

**ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**

January 11, 2006
9:00 a.m.

MEMBERS PRESENT

Representative Bruce Weyhrauch, Chair
Representative Norman Rokeberg
Representative Ralph Samuels
Representative Paul Seaton
Representative Peggy Wilson
Representative Max Gruenberg
Representative Carl Moses

MEMBERS ABSENT

All members present

OTHER LEGISLATORS PRESENT

Representative Harry Crawford
Representative Eric Croft
Representative Berta Gardner
Representative Mike Kelly

COMMITTEE CALENDAR

OVERVIEW(S): PERS/TRS FUNDING

- HEARD

HOUSE BILL NO. 223

"An Act levying a tax on certain known resources of natural gas, conditionally repealing the levy of that tax, and authorizing a credit for payments of that tax against amounts due under the oil and gas properties production (severance) tax if requirements relating to the sale and delivery of the natural gas are met; and providing for an effective date."

- HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 223

SHORT TITLE: NATURAL GAS PIPELINE INCENTIVE/ GAS TAX

SPONSOR(S): REPRESENTATIVE(S) CROFT

03/17/05 (H) READ THE FIRST TIME - REFERRALS
03/17/05 (H) W&M, O&G, RES
04/25/05 (H) W&M AT 8:30 AM CAPITOL 106
04/25/05 (H) Heard & Held
04/25/05 (H) MINUTE(W&M)
01/11/06 (H) W&M AT 9:00 AM CAPITOL 106

WITNESS REGISTER

LINDSAY SOVDE, Vice President
Seattle-Northwest Securities
Seattle, Washington

POSITION STATEMENT: Testified in favor of pension obligation bonds to address the PERS/TRS funding issue.

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

POSITION STATEMENT: Testified in support of pension obligation bonds as a means for local governments to reduce their PERS/TRS liability, and offered to provide clarification on the different ways municipalities responded to the prior year's appropriated PERS funds.

WALTER J. HICKEL
Anchorage, Alaska

POSITION STATEMENT: Speaking as a former governor of Alaska and former United States Secretary of the Interior, testified in favor of HB 223.

MARK MYERS
Anchorage, Alaska

POSITION STATEMENT: On behalf of Representative Croft, provided information on the economic issues pertaining to HB 223.

ACTION NARRATIVE

CHAIR BRUCE WEYHRAUCH called the House Special Committee on Ways and Means meeting to order at 9:00:57 AM. Representatives Weyhrauch, Samuels, Seaton, and Moses were present at the call to order. Representatives Wilson, Gruenberg, and Rokeberg arrived as the meeting was in progress. Representatives Crawford, Croft, Gardner, and Kelly were also in attendance.

OVERVIEW(S): PERS/TRS FUNDING

9:01:24 AM

CHAIR WEYHRAUCH announced that the first order of business would be the overview on the Public Employees' Retirement System/Teachers' Retirement System (PERS/TRS). Chair Weyhrauch noted that bills pertaining to PERS/TRS are currently being drafted by Legislative Legal and Research Services, and should be available within a few weeks.

9:06:31 AM

LINDSAY SOVDE, Vice President, Seattle-Northwest Securities, presented her company as the leading underwriter of municipal bonds in the Northwest, and one that crafted the pension obligation financing solution which has been widely used in the state of Oregon. She pointed out that there are many parallels between the situation Alaska faces and Oregon faced several years ago, and opined that the "pension obligation financing should be one tool in the toolbox of the local governments in Alaska." There are significant risks involved with pension obligation bonds; however, she related her belief it is possible to manage that risk and provide this opportunity to local governments.

9:07:48 AM

CHAIR WEYHRAUCH inquired as to the benefit and cost of having a pension obligation bond liability when in a climate of a billion-dollar surplus.

MS. SOVDE opined that this would be a question for the legislators to address as they determine where surplus funds are allocated. Pension obligation bonds are an opportunity to finance the liability at a lower rate than is currently being charged; therefore, it is possible to reduce the costs associated with those bonds and use that money for other projects.

9:09:07 AM

MS. SOVDE, in response to Chair Weyhrauch, explained that the savings depend upon the security associated with the bonds or obligations issued. For example, the savings for a "highly rated local government" such as the Municipality of Anchorage and the City & Borough of Juneau, the State [of Alaska] is currently charging 8.5 percent for their liability whereas the current market for a "highly rated credit" would be closer to 6

percent or better. Based on the analysis Seattle-Northwest Securities did for the City & Borough of Juneau, its savings would be approximately \$16 million to \$17 million on its \$70-million liability. In further response to Chair Weyhrauch, Ms. Sovde related her belief that there is an opportunity to fund liabilities at both the state and local levels.

CHAIR WEYHRAUCH relayed that the issue of legal impediments for local communities to invest in pension obligation bonds is beyond the jurisdiction of this committee.

MS. SOVDE confirmed that some changes would need to be made.

[9:10:42 AM](#)

REPRESENTATIVE SEATON remarked that since the 8.25 percent rate is "assumed" and not "fixed," he requested Ms. Sovde bring to the House State Affairs Standing Committee meeting an analysis of the potential liability a municipality would incur should the state not achieve an 8.25 percent rate of return. He further requested that Ms. Sovde let the committee know how firmly she believes an institution can guarantee an 8.25 percent annual return on investments over the next 25-year period.

[9:16:44 AM](#)

CHAIR WEYHRAUCH noted that some states have unsuccessfully floated pension obligation bonds to satisfy their liability. Significant risk is involved and should not be ignored, he said.

REPRESENTATIVE GRUENBERG expressed interest in the assurances that Seattle-Northwest Securities will be able to honor its obligation.

[9:18:02 AM](#)

KEVIN RITCHIE, Executive Director, Alaska Municipal League (AML), announced AML's support of pension obligation bonds as a potential tool for municipalities. He then offered to answer any questions regarding the different ways municipalities responded to the prior year's appropriated PERS funds with which 21 communities decided to continue paying an increased rate and used the state money to offset their total liability. Not all communities could afford this route, he mentioned.

[9:21:01 AM](#)

CHAIR WEYHRAUCH responded that there should be more discussion on this topic because earlier testimony has related that some of the communities receiving retirement debt relief did not use the money for that purpose.

MR. RITCHIE pointed out that the appropriation language specified that communities would pay 5 percent less because the state [through debt relief] would take care of the remainder. Therefore, he surmised that all the communities did what the legislature asked, although 21 communities reduced their overall liability with the [debt relief].

REPRESENTATIVE ROKEBERG disagreed, and opined that there was a miscommunication as to the intent of the [debt relief].

REPRESENTATIVE SEATON voiced his hope that future legislation on PERS/TRS will give municipalities and school districts credit for reducing their long-term liability and for following the intent of the legislation.

CHAIR WEYHRAUCH, referring to Mr. Ritchie's earlier mention of AML's support of pension obligation bonds for municipalities, stated he agreed that these bonds are a good idea, but asked what's to say that a [community] isn't going to return to the legislature for help. He further asked if [pension obligation bonds] are really the solution.

MR. RITCHIE said he couldn't say, but if municipalities can borrow money at a lower rate the taxpayers would save money. This is all dependent on whether the estimates are accurate, and therefore, communities face a risk assessment.

REPRESENTATIVE SEATON asked if AML has discussed the long-term liability of municipalities per individual allowed in PERS.

MR. RITCHIE related that AML's advice is for every municipal body to review the issue and decide.

CHAIR WEYHRAUCH announced that additional testimony on PERS/TRS would continue at future meetings.

HB 223-NATURAL GAS PIPELINE INCENTIVE/ GAS TAX

[9:33:08 AM](#)

CHAIR WEYHRAUCH announced that the final order of business would be HOUSE BILL NO. 223, "An Act levying a tax on certain known

resources of natural gas, conditionally repealing the levy of that tax, and authorizing a credit for payments of that tax against amounts due under the oil and gas properties production (severance) tax if requirements relating to the sale and delivery of the natural gas are met; and providing for an effective date."

[9:33:32 AM](#)

WALTER J. HICKEL, former governor of Alaska, commended Representatives Eric Croft and Harry Crawford for authorizing the initiative [HB 223] that is forcing Alaska to look at a reserve tax on Alaska's natural resources of the North Slope. He related his belief that this legislation is absolutely necessary and not a new concept. He recalled his time as former United States Secretary of Interior in the late 1960's when he was responsible for America's energy policy. He related that in most cases, if an exploration company could not prove within five years that it had adequately searched for resources, or failed to produce those resources, its lease would expire. When oil was discovered in Alaska's North Slope, this requirement was not included in early leases; however, it was implied and expected that if resources were found, they would be marketed.

MR. HICKEL then referred to E.L. "Bob" Bartlett's 1955 speech to the Alaska Constitutional Convention in which he addressed the danger of Alaska's natural resources being exploited as well as the danger of postponing the development of those resources until such time as outside interests see fit. [A copy of Mr. Bartlett's speech is included in the committee packet.] However, the state owns the North Slope and merely leases the oil and gas resources with the expectation of development for the maximum benefit of Alaskans. With regard to last week's Anchorage Daily News article that characterized the reserves tax as punishing the producers, Mr. Hickel related his belief that such is the consequence for keeping what may be over \$1 trillion worth of [the state's] resources off the market for the benefit of stockholders.

MR. HICKEL opined that the North Slope's natural gas is the state's legacy resource. He further opined that if natural gas was transported and processed in Alaska, it has the potential to provide well-paid jobs in the state for generations. "The proposed \$1 billion a year penalty should be a minimum," he said. He added that the only reason there is controversy surrounding this is the undue influence of oil and gas producers in the state's governmental process.

MR. HICKEL then turned to HB 223 and highlighted his understanding that the producers merely have to build a pipeline to avoid the penalty. The fastest way to start a pipeline is to build the All-Alaska line. Mr. Hickel concluded by urging the committee's support of HB 223 in a ballot initiative or to craft stronger legislation, either of which would demonstrate the legislature's pledge to uphold the Alaska State Constitution.

[9:39:23 AM](#)

MR. HICKEL, in response to Representative Rokeberg, recalled his part in getting the pipeline built. He then emphasized the need for Alaska to act as an owner state. In fact, he opined that the state should build the [natural] gas pipeline and own it.

[9:45:10 AM](#)

REPRESENTATIVE WEYHRAUCH proceeded to announce the next witness to testify on HB 223.

[9:45:17 AM](#)

MARK MYERS, drawing on his experience as former director, Division of Oil & Gas, Department of Natural Resources (DNR), explained that he was testifying at the request of the sponsor of HB 223 to address the economics of a gas pipeline project. He said his preference would be for the companies and the state to honor the terms of the leases and the plans of development for the fields. However, if the administration fails to enforce the lease requirements after companies fail to act on them, then it's worthy to discuss what other mechanisms are available. As indicated earlier, one of the key questions is: what are the economics of the gas pipeline. He opined that the gas pipeline is economic. In fact, a report done by Econ One Research, Inc. for the Alaska State Legislative Budget & Audit Committee on August 31, 2005, [a copy of the report is included in the committee packet] illustrates that the gas pipeline is economic in a number of ways.

MR. MYERS, in summarizing some of the key points in the report, noted the project is very economical at gas prices north of \$4.00/million British thermal units (mmbtu), and the market and companies are predicting \$7.00 to \$8.00/mmbtu gas prices in general. Typical project risks, such as low gas prices and inadequate reserves, are not an issue, he noted. Mr. Myers reviewed the various scenarios given by Econ One Research, Inc,

all of which illustrate that the project is economic. He then referenced Figure 8-3, which illustrates that earlier production of the gas pipeline versus later production is more economical for the state.

[9:57:34 AM](#)

CHAIR WEYHRAUCH announced that further questions for Mr. Myers regarding his testimony may be addressed at the January 18, 2006, meeting.

[HB 223 was held over.]

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 9:58 a.m.