist the developer, Coeur Alaska, through the issuance of tax-exempt bonds and lower cost financing, which could save up to 2% on the financing cost. The AIDEA proposes to issue conduit tax-exempt revenue

bonds, which means its credit and assets would not be at risk. The bondholders who supply the money in an AIDEA pass-through will only look at the project revenues from the Kensington project, and any credit enhancements that the underwriters may require in order to sell the bonds. He emphasized the due diligence process and that this authorization and neither a commitment on the part of AIDEA to provide the financing nor a commitment by Coeur Alaska to accept it.

Representative Hawker questioned the \$7 million preliminary figure while the bill reflects a \$20 million bonding authority. He asked if there would be other projects on Lynn Canal that would qualify. Mr. McMillan replied that AIDEA is not considering any other projects at this time.

Representative Hawker asked if AIDEA might end up with excess bonding capacity if this bill were passed. Mr. McMillan said that it is possible to finance other port development projects in Lynn Canal with the excess bonding. However, AIDEA would meet with the Legislature before considering any other projects.

Representative Hawker asked if AIDEA would object to tightening up the definition to make it clear that the bonding authorization applies only to the specific project involving the Kensington Mine. Mr. McMillan replied that AIDEA would not object.

Representative Chenault questioned if it is intended that the money go to other [upland] projects. He asked who would pay for maintenance and repair of the facility, and if public access would happen during the mine's operation or in later years.

Mr. McMillan replied that there has not been any related upland improvement identified, but AIDEA would make a determination in the near future. An upland fuel storage facility would qualify, but it is uncertain if it would be required. Coeur has requested additional financial assistance for a tailings disposal facility but AIDEA wouldn't own it. The AIDEA can issue extra tax-exempt conduit revenue bonds for solid waste disposal.

Regarding maintenance, Mr. McMillan explained that AIDEA could enter into a use agreement with Coeur Alaska, who would be totally responsible for dock maintenance and operation. Public access is a requirement under IRS code and it cannot be precluded, although the Kensington Mine would have preferential use. If both dock facilities are financed and owned by AIDEA, these would be available for public use.

Representative Fate remarked that if the life of the mine does not extend the life of the port, the amount of usage

would stop shortly after the mine closes and he asked if there would be problems meeting operations and maintenance costs. Mr. McMillan replied that the projected mine life is 10 or 12 years, a relatively short term to finance a project of this nature. Coeur Alaska expects other minerals [silver and copper] and that the mine will be there longer than 10 years. At the end of the mine life agreement, AIDEA would either lease or sell the dock facility to Coeur Alaska at fair market value. The southern port facility at Cascade Point would be on land owned by Goldbelt, with the potential to transfer the facility to the Corporation. He said that these issues would be addressed during the due diligence process.

Representative Joule asked if there are other models in place similar to this financing. Mr. McMillan described it as "hybrid" financing, a combination of two programs. These are a development finance program of own-and-operate, wherein AIDEA owns the asset, and the issuance of not-at-risk conduit bonds. He likened it to the Snettisham Project that AIDEA sold to AEL&P through conduit financing so that AIDEA is not at risk.

TIM ARNOLD, VICE PRESIDENT AND GENERAL MANAGER, COEUR ALASKA, stated that the Kensington Mine project has been planned for some time, and Coeur Alaska will be able to proceed with development by mid-summer. He referred to "Project Summary and Overview of Partnership Opportunities, April 2004," (copy on file) and explained that Coeur Alaska could do the financing itself and it has two options. It could build the facility and under the current supplemental environmental impact statement (SEIS), could own and operate it, leaving a "small footprint" by removing the dock at the end of project. The other option would involve AIDEA getting Coeur Alaska tax-exempt financing during the repayment period, with State ownership after the mine closes.

Vice-Chair Meyer expressed support for the project. In response to a question by Vice-Chair Meyer, Mr. Arnold said that Coeur Alaska is full owner of the project. The operation would involve 250 jobs, with additional jobs during the construction phase.

Vice-Chair Meyer asked if the permitting process is working well. Mr. Arnold answered that the project is halfway through the NEPA process (the supplemental environmental impact statement) because of design changes.

In response to a question by Representative Joule, Mr. Arnold reiterated that there would be about 250 jobs when the mine is in operation, with up to 300 jobs during construction. He said their goal would be as much local hire as possible, and secondarily Alaska hires, and then Outside

hires. The company would provide a good local training program for operation of the mine.

Mr. Arnold discussed the rotation schedule with Representative Joule, and described the Kensington as a community mine involving a beautiful commute, with the possibility of a different schedule to work around employees' needs.

Representative Joule asked the annual payroll. Mr. Arnold thought it would be about \$19 million, and said he would provide the figure. Representative Joule asked if he anticipated problems related to the marine life and fishing in Lynn Canal. Mr. Arnold replied that he did not, and it was addressed in the supplemental EIS.

Representative Hawker asked if the tunnel connecting the two mine sites would be a vehicle or rail tunnel. Mr. Arnold explained that it would be a vehicle tunnel for running a 40-ton truck from Kensington Mine to Jualin Mine. In response to a question by Representative Hawker, Mr. Arnold said that he hoped to lower the \$5 million cost estimate for 1-1/2 miles.

Representative Croft asked the steady price of gold needed for the mine to be economical. Mr. Arnold said the break-even cost would be \$200 per ounce. He noted that gold has been hovering between \$400 and \$425, and has now dipped below \$400.

In response to a question by Vice-Chair Meyer, Mr. Arnold said that he expected the mine to produce some silver and copper, but the payable metal would be gold. It is primarily a gold mine.

Representative Hawker MOVED to ADOPT Amendment #1. Co-Chair Williams OBJECTED for purposes of discussion.

Amendment #1 reads:

Page 1, line 9

Insert: "at Slate Creek Cove and Cascade Point"

To read:

(a) The Alaska Industrial Development and Export Authority may issue bonds to finance the acquisition, development, improvement, and construction of port and related facilities located at Slate Creek Cove and Cascade Point on Lynn Canal in Southeast Alaska.

Representative Hawker explained that Amendment #1 addresses the issue of over-authorization of bonding and makes it a site-specific project.

Co-Chair Williams removed his objection. Amendment #1 was adopted.

Representative Foster MOVED to report CSHB 556(FIN) out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

Co-Chair Williams pointed out a conflict of interest because he is a shareholder in Cape Fox Corporation which is negotiating a land trade in the area.

CSHB 556(FIN) was REPORTED out of Committee with a "do pass" recommendation and with one previously published fiscal impact note.

#SB273

HOUSE CS FOR CS FOR SENATE BILL NO. 273(FSH)

An Act amending the size, membership, and powers of the board of directors of the Alaska Seafood Marketing Institute and making a corresponding change in the quorum requirement; authorizing the establishment of the seafood marketing assessment at a rate of 0.5 percent or 0.6 percent of the value of seafood products produced; providing for an election to retain, terminate, or increase the seafood marketing assessment; providing for the repeal of the salmon marketing tax and provisions related to the salmon marketing tax; and providing for an effective date.

Co-Chair Harris MOVED to ADOPT Work Draft Version G, 23-LS1366\G, Utermohle, dated 4-26-04, as the version before the Committee. There being NO OBJECTION, it was so ordered.

SENATOR GARY STEVENS, SPONSOR, explained that SB 332 would expedite a process to begin in January 2005. On August 1, 2004 the director of the Division of Elections would approve the ballot [for the Board of Directors, Alaska Seafood Marketing Institute (ASMI)]. On September 1, ASMI would hold a meeting with the processors and fishermen. The ballot would be mailed, postmarked and returned to the Division of Elections to be certified by November 1. If the processors made the proposed choice, the tax on salmon fishermen would end on December 31 and the increased tax on processors would begin on January 1. The bill ensures that processors would be taxed during the full year and if there were fewer fishermen on the board, they would not pay the 1% tax.

Co-Chair Harris thought that Section 2 and Section 3 appeared nearly identical. Senator Stevens referred to the chart showing the current tax structure (copy on file.) He pointed out that ASMI does the generic marketing for all seafood products. He mentioned the 1% tax on salmon

fishermen, the 2% processors' assessment, and the current 25-member ASMI Board. The bill addresses both the size of the Board and stable funding for ASMI, and it presents three options to the processors.

Senator Stevens asserted that the current 25-member ASMI board is unworkable. He pointed out in the far right column on the chart the option for the processors to eliminate their assessment and to end ASMI, with only the salmon tax continuing. The ballot would ask if any tax should be continued for ASMI. The second column of the chart would reduce the ASMI Board to 7 members, eliminate the tax on fishermen and raise the processors tax to .5% or \$5 million. He asserted that this option would be the most effective way for ASMI to continue. The third column would raise the ASMI Board to 9 members by adding two more fishermen, and continue the taxes on salmon fishermen and on processors. Senator Stevens acknowledged that the bill is confusing because it provides options. The law requires 51% of the processors based on the volume of product, or the largest 7 or 8 processors, to make a change.

In response to a comment by Co-Chair Harris, Senator Stevens remarked that a smaller board with more processors would mean that the processors would pay more into the industry. He said the processors are willing to pay the .5% and let the fishermen "off the hook."

In response to a question by Co-Chair Harris, Senator Stevens answered that the federal funding appears stable. Co-Chair Harris asked if fishermen would prefer the second option of not paying a tax. Senator Stevens affirmed and noted that the structure of the board should change in that case.

Representative Joule commented on small Alaska-owned shops. He thought that the ASMI Board would be controlled by out of state processors and questioned giving the marketing of seafood to non-Alaskans. Senator Stevens pointed out that seafood is an international industry, with a lot of marketing outside of Alaska. He commented that he was involved in ASMI in the 1970s when he was a processor. He thought that the board was more effective at that time because the decisions were made at the board level, and he expressed that CEOs, presidents and owners of processors are needed on the ASMI Board.

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Senator Stevens continued, noting that all the larger companies and corporations deal in farmed fish. He reiterated that leadership from industry should be represented on the board.

Representative Croft asked the current structure of the board. Senator Stevens replied that the 25-member board includes one person from outside of the industry, 12 fishermen and 12 processors. Representative Croft asked if the bill would change the composition to five processors and two fishermen. Senator Stevens affirmed.

Representative Croft pointed out that under either scenario, a smaller board would be substantially or partially dominated by processors. Senator Stevens affirmed. Representative Croft wondered why permission is necessary to assess a processor tax. Senator Stevens replied that under current law, processors could make the choice of increasing the percentage, with the option not to fund ASMI.

Representative Croft asked the rationale of changing to a board dominated by processors interested in the expansion of farmed fish and not motivated by Alaskan interests. Senator Stevens replied that ASMI would become less effective if it continued with the 1% fishermen's' tax and the .2% processors' tax. Alaska is no longer the primary supplier of salmon with most of the industry involved in farmed salmon.

Representative Croft supported restructuring the board to a smaller number but wanted to see control over a resource Alaska owns. He didn't think ASMI could achieve the marketing of wild salmon by giving the marketing decisions to people with an inherent conflict of interest. He said that assessing the tax is one thing, but giving processors the power to choose how to market is another.

Co-Chair Williams commented that the processors and the federal government pay into the marketing endeavor, and if the state were paying, restrictions could be placed on how the money is spent. Representative Croft argued that it is all state money. Co-Chair Williams replied that the processors could object. Representative Croft noted that it is a voluntary tax on processors. Co-Chair Williams said that it is "money out of the back pockets of processors." The fishermen have assessed themselves and have asked not to pay a tax.

Senator Stevens pointed out that if 7 of the 8 processors could not be on the board because they have farmed fish product, the processors would not move to tax themselves higher. In current law the processors can decide taxation and this bill gives the option to go to .5% with more control of the board by the processors. He felt that it is reasonable as long as ASMI gets the marketing dollars to make the industry succeed. The tax level is not in this bill.

Vice-Chair Meyer asked if the processors would pass on the tax to the fishermen if the fishermen don't pay any tax.

Senator Stevens said that any tax on the industry impacts the ex-vessel price to fishermen. Vice-Chair Meyer noted that fishermen pay the price either indirectly or directly.

Vice-Chair Meyer asked if any of the Dutch Harbor floating processors are Alaskan companies. Senator Stevens replied that Alaska couldn't tax the processors outside state waters unless they deliver a product inside state waters.

Representative Joule asked if the 5 processors on the ASMI Board, as proposed in the bill, would be Alaskan. Senator Stevens replied at least one would be Alaskan, but currently most of the larger processors have offices in Seattle and elsewhere.

Representative Croft asked if the bill allows fishermen to lower their own tax and to raise the processors' tax. Senator Stevens replied that it is similar to twelve regional marketing organizations with fishermen choosing to tax themselves and collect monies for regional marketing. Regional marketing is based on grants and lacks stable funding. He said that many fishermen would rather see money put into their own local organizations than into ASMI.

Representative Croft asked if fishermen want any of the options in the bill. Senator Stevens replied that the United Fishermen of Alaska (UFA) supports eliminating the 1% salmon harvester tax as part of the ASMI funding formula.

In response to a question by Representative Croft, Senator Stevens affirmed that the bill would involve a shift to big processors, stating that the board needs industry leaders.

Representative Croft questioned shifting the tax and giving up control of the market when it all will work out in the value of the fish. Senator Stevens stated that it is a very indirect process.

Representative Croft asked how the composition of the ASMI Board could represent the diversity of Alaskan fishermen with just 2 seats for fishermen. Senator Stevens replied that it would be unworkable for ASMI to represent every regional fishery and every species, and the Board should have members that represent and make marketing decisions to benefit the entire industry. He thought that a small group of 7 to 9 members would be more effective than a much larger group of 25 members.

Representative Fate asked if the board would market wild Alaskan salmon at the expense of farmed salmon, which might represent the biggest margin of profit. Senator Stevens replied that Alaska now must deal with the international marketing structure that includes farmed fish. He said that Alaska must provide the highest quality product. The

industry looks at what is most profitable, and farmed fish can compete fairly in the market. All product, including farmed salmon, is marketed through ASMI.

MR. DONALD BREMNER, TLINGIT & HAIDA CENTRAL COUNCIL, and STAFF to SOUTHEAST ALASKA INTERTRIBAL FISH & WILDLIFE COMMISSION, commented that the proposed size reduction of the ASMI Board to 7 or 9 might make economic sense but it would be at the expense of rural representation by the smaller communities and smaller processors. He voiced that the Department of Fish & Game and ASMI have done a good job. The Central Council also opposes having representatives on the board who sell farmed salmon. He recommended a reduction to a 15-member board.

In response to a question by Representative Joule, Mr. Bremner explained that the number of 7 or 9 was derived in looking at the issue of representation.

Representative Joule asked if there were a number between 9 and 15 that would accommodate both of his concerns [rural representation and economics]. Mr. Bremner felt that there was basis for saying that rural Alaska's voice has not been heard when major decisions have been made. He felt that the quality and quantity of ASMI staff is also a key issue. He maintained that rural Alaska would not receive representation with the size of the board proposed in the Committee Substitute.

SB 273 was heard and HELD in Committee for further consideration.  
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ADJOURNMENT

The meeting was adjourned at 10:08 A.M.