

MINUTES
SENATE FINANCE COMMITTEE
May 12, 2003
9:12 AM

TAPES

SFC-03 # 88, Side A
SFC 03 # 88, Side B
SFC 03 # 89, Side A

CALL TO ORDER

Co-Chair Gary Wilken convened the meeting at approximately 9:12 AM.

PRESENT

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

Also Attending: SENATOR FRED DYSON; REPRESENTATIVE MIKE CHENAULT; CHUCK HARLAMERT, Juneau Section Chief, Tax Division, Department of Revenue; JASON HOOLEY, Staff to Senator Dyson; MIKE BARTON, Commissioner, Department of Transportation and Public Facilities; TOM BOUTIN, Deputy Commissioner, Department of Revenue; JAY HOGAN, Deputy Director, Office of Management and Budget, Office of the Governor;

Attending via Teleconference: From Anchorage: VICKY HALCRO, Director, Public Affairs and Marketing, Planned Parenthood of Alaska; From an offnet location: KEN SURA, Landrum and Brown; KIP KNUDSON, Deputy Commissioner of Aviation, Department of Transportation and Public Facilities; CHARLES LOGSDEN, Chief Petroleum Economist, Tax Division, Department of Revenue; DOUG THEIRWECHTER, Marathon Oil Company; JOHN BARNES, Manager of Alaska Operations, Marathon Oil Company;

SUMMARY INFORMATION

HB 90-TAX CREDIT:SALMON DEVELOPMENT/UTILIZATION

The Committee heard from the Department of Revenue, adopted a committee substitute and reported the bill from Committee.

SB 30-ABORTION: INFORMED CONSENT; INFORMATION

The Committee heard from the sponsor and Planned Parenthood of Alaska. The bill moved from Committee.

SB 216-INTERNATIONAL AIRPORTS REVENUE BONDS

The Committee heard from the Department of Transportation and Public Facilities, the Department of Revenue and a consulting firm contracted by the Department of Transportation and Public Facilities. The bill moved from Committee.

HB 243-EVALUATION OF AGENCY PROGRAMS

The Committee heard from the Office of Management and Budget, and the bill moved from Committee.

HB 61-OIL & GAS TAX CREDIT FOR EXPLORATION/DEV

The Committee heard from the sponsor, the Department of Revenue, and Marathon Oil Company. An amendment was offered but no action was taken. The bill was held in Committee.

#HB90

CS FOR HOUSE BILL NO. 90(FIN)

"An Act relating to a salmon product development tax credit and a salmon utilization tax credit under the Alaska fisheries business tax; and providing for an effective date."

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

Co-Chair Wilken reminded that this bill, "recommended by the Salmon Task Force, provides two tax credits: one for salmon product development and another for salmon utilization. The purpose of the measure is to encourage industry to invest in the production of new value-added salmon products to improve marketability. It has a retroactive clause to January 1, 2003."

Senator B. Stevens moved for adoption of SCS CS HB 90, 23-LS0525\B, as a working draft.

Senator B. Stevens detailed the changes proposed in the committee substitute clarifying the definitions of qualified expenditures for salmon utilization. He informed that efforts were underway by the Governor's Office, himself, and industry representatives to ensure the costs could be contained to their intended purposes.

Senator Bunde asked if agreements were entered into that require the retroactivity of this legislation.

Senator B. Stevens responded that this legislation was drafted in November 2002 with the anticipation that it would have been passed into law earlier than May 2003. If the bill had been enacted in February 2003, he pointed out the retroactivity would have been limited to one month.

CHUCK HARLAMERT, Juneau Section Chief, Tax Division, Department of Revenue, stated he was not involved in matters relating to the need for the provisions of this legislation to be retroactive. He surmised that affected taxpayers could have made business decisions based on the passage of this bill early in the calendar year. He did not expect the retroactivity to have a significant effect since the salmon fishing season does not start until the spring.

There was no objection to the adoption of Version "B" as a working draft and the committee substitute was ADOPTED.

Senator B. Stevens offered a motion to report HB 90 from Committee with individual recommendations and accompanying fiscal note.

Without objection SCS CS HB 90 (FIN) MOVED from Committee with fiscal note #1 for \$49,300 from the Department of Revenue.

AT EASE 9:19 AM / 9:20 AM

#SB30

CS FOR SENATE BILL NO. 30(JUD)

"An Act relating to information and services available to pregnant women and other persons; and ensuring informed consent before an abortion may be performed, except in cases of medical emergency."

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

Co-Chair Wilken stated that this bill, "places in statute a current regulation that states an abortion may not be performed unless the

patient gives informed consent. In addition, SB 30 directs the Department of Health and Social Services to develop a website designed to inform a pregnant women regarding her reproductive choices."

SENATOR FRED DYSON, sponsor, testified that regulations require that doctors provide for informed consent and that this bill would make the requirements statutory. He stated that since introduction, this legislation has been "extensively modified and improved" incorporating recommendations from the Department of Law and the Department of Health and Social Services. He explained that under the provisions of this bill, a doctor would not be required to utilize the information supplied by the State, and could instead continue to use information compiled by the doctor. He noted the information supplied by the Department of Health and Social Services would be continually updated and available on the Internet in several languages. He suggested this would allow the doctor to have current information on support and services available. He informed that a doctor who chooses to utilize the information provided by the Department would be exempt from the liability of not providing adequate informed consent.

Senator Olson asked the affect of this legislation on the normal operations of practitioners. He spoke as a physician of the many existing requirements placed on doctors and opposed the imposition of additional complexities.

Senator Dyson relayed testimony from doctors that they are "already doing a good job of informing their patients of the risks and choices that they have." He stated that doctors already providing informed consent would only be required to keep a record of such in a patient's file. He predicted that the utilization of the Department supplied information would simplify the process for doctors, as the information would be kept up to date. He cited the "very few botched abortion operations" in Alaska as indicating the most practitioners are performing adequately.

Senator Olson expressed concern about the additional burden of compliance in the event of a medical emergency.

Senator Dyson noted existing regulations require informed consent for all medical procedures, which would not change. He suggested that "no competent practitioner" would perform "a somewhat invasive procedure like abortion" without having reviewed the matter with the patient.

Co-Chair Wilken directed the discussion to focus on fiscal issues related to this legislation and not "too much of the mechanics

part". He indicated opportunity would be provided for further discussion on other aspects of the bill.

Senator Olson asked the anticipated financial impact of the requirement to keep records of informed consent.

Senator Dyson expected no additional financial impact, as documentation of informed consent is already required.

Senator Olson asked the penalties to a physician for failure to comply with the statute.

JASON HOOLEY, Staff to Senator Dyson, responded that the physician would be civilly liable for compensatory and punitive damages.

Senator Olson asked if this differs from current regulations.

Mr. Hooley answered that the civil liability provision is not stipulated in the regulations.

VICKY HALCRO, Director, Public Affairs and Marketing, Planned Parenthood of Alaska, testified via teleconference from Anchorage, against the bill on behalf of Anna Franks, Executive Director. She read a statement into the record as follows.

I strongly urge you to oppose SB 30. This proposed legislation would create excessive obstacles resulting in undue burden for the women of Alaska who are seeking to obtain an abortion. One such obstacle proposed by SB 30 includes requiring that only physicians verbally, individually and in a private setting, present patients the information necessary to provide informed consent. A second troublesome obstacle proposed by SB 30 is a mandated 24-hour waiting period requiring that this information be provided to a patient 24 hours in advance of an abortion.

In tandem, the ramifications of these two mandates multiply, especially when taking into consideration the geographic uniqueness of our State. The 24-hour waiting period, along with the requirement that a physician is the only person eligible to relate particular information will result in many patients having to visit a clinic three times: once for the pregnancy test, a second time for the physician to provide the information to the patient - many times the physician will not be available the moment the patient receives their test results, and a third visit for the procedure. Adding a third visit translates into increased expenses, risks and stress. Three visits means more time off from work, a possible

increase in risk - any delay can carry medical risks, especially if a doctor is not available for a second or third appointment for a week or more, and increased stress resulting in additional time away from family and jobs.

Women from rural communities who must travel to Anchorage or Fairbanks for medical care will feel these burdens the most, possibly making an abortion prohibitive. The intent of SB 30 is clear: restricting physicians as the only information provider to patients, misappropriates valuable physician resources. Rather than allowing a physician the option of delegating this responsibility to another trained staff member, a physician's availability to perform abortions is limited, therefore reducing the women of Alaska's access to abortion.

Moreover, physicians and clinics are already required and do provide to the patients the necessary information to ensure that they are able to make an informed decision regarding any surgical procedure, including abortion. SB 30 unjustly singles out abortion and imposes numerous additional requirements that are not only unfair to the women of Alaska, but also unconstitutional.

Once again, I strongly urge you to vote against SB 30.

Senator Dyson asked if reason why the required information could not be provided to a patient at time of the pregnancy test.

Ms. Halcro responded that the physician might be unavailable for a consultation at the time of the pregnancy test. She suggested authorization to allow the physician to delegate the responsibility to a trained staff member.

Senator Dyson commented this would be reasonable.

Co-Chair Green offered a motion to move SB 30 from Committee with individual recommendations and accompanying fiscal notes.

There was no objection and CS SB 30 (JUD) MOVED from Committee with two fiscal notes from the Department of Health and Social Services: fiscal note #1 for \$20,000 from the Maternal, Child and Family Health component, and fiscal note #2 for \$30,000 from the Bureau of Vital Statistics component.

#SB216

SENATE BILL NO. 216

"An Act relating to international airports revenue bonds; and providing for an effective date."

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

AT EASE 9:36 AM / 9:37 AM

Co-Chair Wilken stated that this bill introduced by the Senate Rules Committee at the request of the Governor "increases the authorization for international airport revenue bonds by \$70.6 million for capital improvements for the Anchorage and Fairbanks international airports."

MIKE BARTON, Commissioner, Department of Transportation and Public Facilities, testified this bill would provide the necessary bonding authorization to complete the C Concourse of the Terminal Redevelopment Project begun in 1999. He emphasized the revenue bonds would be repaid from revenues generated by the airport facilities and would not be an obligation of the State. He informed that in the event of a default insurance would become the "ultimate payer" to the bondholders.

Mr. Barton have a history of the projects, noting that the Ted Stephens Anchorage International Airport and the Fairbanks International Airport are included in the State's international airport system (AIAS) and operated together, with costs and revenues polled. He stated that the Airport Operating Agreement governs the two facilities and he defined the Agreement as a contract between the airports and airlines that establishes the business relationship and obligates the airlines to pay the costs of operating and maintaining the airports, including capital projects and bonded indebtedness. He furthered that the Agreement obligates the airport to secure agreement on costs for operating the airports, including capital projects. He continued that in 1997, the airlines agreed to finance the terminal redevelopment project and that two previous bond issues have occurred in 1999 and 2002. He stated that the proposed issuance "follows the same format" as the earlier issuances. He told of the agreement with the airlines that Terminal C must be completed, which this bond issuance would allow.

Mr. Barton cited the bond issuance amount at \$76.6 million, with approximately \$50 million of the amount for actual construction costs. He stated that \$13.5 million would be used to secure federal funds and the remaining funds would be utilized for bond financing costs.

Mr. Barton warned that the cash supply would be depleted by September 2003 without this authorization. He stated the project's expected completion date is approximately one year from the current date.

Senator Taylor clarified this legislation does not relate to additional construction, but rather to "clean up cost overruns" of an existing project undertaken during the previous gubernatorial administration.

Commissioner Barton responded that the additional costs result from three sources, \$33 million in "design problems and differences in interpretation of seismic codes", \$20 million resulting from the Transportation Safety Administration (TSA) security requirements resulting from the events of September 11, 2001, and the remainder for additional space requested "post design". He stated that the additional space request was agreed upon with the intent that it would be financed with interest from the bonds.

Senator Hoffman asked the total cost of the project including the amount included in this legislation.

Commissioner Barton gave the estimated cost of Concourse C at \$308 million.

Senator Hoffman asked the total cost of "all retrofitting" and modification to the airport building.

Commissioner Barton replied that a definitive figure would not be known until the design is completed, although he estimated the amount to be approximately \$110 million.

Senator Hoffman asked the likelihood that the Department would request additional funds given that a definitive amount is not available.

Commissioner Barton clarified any request would be for additional bonding authority.

Co-Chair Wilken understood \$418 million would fund the completion of Concourse C.

Commissioner Barton detailed that \$308 million would fund the completion of Concourse C and that \$110 in bonding authority would be requested in the future to upgrade Concourse A and Concourse B.

Co-Chair Wilken asked the amount of funds authorized in this

legislation would be allocated to the Anchorage project and the amount allocated to the Fairbanks project.

Commissioner Barton replied that the majority of the funds would be appropriated to the Concourse C project in Anchorage and that \$3.5 million would be utilized as matching funds to secure federal funds for use in Fairbanks.

KEN SURA, Landrum and Brown, testified via teleconference from an offnet location that he had prepared a presentation.

Co-Chair Wilken requested a brief overview.

Mr. Sura informed that the firm prepared a feasibility study in the year 2002 based on key statistics: enplanements or passenger activity and operations of aircraft and airline schedules. He stated that passenger activity and cargo tonnage are the "two most important drivers at Anchorage" and is two-percent higher than forecast in 2002. As a result, he surmised the debt capacity for the additional bond issuance is sufficient.

Senator Olson commented on the "impressive amount of work" invested in the project. He asked if the projections were accurate.

Mr. Sura affirmed.

Senator Olson asked if therefore the cost overruns are the result of unforeseen obstacles. He noted declining passenger revenues and subsequent employee layoffs and reduced flight schedules, as well as the inability for airlines to fund airport improvements. He asked how the economic difficulties were affecting the airport projects.

Mr. Sura assured that the projects are "conservative by design" given the "potential investors". He noted that other airports are undergoing improvements and expansions and that airport funding comprises only five to six percent of airlines' operating expenses. He acquiesced that some airlines had made adjustments in certain markets; however, "in a market as strong as Anchorage and Fairbanks" future scheduling does not indicate significant reductions in flight frequency and number of seats.

Senator Taylor understood the Ted Stevens Anchorage International Airport is the single largest economic driving faction in Anchorage, much of which is derived from Asian cargo. He supported the expansion efforts. He indicated other communities would benefit from funding to construct roads throughout the State.

Mr. Barton expressed he would welcome such funding for roads, although no general funds are involved in the airport projects, which are instead paid by the airlines through rates and fees.

Co-Chair Wilken informed of the proposed \$2.5 billion funding for roads under consideration at the congressional level.

Senator Bunde pointed out airline passengers, not the airlines themselves pay the airport construction costs and that if extra roads were constructed the "people of Alaska" would pay those expenses as well.

Senator Hoffman stated he had concerns when the Anchorage airport project was first proposed. He requested from the Department, passenger forecasts as well as the commitments made by each affected carrier.

Co-Chair Wilken referenced a handout provided by the Department titled, "Alaska International Airports System Business Planning Information, Presentation to State of Alaska Legislature, May 9, 2003" [copy on file] that includes the information requested by Senator Hoffman. He noted this handout was prepared for a presentation to the House Finance Committee and he suggested the Department make a presentation on the matter to the joint finance committees in January 2004. Co-Chair Wilken then corrected that cargo carriers pay the majority of the construction costs rather than the passengers. He was concerned that advancing airline technology allowing planes to fly farther, as well as the opening of airport facilities in Russia could result in lesser revenues to the airports in Alaska with which to repay the bonds. He emphasized the need to have the bonds paid before this time to ensure the costs are not transferred to passengers.

Co-Chair Wilken further referenced the handout as detailing the projected traffic and landing fees in conjunction with the bonding debt.

SFC 03 # 88, Side B 10:00 AM

Co-Chair Wilken commented to the importance to adequately understand this issue, although he pointed out the amount of time remaining in the legislative session is insufficient to do so.

Senator Hoffman requested supporting documentation for the information contained in the handout. He wanted to know the date the data was last updated to reflect changes incurred relating to

the events of September 11, 2001.

KIP KNUDSON, Deputy Commissioner of Aviation, Department of Transportation and Public Facilities, testified via teleconference from an offnet location that this information would be provided to the Committee.

Senator Olson asked the amount of outstanding bonds and the effect the proposed bonds would have on the existing balance.

Mr. Sura noted this information is included in the handout and he listed the total amount of outstanding bonds for the AIAS at \$379 million, \$368 million of which is outstanding principal remaining on those bonds. He informed that rating agencies and potential investors request future forecasts of other projects contemplated for the system.

Senator Olson asked if the debt repayment is on schedule, ahead of schedule or behind schedule.

Mr. Sura replied that the schedule is set when the bonds are sold with a prescribed schedule for each series of bonds. He qualified that it has been advantageous to refinance some of the debt to realize economic savings. He furthered that airlines and airports would sometimes agree to retire a particular series of bonds in the event of an ability to make a "lump sum payment"; however, he noted that airlines prefer to debt finance airport capital projects due to the relation of repayment to the useful life of the facility.

Senator Olson again asked if the debt repayment is progressing as scheduled.

Mr. Sura affirmed and noted funds are transferred monthly to the trustee.

TOM BOUTIN, Deputy Commissioner, Department of Revenue, told of the "refunding opportunity" that the bond committee would undertake concurrently if this bill passes into law.

Senator Olson calculated that this legislation would result in doubling amount of bond debt. He was concerned that the proposal contains no assurances that the current situation would not result again. He referenced Co-Chair Wilken's emphasis on the need for business plans. Senator Olson challenged that with the exception of "some verbal nods", a business plan has not been presented to his satisfaction. He spoke to recent rental increases imposed on airlines that had invested in hangers.

Co-Chair Wilken requested the Department address the business plan, specifically the involvement of user groups.

Mr. Barton told of the process of the "signatory airlines" for the airport operating agreement that occurs every five years. He explained the process involves negotiations and discussions with the airlines about necessary capital projects and identification of potential sources of revenue to finance the cost of projects. He stated this agreement operates as the business plan.

Co-Chair Wilken understood that all parties of the airport operating agreement must agree to support the revenue bonds.

Mr. Barton affirmed and furthered on the formal process involving a balloting system.

Co-Chair Wilken asked the extent that terminal lessees participate in the agreement.

Mr. Knudson replied that most of the lessees, those that occupy the majority of terminal space are the signatory airlines. He informed that the few concessionaires who also lease space comprise a small portion.

Senator Hoffman referenced the landing fees data cited in the handout and asked when the initial feasibility study was conducted and the reason for the variance between it and the revised forecast.

Mr. Sura replied that the initial detailed study was conducted in April 2002 and the revised forecast was prepared specifically for this legislation approximately two weeks ago. He pointed out the initial study was completed approximately six months after September 11, 2001 and reflected a conservative approach, as the recovery cycle of cargo and passenger activity was unknown. He stated that the primary difference between the two forecasts is that the earlier study did not include the bond issuance requested in this legislation.

Senator Hoffman was concerned that the figures differ by over 40 percent for the year 2010 and remarked that a difference of as little as two percent would have a significant impact on a project of this magnitude.

Co-Chair Wilken calculated the landing fees of a loaded Boeing 747 aircraft to be \$1,300.

Senator Bunde commented that although this project is necessary, he

has "never met State projects that couldn't go over budget."

Co-Chair Green offered a motion to report SB 216 from Committee with individual recommendations and accompanying fiscal note.

Co-Chair Wilken stated that Senator Bunde's concerns are currently under scrutiny.

There was no objection and SB 216 with accompanying fiscal note #1 for \$7,813,000 from the Department of Revenue MOVED from Committee.

#HB243

CS FOR HOUSE BILL NO. 243(STA)

"An Act establishing state agency program performance management and audit powers in the Office of the Governor for the evaluation of agency programs; and providing for an effective date."

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

Co-Chair Wilken stated that this bill, sponsored by the House Rules Committee at the request of the Governor, "reestablishes an audit function in the Office of the Governor and funding will be provided by reallocation of existing Office of the Governor funds."

JAY HOGAN, Deputy Director, Office of Management and Budget, Office of the Governor, testified that he began working for the State in 1970 and at that time internal auditing was conducted within the Department of Administration. In 1983, he noted, the Office of Management and Budget was created and the internal audit functions were assigned to it along with numerous other activities. He continued that since that time, "the functions have been scoped down" with the elimination of the audit function in the middle 1990s. Governor Murkowski intends to "reemphasize," "recreate" and "broaden" the internal audit function, according to Mr. Hogan. Mr. Hogan explained the expansion would include program evaluations to determine their current usefulness.

Mr. Hogan stated that the Governor's FY 04 budget request includes funds to undertake the internal auditing functions. He noted that the House of Representatives and the Senate have approved this funding.

Mr. Hogan expressed that this legislation is a result of the "realization" that although internal audits had been conducted in

the past, no statutory direction exists to require them. This bill would create the statutory direction, he said.

Mr. Hogan stated that in the undertaking of an internal audit it is appropriate that the information is kept confidential. He informed that testimony relevant to an audit is sometimes discovered but for various reasons must be kept confidential. He noted this legislation allows access to this information by auditors, similar to the authority granted to the Division of Legislative Audit. He pointed out a difference in that the information secured by the Division of Legislative Audit is kept confidential until the Legislative Budget and Audit Committee and affected State agencies review the audit, at which time the information is released. By contrast, he explained the information gathered in audits conducted by the Office of Management and Budget would remain confidential until it is released by direction of the governor.

Mr. Hogan emphasized the Office of Management and Budget would be unable to conduct audits similar to the Division of Legislative Audit, but rather could only conduct audits on activities within the Executive Branch.

Senator Hoffman saw the need for this function; however he was concerned with the absence of a defined date in which completed audits must be released. He surmised from the witness' testimony that the governor could determine whether the information is never released. Senator Hoffman suggested language in the bill to provide for timelines for release to ensure the legislature and the public would have access to the outcome of the audits.

Mr. Hogan pointed out that no specific release date is required for legislative audits. He predicted situations in which such releases would not be advisable, exempling a personnel audit conducted as a result of alleged impropriety involving "matters of delicacy". He expressed that it would be conceivable that an audit might never be completed although the problem itself was resolved.

Co-Chair Wilken clarified the witness would prefer not to specify a date certain in this bill.

Mr. Hogan remarked that "great effort" was taken to follow the legislative audit process, which he opined has worked well since statehood. He surmised that the Governor would prefer to use discretion.

Senator Hoffman countered that despite information held confidential until release, members of the legislature could review that information. In contrast, he stated this legislation would not

provide the same option.

Mr. Hogan relayed that the House State Affairs Committee discussed the issue and determined that language in Section 3 amending AS 44.19.147. Internal audit records., on page 2, lines 5-9 of the committee substitute, satisfied the concerns of the Division of Legislative Audit. This language reads as follows.

...However, internal audit work papers and other related supportive material containing information, data, estimates, and statistics obtained during the course of an audit conducted under AS 44.18.145(a) may be kept confidential only to the extent required by law applicable to the agency from which the material is or was obtained.

Senator Taylor offered a motion to report the bill from Committee with individual recommendations and accompanying fiscal note.

Without objection CS HB 243 (STA) MOVED from Committee with zero fiscal note #2 from the Office of the Governor.

#HB61

SENATE CS FOR CS FOR HOUSE BILL NO. 61(RES)
"An Act establishing an exploration and development incentive tax credit for operators and working interest owners directly engaged in the exploration for and development of gas for sale and delivery without reference to volume from a lease or property in the state; and providing for an effective date."

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

Co-Chair Wilken stated that this bill, "allows a tax credit equal to ten percent of qualified capital investment as well as annual labor, seismic and associated costs related to gas exploration and development south of the Brooks Range."

REPRESENTATIVE MIKE CHENAULT testified that this bill creates a new income tax credit to encourage increased exploration and development of natural gas reserves south of the Brooks Range. He informed that to qualify for the tax credit, operators must successfully drill and develop new reserves that produce natural gas for sale and delivery. He pointed out that no credits would be given for "dry holes."

Representative Chenault remarked that Cook Inlet and other areas of

the State have "great potential" for additional natural gas development; however, the combination of exploration risk and high development costs have created a disincentive to drill for new reserves compared to other areas of the world. He predicted that providing this tax credit more exploration would occur in southern Alaska, leading to "much needed" new natural gas reserves, which would benefit residents of those communities as well as all residents of the State and businesses.

Representative Chenault furthered that in addition to the benefits of developing new gas reserves increased drilling would also aid general economic status of the Kenai Peninsula, Anchorage and other areas of Alaska.

Representative Chenault opined that increased revenues from gas production would offset any fiscal impact of the proposed credit.

Senator Bunde noted the fiscal note indicates zero fiscal impact of this legislation, and asked how this would be possible given the proposed tax credit.

CHARLES LOGSDEN, Chief Petroleum Economist, Tax Division, Department of Revenue, testified via teleconference from an offnet location, that the tax credit requires successful discovery and development. He informed that the Cook Inlet produces approximately 210 billion cubic feet (bcf) annually and hypothetically a new discovery of an additional 100 bfc would generate approximately \$50 million per year in general fund revenue. He stated that the unknown amount of gas that would be discovered is an uncertainty for the Department of Revenue in estimating the fiscal impact of this bill. He explained the tax credit would be the "State's participation" in the risk of exploration and development, which would only be realized if the exploration were successful. He qualified that the proposed tax credit is not risk free for the State, in that the marketplace could become such as to provide incentive for exploration and development.

Co-Chair Wilken referenced a handout titled, "House Bill No. 61, Gas Exploration and Tax Credit" prepared by Marathon Oil Company [copy on file], which details the matter further on pages 13 and 14.

Senator Bunde stated for the record that the tax credit would not be extended without successful discovery. However, he stressed that after discovery, the State could receive less revenue than if the tax credit were not enacted, although "it may be a very good bargain." He predicted the impact would be beneficial as exploration would occur in new areas and because the State would

receive no revenue without exploration efforts. He opined that the fiscal note should reflect negative revenue.

Senator B. Stevens relayed that Representative Hawker and a representative from Marathon Oil Company gave a presentation on this bill before the Senate Resources Committee, on which Senator B. Stevens serves. He directed attention to page 13 of the aforementioned handout, a spreadsheet titled "Fiscal Impact to State of Alaska". He detailed a hypothetical project with \$100 million development costs that discovered a producible reserve, which would generate \$500 million in gross revenues, 12.5 percent royalty of \$62,500,000, a 7.5 percent severance tax of \$37,500,000, and a property tax increase of \$4.2 million, totaling \$104 million in taxes collected by the State. He emphasized this revenue would only be generated if the \$100 million exploration and development investment were made. He clarified the ten percent tax credit would be applicable to the corporate tax income.

Senator B. Stevens continued that after review by the Senate Resources Committee, he concluded this legislation provides a "success tax credit". He furthered that the tax credit would have no negative impacts because if the exploration is unsuccessful and new revenue is not generated the tax credit would not apply.

Senator Bunde stated that a \$10 million impact would be realized. He surmised that a \$100 million return on a \$10 million investment is "wise" and emphasized he does not oppose the program. However, he disagreed that "there is a free lunch" and he questioned the zero fiscal note.

Senator B. Stevens and Senator Bunde continued to debate the point.

DOUG THEIRWECHTER, Marathon Oil Company, testified via teleconference from an offnet location in Houston, Texas, to answer questions.

JOHN BARNES, Manager of Alaska Operations, Marathon Oil Company, testified via teleconference from an offnet location that the proposed tax credit is an opportunity to "level the playing field" in favor of the State of Alaska. He explained that corporations have the ability to invest funds around the world and that this legislation would "draw more capital" to Alaska. He pointed out that corporations participating in the exploration and development efforts would expend ten times the amount received in tax credit and the State should receive up to ten times the amount in additional revenues. Therefore, he remarked that Marathon Oil Company supports this legislation.

Senator Taylor asked why the tax credit is necessary for gas exploration when that is the "business" of Marathon Oil Company. ,

Mr. Barnes agreed that part of every producer's business is to explore for oil and gas in various parts of the world. However, he stressed that Alaska "is disadvantaged in many areas when it comes to seeking investment opportunities, or drawing other companies in to invest in the State of Alaska." He gave an analogy of a sale at a retail store to provide incentive to attract customers.

Mr. Barnes reported that although the need exists for additional gas exploration "has been noted in the marketplace", industry activity has been insufficient in Cook Inlet to replace the declining reserves.

Senator Taylor asked if the witness were asserting that Alaska's tax structure "is so high" as to impede industry investment and that a ten percent discount would guarantee investment.

Mr. Barnes testified that investments are not occurring for various reasons, including the tax structure, and that this credit would "hopefully be seen as a positive sign by industry and result in additional activities south of the Brooks Range in Alaska."

Co-Chair Wilken asked if Alaska currently has "a zero exploration tax credit" and whether any other government has the same.

Mr. Logsdon clarified that two exploration tax credits currently exist in Alaska. He explained that the commissioner of the Department of Revenue could issue a tax credit to cover up to 50 percent of the cost of an exploration well, which could be applied to royalties, severance tax or corporate income tax. He qualified that this provision has not been invoked for the past eight years.

Senator Hoffman asked if the Kenai Peninsula Borough has considered granting a property tax credit as well.

Representative Chenault had not discussed the issue with Borough officials. He pointed out however, that the Borough assesses approximately 11 mils of the 20 mils collected, allowing the remainder to be paid to the State. He compared this to other communities, specifically the North Slope Borough, which collects the entire 20 mils.

Amendment #1: This amendment inserts, "east of meridian 156 degrees" into Section 1, Sec. 43.20.043. Gas exploration and development tax credit. The amended language on page 3, lines 10 through 14 reads as follows.

(f) A taxpayer is not entitled to a credit under this section for expenditures that are made or incurred for the qualified capital investment or for qualified services made for exploration and development of gas that occur in the area of Alaska lying north of 68 degrees North latitude and east of meridian 156 degrees or that are made or incurred to transport gas from reserves located in the area of Alaska lying north of 68 degrees North latitude and east of meridian 156 degrees.

Senator Olson moved for adoption, asserting that this prevents one area of the State from being "singled out". He opined, "If it's good for the rest of Alaska it ought to be good for places like Point Hope, Point Lay, Wainright."

Co-Chair Wilken requested an explanation of the areas included in the provisions of the amendment.

Senator Olson directed attention to a map showing the areas west of the 156th meridian, which includes the aforementioned villages plus Cominco."

Co-Chair Wilken asked for an explanation of the amendment itself.

Senator Olson stated the amendment would extend the tax credit to the additional areas, although not to the entire State.

SFC 03 # 89, Side A 10:48 AM

Co-Chair Wilken and Senator Olson established the locations that would receive the credit.

Co-Chair Wilken asked whether the 156th meridian has been used as a line of demarcation in other legislation or matters relating to oil and gas.

Senator Olson was unsure.

Co-Chair Wilken requested the sponsor's comments on the amendment.

Representative Chenault relayed concerns about the possibility of shallow gas located near the Red Dog Mine. He stated that previously adopted legislation relating to taxation of oil and gas development utilized 68 degrees latitude as a delineation.

Co-Chair Wilken interjected to ask if the sponsor favors or opposes

the amendment or whether it should be addressed in separate legislation.

Representative Chenault indicated it should be addressed in different legislation.

Senator Taylor commented that this amendment raised the question of the need for a ten percent tax credit to stimulate the economy in one geographic region of the State, although other locations where gas reserves have been identified are not developed because producers are unwilling to construct a pipeline to transport the gas to tidewater.

Co-Chair Wilken ordered the bill HELD in Committee. [The motion to adopt Amendment #1 was subsequently TABLED.]

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ADJOURNMENT

Co-Chair Gary Wilken adjourned the meeting at 10:51 AM