

HOUSE FINANCE COMMITTEE
May 2, 2006
8:46 A.M.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [8:46:47 AM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Mike Hawker
Representative Jim Holm
Representative Reggie Joule
Representative Mike Kelly
Representative Beth Kerttula
Representative Carl Moses
Representative Bruce Weyhrauch

MEMBERS ABSENT

Representative Richard Foster

ALSO PRESENT

Senator Gary Wilken; Senator Danny Olson; Pete Ecklund, Staff, Representative Kevin Meyer; Bryan Butcher, Legislative Liaison, Alaska Housing Finance Corporation; Annette Skibinski, Staff, Senator John Cowdery; Terry Lutz, Chief Financial Institution Examiner, Division of Insurance, Department of Commerce, Community and Economic Development

PRESENT VIA TELECONFERENCE

Joe Dubler, Director of Finance, Alaska Housing Finance Corporation, Anchorage; Mike Black, Director, Division of Community Advocacy, Department of Commerce, Community & Economic Development, Anchorage; Clyde (Ed) Sniffen Jr., Assistant Attorney General, Department of Law, Anchorage

SUMMARY

HB 381 An Act relating to the financing of construction, major maintenance, and renovation of facilities for the University of Alaska; relating to the financing of construction of a correctional facility; authorizing the commissioner of revenue to sell the right to receive a portion of the anticipated revenue from a tobacco litigation settlement to the Northern Tobacco Securitization

Corporation, with the proceeds of that sale to finance construction, major maintenance, and renovation of facilities for the University of Alaska and to finance the construction of a correctional facility; providing for the establishment of funds for deposit of those proceeds; authorizing the issuance of bonds by the Northern Tobacco Securitization Corporation for the purpose of acquiring the right to receive a portion of anticipated revenue from a tobacco litigation settlement; and providing for an effective date.

CS HB 381 (FIN) was reported out of Committee with a "do pass" recommendation and with zero note #1 by the Department of Administration.

CS SB 171(FIN)(efd fld)

An Act amending the National Petroleum Reserve - Alaska special revenue fund; and establishing the Special Legislative Oil and Gas NPR-A Development Impact Review Committee and defining its powers and duties.

HCS CS SB 171(CRA) was reported out of Committee with a "no recommendation" and with a new indeterminate note by the Alaska Permanent Fund Corporation and new zero notes by the Legislative Affairs Agency and the Department of Commerce, Community & Economic Development.

CS SB 315(L&C)

An Act relating to the disposition of unredeemed property; and providing for an effective date.

CS SB 305 (L&C) was reported out of Committee with a "no recommendation" and with zero note #1 by the Department of Commerce, Community & Economic Development.

#HB381

[8:47:31 AM](#)

HOUSE BILL NO. 381

An Act relating to the financing of construction, major maintenance, and renovation of facilities for the University of Alaska; relating to the financing of construction of a correctional facility; authorizing the commissioner of revenue to sell the right to receive a portion of the anticipated revenue from a tobacco litigation settlement to the Northern Tobacco Securitization Corporation, with the proceeds of that sale to finance construction, major maintenance, and

renovation of facilities for the University of Alaska and to finance the construction of a correctional facility; providing for the establishment of funds for deposit of those proceeds; authorizing the issuance of bonds by the Northern Tobacco Securitization Corporation for the purpose of acquiring the right to receive a portion of anticipated revenue from a tobacco litigation settlement; and providing for an effective date.

Co-Chair Chenault MOVED to ADOPT work draft #24-GH2071\I, as the version of the bill before the Committee. There being NO OBJECTION, it was adopted.

PETE ECKLUND, STAFF, REPRESENTATIVE KEVIN MEYER, explained the bill relates to financing of construction, major maintenance and renovation of facilities for the University of Alaska and a correctional facility. It would authorize the Department of Revenue Commissioner for the Alaska Housing Finance Corporation (AHFC) to sell the right to acquire rights to receive 80% of the proceeds of the Master Settlement Agreement (MSA) to sell bonds. The legislation is expected to generate \$140 million bond proceeds to be used for capital projects across the State.

[8:49:31 AM](#)

BRYAN BUTCHER, LEGISLATIVE LIAISON, GOVERNMENTAL RELATIONS & PUBLIC AFFAIRS DIRECTOR, ALASKA HOUSING FINANCE CORPORATION, noted that AHFC's Director of Finance, Joe Dubler was on line to answer questions of the Committee.

Co-Chair Meyer asked the amount of time restricted by the bonds.

[8:50:24 AM](#)

JOE DUBLER, (TESTIFIED VIA TELECONFERENCE), DIRECTOR OF FINANCE, ALASKA HOUSING FINANCE CORPORATION, ANCHORAGE, stated that the restructured bonds expected to be sold in 2006 would mature in 2039, with a final maturity in 2048. The bonds include a "turbo feature", which would set required debt service at a low level. All received surplus would be used to redeem bonds at an accelerated rate.

[8:51:10 AM](#)

Co-Chair Meyer inquired the range of interest rates. Mr. Dubler noted that the capital market moves quickly, but if sold today, it would be between 4.75% to 5% with the 2001 refunding.

Co-Chair Meyer inquired the impact of stretching the maturity date. Mr. Dubler explained the further out the

date moves, the more risk for the investor and the higher the rate. AHFC does not recommend the longer-term bonds, moving up to 8%. The longer ones are "non-rated" bonds and demand a higher rate, as they are more risky.

Co-Chair Meyer asked if AHFC was comfortable with the 2040 expiration date. Mr. Dubler said they were comfortable with it; the associated revenues for debt service would be about \$355 million future value dollars, including the principal and interest.

Co-Chair Meyer pointed out that the bulk would be used for University capital projects.

[8:54:53 AM](#)

Co-Chair Chenault MOVED to REPORT out CS HB 381 (FIN) out of Committee with individual recommendations and with the accompanying zero note. There being NO OBJECTION, it was so ordered.

CS HB 381 (FIN) was reported out of Committee with a "do pass" recommendation and with zero note #1 by the Department of Administration.

AT EASE: [8:55:33 AM](#)
RECONVENE: [8:56:59 AM](#)

#SB171
CS FOR SENATE BILL NO. 171(FIN)(efd fld)

An Act amending the National Petroleum Reserve - Alaska special revenue fund; and establishing the Special Legislative Oil and Gas NPR-A Development Impact Review Committee and defining its powers and duties.

SENATOR GARY WILKEN, SPONSOR, explained that HCS CS SB 171 (CRA) centers on the National Petroleum Reserve - Alaska (NPR-A), a well-known federal reserve, rich in gas and oil. The State of Alaska is poised to receive a significant amount of money from lease sales, exploration and production of oil and gas, which is the focus of the bill.

Senator Wilken continued, the bounty of NPR-A is thought to match or exceed the oil and gas deposits found at Prudhoe Bay or Kuparuk. All Alaskans look forward to the time, they can enjoy the benefits of reasonable and responsible development of these natural resources.

When members of the U.S. Congress authorized competitive leases in NPR-A in 1980, they recognized that development in the petroleum reserve might severely impact communities in or near that area. The federal legislation directed that

the revenue generated through NPR-A development be used first to mitigate direct impacts, if any, to municipalities, and then by the rest of the State of Alaska. Senator Wilken maintained that federal dictate is in direct conflict to the Alaska State Constitution. The State of Alaska receives 50% royalties and lease payments from the oil and gas development in NPR-A from the federal government. As required by federal law, those funds are available before consideration of any other public purpose, to communities that demonstrate impact from resource development in NPR-A. Unfortunately, the directive is at odds with Article IX, Section 15 of the Alaska State constitution.

Senator Wilken pointed out that since 1983, the State has received \$167.6 million dollars from development within NPR-A & \$122 million dollars since 2000. But only 6% of NPR-A receipts have been deposited into the Alaska Permanent Fund since the turn of the century.

HCS CS SB 171 (CRA) recognizes the conflict and puts in place a mechanism to help ensure that the Alaska Permanent Fund receives, to the extent allowed under federal law, 25% of all oil and gas lease rentals and royalties as directed by the Alaska State Constitution. In addition, the bill requires that appropriations made as NPR-A funded grants, be identified and the amounts of each grant be specified in an appropriation bill as other capital appropriations.

Senator Wilken maintained that it is important to address the conflict between the State Constitution and federal law and to determine how the federal NPR-A payments will be distributed to Alaskan communities that may be impacted by oil and gas development within the National Petroleum Reserve. He commented that in the "spirit of compromise", the issue was set-aside for another time.

[9:01:39 AM](#)

Senator Wilken provided a slide presentation from the handout: SB 171 - HCS CS SB 171 (CRA). (Copy on File). Every Alaskan citizen obtained a newsletter from the Alaska Permanent Fund Corporation, providing an "impact fund" statement. The fund was created in 1980 through federal legislation. The Alaska State Constitution requires that 25% be deposited into the Permanent Fund. Since 1980, Alaska has received \$167.6 million dollars from oil and gas development in National Petroleum Reserve-Alaska (NPR-A); however, to date, only 15% of that money has been deposited into the fund.

[9:03:16 AM](#)

Senator Wilken continued, Page 2 highlights the total program distribution of \$167.6 million dollars:

- NPR-A Community Grants receiving 59% @ \$100 million dollars;
- The Permanent Fund received 15% @ \$25.7 million dollars;
- Power Cost Equalization (PCE) was funded at 13% @ \$21.4 million dollars;
- General Fund received 12% @ \$202 million dollars.

A following graph highlights distribution of funds from 2000 to 2006 of the \$112.4 million dollars:

- NPR-A community grants of \$83 million dollars @ 75%;
- Permanent Fund amount of \$7.2 million dollars @ 6%;
- Power Cost Equalization (PCE) amount of \$12.4 million dollars @ 19%.

Senator Wilken pointed out that through Alaska's NPR-A receipts received since 1983, a total of \$104.2 million dollars was awarded to four communities statewide.

[9:06:15 AM](#)

Senator Wilken continued, Page 3 identifies the NPR-A, consisting of 23.5 million acres of petroleum reserves. It is located in the Northwest third of Alaska's arctic between the Brooks Range and the Arctic Ocean and contains the new oil lease sale proposed for Fall 2006.

He observed the NPR-A oil and gas activity areas:

- Wainwright 220 miles
- Barrow 160 miles
- Nuiqsut 8 miles
- Atqasuk 160 miles

[9:07:50 AM](#)

Senator Wilken provided a brief history of NPR-A:

- 1923 - President Warren Harding established the Naval Petroleum Reserve, which was renamed the National Petroleum Reserve-Alaska in 1976.
- 1980 - Congress authorized competitive leases in NPR-A.
- 1980 - The State of Alaska to receive 50% of the total revenue from NPR-A leases; impacted communities were given a priority to the revenue.

[9:08:20 AM](#)

Senator Wilken continued, Page 5 outlines conflicting laws. Under the federal law, the priority use for NPR-A funds by communities most directly or severely impacted by the development of oil and gas within their area.

Without a State law on the books, the Legislature deposited half of the State's share into the Permanent Fund and .5% to the School Trust. The Legislature deposited the remainder of the funds into the General Fund.

A Court suit followed and in 1985, the North Slope Borough and NPR-A communities sued the State. In 1986, Superior Court Judge Carpeneti ruled that:

- Automatic deposits into the Permanent Fund violate federal law;
- The State of Alaska has a mandatory duty to address NPR-A development related impact needs; and
- The duty imposed by the federal government ultimately falls upon the Alaska Legislature.

[9:09:45 AM](#)

Senator Wilken pointed out the three levels of law that the State works under - federal law (42 USC 6508), Alaska State law (AS 37.05.530) and Alaska regulations (3 AAC 150.050).

[9:11:04 AM](#)

Senator Wilken explained how the bill process works. Last year, there was \$30 million dollars coming from the NPR-A. In that process, the \$30 million dollars removes the grants, which last year totaled \$24 million dollars leaving \$6 million and takes 25% of that amount & places it into the Permanent Fund. The 25% calculation comes from the bottom number, but SB 171 would move that calculation to the top amount.

[9:12:30 AM](#)

Senator Wilken emphasized that "now is the time" to consider SB 171 and recognize the obligation that the Legislature has to Alaska's constitution by insuring that at least 25% of the bounty received from development in NPR-A be deposited into the Permanent Fund as directed by Article 9, Section 15.

[9:13:12 AM](#)

Co-Chair Chenault inquired if there would be a grant mechanism change. Senator Wilken noted in hopes of seeking "middle ground", that portion of the bill had been removed

in the House Community & Regional Affairs Committee. He added that the allocation information will be available and addressed next year. He pointed out that the proposed bill "is not just another grant program".

[9:15:19 AM](#)

Representative Kelly inquired about possible constitutional challenges. Senator Wilken stated he was comfortable with the proposed program and that the federal and state law regulations would remain in place. The basic structure has not changed, only the obligated amount.

Representative Kelly was surprised with the amount of grants; he asked the definition of "impact". Senator Wilken acknowledged that the definition had been a point of contention. There is more to the legislation than that and urged consideration of such items as free gas from the gas pipeline, a positive bed tax, and economic development.

Senator Wilken indicated that the North Slope Borough receives a tremendous amount of impact monies. In 2005, the State of Alaska agreed that rather than each municipality taxing the oil companies, instead, they would pay 20 mils into all investments in Alaska. Last year, that amount yielded \$260 million dollars into the General Fund. The communities can also "grab" some of those dollars depending on how they tax themselves. Fairbanks received about \$4 million dollars of that money; the North Slope Borough last year received \$189 million dollars; Valdez got \$13 million dollars; Kenai received \$7 million dollars leaving about \$45 million dollars placed into the General Fund. There are many items that are the direct result of oil and gas development. He submitted that each person in the North Slope Borough received approximately \$32,500 dollars indirectly from these funds.

Senator Wilken emphasized that there is an area of the State receiving an unfair amount of money from the General Fund. He thought that was payment for "impact" deserved honest discussion regarding those impacts.

[9:20:44 AM](#)

Representative Holm understood that in the House Regional Affairs (CRA) Committee, there was an attempted compromise discussion. Senator Wilken acknowledged the concerns and explained that the Committee attempted to reach middle ground and that there was discussion regarding the definition of "impact".

[9:22:20 AM](#)

Co-Chair Meyer inquired if the North Slope Borough did not receive the funds, would they be requesting greater General Funds to cover area costs. Senator Wilken disagreed that funds should "just slide through" pointing out that every community is included in the capital budget. He acknowledged that their general fund capital project requests had been in the lower percentages; however, last year, \$183 million dollars of General Fund monies automatically went to them.

[9:24:09 AM](#)

Representative Holm questioned other alternatives, which had been offered during the Committee process. Senator Wilken noted he had been working on the bill for two years and that his office had made requests from both the communities and the various departments affected for recommendation. That effort produced no results.

[9:25:22 AM](#)

Representative Kelly thought it would be good to pass the legislation before the pipeline goes in. Senator Wilken surmised that money is now starting to flow and the concern should be addressed. Doing it right means changing federal law.

[9:26:34 AM](#)

Co-Chair Meyer understood that a temporary compromise had been reached.

[9:27:07 AM](#)

MIKE BLACK, (TESTIFIED VIA TELECONFERENCE), DIRECTOR, DIVISION OF COMMUNITY ADVOCACY, DEPARTMENT OF COMMERCE, COMMUNITY & ECONOMIC DEVELOPMENT, ANCHORAGE, offered to answer questions of the Committee.

PUBLIC TESTIMONY WAS CLOSED.

[9:28:06 AM](#)

Co-Chair Meyer pointed out the zero notes.

Representative Joule acknowledged the "journey" of the legislation. He addressed the huge impacts of development to the people living on the North Slope. Such impacts are not always apparent; however, being a part of a hunting society, there are many concerns with encroaching development. The legislation does not take into consideration the core beliefs and spiritual issues of the people most affected. That population experiences a strong tie to the land and the resources. The legislation would

detrimentally impact those people. He emphasized that the concept is spiritual and a highly emotional issue for these people. The North Slope has the ability to do the tax, as they should, which was the initial agreement with the State of Alaska. He noted he represents the entire North Slope area.

[9:32:34 AM](#)

Representative Joule pointed out that over the years, the people of the North Slope have been vocal partners in the development of the oil and gas resources. He said he was concerned about passage of the legislation.

[9:33:55 AM](#)

Co-Chair Meyer understood that and knew it was important to keep good relations with the North Slope as the area impacts 90% of State revenues. He emphasized the many concerns that will fall upon the State to provide, if the money is taken. One such area would be search and rescue provisions.

Representative Joule agreed there have been accidents in which the North Slope Borough provided the first response - a direct result of the use of the NPR-A monies. He added that there are many good things that have come as a result of using these funds. The new Mayor and his Administration are paying close attention to requests to make the program better and stronger. He urged reconsideration of the bill.

Co-Chair Meyer stated that the bill brings further attention to the Petroleum Production Tax (PPT) concerns.

[9:37:53 AM](#)

Representative Weyhrauch understood that the intention of the bill was a priority change, moving 25% off the top to the Permanent Fund. Senator Wilken replied that the obligation of the Permanent Fund under current law is 25% of the net; SB 171 makes the obligation 25% of the gross and before grants.

Representative Weyhrauch noted that it would impact federal law, "trumping" the State law and would still be available for litigation. He understood that the bill attempts to craft the State's obligation with what the federal government has dictated. Senator Wilken agreed, suggesting that it is another "subsistence" issue.

Representative Weyhrauch pointed out the distinction of addressing NPR-A impacts to communities closest to the NPR-A resource.

[9:41:00 AM](#)

Vice Chair Stoltze MOVED to REPORT HCS CS SB 171 (CRA) out of Committee with individual recommendations and with the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

HCS CS SB 171(CRA) was reported out of Committee with a "no recommendation" and with a new indeterminate note by the Alaska Permanent Fund Corporation and new zero notes by the Legislative Affairs Agency and the Department of Commerce, Community & Economic Development.

#SB315
[9:41:30 AM](#)

CS FOR SENATE BILL NO. 315(L&C)

An Act relating to the disposition of unredeemed property; and providing for an effective date.

ANNETTE SKIBINSKI, STAFF, SENATOR JOHN COWDERY, explained that pawns are collateralized loans, whereby an individual borrows money against an item and leaves the item with the pawnshop. The pawner (individual bringing the item in), has 60-days to make an interest payment or pay off the loan. Failure to do so results in an unredeemed pawn item, which becomes the property of the pawnshop and can be sold.

Ms. Skibinski explained how unredeemed property currently is handled, which would be changed with passage of SB 315. Pawn loan limits have been regulated by statute since 1949. Since that time, the issue has been revised twice, the last time 13 years ago. The sale of unredeemed property has been regulated by statute since 1981. Two different issues were raised in those statutes.

- The first is a pawn limit, the maximum amount that can be loaned on any single item.
- The second is the handling of unredeemed property.

She pointed out that the pawn loan limit has been raised over the years. Obviously, the value of a dollar and the consumer price index has made the change necessary. In 1993, when the pawn loan limit was raised, the unredeemed property provision remained the same, causing a disparity in the pawn loan limit to the unredeemed property amount.

Ms. Skibinski concluded that SB 315 restores the ratio that was originally established between pawn loan limits and unredeemed property. It does not change the \$500 pawn loan limit, but changes the language regarding the sale of

unredeemed property from \$400 to \$1000, or twice the pawn loan limit, as was previously the standard set in 1981

[9:46:57 AM](#)

Representative Weyhrauch asked clarification about the impact of the legislation on the public.

CLYDE (ED) SNIFFEN JR., (TESTIFIED VIA TELECONFERENCE), ASSISTANT ATTORNEY GENERAL, DEPARTMENT OF LAW, ANCHORAGE, noted that consumer protection was addressed by language inserted at the end of the bill and requires the pawnbroker to provide the consumer with notice that if they do not redeem their property, it becomes subject to sale. Those types of transactions usually pertain to consumers that are in dire need. The Department of Law requested that language to provide protection for the consumer.

[9:48:54 AM](#)

Representative Weyhrauch inquired how pawnshops are regulated.

TERRY LUTZ, CHIEF FINANCIAL INSTITUTION EXAMINER, DIVISION OF BANKING SECURITIES, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, stated that they did not regulate small loan shops or pawn shops, which are exempt and confirmed that the municipalities individually regulate such activities.

Representative Weyhrauch asked what interest rate could be legally charged under the Small Loan's Act. Mr. Lutz responded that for loans up to \$850 dollars, 36% per year could be charged. Those businesses are completely exempt from the Small Loan's Act, so there is no limitation on what they can charge.

[9:51:15 AM](#)

Co-Chair Chenault MOVED to REPORT out CS SB 315 (L&C) out of Committee with individual recommendations and with the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CS SB 315 (L&C) was reported out of Committee with a "no recommendation" and with zero note #1 by the Department of Commerce, Community & Economic Development.

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ADJOURNMENT

The meeting was adjourned at 9:53 A.M.