

MINUTES
SENATE FINANCE COMMITTEE
February 17, 2004
9:08 AM

TAPES

SFC-04 # 11, Side A
SFC 04 # 11, Side B
SFC 04 # 12, Side A

CALL TO ORDER

Co-Chair Gary Wilken convened the meeting at approximately 9:08 AM.

PRESENT

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

Also Attending: SENATOR GENE THERRIALT; JOEL GILBERTSON, Commissioner, Department of Health and Social Services; DAVID TEAL, Legislative Fiscal Analyst, Legislative Finance Division; MARIE DARLIN, Coordinator, Capital City Task Force, AARP; DIANE BARRANS, Executive Director, Postsecondary Education Commission, Department of Education and Early Development and Executive Officer, Alaska Student Loan Corporation

Attending via Teleconference: From Anchorage: HAROLD HEINZE, Chief Executive Officer, Alaska Natural Gas Development Authority; STEVE PORTER, Deputy Commissioner, Office of the Commissioner, Department of Revenue

SUMMARY INFORMATION

HB 374-SENIORCARE

The Committee heard from the Department of Health and Social Services, considered but failed to adopt one amendment, and reported the bill from Committee.

SB 241-APPROP: NATURAL GAS DEVELOPMENT AUTHORITY

The Committee heard testimony from the bill's sponsor, a representative from the Alaska Natural Gas Development Authority, and the Department of Natural Resources. The bill was held in Committee.

SB 277-STUDENT LOAN PROGRAMS

The Committee heard testimony from the Department of Education and Early Development. The bill was held in Committee.

#hb374

CS FOR HOUSE BILL NO. 374(FIN) am

"An Act establishing the senior care program and relating to that program; creating a new fund for the provision of senior services; relating to aid to senior citizens; and providing for an effective date."

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

Co-Chair Wilken noted that this bill is similar to SB 259-SENIORCARE, which the Committee had previously heard. He stated that the bill would establish a senior care program within the Department of Health and Social Services to provide either cash assistance or a drug prescription benefit to Alaskans age 65 or older. He specified that CS HB 374(FIN)am, Version 23-GH2123\W.A and its accompanying fiscal notes are before the Committee.

JOEL GILBERTSON, Commissioner, the Department of Health and Social Services reviewed that this legislation was proposed by Governor Frank Murkowski in December 2003 as a method through which to provide a prescription drug subsidy or cash assistance for the purchase of prescription drugs to the State's seniors until the federal prescription Medicare drug program becomes operational in January, 2006. He specified that qualifying recipients of the legislation would be senior citizens who are living at 135 percent or less of the federal poverty level (FPL). He noted that this level would equate to a single individual living at approximately \$15,000 a year or a couple living at \$20,500 a year. He shared that these individuals are currently eligible for the Department's Senior Assistance Program that was established after the Longevity Bonus Program was eliminated in the fall of FY 04. This program, he commented, provides \$120 per month cash assistance to its recipients. Furthermore, he stressed that the recipients of the

Senior Assistance Program could, upon the enactment of the SeniorCare program, elect to continue receiving the cash assistance, which would amount to \$1,440 annually, or elect a prescription drug subsidy, which would equate to \$1,600 annually.

Commissioner Gilbertson continued that the seniors who elect the \$1,600 prescription drug subsidy would additionally receive a \$600 per month federal Medicare subsidy and a prescription drug discount card which would provide an additional ten to twenty-five percent savings on a prescription purchase. He stated therefore, that the average senior would receive approximately \$2,450 in prescription drug assistance, if living at or below the FPL.

Commissioner Gilbertson continued that seniors living at 135 to 150 percent of the FPL would qualify for a \$1,000 per year State prescription drug subsidy. He noted that a single individual or a couple in this category would be living at approximately \$17,000 or \$23,000, respectfully. Furthermore, he stated that these individuals would also receive the prescription drug discount card. He reiterated that this legislation would terminate upon the enactment of the federal Medicare drug prescription program.

Commissioner Gilbertson communicated that during the bill's progress through the House of Representatives, the Legislative Legal and Research Services, Legislative Affairs Agency made "technical and stylist changes," that did not substantially change the bill.

Co-Chair Wilken noted that the Members have been provided a summary of the changes [copy on file] being referenced.

Commissioner Gilbertson continued that the House bill would establish a SeniorCare Fund, which would be a front-funded sub-account in the general fund to fund the SeniorCare Program during its projected three fiscal year program. He noted that were this legislation adopted "in short order," it could begin in April, 2004 and would, therefore, incur expenses in the last quarter of FY 04, the full year of FY 05, and half of FY 06. He noted that any funds remaining in the SeniorCare Fund would lapse into the general fund upon its termination.

Commissioner Gilbertson noted that the House also amended the manner through which a prescriber could prescribe brand name drugs when a generic brand is available, in that, he explained, in this situation, the prescriber must denote on the prescription that the name brand drug is "medically necessary." He specified that the prescriber would not be required to state the reason as was required in the original bill.

Commissioner Gilbertson noted that language in the bill that would have denied the prescription drug benefit to individuals residing in public facilities or long-term care facilities was also amended in the House. He communicated that the reason this language was originally included was the understanding that these individuals received prescription drug coverage through the rate that the State paid the facility or that a process already existed to provide this benefit to them. He also noted that to provide the SeniorCare benefit to a senior in the Pioneer's Home, might, in affect, increase their financial resources and result in their rent being increased. He stated that the House change would allow individuals residing in public facilities or long-term care facilities to continue to receive the benefit for up to three months.

Senator Bunde ascertained therefore, that a senior residing in a Pioneer's Home could, as a consequence, have their rent increased for three months.

Commissioner Gilbertson affirmed that the rent could be affected. However, he noted that the frequency of a rent payment review and whether the individual had opted to receive the cash assistance option of the SeniorCare program would be determining factors.

Senator Bunde worried that this might present a "Catch 22" situation wherein the recipient would receive SeniorCare benefits and at the same time is required to pay more rent as a result.

Commissioner Gilbertson expressed that "there would be no net harm" to the recipient as the income would offset the rent increase. He stated, however, that this situation would increase administrative expenses related to the bill.

Senator Bunde surmised, therefore, that while two Pioneer Home residents might be receiving the SeniorCare cash benefit, one resident, as a result of a rent review, might pay more rent than the other who had not undergone a rent review.

Commissioner Gilbertson responded that "theoretically" that might occur.

Co-Chair Green asked whether changing the word "may" to "shall" as was done in Section 1, subsection (a) on line 8, page 1 would be characterized as a "stylist change" or a substantive change.

Commissioner Gilbertson responded that the referenced change was the result of an [unspecified] amendment that was adopted in the House Finance Committee.

Co-Chair Green inquired as to whether the change is acceptable to the Department.

Commissioner Gilbertson responded in the affirmative.

Senator Bunde asked for further information regarding the SeniorCare Fund; specifically, whether the unspent money in the Fund would lapse back to the general funds at the end of the fiscal year.

Commissioner Gilbertson responded that while the SeniorCare Fund is expected to lapse in FY 06; the language is not specific to a termination date because it is dependent upon when the federal Medicare drug prescription program is implemented. He asserted that this is a "complex program" with an indeterminable termination date.

DAVID TEAL, Legislative Fiscal Analyst, Legislative Finance Division, noted that rather than being required to appropriate program funds each fiscal year, the House Finance Committee opted to establish a single front-loaded SeniorCare Fund that would fund the program's anticipated expenses in FY 04, FY 05, and FY 06. He confirmed that upon the program's termination, the funding would lapse.

Commissioner Gilbertson noted that the bill would allow seniors to retain their prescription drug benefits provided they were not absent from the State for more than 30 days for non-medical purposes such as vacations or business trips.

Commissioner Gilbertson also noted that the House of Representatives' version of the bill changed a portion of the original bill to align its eligibility requirements to those of the Permanent Fund Dividend program, which allows family members to remain eligible when accompanying relatives receiving out-of-State medical care.

MARIE DARLIN, Coordinator, AARP Capital City Task Force, voiced support for all of the changes that have been proposed to the SeniorCare program. She noted that AARP has submitted written testimony [copy on file] in support of the program.

Amendment #1: This amendment replaces language on page one, line five of the bill that reads "Section 1. The uncodified law of the State of Alaska is amended by adding a new section to read:" with new language that reads as follows.

Section 1. AS 47.65 is amended by adding a new section.

In addition, the Amendment deletes "SENIORCARE PROGRAM" on page 1, line 7 and replaces it with the following language.

Article 4. Cash and Drug Benefit for Older Alaskans.
Sec. 47.65.300. Senior care program.

The amendment also deletes all material on page five, beginning on line 26 through page six, line 3. This language reads as follows.

Sec. 4. (a) This Act is repealed on the date that the Medicare Part D benefit under P.L. 101-173 for prescription drugs for Medicare recipients is operational for recipients in this state, as communicated to the commissioner of health and social services by the United States Department of Health and Social Services.

(b) The commissioner of health and social services shall notify the revisor of statutes of the date described in (a) of this section.

(c) Money in the fund established in sec. 2 of this Act reverts to the unreserved general fund on June 30 in the fiscal year in which this Act is repealed under (a) of this section.

Senator Olson moved to adopt Amendment #1.

Co-Chair Green objected.

Senator Olson explained that this amendment would make this program permanent in statutes rather than being temporary. He referenced Commissioner Gilbertson's comments regarding the unpredictability of when the federal program would be implemented. He also noted that the State has no control regarding changes that might occur, overtime, in the complex federal program. Therefore, he stated that in order to assure that the State's seniors would be provided for; this program should be permanent in State statute. In addition, he noted that were the federal program to differ from the State's cash supplement program, seniors who might have become dependent on it to supplement their needs would be negatively impacted.

Commissioner Gilbertson summarized that this amendment would eliminate the legislation's termination date. He reiterated that the legislation was introduced to serve as "a bridge program" until such time as the federal senior Medicare prescription drug benefit program would become operational "in early 2006." He agreed with Senator Olson's contention "that there are always delays when programs begin;" however, he contended that the bill has been

drafted in such a manner as to continue the SeniorCare program "until the full federal program is available to seniors."

Commissioner Gilbertson informed the Committee that seniors living below 135 percent of FPL as well as those living between 135 and 150 percent of FPL would "receive preferential treatment under the Medicare prescription drug benefit." He assured that, once the federal Medicare prescription drug benefit program begins, seniors living at below 135 percent of FPL "would have virtually no out-of-pocket costs, including deductible for prescription drugs." He continued that seniors living between 135 and 150 percent of FPL, "would receive drastically lower deductibles, additional premium support, and a reduced co-pay on prescription drugs" than the general federal Medicare population. He declared that "a seamless transition" would occur and that were the SeniorCare program to continue, some of the federal and State services "would be redundant."

Co-Chair Wilken surmised therefore, "that while the amendment is well-intentioned," it is unnecessary.

Commissioner Gilbertson concurred. He replied, "that it is the position of the Administration that it's not necessary" because the Medicare drug benefit would be available "to essentially provide every service that is going to be delivered" via the SeniorCare program. He stressed that the SeniorCare program "was originally designed to mirror the federal drug program benefits." Furthermore, he noted that safety protocols are included in this legislation to ensure that the SeniorCare program would continue until the full federal Medicare drug benefit program is operational.

Senator Olson declared that rather than debating the particulars of the program, the emphasis should be on providing the State's seniors with "a lifeline" to assure them that they would be provided for. He opined that the Legislature should establish a State program tailored to the State's situation instead of relying on a federal program developed by individuals who might have never visited the State and who might not have a grasp on the complexity of the State's needs. He urged the Committee to keep the program simple and permanent and tailored to address the State's seniors' needs.

Senator Bunde declared that regardless of the efforts or intent of any Legislature, unless specific language is included in the State's Constitution, "nothing binds" a future Legislature" from changing a program. Therefore, he contended, were this amendment adopted, there is no guarantee that it would not be changed. Continuing, he shared that, were "the automatic repealer" not

included in this legislation, he could envision "the battle that would ensue in 2006 "about another entitlement that we have created" that people have become to depend upon that the Legislature "could not take back." He concluded therefore, that he could not support the amendment.

Senator Hoffman countered that no battle had erupted in the Legislature regarding the funding of the Longevity Bonus Program, which was eventually terminated by Governor Murkowski's veto.

Senator Hoffman noted that the Department of Health and Social Services' fiscal note #9 analysis depicts that 90 percent of eligible program recipients would elect the SeniorCare cash program. He wondered whether the cash program would be one of the duplicated services that the Commissioner had alluded to. To that point, he inquired as to whether a similar prescription cash program would be available through the federal prescription drug program.

Commissioner Gilbertson responded that it is "a high assumption" that most seniors would elect the cash payment as, he noted, the majority of the individuals currently enrolled in the Senior Assistance Program receive money, because it is the only option provided in that program. He stated therefore that the majority of those individuals would choose "no change." He qualified that the cash component of the SeniorCare bill was included "to continue the benefit as currently constructed." He acknowledged that while the receipt of cash is "more flexible," the Department believes that "the majority of individuals in these income ranges use the cash assistance" to purchase prescription drugs because that expense "is very high." He pointed out that the Senior Cash Assistance program is not the only cash assistance program offered by the Department as another program, the Adult Public Assistance" program is also available. He stressed that a total of \$220 million worth of programs are available directly to seniors through the Department. He stated that the Adult Public Assistance (APA) program is an entitlement program that is included in this \$220 million, and furthermore, he contended, while a number of seniors might qualify for the APA, they have not applied.

Senator Hoffman reiterated that the question is whether there would be a duplicative cash benefits program at the federal level. He stated that this is the issue at "the heart of the amendment."

Commissioner Gilbertson responded that through the State APA program, seniors would continue to receive cash assistance.

Senator Hoffman interjected that this program already exists at the

State level, and he continued, the question pertains to the upcoming federal Medicare prescription drug assistance program.

Commissioner Gilbertson responded that the federal program, "once instituted, will be health care insurance." Therefore, he continued, the degree to which individuals are paying out of pocket for prescription drugs" would be determined by the health care insurance system. He declared that the recipients would not receive a direct cash payment.

Senator Hoffman surmised therefore that the answer is no.

Commissioner Gilbertson affirmed that there would be no direct cash payment by the federal government.

Senator Olson informed the Committee that the proposed amendment is supported by the Pioneers of Alaska. He asked that AARP be provided an opportunity to express their position on the amendment.

Ms. Darlin expressed that while AARP understands Senator Hoffman and Senator Olson's concern regarding the program, and while AARP does not object to the amendment, it has no "definite stand" on the amendment, as, she reiterated, AARP's primary objective is to assure that the SeniorCare prescription program be adopted this Legislative Session. She noted however, that when the SeniorCare cash assistance program terminates, seniors could participate in the State's APA cash assistance program.

Senator Olson asked for clarification that AARP's position is the desire "to get the bill through one way or another," regardless of whether the amendment is adopted or not. He contended that this desire rather than AARP being opposed to the amendment is the primary objective.

Ms. Darlin concurred.

Senator Bunde stated that were the cash assistance program to continue, some seniors might regard it as a welfare program, and in that case, he contended, some seniors would refuse to apply.

A roll call was taken on the motion.

IN FAVOR: Senator Hoffman and Senator Olson

OPPOSED: Senator Bunde, Senator Dyson, Senator B. Stevens, Co-Chair Green, and Co-Chair Wilken

The motion FAILED (2-5)

Amendment #1 FAILED to be adopted.

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

There being no objection, CS HB 374(FIN)(am) was REPORTED from Committee with five fiscal notes from the Department of Health and Social Services: zero fiscal note #10; \$14,649,600 fiscal note #9; \$7,100 fiscal note #8; \$184,300 fiscal note #7; and \$61,500 fiscal note #6.

AT EASE: 9:46 AM / 9:46 AM

#sb241

SENATE BILL NO. 241

"An Act making an appropriation to the Alaska Natural Gas Development Authority; and providing for an effective date."

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

Co-Chair Wilken explained that SB 241 would appropriate \$2.15 million to the Alaska Natural Gas Development Authority (ANGDA) to conduct an analysis regarding the development of an Alaska natural gas pipeline. These funds, he shared, would lapse in the year 2009. Continuing, he noted that a new Finance Committee committee substitute has been provided for consideration that would: increase the amount of the appropriation to \$3 million; would appropriate the funds to the Department of Revenue rather than ANGDA; and would expand the scope of how the funds could be used.

Co-Chair Green moved to adopt the Finance Committee committee substitute, Version 23-LS1279\H, as the working document.

There being no objection, Version "H" was adopted as the working document.

SENATOR GENE THERRIAULT, the bill's sponsor, explained that the original bill was introduced to support "the wishes of the public to create" the Alaska Natural Gas Development Authority (ANGDA) "to bring the natural gas on the North Slope to market via a pipeline to tidewater in Valdez" in a liquefied form "to serve Pacific Rim markets." He noted that the bill, as introduced, specified \$2.15 million to support the project because that was the amount of money that ANGDA had remaining in the previous year's appropriation, and

he had determined that that amount "would be a good starting point for discussion." Continuing, he shared that he had clarified to the ANGDA Board of Directors that they would be required to justify the funding in order to receive the appropriation. He stated that the ANGDA Board of Directors has been meeting with Governor Frank Murkowski's Administration since the beginning of the second session of the Twenty-third Legislature. He noted that the State has received two applications, through the Stranded Gas Act, that are also furthering the necessity to consider developing a natural gas pipeline to deliver the gas via an overland route through Canada to the Midwest or to Canadian markets.

Senator Therriault continued that the committee substitute, Version "H," "is a blending of the two ideas" in that it focuses on bringing the natural gas from the North Slope "to market" rather than specifying that either an overland or tidewater pipeline be furthered. Furthermore, he envisioned that the objectives of both the ANGDA Board and the Administration's Stranded Gas Act negotiations be combined to further the goal of bringing the gas to market. He noted that routing the appropriation through the Department of Revenue mirrors how the appropriation was previously funneled to ANGDA from such entities as the Division of Legislative Budget & Audit and the Administration. He stated that this routing would also provide the ANGDA Board with the Department of Revenue's auditing, contracting, and accounting mechanism resources. He reiterated that questions seeking justification for the \$3 million appropriation amount should be directed at the ANGDA Board. He noted that at the February 16, 2004 ANGDA meeting, the Board of Directors passed a resolution in support of the language in Version "H." He read a portion of that resolution as follows.

"The Alaska Natural Gas Development Authority supports the appropriation of \$3 million in the remainder of FY 04 to the Department of Revenue for work related to bring the North Slope natural gas to market."

Senator Hoffman inquired to the reason that ANGDA was eliminated from the language in the committee substitute.

Senator Therriault responded that the reason that ANGDA was eliminated was "the realization" that the efforts to further the goal of getting natural gas to market would involve an overlapping of various entities. He continued that "generic" rather than specific legislation would be more beneficial to that end.

Senator Bunde noted that while he knows what LNG is, he is unsure of the definition of "LPG."

Senator Therriault stated that the representative from ANGDA would best explain LPG.

Co-Chair Green asked whether the Stranded Gas Act Application fee of \$1.5 million would be used to support this endeavor.

Senator Therriault responded that the \$1.5 million fee is required to fund the expenses associated with processing, negotiating, and evaluating each proposal. He shared that while the fee would provide funding for the process associated with the application, the \$3 million attached to this bill would support the State's endeavor to be adequately prepared "to negotiate with some degree of knowledge and strength." Furthermore, he noted that currently the \$1.5 million Stranded Gas Act applicant fee could not be used to "cover any costs" associated with the ANGDA proposal. Therefore, he continued, the generic terminology presented in the Version "H" committee substitute would allow the Administration to use those funds to prepare for negotiations relating to the Stranded Gas Act and to help gather information pertinent to the ANGDA project. To include, he continued, studies relating to spur pipelines, access taps along the pipeline to serve local markets, and economic impact studies.

Co-Chair Green asked which entities, in addition to ANGDA, might request funding in this endeavor.

Senator Therriault responded that other State agencies, such as the Department of Natural Resources, might need to "secure particular expertise" or a consultant or funding for a Request for Proposal (RFP) in order to develop an economic model.

Co-Chair Green asked whether the sponsor is comfortable with the broadened language in Version "H;" specifically the language pertaining to getting the product from the North Slope to market.

Senator Therriault responded that he is comfortable with the "fairly broad language" because he is familiar with the multitude of legislation that the Legislature has entertained regarding the issue. In addition, he stressed the importance of the State being "well-prepared and tough advocates on behalf of the citizens of Alaska..." In order to accomplish that objective, he stated that funding "for some preparation and some technical advice" would be required.

Senator Therriault reiterated that he had introduced this legislation to "jump start the discussions;" however, he advised the Committee that as long as the funding issue "moved forward," he would not object were other legislation submitted or another

funding mechanism or level of funding identified.

SFC 04 # 11, Side B 09:56 AM

HAROLD HEINZE, Chief Executive Officer, Alaska Natural Gas Development Authority, testified via teleconference from Anchorage and referred the Committee to a graph that ANGDA had developed titled "Alaska Natural Gas Development Authority FY 04 Funding Plan" [copy on file]. This graph, he noted, depicts ANGDA's initial funding; the \$2.1 million that was added in FY 04; and the FY 04 Total Funding of \$2.5 million.

Mr. Heinze reviewed that \$150,000 initial funding was used to set up the Corporation and conduct some Board of Directors meetings. He stated that the outcome of those meetings was the determination that a Liquid Natural Gas (LNG) project and the delivery of natural gas in Alaska would "make sense" provided the State use its financial abilities to support the project, as, he explained, it might not attract private support due to the fact that there might not be the potential for a high rate of return to commercial investors or "high interest borrowers." He commented that the State could participate via the Authority. He also noted that during the initial meetings, the Authority identified some of the major issues that would require addressing.

Mr. Heinze stated that the Board requested an additional \$200,000 to fund the Business Contractors component depicted on the graph, which includes such things as a Benefit Analysis, Market Insight, and Tax Advice. He stated that the Authority determined that previous Benefit Analysis studies of the project were narrow in scope in that they were limited to such things as "a rate of return type model for making decisions" or "how much money was flowing to the State of Alaska in forms of government revenue." He continued that the Authority recognized that "the benefit of bringing North Slope gas to market were much more broader than that and had much more value." He stated that the Tax Advice and Market Insight followed the Benefit Analysis determination. He summarized that the Current Spending Column on the graph reflects how the initial \$350,000 funding authorization was used.

Mr. Heinze continued that the graph also depicts that the additional FY 04 funding authorization of \$2.15 million was used to fund the operations of the ANGDA Board and the Business Contracts. Additionally, he specified that the funds were expanded to support the Project Contract component. He stressed that identifying the proper business structure is important as it would address how "to

lower the cost of service of transporting the gas" as that would "increase the value at the wellhead, and that makes the project better for both project proponents as well as increases the revenues to the State of Alaska."

Mr. Heinze stressed the importance of getting Alaskans to understand and support the concept of producing natural gas, as, he contended, its development would lower residents' expenses. He noted that people living in Anchorage are currently experiencing low natural gas supplies and consequently, are paying high prices. He stated that were a spur natural gas line provided, communities, such as Anchorage, would benefit. In addition, he reminded the Committee that the Authority was charged with addressing the basic project, project design, and project scheduling in the Statewide Ballet Measure 3 Initiative that established the Authority. He shared that, early in the process, the Authority worked with the Murkowski Administration to identify the types of contractors who would be required to conduct the various jobs; the kinds of expertise that would be required; questions and issues would require answers; what internal resources were available; and what kind of work had already been conducted. Therefore, he clarified that the Project Contractors specified on the graph are those that the State does not have expertise in.

Mr. Heinze noted that the fact that two Stranded Gas natural gas applications have recently been received is important to the Authority, as some of the work already conducted by the Authority would contribute to the State's efforts in moving forward with the applications. He avowed that the fact that the first 530 miles of both the over-land and to tidewater routes are in common and thus could "contribute toward each other's financial success." Additionally, he attested, that while both the applicant's "benefits to Alaska are weak," ANGDA "could help in that regard."

Mr. Heinze informed that ANGDA has responded favorably to Governor Murkowski's Administration request that it "work as part of a team" in the endeavor to bring Alaska's North Slope natural gas to market, and in that regard, he mentioned that ANGDA has introduced itself to both of the Stranded Gas applicants.

Senator Hoffman inquired as to whether ANGDA would be providing an annual report of its expenditures to the Legislature and also whether additional funding requests might be forthcoming.

Mr. Heinze replied that the Authority has been established as a public corporation, and as public entity, convenes monthly Board of Director's meetings and generates full monthly accountings of the it's expenditures and contracts. Therefore, he stated that a full

accounting on a monthly or annual basis could be provided to the Legislature.

Mr. Heinze communicated that while the two Stranded Gas Act applications have caused an increase in activity, he is unsure of the affect the applications would have on the Authority. However, he shared that, in anticipation of further involvement, he has developed alternate funding models for the corporation. He reminded that the Authority is statutorily charged with providing a development plan for the spur project by June 15, 2004; however, he stated that were ANGDA directed to assist with the Stranded Gas applications that requirement might be deferred. He mentioned that while this might delay some of ANGDA's activities, he anticipated the delay to be short term. He deferred to the Department of Revenue to provide a more thorough analysis of ANGDA's budgetary projections.

Senator B. Stevens commented that the cost of developing a LNG spur line has been consistently estimated to cost \$20 million. He voiced that the amount is confusing in that other legislation and expanded routing alternatives have been proposed that might have had some affect on the spur line's expense.

Mr. Heinze corrected that rather than being \$20 million, the amount in question is \$20,000. Continuing, he explained that the amount, which is a "rough estimate," focuses on determining the feasibility of a spur line rather than being inclusive to such things as design work. Furthermore, he noted that the engineering and cost work expenses are low because a lot of the expertise has been donated or provided at no charge. He stated that were ANGDA to have fully paid for all the components required, the expense would have been in "the tens of millions of dollars." He stated that the goal of this exercise is for the State to be able to make a decision based on adequate information. He contended that there are numerous other studies that must be conducted over time.

STEVE PORTER, Deputy Commissioner, Office of the Commissioner, Department of Revenue, testified via teleconference from Anchorage and explained that the \$3 million funding request included in the legislation would assist the State in addressing the two Stranded Gas applications. He noted that per an agreement between the State and each applicant, the applicant could be required to reimburse the State for expenses associated with such things as independent contractors. He noted that while the funding recipient was changed from ANGDA to the Department of Revenue, the process has not changed. Furthermore, he stated that were expertise available within the Department of Revenue, the service and information would be provided at no charge. However, he continued were the expertise

unavailable in house, or had been conducted by another entity, it might require a purchase. He stated that either the Department of Revenue or ANGDA could make the purchase, depending on, he declared, how the information would be utilized. He stated that were "the information to be kept confidential then ANGDA would not be the proper forum to request or fund it." In addition, he stated that were the expense to be a reimbursable expense, then the Department of Revenue would be the proper forum. Therefore, he concluded, in order to maximize efficiency, the most flexible manner to address funding needs would be to allocate the funds to the Department of Revenue.

Senator Hoffman stated that the backup material contains two separate LNG Project schedules: one titled "ANGDA All-American LNG Project Conceptual Schedule" amounting to \$10 billion using Revenue Bonds; and the other titled "ANGDA Project Concept & Cost" amounting to \$12 billion. He asked that the two schedules be reconciled.

Mr. Heinze responded that the \$2 billion difference is that two LNG tankers would be leased rather than purchased.

Senator Hoffman noted that the information contained in the \$10 billion project specifies that two Jones Act tankers would be built.

Mr. Heinze clarified that the information is all encompassing in that it reflects the major elements included in the project. He clarified that the tankers would be built by another entity.

Senator Hoffman understood therefore that everything but the tankers would be owned and operated by ANGDA.

Mr. Heinze pointed out that the term "conceptual" best describes the plan as currently determined. He stated that such things as the business structure, interest rates, and bonds are unconfirmed. He stressed that the chart is designed to reflect components and monies that might be supported by bonds. He stated that the Authority might not be involved in all of the various aspects that have been itemized; however, he continued it is charged with developing a comprehensive plan in order to determine the feasibility of the project. He exemplified that while a treatment plant to remove CO2 must be built on the North Slope, the producers rather than the State might desire to own the plant. He stated that the \$2 million treatment plant is included in the itemization because somebody would be required to build it, as part of the project's operational needs.

Co-Chair Wilken asked regarding the "Alaska Natural Gas Development Authority Alternate FY 04 Funding Strategies" chart that has been provided.

Mr. Heinze responded that this chart was developed to reflect alternate FY 04 funding strategies that might occur due to the Authority's response and involvement in the recent Stranded Gas Act applications. He noted that, in addition to providing the entities with information regarding such things as tax write-offs, timelines might require being revised as things develop.

Co-Chair Wilken referenced the letter from Mr. Heinze to the Vice Presidents of ANS Gas Development, ConocoPhillips; Alaska Gas, BP Exploration Alaska; and ExxonMobil Alaska Production, dated February 13, 2004 [copy on file] that references an alternate route to the Beaufort Sea. He asked that further information regarding the reference to this route be provided, as that route is not commonly considered to be an option.

Mr. Heinze responded that this letter and the letter to MidAmerican Energy Holdings Company, dated February 12, 2004, [copy on file] were generated in response to these entities' Stranded Gas Act applications to the State. He continued that the application by the producers: ConocoPhillips; BP Exploration Alaska; and ExxonMobil Alaska Production, "made it very clear that in their minds, both routes were on the table." He continued that Governor Murkowski informed them that the Beaufort Sea route was not to be considered. However, he stated that the Authority's desire to initiate a relationship with the applicants is apparent in that it recognizes "the fact the one of the producers" supports the Beaufort Sea alternative. Overall though, he stated that the intent of the letter is to offer assistance in a mutually beneficial manner to both the applicant and to ANGDA.

Co-Chair Wilken thanked Mr. Porter for the explanation as he would not desire "that sentence to become a lightning rod that affects" other efforts.

Co-Chair Wilken stated that there are "two camps" in regard to the gas pipeline: those who say "show me a customer and I'll show you a gas line," or those who support building a gas line as the belief is that the customer will come." He asked who potential customers of the State's natural gas might be.

Mr. Heinze responded that the marketing question of whether the pipeline or the customer occurs first "is one of the key questions" and issues when seeking financing. He noted that while there is a market for natural gas in the State, this intrastate market, while

important, is not large enough "to justify the project." Secondly, he noted, that the process of transiting the natural gas to LNG would allow the product to be shipped via tanker to the west coast of North America or to Asian economies such as Japan, Taiwan and Korea who are traditional LNG consumers. He assured that Alaska natural gas could be competitive in all those markets; however, he reiterated there being "no single customer at any single moment in time" who would purchase the volume required to support the entire project. Continuing, he shared that discussions are underway with a "mega-company," Mitsubishi Corporation that acquires and distributes LNG to customers worldwide.

Co-Chair Wilken stated that the conceptual schedule specifies that the gas could be available for market as soon as 2010. Continuing, he asked who the customers of that gas might be.

Mr. Heinze replied that those "potential customers would be a mixture of the west coast of North America" as well as Japan, Taiwan, and Korea.

Co-Chair Wilken asked whether conversations with specific countries, which might be interested in purchasing Alaska gas in 2010, have occurred.

Mr. Heinze responded that the LNG market on the West Coast is "rapidly evolving," and that a port in the Baja, Mexico area and two or three other ports on the West Coast are moving forward. He anticipated that the State would be able to provide LNG to one or two of these ports. Additionally, he stated that a port in Korea is possible and that the State has been encouraged by the response from other Asian markets. He stated that, "being able to compete is the essential ingredient," and therefore, the State "needs a business structure that lowers our cost of service to the point that we are competitive." He continued that this would require long-term commercial transactions, and that the fact the Alaska is part of the United States is a strong element in terms of marketing. None-the-less, he stated that the project must be "economic and competitive."

Senator Dyson voiced that it is "very difficult" to understand how Alaska natural gas could be competitive with other worldly markets on the Pacific Rim such as Qatar.

Mr. Heinze expressed that the proposed \$12 billion investment in Alaska LNG must have a high rate of return in order to advance. He referenced the "Notional Cost of Service Comparison" calculation chart [copy on file] that reads as follows.

Notional Cost of Service Comparison
Does not include Wellhead Purchase Price

	High ROR Commercial	Not Taxable	Benefit Drive Infrastructure
Pipeline	\$ 1.40	\$ 1.00	0.75
LNG	\$ 1.50	\$ 1.20	0.90
TOTAL COST OF SERVICE	\$ 2.90	\$ 2.20	\$1.65

Mr. Heinze stated that, based on this calculation, the natural gas target level should be \$3.50. He shared that experts in the field predict that long-term gas prices would range between \$3.00 and \$3.50, and that some existing fields, such as the one in Qatar ranges around \$3.50. He pointed out that were the cost of the total \$12 billion Alaska natural gas project factored in, "the cost of service becomes very low for our gas," and he continued, at a wellhead value ranging between \$3.00 and \$3.50, the State could do "very well," and "do more than service our debt on the project." He noted that price factors would be affected by various factors such as whether the pipeline follows the highway, is converted into LNG, or distributed into the market in a number of different ways. He noted the "Estimated Cost of Service Comparison to WCNA" (West Coast North America) chart [copy on file] and stated that, depending on how the State and the Authority use their "unique financial structures," the cost of service could be reduced further and the State could be competitive with any of its competitors.

Mr. Heinze explained, in response to an earlier question from Senator Bunde, that LPG is things such as propane or butane. He stated that natural gas liquids (NGL) are liquids that are derived from gas that is being produced, and he continued that LPG is the same as NGL except that it is derived from the gas after the gas has been transported. He noted that LPG fuels are easy to use and easy to transport.

Mr. Heinze stressed that the timing of the receipt of this funding is very important to ANGDA, as the initial \$350,000 funding has been expended. Therefore, he urged the Committee to expedite this legislation, as more funding would be required in order for further work to be done.

Mr. Porter also voiced support for expediting the request, as there are several AGNDA contract requests that are awaiting funding and should be "executed."

Co-Chair Wilken ordered the bill HELD in Committee.

#sb277

CS FOR SENATE BILL NO. 277(HES)

"An Act relating to the Alaska Commission on Postsecondary Education; relating to the Alaska Student Loan Corporation; relating to bonds of the corporation; relating to loan and grant programs of the commission; relating to an exemption from the State Procurement Code regarding certain contracts of the commission or corporation; making conforming changes; 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 legislation pertains to the student loan program and is sponsored by the Senate Rules Committee at the request of the Governor. He noted that the legislation "would allow the Alaska Student Loan Corporation to issue bonds and use the proceeds for purposes other than funding student loans and creates a mechanism for the Corporation to return money to the State through the financing of capital projects." He stated that \$260 million is anticipated to become available over a three year period beginning in FY 04 as a result of this bond issuance. He noted that a sectional analysis of CS FOR SENATE BILL NO. 277(HES) is included in the Members packets.

SFC 04 # 12, Side A 10:44 AM

DIANE BARRANS, Executive Director, Postsecondary Education Commission and Executive Officer, Alaska Student Loan Corporation, read her testimony as follows.

Co-chair Wilken, Co-chair Green, committee members, my name is Diane Barrans and I am the executive director of the Alaska Commission on Postsecondary Education as well as the executive officer of the Alaska Student loan Corporation. Thank you for hearing the legislation before you today.

Appearing with me today are Sheila King, commission and corporation finance officer and by teleconference, Ken Vassar, Wolforth, Vassar, Johnson, and Brecht.

Over the past decade I have appeared before you several times seeking your support for agency initiatives.

First, the Commission asked to be given the tools and administrative latitude to modify our processes so that we could operate as a self-sustaining enterprise agency of the state. The next step was putting in place a mechanism for the corporation to begin paying to the state some portion of its annual net income, as a return on the state's original investment in the corporation.

Most recently, in 2001, our organization requested your approval to redefine its role-becoming Alaska's full service financial aid assistance and postsecondary education planning agency.

On each of these occasions, you and your fellow legislators consistently exhibited strong, bipartisan support for the mission of this agency, to promote postsecondary participation and success by Alaskans, and you unanimously passed this series of bills.

I am extremely pleased to sit before you today and commend for your approval CSSB 277. The commission and corporation, having successfully implemented the AlaskAdvantage suite of programs and services for Alaskans, now seek your support for the next step of our organizational growth.

The objectives of Senate Bill 277 which are five-fold:

1) To broaden the scope of the Corporation's bonding authority to include the ability to bond for the general benefit of the state. To contribute to statewide efforts to use state assets as efficiently as possible, the corporation has developed a plan to return a substantial portion of the capital the state original gave the corporation. The change in corporation statue is requested to insure that, as ASLC has capacity to return contributed capital back to the state, it will have a variety of means to do so and will be able to select the most beneficial way of doing so;

2) To reconstitute the state student grant program to better focus on Alaska's workforce needs and to enhance the Commission's current outreach and early awareness initiatives; our proposal redesigns the grant program to clearly have an Alaska-centered focus.

3) To provide the Commission with greater flexibility in offering loan consolidation options to borrowers. Current statutes limit the way in which the Commission can offer consolidation and certain customers, who have borrowed from both the discontinued loan program and the AlaskAdvantage

loans, cannot currently be served through consolidation.

4) At the recommendation of the Department of Law, this bill will clarify the Commission's ability to administratively issue liens in the collection of defaulted education loans and set out the due process for appealing such an action by the Commission; and

5) Lastly, to provide an exemption from the State Procurement Code for certain services related to guaranteeing and disbursing education loans. Under the current business structure for education loans, a lender must be prepared to conduct business with the guarantors and disbursing agents preferred by the schools participating in the loan programs.

In the Sectional analysis in your bill packet these changes, as well as several minor or conforming changes are identified. I would be happy to respond to specific questions or provide a walk through of the bill, section by section.

Co-Chair Wilken asked Ms. Barrans to review the changes to the bill that were made in the Senate Health, Education, and Social Services (HES) Committee.

Ms. Barrans stated that one change, included in Section 5 of the bill, specifies that an aggregate limit be placed on the amount of bonds that the Corporation could issue.

Sec. 5. AS 14.4.220 is amended by adding a new subsection to read:

(g) The corporation may not issue bonds to finance projects under (a)(3) or this section in an aggregate amount that exceeds \$280,000,000.

Ms. Barrans stated that the HES Committee determined that while it is anticipated that the program "could return a substantial amount of the contributed capital to the State, that in the future the Student Loan Corporation not be looked to, to bond itself in perpetuity beyond what it could afford to do." Therefore, she continued, this aggregate limit was designated to finance State projects.

Ms. Barrans continued that the second change "is relevant to the prioritization for the awarding of State grants" in that the original version of the bill allowed individuals "enrolled in programs of study leading to employment" in specific workforce shortage areas. She shared that the Senate HES Committee determined that these specification "were too narrow and did not provide for

the advent of emerging workforce needs," and therefore, she noted, that language was eliminated.

Co-Chair Wilken pointed out that an additional change is located in Section 23, subsection (2) on page 11, line 24, in which "ten percent" was changed to 15 percent as follows.

(2) "severe shortage" means a current or recurring job vacancy rate of 15 percent or greater, as determined by the Department of Labor and Workforce Development or by another workforce data source determined reliable by the commission.

Ms. Barrans affirmed. She noted that this change is the result of the aforementioned broadening of the workforce area shortage needs.

Senator Hoffman asked why the bill's language limits the amount of bonds that could be available to finance projects to \$280 million as opposed to Ms. Barrens' testimony specifying that \$260 million would be available for this purpose over a three-year period.

Ms. Barrans responded that the bill's language would deliberately establish the amount at \$280 million in order to allow the associated costs of bond issuance to be paid for from the bond proceeds. Furthermore, she noted that it would be beneficial to be able to finance the minimal reserve fund from the bond proceeds rather than requiring the Corporation to utilize other resources to fund either the cost of issuance or the reserve fund.

Senator Hoffman surmised therefore that the bond issuance expense and the reserve fund expenses would amount to approximately \$20 million.

Ms. Barrans concurred. She shared that it is typical for a Bond Reserve Fund to be approximately ten percent and the cost of issuance to be approximately two percent of the bond amount.

Senator Bunde asked that further information be provided in regards to the grant program, specifically the definition of financial need. He additionally asked whether a student could be eligible for both a grant and a student loan.

Ms. Barrans responded that the Commission would like to work with "financial aid officers at Alaskan institutions to develop a formula that would best serve this constituency." Typically, she noted, the Commission "would rely on a needs analysis that is based on a federal free form for student financial aid, which is a standard calculation for financial need." However she noted that, "one point of discussion...is whether we should use...a standard cost

of education in order to level the playing field " in a situation where a student might elect to attend a more expensive institution as opposed to a less expensive institution. She voiced the understanding that, in order to efficiently utilize grant funds, "the standard cost of education would be considered in that mix."

Senator Bunde understood that the grants would be limited to students who chose to attend college in the State.

Ms. Barrans replied that this is true, however, she noted that while the standard cost of education to attend the University of Alaska might range between \$8,000 and \$12,000, the cost of attending another institution such as Sheldon Jackson College or Alaska Pacific University "might be considerably higher." She noted that students could be recipients of both the grant and loan program.

Senator Bunde opined that a student might require both funding sources.

Ms. Barrans agreed.

Senator Olson stated whether some schools might not qualify for some of the eligibility and priority specifications that are identified in Section 23 of the bill beginning on page ten and continuing through page eleven; specifically in subsection (2) (A) that reads as follows.

- (2) enrolled or about to be enrolled
 - (A) at an institution approved to participate in federal financial aid programs under 20 U.S.C. 1070 - 1099c-2, as amended, located in this state; and

Ms. Barrans responded yes, "some very small vocational schools" in the State "are not regionally or nationally accredited."

Senator Olson asked whether the Kotzebue Technical Center in Kotzebue or the Ilisagvik College in Barrow are accredited and therefore would qualify for the grant money.

Ms. Barrans responded that the Ilisagvik College and the Alaska Vocational Technical Center in Kotzebue are accredited; however, she was unsure of the status of the Kotzebue Technical Center and would supply that information to him.

Co-Chair Wilken asked for confirmation that the money that would be available from the sale of bonds would be separate from the Corporation's dividend program that has been contributing funds to

the State's general funds for the past four years.

Ms. Barrans affirmed that, "it is a separate initiative."

Co-Chair Wilken concluded, therefore, that the State would continue to receive "the dividend in addition to the payback." He voiced the understanding that proceeds from the bond dividend must be used for capital projects.

Ms. Barrans clarified that the Internal Revenue Service specifies that the proceeds from tax-exempt bonds are federally limited to specific types of projects and that typically a capital project would qualify. She noted that "principle payments on outstanding debt service" is also an approved use of the funds.

Co-Chair Wilken noted that the Corporation has provided additional information, titled "Alaska Student Loan Corporation Return of Contributed Assets to State" [copy on file], that could supply Committee members with further information.

Senator Bunde asked the current status of the Commission's student loan default rate as compared to the rate a decade earlier.

Ms. Barrans responded that the most recent year's default rate is approximately four percent and is approximately 13 percent lower than the default rate of ten years prior.

Co-Chair Wilken shared that when he had served on the Commission in the late 1990's, it was determined that the State could garnish an individual's permanent fund dividend (PFD) check when their loan was outstanding. He asked how much the Commission garnishes in this manner each year.

Ms. Barrans responded that approximately \$6.8 million was recently collected in this manner.

Co-Chair Wilken recalled that during the first two years that the garnishing of one's PFD was allowed, the State collected \$13 million and \$12 million, respectively.

Ms. Barrans agreed that being able to garnish PFD's is "an effective tool."

Co-Chair Wilken noted that the State's Student Loan Corporation is fairly unique in the nation.

Ms. Barrans agreed that while there are similar programs operating in the country, the Corporation's programs and services are unique.

Senator Hoffman informed the Committee that he would be developing an amendment to this legislation that would allocate ten percent of the funds to support maintenance needs of the University of Alaska, another ten percent to support major maintenance of schools, and the remaining 80 percent would be retained by the State.

Co-Chair Wilken noted therefore, that the bill would be held pending drafting of the amendment.

Senator Olson voiced concern regarding the fact that the intent of this legislation is to fund State capital projects now, via the student loan program's issuance of bonds that "might encumber future generations of students." He questioned whether trying to solve a problem by using these bonds is the best option, and therefore, he asked whether "there are other loan type corporations that are also contributing to the State's general fund."

Co-Chair Green opined that each of the programs that have been funded with State general fund dollars "have the obligation, when they can, to pay a dividend." Therefore, she stated that she recognizes this proposal "to be a dividend back to the State."

Senator Olson responded that the Corporation is already paying a dividend. Continuing, he restated that his concern is that it would "encumber future generations."

The bill was HELD in Committee.

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ADJOURNMENT

Co-Chair Gary Wilken adjourned the meeting at 11:03 AM