

HOUSE FINANCE COMMITTEE  
February 25, 2005  
1:40 p.m.

CALL TO ORDER

Co-Chair Chenault called the House Finance Committee meeting to order at [1:40:48 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair  
Representative Kevin Meyer, Co-Chair  
Representative Bill Stoltze, Vice-Chair  
Representative Eric Croft  
Representative Richard Foster  
Representative Mike Hawker  
Representative Jim Holm  
Representative Mike Kelly  
Representative Bruce Weyhrauch

MEMBERS ABSENT

Representative Reggie Joule  
Representative Carl Moses

ALSO PRESENT

Cody Rice, Staff, Representative Carl Gatto; Eddy Jeans, Director, Education Support Services, Department of Education and Early Development; John Cramer, Director, Administrative Services Division, Military and Veterans Affairs; Philip Reeves, Assistant Attorney General, Oil, Gas and Mining Section, Civil Division, Department of Law; Susan Taylor, Director, Administrative Services Division, Department of Revenue; Kathryn Daughhetee, Director, Administrative Services Division, Department of Law; Nico Bus, Acting Director, Division of Administrative Services, Department of Natural Resources; Sean Parnell, Deputy Director, Division of Oil and Gas, Department of Natural Resources; Larry Meyer, Deputy Director, Tax Division, Department of Revenue; Nancy Slagle, Director, Division of Administrative Services, Department of Transportation and Public Facilities; Chris Christensen, Deputy Administrative Director, Alaska Court System

PRESENT VIA TELECONFERENCE

John Katz, Director, State/Federal Relations and Special Counsel, Washington, D.C.; John Norman, Chair, Alaska Oil and Gas Conservation Commission (AOGCC); Steve Porter, Deputy Commissioner, Department of Revenue; Member, Stranded Gas Negotiating Team; Sean Parnell, Deputy Director, Division of Oil And Gas, Department of Natural Resources;

Barbara Brink, Director, Public Defender Agency; Josh Fink, Public Advocate, Office of Public Advocacy

SUMMARY

HB 1 "An Act relating to the base student allocation used in the formula for state funding of public education; and providing for an effective date."

CSHB 1 (HES) was REPORTED out of Committee with a "do pass" recommendation, and with two new fiscal notes by the Department of Education and Early Development, and a new fiscal note by Military and Veterans Affairs.

HB 30 "An Act making appropriations for K-12 education operating and school debt expenses; and providing for an effective date."

CSHB 30 (HES) was REPORTED out of Committee with a "do pass" recommendation.

HB 134 "An Act making supplemental, capital, and other appropriations, and reappropriations; amending appropriations; making appropriations to capitalize funds; making an appropriation under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

HB 134 was heard and HELD in Committee for further consideration.

HB 135 "An Act making supplemental appropriations, capital appropriations, other appropriations, and reappropriations; amending appropriations; making appropriations to capitalize funds; and providing for an effective date."

HB 135 was heard and HELD in Committee for further consideration.

[1:40:59 PM](#)

#hb1

HOUSE BILL NO. 1

"An Act relating to the base student allocation used in the formula for state funding of public education; and providing for an effective date."

Co-Chair Meyer announced that HB 1 and HB 30 would be taken up first, followed by HB 135 and HB 134.

CODY RICE, STAFF, REPRESENTATIVE CARL GATTO, offered to answer questions about HB 1.

Co-Chair Meyer related that the base student allocation for HB is \$4,919, which is an increase of \$70,089,500 over last year.

EDDY JEANS, DIRECTOR, EDUCATION SUPPORT SERVICES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, explained that the \$4,919 increase is a \$343 increase per student over last year and an \$8 million increase over the Governor's proposal.

Co-Chair Meyer shared that he would like to see the amount higher, and noted that there was a great deal of previous testimony to that effect. He pointed out that there are several issues, PERS/TRS, and the recently released cost differential study, which could impact education funding. He stated a preference to move the bill so that there could be early funding for school districts.

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Representative Foster MOVED to report CSHB (HES) 1 out of Committee with the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSHB 1 (HES) was REPORTED out of Committee with a "do pass" recommendation, and with two new fiscal notes by the Department of Education and Early Development, and a new fiscal note by Military and Veterans Affairs.

#hb30

HOUSE BILL NO. 30

"An Act making appropriations for K-12 education operating and school debt expenses; and providing for an effective date."

Representative Foster MOVED to report CSHB 30 (HES) out of Committee. There being NO OBJECTION, it was so ordered.

CSHB 30 (HES) was REPORTED out of Committee with a "do pass" recommendation.

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At ease.

[1:49:03 PM](#)

#hb135

HOUSE BILL NO. 135

"An Act making supplemental appropriations, capital appropriations, other appropriations, and reappropriations; amending appropriations; making appropriations to capitalize funds; and providing for an effective date."

FUND CAPITALIZATION

Section 6(b) Disaster Relief Fund

Base capitalization of fund \$1,000.0; 2004 Bering Strait Sea Storm \$4,054.4; Interior Earthquake shortfall \$259.3; and Kaktovik Winter Storm \$2,363.5  
\$7,677.2 GF

JOHN CRAMER, DIRECTOR, ADMINISTRATIVE SERVICES DIVISION, MILITARY AND VETERANS AFFAIRS, reviewed the expenses related to disaster relief.

Representative Holm asked if \$259.3 is for Northway airport resurfacing.

Mr. Cramer replied that is correct. He explained that expenses for two airports had been disallowed earlier by the Federal Government.

Representative Holm asked if all federal emergency funds have been received. Mr. Cramer said he believes so.

Representative Hawker inquired if the amounts for the projects are final numbers. Mr. Cramer related that the information is still being gathered for Kaktovik. Representative Hawker wondered if \$1,000.0 is enough to pay remaining claims on known disasters. Mr. Cramer stated that the fund is becoming depleted and the unknown of spring flooding remains. In response to further questioning by Representative Hawker, Mr. Cramer replied that he thought the amounts requested are adequate.

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DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

Section 11 National Guard Military Headquarters

National Guard Audit Disallowance - Federal auditors have disallowed state expenditures in FFY05 for a total of \$937,234. This request will cover October 2004 to June 2005. An amendment will be offered in the FY 06 budget to cover these expenditures for the remainder of FFY05 and FFY06. The department estimates they will run out of general funds by the end of March.

\$446.0 GF

Mr. Cramer related that the National Guard recently went through an audit and several state expenditures were disallowed. Currently, general funds are being used to augment costs.

Representative Holm asked why the expenditures were disallowed. Mr. Cramer replied that for years the Department of Military and Veterans Affairs has entered into agreements with the Federal Government to provide services for National Guard programs. This August auditors found nearly a million dollars in costs that were inappropriately charged to federal programs. He listed examples of inappropriate personnel costs. Representative Holm asked if these costs would now be in the general appropriation budget. Mr. Cramer said that is correct.

Vice-Chair Stoltze asked if requests regarding game management would meet federal requirements. Mr. Cramer replied yes.

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DEPARTMENT OF LAW

Section 10(a) Criminal Appeals/Special Litigation Component

Outside counsel for appeal costs in the Murtaugh case related to defense of victim's rights; FY06 lapse date  
\$50.0 GF

SUSAN PARKES, DEPUTY ATTORNEY GENERAL, CRIMINAL DIVISION, DEPARTMENT OF LAW, explained that the Murtaugh case is a class action lawsuit that deals with part of a statute that requires defense attorneys to notify victims and witnesses that their statements are being recorded and that they have a right to a copy of the recording. The argument is that this is unconstitutional. She reported that it is a complex case and the legislature hired outside council for \$175,000. The case ended up going to the Supreme Court, which resulted in higher costs that this appropriation would cover.

Section 10(b) 1<sup>st</sup> Judicial District

Contractual costs for a prosecutor to represent the Department of Law in the Therapeutic Courts program.  
\$21.4 SDPR

Ms. Parks explained that this is a request for authority to receive and expend statutory designated programs receipts. The Juneau affiliate of the National Counsel on Alcoholism and Drug Dependence received a grant from the Department of Transportation to start a Wellness Court. The amount

requested would go to hire a contract prosecutor to handle wellness cases.

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OFFICE OF THE GOVERNOR

Section 8 Arctic National Wildlife Refuge

Funds for support of national efforts to open ANWR for oil and gas exploration and development

\$500.0 GF

JOHN KATZ, DIRECTOR, STATE/FEDERAL RELATIONS AND SPECIAL COUNSEL, WASHINGTON, D.C., (via teleconference), spoke in support of the appropriation to open ANWAR and in support of Arctic Power. He opined that this is the best opportunity to open ANWAR to responsible development since the Clinton administration. He referred to the first of two vehicles for opening ANWAR, budget reconciliation. The congressional leadership recently announced an intention to try to conclude budget reconciliation by the July 4<sup>th</sup> recess, and to include ANWAR in the budget package. In two of the last three years, Congress has failed to pass budget reconciliation.

Mr. Katz explained that the second legislative vehicle is comprehensive energy legislation. Last year energy legislation faltered in the last days of Congress. This year an energy bill could be subject to a filibuster in the Senate. The preferred alternative is budget reconciliation, which is leadership driven and not subject to a filibuster.

Mr. Katz supported the continuation of Arctic Power, speculating that if there were not an entity like Arctic Power, one would have to be created. He explained that Arctic Power should have the flexibility that government sometimes does not have, to implement a multifaceted public policy advocacy of position. In August the governor's office took direct control of ANWAR funding, which led to a contract between the state and Arctic Power. He noted several changes requested of Arctic Power: transfer resources and staff to Washington, D.C., hire new staff and professional services, and improve coordination and communication with the Congressional delegation. Mr. Katz pointed out that Arctic Power has made significant strides toward improving their efforts. They are in the process of transferring staff to Washington, D.C., have recently hired new people, and are now consulting much better.

Mr. Katz recommended a two-step approach to funding. Appropriate funds now in the supplemental budget, which should be enough to get the effort through until the July 4<sup>th</sup> recess or the August recess. Later in the session the

legislature will be in a better position to proceed, and will have had an opportunity to observe Arctic Power.

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Representative Weyhrauch agreed with the general strategic approach to the use of the funds. He asked if the money is intended to be used in Washington, D.C. to re-educate undecided Senators and Legislators. Mr. Katz replied yes, but, at the moment, the Congressional delegation wants to limit advocacy activities in the Senate and concentrate efforts in the House. Arctic Power also reaches out beyond the capitol to target groups, organizations, and states.

Representative Weyhrauch asked if it is the intention of the administration to eliminate the Anchorage office. Mr. Katz said that is under discussion. He maintained that the Governor's view is that there should be a limited presence in Anchorage to disseminate information, raise funds, and do the accounting, but the current presence is too large. Resources should be sent to Washington where the work would do the most good.

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#### DEPARTMENT OF ADMINISTRATION

##### Section 7(a) Capital

AOGCC costs for gas pipeline reservoir studies and depletion plan evaluations.

\$1,200.0 GF

STEVE PORTER, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE; MEMBER, STRANDED GAS NEGOTIATING TEAM, testified via teleconference in support of the legislation. He noted that getting Alaska's stranded gas to market is every bit as large a project as anyone estimated it to be. Total sales value of just the proven North Slope natural gas reserves would be \$210 billion at a price of \$6/mmcf. He observed that the department researched ways to enhance the prospect of bringing Alaska North Slope gas to market. The primary areas of research centered on sharing risk through various financial structures and different levels and types of ownership participation. The general areas of research were: gas price, risk analysis, cost overrun risk, tariff structure and FERC process, Alaska State Gas Entity, pipeline funding, socio-economic report, Canada pipeline issues, and understating the applicant's perspective on economics.

Mr. Porter discussed forms of support used in the negotiations. The department contracted for and continues to use the expertise of Dr. Pedro Van Meurs and his team for

the actual negotiations. The department also uses analytical experts to fine-tune their negotiating position in each of the contract negotiations. He emphasized that each side's lawyers are regular participants in the negotiations and indicated that he expects legal support to increase.

Mr. Porter noted that the department is also working with the Alberta Government:

While we are negotiating with the applicants under the SGDA, we also have a responsibility as the sovereign of encouraging and supporting any other proposal that may bring Alaska North Slope Gas to market. That encouragement and support generally has taken the form of economic evaluation and analysis and feedback to the parties to help them move their projects forward. A good example of this support is the Alaska Gasline Port Authority proposal. We have volunteered to review their project proposal and give them feedback on the overall economics of their proposal as well as express any concerns we have with the overall viability of their project.

Mr. Porter discussed reimbursement:

One of the goals of the State was to make sure we received the maximum amount we could from project applicants under the reimbursement provisions of the SGDAT We billed and received in reimbursement from ExxonMobil/ConocoPhillips/BP the maximum amount available under the Act of \$1.5 million. The state continues to be reimbursed also by TransCanada, and Department of Natural Resources is tracking that reimbursement.

Mr. Porter observed that the state has placed a proposal on the table in the Exxon/ConocoPhillips/BP negotiations and received a counter proposal from them. The department is also developing a proposal with TransCanada. Each of these negotiations will require a substantial amount of work to bring a SODA contract to the legislature.

"The current activities in support of these negotiations will include substantial legal support in negotiating the fiscal contracts and other associated contracts and exhibits necessary to bring a contract proposal to the legislature. In addition each variation of fiscal term negotiations may require additional analytical support from our contractors."

Mr. Porter explained that once the Administration has a contract to present to the legislature they will need to prepare a commissioner's finding that the contract is in the fiscal interests of the state. This finding will go out for

a 30-day public comment period along with the proposed contract. The Commissioner will then respond to those comments and bring the final fiscal finding and contract to the legislature for ratification. The process may entail going back to the applicant for a refinement of the agreement. The supplemental request would provide funding for this process.

Mr. Porter observed that if the state is successful and decides to take an ownership interest in the pipeline it could almost immediately be in a partnership relationship with an applicant attempting to build a pipeline. He emphasized that state representatives need to be ready to make financial and other decisions in order to be effective in the new entity. He stressed the need to move the project forward and observed that the requested funding would develop the state organization that will need to be in place almost immediately upon ratification of any contract.

Mr. Porter noted that capital funding of state gas line participation cannot be determined at this time. The department will come back to the legislature when a determination is made regarding the type and level of state participation in a gas pipeline.

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JOHN NORMAN, CHAIR, ALASKA OIL AND GAS CONSERVATION COMMISSION (AOGCC), (via teleconference), reported that the purpose of the \$1,200 million request is to study the [Prudhoe Bay] reservoir, and to be sure that AOGCC can complete its work in a timely manner. Conservation order number 341, which establishes an off-take rate of 2.7 billion cubic feet per day from the Prudhoe Bay reservoir, is currently in effect. The order is based on a study done in 1977. Mr. Norman offered to provide a copy of the order and the report. He quoted from the report, "The numbers in this report should be considered relative, rather than absolute. Reservoir performance productions on a field without production history are approximate, at best."

Mr. Norman explained that since 1977, AOGCC has continued to monitor and regulate oil production in the re-injection of gas in a way that would maximize oil production from the reservoir. AOGCC has not undertaken to update that order until now, when it appears that prospects of major gas sales from that reservoir might be imminent. Mr. Norman spoke of production history and the ability to predict the behavior of the reservoir. He spoke of the risks when failing to do so and the amount of the oil that would be lost. He stressed the need to begin to move forward, using sound science to develop the reservoir in a responsible way.

Mr. Norman requested that the supplemental funds be provided in a timely manner from general funds. He explained that AOGCC's budget is mainly based on production levels. This particular undertaking is significant because it targets one reservoir owned by three companies.

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DEPARTMENT OF LAW

Section 7(b) Civil Division, Oil, Gas and Mining

Legal costs for work related to the state gas pipeline and to bringing North Slope natural gas to market, and other oil and gas projects for FY05 and FY06.

\$9,000.0 GF

PHILIP REEVES, ASSISTANT ATTORNEY GENERAL, OIL, GAS AND MINING SECTION, CIVIL DIVISION, DEPARTMENT OF LAW, explained that the Department of Law is dependent on a substantial amount of assistance from outside legal council in the on-going negotiations regarding construction of a natural gas pipeline from the North Slope. The State is currently involved in two parallel negotiations under the Stranded Gas Act (AS 43.82). Both Stranded Gas negotiations contemplate the State's participation in the pipeline project.

Mr. Reeves related that the State is drafting and negotiating terms of several legal agreements that would be required for participation as a partner in the pipeline project. Individual agreements include: the Stranded Gas Agreement; a Business Entity Agreement; a Project Financing Agreement; a Construction Agreement; an Operating Agreement; and a Gas Balancing Agreement. The Stranded Gas Agreement and the Business Entity Agreement are the current focus of intensive contract development work and negotiations.

Mr. Reeves emphasized the necessity for "Fast Track" supplemental funding. The Department of Law has already expended essentially its entire Oil & Gas contract services appropriation for FY 04 - FY 05, due to the unanticipated additional work arising from participation in two simultaneous Stranded Gas negotiations; and consideration of State partnership in the North Slope gas pipeline project, which necessitates development of the Business Entity and Financing Agreements.

Early expenditure of contract services appropriation for work on the North Slope gas pipeline has also depleted contract funds in the Department's FY05 budget request that were earmarked for use on other non-gas pipeline projects. Those contract services funds - utilized on oil royalty reopeners, TAPS oil pipeline matters, and Cook Inlet area

gas pipeline matters - also need to be supplemented in this fiscal year.

Mr. Reeves concluded that the Department of Law has asked for a fast-track supplemental appropriation of \$9 million for contract legal services through June 30, 2006. While the Department prefers to receive the full \$9 million amount in this supplemental appropriation, it would be possible to split the appropriation between FY 05 and FY 06, with \$5 million in the fast-track supplemental available for expenditure in FY 05.

In response to a question by Representative Weyhrauch, Mr. Reeves said that firms are paid on an hourly basis. Representative Weyhrauch asked how much lobbyists in Washington, D.C. are paid. Mr. Reeves replied that they have extended contracts for legal services when negotiating for gas pipeline contracts. Representative Weyhrauch asked how many Alaska firms would be hired. Mr. Reeves replied that there is one Alaska firm and two outside firms under contract. As additional agreements come up, more firms could be considered. Representative Weyhrauch inquired if there would be competitive bidding for those jobs. Mr. Reeves replied that he does not believe it involves a bidding process.

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In response to a question by Representative Hawker, Mr. Reeves explained that the focus of the negotiations with the business entity agreement would be a limited liability partnership. Representative Hawker asked if the funding is strictly for Stranded Gas applications. Mr. Reeves replied that at this time there are two parallel negotiations going on, and this fund source would be available for additional applicants, if additional projects are considered.

Representative Croft expressed surprise at the request for funds for the FY 06 budget. He asked if \$5 million is truly a supplemental request for FY 05 and \$4 million is for the FY 06 budget. Mr. Reeves related that the focus of the Stranded Act Working Group is a project that does not track with a fiscal year. Several more projects will be brought before the legislature this Session. He maintained that the majority of the \$9 million would be expended this fiscal year; however, it is questionable whether the legal contracts can be completed this year.

Representative Croft inquired if any of the funds are needed for tariff negotiations or other oil and gas issues, or if these are just "gas pipeline lawyers". Mr. Reeves repeated that there are tariff matters before regulatory bodies that also have received money earmarked for the FY 05 budget. Those monies have been expended, have been moved over to

North Slope gas pipeline negotiations at this time, and now need to be replenished out of the requested funds.

Representative Croft questioned how much is needed for gas pipeline costs and how much is needed for tariff negotiations. He suggested waiting for the "reopener" on the tariff issue. He further inquired how much would go to replenishing other non-gas pipeline expenditures. Mr. Reeves replied that he does not have specific numbers, but that it is his understanding that there is not an intent to expend any of the money beyond the amounts earmarked for particular matters.

SUSAN TAYLOR, DIRECTOR, ADMINISTRATIVE SERVICES DIVISION, DEPARTMENT OF REVENUE, in response to Representative Croft's question, recalled that non-gas pipeline matters would amount to \$350,000. She suggested that Mr. Porter elaborate.

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Mr. Porter, in response to Representative Croft's question, pointed out that there are a number of elements that are being negotiated at the same time, and a substantial amount of money can be spent in a short amount of time if the negotiations are going well.

Representative Croft asked how much of the \$5 million has actually been "signed off" to pay somebody. Mr. Reeves replied that a large part of the money would be used for work to be completed between now and June 30.

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KATHRYN DAUGHHETEE, DIRECTOR, ADMINISTRATIVE SERVICES DIVISION, DEPARTMENT OF LAW, addressed Representative Croft's question. She anticipated that the Department would not be able to pay the contracted bills that are coming in now, and would be out of money by April. The fee is entirely for outside experts, attorneys and firms. She stated that they do not want the State to be in a position to be unable to pay bills and that is why the request is on fast track.

Representative Croft stated that \$5 million in attorney fees would be paid out in the next four months. Ms. Daughhettee replied that is correct.

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Co-Chair Chenault asked how many of the services would be duplicated because of the two on-going negotiations. Mr. Porter responded that there are duplication issues, but expertise from lawyers has been utilized resulting in little

duplication. The Stranded Gas team is small and is familiar with the needs of both negotiations, so there is a lot of coordination between the two groups.

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DEPARTMENT OF NATURAL RESOURCES

Section 7(c)(1) Capital

Gas pipeline risk analysis and royalty issues  
\$2,500.0 GF

NICO BUS, ACTING DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF NATURAL RESOURCES, explained the economic issues related to the request for an additional \$2.5 million dollars: \$1 million is requested for risk analysis contractual money to assist in mitigating the state's capacity ownership risk; \$1.5 million is requested for additional work on royalty issues such as the conversion of net profit shares to a fixed or sliding scale royalty. He emphasized that the monies are needed right now to continue the work until June 30.

Section 7(c)(2) Capital

Gas pipeline corridor geologic hazards and resource evaluation  
\$2,000.0 GF

Mr. Bus noted that the request would allow people in the field right now to evaluate geological hazards, mineral potential, and construction materials resources from Delta Junction to the Canadian border. He stressed that it is very important for future development such as the proposed Alaska Railroad extension along this corridor. Some of the products will be: peer-reviewed geologic reports, maps, and GIS data for a 10-mile wide corridor, and detailed airborne-geophysical surveys of a wider corridor to aid the mapping of bedrock geology, active faults, and mineralized areas. He requested a fast track supplemental so that work can begin and in order to take advantage of the summer field season.

Co-Chair Chenault asked if the work would be extended through June 30 into FY 06. Mr. Bus replied that the first \$2 million would be for the contractors to fly the corridor, and an additional \$4 million would be used in subsequent years. If approval was given in March, the contractors could begin in April and May of this year.

In response to Representatives Croft and Chenault, Mr. Bus noted that it is an expensive corridor from Delta Junction

to the Canadian border and is strictly for the gas pipeline, not mining projects.

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Section 7(c)(3) Capital

Gas pipeline Bullen Point Road right-of-way permitting  
\$3,200.0 GF

Mr. Bus commented that this amount is for pipelines along the Dalton Highway to Bullen Point.

Co-Chair Chenault expressed concern about appropriating money without having an RFP.

Representative Croft asked how long the right-of-way would be. Mr. Bus said fifty miles. Representative Croft inquired why it costs so much to permit such a small section. Mr. Bus explained that the area is from the Prudhoe Bay field into existing pipeline corridors - for 50 miles of permitting from Point Thomson to Prudhoe Bay. Representative Croft asked if this is vital for the gas line itself, or only if the Point Thomson benchmarks are hit.

SEAN PARNELL, DEPUTY DIRECTOR, DIVISION OF OIL AND GAS, DEPARTMENT OF NATURAL RESOURCES, replied that he would obtain that information.

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Section 7(c)(4) Capital

Division of Oil and Gas increased workload for gas pipeline  
\$2,700.0 GF

Mr. Parnell explained that recently three companies have requested analysis from the department, which is already overburdened from work on gas pipeline issues. He reported that the reason the supplemental amount is needed now is because of staff burnout and high turnover rate. The money would be used to hire new staff for reservoir evaluation and modeling, and for commercial and regulatory work to keep revenues flowing into the state, and to allow resource development to occur in a timely fashion.

Representative Hawker wondered whether it would be necessary to go nationwide to fill these positions. Mr. Parnell replied that the department would be able to attract a significant percentage from the private sector in Alaska. Representative Hawker suggested contracting with the private sector rather than hiring state employees. Mr. Parnell opined that it would be difficult to find new talent in the

contracting community because there would be conflicts of interest. He pointed out that contract money is included in the \$2.5 million request for risk analysis and royalty money.

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Section 7(c)(5) Capital

Commissioner's Office increased workload for gas pipeline

\$200.0 GF

Mr. Bus explained the need to hire two project assistants, one for actual gas pipeline negotiation support, and one for planning and logistical support of negotiations, for the balance of this year and through FY 06.

Representative Kelly asked if the positions are lined up with positions in the FY 06 budget. Mr. Bus explained that they are not in the FY 06 request and they need to be kept separate because the department does not want to mix operating budget regular staff with this request. Representative Kelly inquired if these positions would be in the supplemental request for 06. Mr. Bus replied they are not. These positions are specific positions needed to negotiate for gas funded through FY 06.

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DEPARTMENT OF REVENUE

Section 7(d) Capital

Commissioner's Office - Work related to the state gas pipeline and to bringing North Slope natural gas to market

\$5,300.0 GF

Ms. Taylor explained that these expenses are related to setting up the Alaska Natural Gas Entity (ANGE) and contractual funding.

Representative Croft asked if the money would be used to set up the corporation. Ms. Taylor replied that the timing would require quick hiring of key people.

Mr. Porter further explained that as negotiations move forward, there are a limited number of personnel tracking all the various portions of the negotiations. A team of individuals is needed to participate in the evaluation phase of how to develop an Alaskan entity. Staff and personnel are needed now to begin to do that and to move forward in the event that a stranded gas contract is awarded. If the

contract were approved by the legislature in early summer, a fully staffed organization would be needed on the day the contract is ratified. In advance of that day, there would be a limited team in place to negotiate elements of the contract. Twelve positions would be fully funded prior to the end of FY 05, and a portion of that team would be brought on for negotiation support to develop ANGE.

Representative Croft opined that twelve positions couldn't cost \$5.3 million. Mr. Porter clarified that the cost is \$1.5 million for ANGE. The rest would be for negotiation support, not staff, but contract support and evaluation of other projects. He listed other uses for the money such as to resolve property tax issues, corporate income tax issues and other upstream items, to resolve production tax issues, and to address financing participation issues.

Representative Croft wondered if the \$9 million for lawyers or the \$10 million going to DNR pays any of those costs. Mr. Porter suggested that Representative Croft think of the lawyers as drafting contracts; legal and technical sides of the issue. Representative Croft asked if DNR has a property tax model. Mr. Porter responded that property tax issues are not DNR's responsibility. He described three models used in the evaluation process, which continue to be revised.

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#### Section 7(e) Capital

Alaska Natural Gas Development Authority increased workload for gas pipeline  
\$2,170.0 GF

Ms. Taylor related that the money would go to two project positions and additional contractual costs related to spur line work.

Co-Chair Chenault inquired about the feasibility of Liquid Natural Gas (LNG) in Cook Inlet.

Mr. Porter pointed out that currently there is an operational LNG plant in Cook Inlet, and the possibility of expansion is being looked into. He talked about the benefits of exporting gas, which results in lower tariffs and costs. There is the possibility of a new plant and expansion of the old plant after the market is analyzed.

Co-Chair Chenault noted that the total amount of funding for the project could be discussed at a later time.

Representative Kelly asked how scope, schedule, budget and invoice control is being done. Mr. Porter deferred to the Department of Law.

Ms. Daughhete explained how negotiations in the department work and how reviews are done. She described the project management process. Ms. Daughhete, in response to a question by Representative Kelly, explained how the legal team works, but emphasized that Mr. Wilson Condon, Commissioner, Department of Revenue, reviews the gas line contracts and each invoice.

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Mr. Porter added that in a negotiation there is a daily review of specific deliverables and a timeframe. This costs about \$1 million a month and the control factor is related to the work product.

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DEPARTMENT OF REVENUE

Section 12 Tax Division

Increased tobacco tax enforcement costs for the Tobacco Tax legislation passed as ch. 1, FSSLA 2004. \$395.5 GF

Ms. Taylor related that the legislature passed a bill that increased the tobacco tax rate and changed licensing requirements. DOR has been implementing the provisions in the new law and have hired additional personnel, including enforcement personnel.

Representative Hawker indicated that in 20 recent inspections, 16 out of 20 were dealing in illegal cigarettes. He asked if that is a fair assessment.

LARRY MEYER, DEPUTY DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, replied that unstamped products have been found during the inspections. He implied that more consumer education is needed. Representative Hawker asked if there was intentional bootleg activity. Mr. Meyer termed it a quality control issue, and suggested that more merchant education is needed. Representative Hawker inquired if there is a problem with the stampers not functioning correctly. Mr. Meyers replied that the machine requires calibration. Representative Hawker clarified that there are not massive violations, but equipment malfunction. Mr. Meyer agreed.

Representative Hawker asked if any of the inspections have involved intentional violations. Mr. Meyers replied that

there may be one or two, but the investigation is continuing.

Ms. Taylor suggested that the issues are being addressed with the large sellers of tobacco, and the smaller sellers would be investigated shortly.

Representative Kelly asked if the tax gets collected when the product is misstamped. Mr. Meyers replied that only a few are misstamped products and most are in compliance.

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Representative Hawker suggested that the distributor has to buy the stamps from the state and implied that a person could set the machine to circumvent the Stamp Act. Mr. Meyers agreed it was a possibility. Representative Hawker emphasized concern about that. Ms. Taylor requested support for increased enforcement.

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DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES

Section 14(a) Marine Vessel Operations

Fuel cost increases and other increased operating costs.

\$12,000.0 AMHS FUNDS

NANCY SLAGLE, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, explained the \$10 million request for the Marine Highway Authority for fuel cost increases, weekly operating costs of new ferries, overhaul costs, risk management costs, and increase marketing campaign costs.

Section 14(b) Central Region Highways and Aviation

King Salmon airport - prior year invoices outstanding for air traffic control costs.

\$44.5 GF

Ms. Slagle explained a need for the King Salmon airport to continue operation of a control tower. The costs are from FY 04.

Co-Chair Chenault asked if it was for extended hours. Ms. Slagle replied no.

Section 14(c) Program Development

Legal costs for defense of SB 260, which changed the membership make up of the policy board for metropolitan planning organizations.

\$85.0 GF

Ms. Slagle spoke of a lawsuit and legal costs involving SB 260. Ms. Slagle noted that these requests are projects that are ready to go and there are timing issues involved.

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#### COURT SYSTEM

##### Section 16 Trial Courts

Therapeutic court funding coming from NCADD \$18.9, Technical Improvement grant from Alaska Legal Services \$18.1, Youth for Justice grant \$7.5 and Color of Justice grant \$5.0.

\$49.5 SDPR

CHRIS CHRISTENSEN, DEPUTY ADMINISTRATIVE DIRECTOR, ALASKA COURT SYSTEM, noted that the request is for an increase in the Alaska Court System's authority to offer grants: For Youth For Justice, Color of Justice Grant, Alaska Legal Services for installation of computers, and Juneau Wellness Court.

Co-Chair Chenault closed testimony on HB 135.

HB 135 was heard and HELD in Committee for further consideration.

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#hb134

HOUSE BILL NO. 134

"An Act making supplemental, capital, and other appropriations, and reappropriations; amending appropriations; making appropriations to capitalize funds; making an appropriation under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

#### DEPARTMENT OF ADMINISTRATION

##### Section 1 d Public Defender Agency

Projected annual caseload increase - PD was reappointed to several hundred old cases associated with the Blakely decision which rendered some aspects of the State of Alaska's sentencing framework unconstitutional. Also, increases in travel to remote

courts, expert witness, discovery and file storage costs. Funding of \$24.9 in General Fund/Program Receipts is from the Dept. of Law from collections under Criminal Rule 39 and Appellate Rule 209. Also includes Therapeutic court funding coming from federal funds received by the National Council on Alcohol and Drug Dependency and allocated to State agencies.

\$887.2 GF; \$20.0 SDPR

BARBARA BRINK, DIRECTOR, PUBLIC DEFENDER AGENCY, (via teleconference), explained that the request for supplemental funds is based on caseload and workload increases, which are out of the Public Defender Agency's control. The percentage of increase in caseloads is 9 percent this year, over 2,000 more cases than last year, primarily because of the Blakely decision. There is also an increase of 2,300 more Superior Court felony filings than last year, which are the most time-consuming, cost-intensive cases. The Public Defender Agency has also picked up some cases previously handled by the Office of Public Advocacy.

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#### Section 1 c Office of Public Advocacy

Projected annual caseload increase - Because of the difficulty in projecting case types and costs 18 months in advance, OPA has historically funded the workload and caseload increases through supplemental appropriations. Funding of \$25.0 in General Fund/Program Receipts is from the Dept. of Law from collections under Criminal Rule 39 and Appellate Rule 209.

\$600.0 GF

JOSH FINK, PUBLIC ADVOCATE, OFFICE OF PUBLIC ADVOCACY, (via teleconference), pointed out that the Office of Public Advocacy is experiencing similar caseload increases. Felony filings in Anchorage are up by 76 percent for the first half of the year, and up 32 percent statewide. Mr. Fink opined that the requested supplemental would amount to a hold-the-line budget.

Co-Chair Meyer asked where the caseloads are coming from. Mr. Fink explained how the court assigns cases.

Representative Hawker, addressing the question to both Mr. Fink and Ms. Brink, asked for a reason behind the increase. Ms. Brink said that she believes more cases are being prosecuted, and that crime is not going up. She explained that there are newly funded positions, more district attorneys and prosecutors, and more troopers making arrests, which leads to more cases. Representative Hawker asked what

types of cases are being prosecuted more. Ms. Brink replied that she was not able to answer that question.

HB 134 was heard and HELD in Committee for further consideration.

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ADJOURNMENT

The meeting was adjourned at 3:48 PM