

**MINUTES**  
**SENATE FINANCE COMMITTEE**  
**April 28, 2003**  
**9:04 AM**

**TAPES**

SFC-03 # 66, Side A  
SFC 03 # 66, Side B

**CALL TO ORDER**

Co-Chair Gary Wilken convened the meeting at approximately 9:04 AM.

**PRESENT**

Senator Gary Wilken, Co-Chair  
Senator Lyda Green, Co-Chair  
Senator Con Bunde, Vice Chair  
Senator Ben Stevens  
Senator Donny Olson  
Senator Lyman Hoffman  
Senator Robin Taylor

**Also Attending:** REPRESENTATIVE NORM ROKEBERG; KEVIN RITCHIE, Executive Director, Alaska Municipal League; JOS GOVAARS, Staff to Representative Jim Holm

**Attending via Teleconference:** From an offnet site: MARK BENDERSKY, Groups Project Administrator, Alaska Science & Technology Foundation, Department of Community and Economic Development; From Kenai: ED MARTIN; LENORE JONES; LAURIE CHURCHILL; PETRIA FALKENBERG; LINDA HORDEMAN; SUSAN GIBSON; JAMES PRICE; From Anchorage: CHUCK LOGSDON, Chief Petroleum Economist, Tax Division, Department of Revenue

**SUMMARY INFORMATION**

SB 173-SCIENCE & TECH FOUNDATION/BIDCO/INT.TRADE

The Committee heard from the Department of Law and reported the bill from Committee.

HB 11-DEPOSITS TO THE PERMANENT FUND

The Committee heard from the bill's sponsor, the Department of

Revenue, and took public testimony. The bill was held in Committee.

#### HB 59-CLEANUP OF ILLEGAL DRUG SITES

The Committee heard from the bill's sponsor and adopted one amendment. The bill was held in Committee.

#sb173

#### SENATE BILL NO. 173

"An Act repealing statutes pertaining to the Alaska Science and Technology Foundation and transferring money in the foundation's endowment; repealing statutes relating to the BIDCO assistance program; repealing statutes pertaining to the international trade and business endowment and transferring money in the international trade and business endowment; transferring oversight administration of outstanding Alaska Science and Technology Foundation loans and grants to the Alaska Industrial Development and Export Authority; establishing an Alaska BIDCO assistance program to be administered by the Department of Community and Economic Development; making conforming amendments; and providing for an effective date."

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

Co-Chair Wilken asked for information regarding Alaska Statutes (AS) 37.17.500 - 37.17.690 that are repeatedly referenced in the legislation.

MARK BENDERSKY, Groups Project Administrator, Alaska Science & Technology Foundation, Department of Community and Economic Development Anchorage testified via teleconference from an offnet site and explained that these statutes provide for the establishment of an Alaska BIDCO assistance program within the Department of Community and Economic Development. He stated that this program would mirror the program currently operated by the Alaska Science & Technology Foundation (ASTF).

Co-chair Wilken asked how the program would function.

Mr. Bendersky specified that this program would allow the State to provide loans to new BIDCO companies, similar to "a high-risk bank that does not take deposits but does do high risk financing on the debt side or on the equity side."

Co-Chair Green moved to report the bill from Committee with accompanying fiscal notes and individual recommendations.

There being no objections, SB 173 was REPORTED from Committee with a new \$75,500 fiscal note, dated April 8, 2003 from the Alaska Industrial Development & Export Authority, Department of Community and Economic Development and previous fiscal note #1 from the Alaska Science & Technology Foundation, Department of Community and Economic Development.

#hb11

HOUSE BILL NO. 11

"An Act relating to deposits to the Alaska permanent fund from mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), federal mineral revenue sharing payments received by the state from mineral leases, and bonuses received by the state from mineral leases, and limiting deposits from those sources to the 25 percent required under art. IX, sec. 15, Constitution of the State of Alaska; and providing for an effective date."

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

Co-chair Wilken informed that this legislation would provide royalty contribution revenue to the Alaska Permanent Fund at the 25 percent level as specified in the State's Constitution.

REPRESENTATIVE NORM ROKEBERG, the bill's sponsor, informed that in 1981, the Legislature increased the royalty contribution amount from all new natural development leases from the 25 percent level specified in the State's Constitution to a 50 percent contribution level. He stated that this action "has afforded the Permanent Fund significant revenue and growth opportunities for the past 22 years;" however, he continued, the State's general fund budgetary needs and fiscal gap situation mandate that the level of revenue dedicated to the Permanent Fund be returned to the original 25 percent requirement in order to reallocate the additional funds into the general fund. He stated that production levels have been stabilized due to new fields being developed to replace the production decline from Prudhoe Bay. However, he stressed that low per barrel prices are causing the State to experience "a cash flow problem." He stated that this legislation would provide a "painless" remedy as opposed to implementation of a State sales tax, income tax, or an increase in the motor fuel tax.

Representative Rokeberg stressed that this action would have minimal affect on the Permanent Fund, and he shared that only one third of the \$1,540 FY 02 Permanent Fund Dividend (PFD) check, or \$532, resulted from the oil revenue contribution and that the balance of the check was generated by "actions of the Legislature" via special appropriations and inflation proofing measures.

Representative Rokeberg opined that a recently approved Municipality of Anchorage Assembly resolution in support of this legislation indicates that the citizens of the State "are beginning to understand that this is a solid non-partisan way to attack the fiscal dilemma" facing the State.

Senator Bunde commented that he supports this legislation as "you can't cut your way to prosperity; you can't save yourself into prosperity."

ED MARTIN, SR. testified via teleconference from Kenai and stressed that the State must control expenses in order not to exceed its income. He referenced the 1999 special statewide election in which 83 percent of Alaskan voters indicated they do not wish to have the Permanent Fund system altered, and he urged elected officials to honor that vote to maintain voter trust.

Senator Bunde noted that, due to budget restraints, the Kenai Peninsula Borough is considering reducing school funding, and he asked whether Mr. Martin would support receipt of additional State funding to assist in alleviating the Borough's budget situation.

Mr. Martin voiced that changes to the Permanent Fund should not be conducted without a vote of the people. He emphasized that the State should cut or reduce funding to programs to accomplish the goal of living within its means.

Senator Bunde therefore "assumed" that the testifier would approve of further State funding reductions to the Kenai school funding.

Mr. Martin responded that when managing the State's budget, all aspects of school funding, on a statewide basis, should be considered including such things as school administration salaries. He reiterated that the State must work within its budget.

LENORE JONES testified via teleconference from Kenai to voice concern that the Permanent Fund program might be changed without a vote of the people. She urged the Committee to oppose this legislation, and she suggested that a state lottery or income tax be considered to raise State revenue.

LAURIE CHURCHILL, Board Secretary, Alaska Voters Organization, testified via teleconference from Kenai and read the Organization's Resolution 2003-11 [copy on file] that reminded legislators that, in a 1999 advisory vote, 83 percent of Alaskan voters opted against using Permanent Fund earnings to balance the State budget. However, she continued, Governor Frank Murkowski and legislators are now considering policies that would do just that "in direct opposition" to that vote and to recent election promises "to defend and protect the Permanent Fund." She stressed that this legislation's accompanying fiscal notes understate the loss of potential revenue to the Permanent Fund, and she noted the current trend of declining oil production, but increasing government spending.

PETRIA FALKENBERG testified via teleconference from Kenai and characterized this legislation "as highway robbery of the Permanent Fund." She reminded Members of campaign promises and the 1999 vote that specified that the Legislature should not "touch the Permanent Fund without a vote of the people." She questioned the number of voters who support this bill.

Senator Bunde responded that the majority of the people in his district support using Permanent Fund earnings to balance the State budget rather than a State tax. He additionally noted that the people in his district recognize that in three years the Constitutional Budget Reserve (CBR) would be non-existent and the people of the State would be faced with either "substantial personal taxes or with using the earnings of the Permanent Fund."

LINDA HORDEMAN testified via teleconference from Kenai and exclaimed, "the 13 percent of the population lives in his [Senator Bunde] district that opposed the [1999] vote...now we know where they live." She addressed the Kenai School District funding shortfalls by noting that the area is experiencing a decrease in student enrollment and that the school district is contemplating the closure and consolidation of school facilities. However, she questioned the District's wisdom of opening up a school to use as an administration office as, she exclaimed, this "is not responsible spending and budgeting." She questioned why teachers are not being better paid or classrooms being better equipped because, she attested, the "money is there; we just don't know why you guys can't get it in the right place."

Ms. Hordeman continued that Legislators have claimed for a decade that "the sky is falling" and that Permanent Fund revenues must be accessed to balance budget shortfalls. She voiced that the State must make "serious cutbacks" in State offices as the private sector has been forced to do. She opined that it is the private sector that stimulates the economy and that the Permanent Fund dividend

payments provide money that supports the private sector. She likened taking the Permanent Fund money, which she declared is "for the people," away from the people "to a Soviet Union type government."

Senator Bunde interjected that giving money to people "for not doing anything" is more "socialistic" than communistic.

Senator Taylor stated that there is a lot of socialism in the country as, he noted, numerous states, as well as the federal government, take from people according "to their ability to pay" and give to people according to their needs.

SUSAN GIBSON testified via teleconference from Kenai and challenged Senator Bunde's comment regarding "getting free money for nothing." She clarified that the Permanent Fund was created to replace what the people have lost due to not being able to claim mineral rights on their land. She qualified that Alaska is the only state that does not allow people to purchase property and retain the mineral rights to that property.

Senator Bunde affirmed that this is correct.

Ms. Gibson urged the Committee to oppose this legislation and instead to support other legislation, in particular HJR 3, as "it is past time to redefine the economic reality" of the State..."it is not revenue shortfall, but instead is spending excess...for the past ten years." She urged the Legislature "to live in the here and now" and "make real and meaningful budget cuts" as private citizens are forced to do.

JAMES PRICE testified via teleconference from Kenai and urged the Committee to oppose this legislation. He reminded the Committee that the 83 percent vote against using Permanent Fund earnings to balance the State's budget "was clearly an indication that the people do not favor this sort of legislation." He "respectfully disagreed with Senator Bunde's" comments that his district would support using the Permanent Fund to balance the budget and suggested that another advisory vote be conducted to determine citizen positions. He advised that the State's budget should be reviewed for the long-term and that budget cuts should be implemented, as the current budget is unsustainable. He attested that were the Permanent Fund earnings used now to offset budget shortfalls "without trimming down State spending" the State would face the same dilemma again in a few years. He urged for a responsible approach to the budget be undertaken; however, he advised that education, transportation, and public safety should be protected.

Senator Bunde specified that while 83 percent of the voters who voted in the 1999 advisory election opposed using Permanent Fund earnings to balance the budget, he noted that only 20 percent of registered voters voted in that election. He voiced that it "would be interesting" to put that question to the people again, and he commented that a higher voter turnout would be welcome.

Senator Bunde referenced information [copy not provided] supplied by Co-chair Wilken that indicates that the federal government contributes approximately 36 percent of the State's total annual operating budget as pass-through funding to state agencies, and he professed that, were this funding eliminated, the State's fiscal gap would not be affected "by one dollar." However, he stated that it might impact citizen programs. He asserted that 15 percent of the total general fund spending supports the Permanent Fund program, and he declared that when people insist that the State reduce spending, they should be aware that the Permanent Fund dividend program is a substantial expense.

Co-Chair Wilken clarified that the Permanent Fund program accounts for 15 percent of the total State budget and that general fund spending accounts for approximately 30 percent of the State's total budget. Therefore, he asserted that the Permanent Fund program equates to one-half of general fund spending.

Senator Taylor declared that this information is very informative, as he had not realized "the magnitude" of the Permanent Fund program. He questioned whether the numbers include inflation-proofing funding in addition to the dividend and the cost of administering the program.

Co-chair Wilken commented that in FY 04, the Permanent Fund program budget is expected to be approximately one billion dollars. Therefore, he expounded that the Permanent Fund program expense would account for approximately half of the total \$2.2 billion general fund spending in FY 04, and that these figures, combined with projected federal funding, would account for approximately 80 percent of the total State FY 04 budget. He informed that the remaining 20 percent is money that the Legislature "has no control over" as it has been previously obligated.

Senator Bunde reiterated that when the citizens request the Legislature to reduce spending, their request "should be very specific" because a large portion of the State's spending supports the Permanent Fund dividend program.

KEVIN RITCHIE, Executive Director, Alaska Municipal League (AML),

conveyed that sixteen municipal officials, representing AML's Legislative Committee and Board of Directors, recently met "and had a very sobering discussion with the Director of the Office of Management and Budget (OMB)" regarding the State's and communities' "grave fiscal situation." He distributed an Alaska Municipal League letter and accompanying resolution [copies on file], dated April 25, 2003, and addressed to Governor Frank Murkowski that specify that AML supports the proposed statutory change in HB 11. He stated that, "the Board was moved by the fact" that the State's voters approved the 25 percent contribution level in 1976.

Representative Rokeberg asked the current price of Alaska North Slope (ANS) crude oil.

CHUCK LOGSDON, Chief Petroleum Economist, Tax Division, Department of Revenue, testified via teleconference from Anchorage and replied that ANS crude oil is currently selling for \$23.50 per barrel.

Representative Rokeberg asked whether current prices and production levels would equate to approximately a \$65 million shortfall in general fund availability.

Mr. Logsdon responded that it would.

Co-Chair Wilken asked the production level factored in this shortfall.

Mr. Logsdon responded that this reflects the current level of production, which is slightly less than one million barrels a day.

Representative Rokeberg informed that due to the current price of the oil, the State has lost approximately one million dollars in the last week. He continued that because of the volatility in the market, the Organization of Petroleum Exporting Countries (OPEC) has scheduled an emergency meeting to try to stabilize the market. He stated that were the market to stabilize and production to remain constant, ANS prices might meet the State's spring revenue forecast.

Mr. Logsdon affirmed and specified that the State based its FY 04 revenue forecast projections on the price of \$25, which is in the middle of the OPEC target price range. However, he predicted that, in the long run, the price per barrel would meet OPEC's low target range; therefore, he informed that the State has based its long range projection at \$22 per barrel.

Senator Bunde asked the price that ANS would need "to sell for to balance the budget at the current level of spending."

Mr. Logsdon answered that the price would need to be \$38 a barrel to balance the FY 04 budget.

Senator Bunde asked the likelihood of achieving that price.

Mr. Logsdon replied that ANS oil has never averaged that price.

Representative Rokeberg noted that it would be difficult to increase State revenue this year because of cash flow problems; however, he remarked that this legislation would provide a certain amount of money to assist the Legislature in meeting its obligations. He stressed that this legislation is not necessarily "a spending bill," and he supported keeping general fund expenditures below FY 03 levels.

Representative Rokeberg opined that there is no relationship between this bill and the 1999 vote, and he argued that the concept of saying that this legislation has been to the polls and rejected by the voters is false. He declared that the House of Representatives has two times previously approved similar legislation and that the legislators who voted for it were re-elected. He stated that were the issue appropriately presented to the voters, it "would be favorably received." He furthered that this legislation would reduce pressure to implement taxes or to alter the Permanent Fund program.

Representative Rokeberg aired that while "its true that Congress granted subsurface mineral rights to the State of Alaska," he contended that this was done to reduce the State's dependence on the federal government rather than to establish the Permanent Fund program "to redistribute money to the citizens because of the loss" of the mineral rights.

Co-Chair Green respectfully disagreed. She voiced that the Permanent Fund program was specifically created to compensate landowners from being prohibited from owning the mineral rights to their land. She noted that, with the exception of Alaska and Hawaii, every other state in the union allows the landowner to own mineral rights to their land.

Representative Rokeberg voiced that while he is not disagreeing with Co-chair Green's analysis, he is disagreeing that this is the basis for the establishment of the Permanent Fund.

Senator Taylor communicated that public testimony indicates, "this bill is perceived as a raid on the Permanent Fund."

Representative Rokeberg responded that for a small amount of people who do not understand the history and the nature of the establishment of the Permanent Fund program or the monetary fiscal crisis that the State is in, this is correct.

Senator Taylor expressed that the focus of today's public testimony has "emotionally" centered on the Permanent Fund program and the issue of mineral rights rather than focusing on the revenue stream that this legislation would contribute to the State. However, he voiced opposition to the legislation "for those very same reasons," and he supported the money continuing to be deposited "into the Permanent Fund until the people decide what to do."

Senator Olson, referencing the Department of Revenue communiqué titled "HB 11 dividend projections," dated January 29, 2003 [copy on file], from Deputy Director, Larry Persily, to the sponsor's staff, stating that Alaskans are concerned about the affect this legislation would have on the Permanent Fund dividend payouts.

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Representative Rokeberg responded that HB 11 would result in relatively minor changes to the Permanent Fund dividend amounts. He stated that until the year 2010, the status quo level and the amount paid under the guidelines of HB 11 would be identical. He continued that following that timeframe, minor reductions would occur as exemplified by a ten-dollar reduction in 2010.

Senator Olson ascertained, therefore, that "there would be relatively no change."

Senator Bunde voiced the public's concern that, were a cash flow increase of approximately \$50 million to result from the passage of this legislation, the government might increase spending equal to that amount. He asked how the Legislature could assure the public that this would not occur, and that the money "would be used to address the State's deficit rather than supporting new programs."

Representative Rokeberg responded that a reduction in the FY 04 operating budget expense below this amount would demonstrate the intent of this action. He further suggested that plausible explanations and information supporting expenditures should be provided to the public. He reiterated that this legislation would lessen the pressure on the Legislature to enact taxes or to alter the Permanent Fund dividend program. He also reiterated that the public must become aware of the State's serious fiscal dilemma,

which includes such programs as pension fund obligations.

Senator Bunde opined that the Legislature must appropriate less money, and he asked whether the House of Representatives has adopted an FY 04 operating budget bill that reduces spending.

Representative Rokeberg noted that while Governor Murkowski's proposed FY 04 budget reflects an increase in general fund money, that increase would be offset by the enactment of legislation to reduce other spending.

Senator Bunde surmised, therefore, that the answer to the question as to whether the House reduced spending is "no."

Senator Taylor expressed that the low voter turnout in the 1989 advisory vote was less than representative; therefore, he suggested that the question as to whether the amount of revenue flowing into the Permanent Fund account should be reduced from the current 50 percent statutory level to the Constitutionally mandated 25 percent level should be put to the people.

Representative Rokeberg responded that the House considered an amendment to do just that, and that he had spoken in opposition to it, as, he stated, "it was Legislative action" that increased the allocation and "that it is the right and responsibility of the Legislators to act to either repeal or adjust its own legislation." To do otherwise, he attested, would minimize the Legislators' constitutional rights and duties to act on behalf of the people. He asserted that this would set a precedence that any difficult decision should be voted on by the people.

Co-Chair Wilken asked the sponsor to verify that the numbers specified in the aforementioned January 29<sup>th</sup> communiqué are correct as, he informed, he supports this legislation and would be using those numbers in its defense.

Representative Rokeberg clarified that the Department of Revenue fiscal note #1 reflects that minor reductions in the Permanent Fund dividends would begin in 2005.

Co-chair Wilken stated that the affect of this legislation on Permanent Fund dividend is of concern to the public, and he noted that the information contained in fiscal note #1 would be useful in garnering support for the bill.

Co-Chair Wilken clarified that this legislation would align the Legislature's action with the Constitution. He suggested that in order to protect the Permanent Fund and benefit the general fund

the Legislature should determine how 1980 federal law changes might affect other royalty level adjustments that the State has under consideration, specifically royalty lease percentages involving the National Petroleum Reserve-Alaska (NPR-A).

Co-chair Wilken ordered the bill HELD in Committee.

#hb59

CS FOR HOUSE BILL NO. 59(FIN) am  
"An Act relating to the evaluation and cleanup of sites where certain controlled substances may have been manufactured or stored; and providing for an effective date."

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

Co-Chair Wilken explained that this bill addresses basic standards and requirements for the clean up of methamphetamine (meth) labs and specifies that property owners must be responsible for the cleanup and that, until the cleanup is completed, the property could not be transferred, leased, or sold.

JOS GOVAARS, Staff to Representative Jim Holm, affirmed that this legislation establishes standards for the clean up of illegal drug sites. He shared that during the past several years, more than 90 drug sites have been discovered in such places as cabins, trucks, apartments, and mobile homes. He stated that the chemicals used in the illegal drug process have been linked to cancer and present a health risk to future inhabitants of the premises. He communicated that the Department of Environmental Conservation would notify the property owner as to the proper testing, sampling and cleanup procedures for a site.

AT EASE 10:05 AM / 10:06 AM

AMENDMENT #1: This amendment deletes "of the entryway" following the word "posting" on page 3, line 10.

Additionally, the amendment inserts new language into the bill on page 3, line 13, following the word "property." The language being inserted, reads as follows.

For purposes of posting of the notice to the occupants and users of the property required by this subsection, the posting shall be made, for property that is

- (1) a single family dwelling, at the main entryway

of the property; and

(2) other than a single family dwelling and for hotel, motel, public inn, or similar place of public accommodation that provides lodging, at the door of the unit that is the site that constitutes the illegal drug manufacturing site.

Senator Taylor moved for adoption of Amendment #1. He explained that the bill's sponsors support this amendment. He stated that the amendment modifies the bill to specify that, were a meth lab discovered in a multi-unit building, only the affected unit would be quarantined or noticed for cleanup purposes.

There being no objection, Amendment #1 was ADOPTED.

Co-chair Wilken ordered the bill HELD in Committee.

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**ADJOURNMENT**

Co-Chair Gary Wilken adjourned the meeting at 10:08 AM