

MINUTES
SENATE FINANCE COMMITTEE
January 31, 2006
9:03 a.m.

CALL TO ORDER

Co-Chair Gary Wilken convened the meeting at approximately [9:03:27 AM](#).

PRESENT

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

Also Attending: CHERYL FRASCA, Office of the Governor; BILL ROLFZEN, Municipal Assistance, National Forest Receipts, Fish Tax, PILT, Division of Community Advocacy, Department of Commerce, Community and Economic Development; SAM THOMAS, Director, Division of Administrative Services, Department of Commerce, Community and Economic Development; LAURA BAKER, Budget Chief, Finance and Management Services, Department of Health and Social Services; NANCY SLAGLE, Director, Division of Administrative Services, Department of Transportation and Public Facilities; ROBIN TAYLOR, Deputy Commissioner, Marine Highway System, Department of Transportation and Public Facilities; LINDA PEREZ, Director, Division of Administrative Services, Office of the Governor; DAVID MARQUEZ, Attorney General, Department of Law; KATHRYN DAUGHHETEE, Director, Administrative Services Division, Department of Law; PORTIA PARKER, Deputy Commissioner, Department of Corrections

Attending via Teleconference: From Anchorage: MIKE BLACK, Director, Division of Community Advocacy, Department of Commerce, Community and Economic Development; LARRY OSTROSKY, Chief Assistant Attorney, General-Statewide Section Supervisor, Oil, Gas and Mining Section, Civil Division, Department of Law; From Offnet Sites: SARAH FISHER-GOAD, Alaska Energy Authority, Department of Commerce, Community and Economic Development; BILL POPP, Kenai Peninsula Borough

SUMMARY INFORMATION

SB 232-APPROPS: ENERGY-RELATED, PIPELINE & MISC.

The Committee heard supplemental energy request overviews from the Office of the Governor, the Department of Commerce, Community and Economic Development, the Department of Health and Social Services, the Department of Law, the Department of Transportation and Public Facilities, the Office of the Governor, the Department of Corrections, and a representative of the Arctic Winter Games. The bill was held in Committee.

#sb232

SENATE BILL NO. 232

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

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

[9:03:50 AM](#)

Co-Chair Wilken noted that the worksheet being referenced today is printed on green paper and is dated January 30, 2006. For continuity, amendments received by the 45th Legislative day would also be provided on green paper; amendments received after that day would be printed on a yet to be determined different color of paper. In addition, amendments would be added to the bottom of the worksheet rather than being inserted as a line item under individual departments, as has been the practice in the past. This would allow "a sense of the changes in the budget as we move through it."

Co-Chair Wilken stated that SB 232 would be referred to as the Fast Track Energy bill. He noted that Department overviews of the requests would follow the testimony provided by Cheryl Frasca, Director, Office of Management and Budget.

[9:05:31 AM](#)

CHERYL FRASCA, Director, Office of Management and Budget, Office of the Governor appreciated the fact that the hearing on this bill had been scheduled early in the Legislative Session. SB 232 has been referred to as "the Faster Track supplemental bill"; separate from the Regular or Fast Track supplemental bill. While "high oil prices are great for the State's Treasury, the down side is that it

certainly increases costs above what had been budgeted for State agencies, as well as Alaskans and Alaska businesses."

Ms. Frasca explained that the requests included in this bill are "primarily energy related or utility increases for State agencies as well as some assistance to communities." Grants for small municipal energy assistance are included in the approximate \$13,000,000 being requested on behalf of communities as the result of continually increasing utility expenses. This money would also fully fund the Power Cost equalization (PCE) program and provide funding for the Bulk Fuel Bridge Loan program operated by the Department of Commerce, Community and Economic Development.

Ms. Frasca noted that, for the first time, a request for funds to compliment the federal Heating Assistance Program funds for low-income households throughout the State is being brought forward. A list of the number of applicants by community that receives this funding has been provided.

Ms. Frasca expressed that State agency requests for increased fuel and utility costs, amounting to approximately \$23,000,000, are also included in this bill. \$15,000,000 of this amount would address needs of the Alaska Marine Highway System. While being energy related rather than being an energy expense, \$6,400,000 is being requested to support Gas Pipeline negotiations. The bill also would provide a grant to the Arctic Winter Games, scheduled to be on the Kenai Peninsula in early March 2006. This request was included in this bill due to the timing of the Games. There is also an amendment requesting \$800,000 to address overcrowding conditions in a Fairbanks Department of Corrections facility.

Ms. Frasca concluded her remarks and noted that Department representatives would provide information pertaining to individual Department requests.

[9:08:36 AM](#)

Senator Hoffman asked whether the recent 30-day spell "of extreme cold weather" in the State might affect the accuracy of the requests.

Ms. Frasca responded that since departments have not provided any updated information, the proposal would advance as presented. She noted, however, that amendments to the requests could be presented in the Regular Supplemental bill. The funds requested in this bill would provide for expenses this winter.

[9:09:17 AM](#)

Senator Dyson understood that, because "the cost of the feedstock is only 20, 30 percent of the cost of the refined fuels", the increases in the costs of refined products would not increase proportionately with an increase in crude oil prices. "The crude oil component of the finished fuel price is only 20, 25 percent", with the balance of the expense being contributed to refining, transportation, and marketing costs. To that point, he asked whether the Office of Management and Budget has tracked "how much our refined products costs have gone up" as influenced by the price of crude prices in the State.

[9:10:08 AM](#)

Ms. Frasca stated that while her office has not conducted such an analysis, the Department of Revenue might have.

[9:10:38 AM](#)

Senator Dyson stated that the intent of his question was an effort to clarify whether "the huge jump in costs for some communities" might be the direct result of increased crude oil prices or some other factor.

[9:10:53 AM](#)

Senator Olson, noting the number of University of Alaska fuel and utility increase requests included in the bill, asked whether similar requests from school districts would be forthcoming.

[9:11:25 AM](#)

Ms. Frasca responded that a further determination must be made as to whether the budgetary increase provided to K-12 Education in FY 06 would address such cost of living expenses. To that point, she noted that no requests for K-12 school or local government fuel or utility expenses are included in this bill.

Senator Olson clarified that his question pertained to school district fuel and utility expenses rather than cost of living expenses.

Ms. Frasca reaffirmed that no additional fuel and utility funding requests from school district are included in this bill.

[9:12:39 AM](#)

Co-Chair Wilken observed that the majority of the requests

presented in the bill are the result of increased fuel costs. In that regard, the items are "self-explanatory" and would not require individual testimony. Approximately nine of the requests in the bill are non-energy related.

Ms. Frasca agreed that "the story would be similar" in respect to the energy-related requests.

After conferring with the Committee, Co-Chair Wilken announced that the nine non-fuel increase requests would be the focus of the hearing. The routine fuel and utility expense requests would not be individually discussed unless "a unique" circumstance was involved.

[9:14:16 AM](#)

Senator Stedman requested that the Alaska Marine Highway System fuel expense requests be addressed during the hearing.

AT EASE [9:14:54 AM](#) / [9:16:44 AM](#)

Co-Chair Wilken informed the Committee that a request for approximately \$10,900,000 for increased K-12 Education fuel and utility expenses would be addressed in separate legislation.

[9:17:30 AM](#)

Department of Commerce, Community and Economic Development

Section: 1

Results Delivery Unit (RDU): Community Assistance & Economic Development Small Municipality Energy Assistance Program - SMEAP.

Supplemental Need: In accordance with Governor Murkowski's commitment to helping rural Alaska, the Small Municipality Energy Assistance Program will provide assistance to rural cities that have "been hit disproportionately hard by rising fuel prices." Grants will be awarded for the years ending June 30, 2006 and June 30, 2007 for the repayment of any indebtedness of the city or borough to the bulk fuel revolving loan fund and for the purchase of fuel.

These small cities have taken on the financial responsibilities of a city yet lack the population or commercial sector to generate revenue through increasing local fees or taxes. Grant amounts will be based upon 2004 population as follows: \$22,395.83 for cities with a population of less than 100 people, \$44,791.67 for cities of 100 to 600 residents, and \$67,187.50 for cities with more than 600 but

fewer than 2,499 residents.
\$6,405,200 General Funds (Gen Funds)

MIKE BLACK, Director, Division of Community Advocacy, Department of Commerce, Community and Economic Development testified via teleconference from Anchorage and stated that this request would provide \$6,405,200 to the Small Municipality Energy Assistance Program. This was the same amount requested the previous year.

Co-Chair Wilken noted that the list of communities is included in the bill rather than on the spreadsheet.

[9:18:02 AM](#)

Senator Bunde observed that three levels of grants would be awarded, based on community size. To that point, he opined that on a per capita basis, "either somebody's getting too much or somebody's getting too little." Communities' populations range from a low of 31 to a high of 96 in the category of "less than 100 people". Therefore, the community of Bettles would receive \$722 per capita and the community of Anvik would receive \$243 per capita. Similar per capita "discrepancies" would exist in each category. In the population category ranging from 100 to 600 individuals, the community of Tenakee Springs would receive \$440 per person and Fort Yukon would receive \$75 per person. In the category of "600 to fewer than 2,499 residents", the community of Noorvik would receive \$110 per person while the community of Dillingham would receive \$27 per person. He suggested that the categories be further subdivided, and that the per capita discrepancy be further addressed.

[9:20:07 AM](#)

Mr. Black asserted that the three funding levels were based on a range of population rather than a per capita basis.

Senator Bunde stated that this should be viewed as being an issue "of fairness". Larson Bay, with a population of 96, would be provided \$243 per person. Anvik with a population of 101, or five more people than Larson Bay, would receive \$443 per person. "The people in Larson Bay should really be upset." He characterized this program as being "a crude instrument for adjusting" the distribution of funds. He also noted that the community of Bettles with a population of 31 people would receive \$722 per person as compared to Larson Bay's \$243. Several other examples of per capita amounts were presented.

[9:23:01 AM](#)

BILL ROLFZEN, Municipal Assistance, National Forest Receipts, Fish Tax, PILT, Division of Community Advocacy, Department of Commerce, Community and Economic Development affirmed that program grants are based on population. He also agreed with Senator Bunde, that a community on "the cusp" of the various thresholds could perceive there being inequalities in the program. Nonetheless, that was the way the program was established.

Co-Chair Wilken communicated to Senator Bunde that this issue might be revisited at another time.

[9:23:56 AM](#)

Senator Dyson appreciated "the difficulty" one would have in defending the program, as he could "not think of a worse way of doing it". Fuel expenses would "directly correlate with the number of people and the transportation mode." While some of the communities in the program might have their fuel flown in, fuel for the majority of them would be barged in at specific times of the year. "Lumping" those communities' expenses with those having major seaport operations "seems very irrational". He would support the issue being revisited. While the current program format might be easy to administer, it is "so blatantly illogical, that this will be a real problem for me."

[9:24:59 AM](#)

Senator Stedman understood the process through which the grants would be allocated to the various communities; however, the fact that some of the communities have a central distribution grid while others have "individual buildings scattered about each running their own little hydro system," generator, woodstove, wind generator, or other energy system is confusing. In addition, there is a question as to how grant funds are distributed to community members since some of the communities have no central structure in addition to there being no central utility distribution grid to which the funds could be applied.

[9:26:27 AM](#)

Mr. Rolfzen clarified that these grants are specific to municipal owned facilities. Individual community residents would not be recipients of these funds. As noted in the Supplemental Need language, the funds would first be applied to a community's outstanding Alaska Energy Authority (AEA) loan. He noted that previous grant money had been applied to 19 outstanding AEA loans. Secondly the grant money was paid to fuel vendors who were owed money. Thirdly, the money would be used to reimburse a municipality

for fuel they had purchased since July 1, 2004. The fourth condition was that the funds could be used to assist a community in purchasing new fuel. 42 payments were made to a fuel company for last spring and this summer's fuel purchases for community facilities.

[9:27:30 AM](#)

Senator Stedman stated that the response had not addressed his concern. He would appreciate discussing this further with Co-Chair Wilken.

Senator Stedman stated that another issue was that some of these communities were on an electric grid. The expense of running a hydro system would not fluctuate with the price of fuel oil; the exception being when the hydro system was shut down for such things as maintenance. "Generally speaking a hydro is substantially more stable than running diesel generators." Therefore, he questioned the "screening that was done on these communities to take into account the different types of energy sources," as he understood that the program was designed to assist communities with high fuel costs. Therefore he questioned "the fairness" of the program, as fuel is one of a variety of energy sources.

[9:28:46 AM](#)

Mr. Rolfzen noted that communities must provide documentation showing "proof of purchase of the fuel or an invoice from the fuel vendor that was payable" regardless of the community's energy source. The Department "did not delve into" a community's individual energy source circumstances.

In response to a comment from Co-Chair Wilken, Senator Stedman acknowledged the understanding that grant funds were solely based on the three population groupings. A community's energy source was not a factor.

[9:29:38 AM](#)

Senator Olson asked whether a community's ability to access petroleum products on a year-round basis or colder weather conditions were program considerations. For instance Larson Bay, which is located on Kodiak Island, could receive shipments year-round. The community of Anvik on the Yukon River experiences extreme cold weather conditions and could only receive shipments at certain times of the year.

[9:30:49 AM](#)

Mr. Rolfzen replied that no geographic or temperature considerations are applied in this program.

Mr. Rolfzen informed the Committee that the receipt of similar funding in the Spring of 2005 was "very beneficial because there is that small window for many of these communities along the river system to get their fuel delivered one time possibly twice during the year." This program had been critical to those large fuel vendors, as they would not have delivered fuel absent the guarantee "that this money would be available, payable through our program to those vendors."

Senator Olson understood therefore that geographic considerations were not a factor.

Co-Chair Wilken stated that in early September one of the villages was paying \$1.00 per gallon for heating oil or \$1.50 per gallon, delivered.

[9:31:55 AM](#)

Senator Bunde asked for further information about the qualifying criteria for the program.

[9:32:33 AM](#)

Mr. Rolfzen explained that in order to be eligible for this program a community must be a city or borough smaller than 2,500 persons.

Senator Bunde understood that the community must also have outstanding utility bills.

Mr. Rolfzen affirmed.

Senator Bunde remarked that it would appear "that we are rewarding bad management... if you don't pay your utility bills, we're going to help, and if you do pay your utility bills, you're on your own." He questioned whether the State should "reward that kind of behavior".

[9:33:09 AM](#)

Senator Hoffman stated that the escalating price of fuel is the reason that communities are unable to pay their fuel bills.

Senator Bunde countered that this program was a continuation of a program that was in place prior to the "spike" in fuel prices. He reiterated that this situation might be an indicator of there being

"mismanagement at the municipal level".

[9:33:48 AM](#)

Mr. Black corrected earlier testimony by clarifying that these energy grants could be provided to communities with populations of less than 2,500 "regardless of whether they owed money to a fuel vendor or not". However, he noted that communities with documented debts would receive "priority on distribution." The end result was that the Office of Community Advocacy wrote checks to fuel suppliers or the Alaska Energy Authority. The grant would be provided directly to the community were there no such outstanding debt.

[9:34:43 AM](#)

Mr. Rolfzen affirmed Mr. Black's remarks.

[9:34:49 AM](#)

Senator Olson asked therefore whether the mismanagement concern expressed by Senator Bunde was not "really a concern as grants were provided to both communities that had no fuel debt and communities that did.

[9:35:07 AM](#)

Mr. Rolfzen responded that a grant list was developed with those communities having outstanding AEA loans and past debts from fuel vendors receiving the highest priority. Second priority was given to reimbursing communities for fuel purchased since July 1, 2004. Once those priorities were addressed, grant monies could be allocated for the purchase of new fuel.

Senator Olson acknowledged.

Senator Bunde asked whether there was any community with a population of less than 2,500 that had not applied for this grant.

[9:35:54 AM](#)

Mr. Rolfzen stated that there are "a few communities that have not tapped into this money yet". Continuing, he shared that one of the qualifying conditions of this grant program is that a municipality must be able to prove that they are "functioning and accountable" by their ability to provide their adopted current year operating budget and their prior year yearend financial statement. Grant funds would not be released to communities that have not met such

criteria.

[9:36:20 AM](#)

Co-Chair Green understood that a chart had been compiled that depicted current fuel prices, anticipated prices, and past prices for the various communities. She also recalled that the prices might not have increased in alignment with per barrel price increases.

Co-Chair Green pointed out that additional money for this program had been provided in the FY 05 supplemental bill and that those figures were "carried over" in the FY 06 base. Any funds provided by this request would "again increase the base, which would again be reflected in our budget upcoming." Thus the issue is "how many increases might we anticipate." The question is whether the approval of such funds would be "based on the price or based on the perception of the need" being widespread.

Co-Chair Wilken asked Mr. Black to respond to Co-Chair Green's comments, and in addition, share with the Committee the outcome of a survey that had been conducted on fuel price increases experienced by 100 communities.

Mr. Black stated that the Department had conducted a 100-community fuel price survey. Copies of the survey are available from the Department. The survey would support the fact that some parts of the State were paying substantially more for fuel. "There is certainly not a equal distribution of the cost increases that have occurred as a result of crude oil price increases."

Co-Chair Wilken asked the Department to provide copies of the survey to Committee Members.

SAM THOMAS, Director, Division of Administrative Services, Department of Commerce, Community and Economic Development agreed. The Department's report, titled "Current Community Conditions Fuel Prices Across Alaska", [copy on file] was provided.

[9:38:36 AM](#)

Senator Stedman informed the Committee that two communities in his Senate District, Myers Chuck and Hollis, are not included in the list of communities benefiting from this grant money. Hollis is a small struggling community without organizational structure and does not meet the qualifying criteria for the grant. Other communities of similar size that have more structure are on the list and do get the State "carrot". Some of the communities that

qualify "have a stand-alone energy source for each house". To that point, he voiced concern that the grant funds being provided to those communities "is not going to the people that have to buy fuel for their fuel tank." While it might be easy to establish a program based on such things as population, this money might not be being utilized as intended.

[9:40:05 AM](#)

Co-Chair Wilken stated that he had supported funding this program the previous year because it had been presented as a one-time occurrence. The "scrutiny" being expressed today "is the result of now being asked to do it twice." He did not like the program last year and he does not like it now, as it establishes "false expectations that it'll be here next year and the year after that". Once a program is started it is difficult to curtail it.

[9:40:51 AM](#)

Co-Chair Wilken continued that the other problem with this request is that it seems to present "the mindset" that energy problems only exist in Rural Alaska. That is not the case. He submitted that people who must drive a round trip of 50 miles to work have greater energy expenses than people who live in communities in which fuel might cost six dollars a gallon, but only have a mile and a half of roads.

Co-Chair Wilken stated that 85-percent of the goods shipped to Alaska pass through the ports of Valdez, Whittier, Seward, and Anchorage. He noted that copies of November 4, 2005, November 21, 2005, and January 26, 2006 letters [copies on file] from a freight company, Horizon Lines of Alaska, to customers receiving goods through those ports substantiate the fact that a 16-percent surcharge is currently being imposed on each item, from a bag of potato chips to lumber to vehicles. The cumulative freight surcharge is 20 percent higher than it was one year prior. Everyone is affected. Decisions must not be made with "a shotgun" or based on "sob stories" or "anecdotes". Several pieces of legislation have been introduced that would treat people in the State equally and fairly.

Co-Chair Wilken, stating that he would not be supportive of this request, asked that he be notified of other Committee Members' opinion on this matter.

[9:43:16 AM](#)

Senator Hoffman countered that everyone could not be treated equally by this program due to the variety of cost of living expenses experienced in different areas. "Fairbanks still enjoys one of the lower cost of livings in the State overall." The focus of this program is energy costs, and there is a substantial difference between spending five dollars a gallon for transportation and being required to pay five dollars a gallon for heating fuel 24 hours a day. The \$2.50 per gallon price for heating fuel being paid in Fairbanks would be a marked difference from the price paid in Rural areas. The purpose of this program is to assist communities throughout the State that are "suffering"... "many of these communities are potentially closing their doors and are having a hard time trying to make ends meet."

Senator Hoffman stated that, on one hand, State Legislators would welcome high crude oil prices; however as individuals, they would desire the lowest price per gallon, "but that's not going to happen." While the State "is reaping in \$60 million for every dollar" increase, the citizens of the State "are suffering the consequences, particularly those in Rural settings because of the high cost." The Governor developed a program that, while "not perfect as it does not compensate for the higher price of fuel up north or how far you are away from the distribution center", could be "massaged" in order to assist the citizens of the State who live in Rural areas "that have the highest and the most need."

Senator Hoffman stated that even though it might be impossible to treat everyone equally, we should have "the empathy to understand there are differences and we as State officials should step up to the plate and provide that assistance."

[9:46:35 AM](#)

Co-Chair Wilken "suggested that it is not the duty of State government to equalize the cost of living across our State."

[9:46:45 AM](#)

Senator Olson noted that while "valid points" have been presented, there would appear to be some "shortsightedness in that we do allow for cost of living allowances" as attested by some of the appropriations that are provided. He opined that many communities "are being penalized because they don't have the ability to have the economy of scale." An effort must be made to allow communities such as Hollis to educate their children and heat their homes. Many communities have made an effort to develop their own power supply. Unless there was a desire to create "an influx of people into" other larger communities and thereby create more problems, programs

such as this must be supported.

Co-Chair Wilken asked that this issue be set aside and continued another day.

[9:48:11 AM](#)

Senator Bunde acknowledged, but offered the suggestion that, were this program to continue, it be based on per capita rather than community size. Continuing he calculated that the per capita dollar amount for the lowest population category, which is municipalities of less than 100 people, would range from \$700 to \$250 per person, with an average per capita of \$320. Additional considerations should include geographic locations as well as a verifiable population, which could be provided in a manner similar to that required for the Base Student Foundation Education Formula funding.

Co-Chair Wilken acknowledged.

[9:49:32 AM](#)

Section: 2(a)

RDU: Power Cost Equalization and Rural Electric Capitalization Fund

Supplemental Need: This supplemental request capitalizes the Power Cost Equalization and Rural Electricification Fund to fully fund the Power Cost Equalization program.

The FY 2006 supplemental for full funding is estimated at \$5,817,9. The FY 2006 carry forward balance is estimated to be \$358.0. Reducing the fund capitalization by the \$358.0 carryforward leaves \$5,459.9 needed to capitalize the PCE Fund.

\$5,459,900 General Funds

and

Section: 2(b)

RDU: Alaska Energy Authority Power Cost Equalization

Supplemental Need: The current FY 2006 funding level for the PCE program has required Alaska Energy Authority (AEA) to prorate the program. The prorated level for July through October was 81%; in November, continued rise in program costs required a prorated level of 78%. Program demand continues to increase and AEA anticipates further reduction in the payment level before the end of FY 2006. This supplemental will allow AEA to pay 100% of the program costs through the end of the fiscal year. Furthermore, the supplemental is intended to allow AEA to retroactively apply the 100 % level to the

beginning of the fiscal year.

The additional \$15,000 in administrative costs is needed to process the retroactive payments. In order to help the utilities and eligible recipients receive the full benefit of the increased funds, AEA needs to provide additional technical assistance to the utility clerks. AEA anticipates hiring temporary help to process the increased paperwork so that the two employees responsible for and most familiar with this program are able to provide additional technical assistance.
\$5,817,900 PCE Fund

[9:50:04 AM](#)

SARAH FISHER-GOAD, Alaska Energy Authority, Department of Commerce, Community and Economic Development, testified via teleconference from an offnet site and explained that the Power Cost Equalization (PCE) program assists Rural electric residential and non-commercial community facility customers "by paying for a portion of their electrical costs". "Approximately 30 percent of the power sold in Rural communities is eligible for PCE reimbursement". Residential customers could be reimbursed for up to 500-kilowatt hours per month. 86 utilities, representing 183 communities serving approximately 79,000 people, participate in the program.

Ms. Fisher-Goad stated that the Alaska Energy Authority (AEA) "Power Cost Equalization Funding and Pro Rata Levels" spreadsheet, dated January 27, 2006 [copy on file] would provide further information about this request as well as the funding history of the PCE program.

Ms. Fisher-Goad noted that, as depicted on the handout, AEA would be able to pay a prorated PCE level of approximately 99 percent this fiscal year were this request approved. Currently the program is prorated at 78 percent. The prorated level would decrease to approximately 66 percent in March absent this supplemental funding.

Ms. Fisher-Goad communicated that the handout also reflects the expectation that the current 78 percent Pro Rata funding would be sustainable were the PCE program continued at the current \$18,700,000 funding level. The spreadsheet also depicts Pro Rata percentages at the \$15,700,000 funding level. In consideration of increasing utility costs and PCE levels, AEA has restricted the Pro Rata payment to the \$15,700,000 funding level.

Ms. Fisher-Goad informed the Committee that even though the FY 2006 funding level had been increased by \$3,000,000 for a total of \$18,700,000, "the Pro Rata level is 11-percent lower than FY 2003 and FY 2004".

[9:52:14 AM](#)

Senator Bunde asked the total amount that would be provided to the PCE program, were this supplemental request approved.

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Ms. Fisher-Goad responded that the supplemental amount being requested in this legislation is \$5,800,000 including \$5,400,000 in general funds. The estimated cost of the FY 2007 PCE program would be \$25,160,000.

Senator Bunde pointed out that the energy funding provided by this program, combined with the \$6.4 million being proposed for the Small Municipality Energy Assistance Program, would amount to more than "\$30 million for energy subsidies for Rural Alaska".

Section: 3

RDU: Community Assistance & Economic Development Bulk Fuel Bridge Loan Program

Supplemental Need: This grant program will enable rural communities that do not qualify for a fuel loan administered by Alaska Energy Authority to receive a short-term loan. This program began in fiscal year 2005 in response to the critical needs of rural communities facing emergency fuel shortages and will continue into 2006 to assist with the high cost of fuel. The grant program has provided approximately \$1.2 million in short-term interest-free loans to 13 communities.
\$500,000 general funds

SAM THOMAS, Director, Division of Administrative Services, Department of Commerce, Community and Economic Development stated that this program would be a community's last resort for fuel funding. A community could apply for this assistance, were its application for a Bulk Fuel Revolving Loan Fund (BFRLF) from AEA denied.

Mr. Black noted this revolving fuel loan program is a program that would attempt "to deal with high fuel prices and the inability of communities to receive loans" through the BFRLF. The program is available to municipalities, unincorporated communities, and utility providers. Loan monies that are repaid would be recapitalized into additional loans or future loans to other communities. Fourteen communities have used the program. Two of those "have paid off their past loan debt and" have been able to acquire "conventional financing".

Co-Chair Wilken asked that the status of the loans to date be provided to the Committee.

Mr. Black agreed to provide that information.

[9:57:38 AM](#)

Department of Health and Social Services

Section: 4(3)(B)

RDU: Low Income Home Energy Assistance Program

Supplemental Need: The Energy Assistance component, funded through the Public Assistance RDU, requires an \$8,800,000 general fund supplement to help Alaska's low-income families deal with the dramatic increase in heating fuel prices.

\$8,800,000 General Fund

LAURA BAKER, Budget Chief, Finance and Management Services, Department of Health and Social Services stated that this funding would supplement the current program.

[9:57:57 AM](#)

Ms. Baker conveyed that while this is a federally funded program, the federal funds have been continued at a "maintenance level and have been unable to address the increased fuel costs" being experienced. In the year 2005, this needs-based program provided assistance to approximately 9,055 applicants in 150 communities.

Senator Bunde asked whether communities that qualify for the Small Energy Assistance Program would also be able to apply to this program.

Ms. Baker clarified that this is not a community-based program. Applicants must meet eligibility and benefit criteria, which awards points based on factors such as household size, fuel costs in the area, and the type of housing being occupied.

Senator Bunde understood therefore that this program would provide assistance to individuals in communities while the BFRLP and the Small Energy Assistance Program would assist communities. Continuing, he asked whether a member of a community that qualified for the other energy assistance programs could apply for this program.

Ms. Baker was unfamiliar with the other programs.

Senator Hoffman affirmed that this program would assist individuals

while the other programs would assist municipalities and communities.

Senator Bunde acknowledged, but clarified that his question was to ascertain whether "a person who lives in one of the municipalities who can get the energy assistance" could also apply for this program.

Ms. Baker stated that this information would be provided.

Senator Bunde asked whether the Low Income Home Energy Assistance Program (LIHEAP) was limited to residents of large communities.

Ms. Baker responded in the negative.

Senator Bunde determined therefore that, through separate programs, a municipality could receive assistance and the residents of that community could also receive assistance.

Ms. Baker stated that more than 90 percent of the federal (LIHEAP) payments were paid to the vendors. In addition to other qualifiers, household income could not exceed 150 percent of the poverty level, which would equate to approximately \$36,000.

Co-Chair Wilken asked that the "Spot Prices of #1 Heating Oil" graph at the bottom of page one of the project backup material be explained.

Ms. Baker explained that the federal LIHEAP Grant is divided. In federal fiscal year (FFY) 2005, the State received \$8.3 million in federal funding. \$3,600,000 in federal funds was also distributed to Native Corporations.

Co-Chair Wilken asked whether the \$8.3 million provided to the State was 100 percent federal funds.

Ms. Baker affirmed that it was. Continuing, she noted that the federal amount provided in FY 06 was actually lower than the FY 05 funding. Calculations based on two years of fuel costs were utilized in determining the \$8.8 million requested in this supplemental. \$5.9 million of that would funnel through the State's LIHEAP program and the \$2.9 million balance would be provided to Native entities.

Co-Chair Wilken asked for confirmation that the \$11,270,000 provided in FY 06 was 100 percent federal funds.

Ms. Baker affirmed.

Co-Chair Wilken understood therefore that, in addition to the \$11,270,000 in federal funds that had been provided for FY 06, an additional \$8,800,000 in State general funds is also being requested. Thus, the program total for FY 06 would be \$20 million.

[10:02:17 AM](#)

Co-Chair Wilken asked how the \$8,800,000 determination was derived.

Ms. Baker stated that the aforementioned chart depicted home heating fuel differentials for fiscal years 2003, 2004, and 2005. Home heating oil has increased by more than 90-percent in two years.

Department of Commerce, Community and Economic Development

Section: 5

RDU: Alaska Energy Circuit Riders

Supplemental Need: This supplemental request will provide bulk fuel tank farm operator assistance and the assessment and retrofit of small fuel tanks in accordance with the Rural Energy Action Council's recommendations. The tanks include day tanks inside institutional and utility buildings such as schools, powerhouses, and water plants, as well as residential fuel storage tanks. The assessments consist of specific reports for each institutional and utility building and a written summary of tank conditions on a community-wide basis for the residential tanks. As a result of this work, fuel tank leaks will be avoided, health and safety issues will be addressed and regulatory compliance will be improved.

\$300,000 General Funds

[10:03:07 AM](#)

Ms. Fisher-Goad explained that this request would allow AEA "to address the Governor's Rural Energy Action Council's recommendation regarding bulk fuel tank farm operator assistance and maintenance". It would also increase the operator assistance AEA currently provides through the Circuit Rider program, renamed "Technical Assistance". The funds being requested would provide for both FY 06 and FY 07. The Technical Assistance program would provide "preventative maintenance services and on-site operator training primarily to the smaller utilities that" experience difficulties in recruiting operators possessing the required skills. 100 communities have received this assistance. The current funding level is inadequate as only 25 percent of applicants could receive assistance each year. "The power house assistance service calls

include such things as inspections, testing, and preventative maintenance of the diesel engines, generators, control panels, metering systems, and other related components." The inclusion of bulk fuel systems into this program would expand the service call responsibilities to include inspections, testing, repair, and preventative maintenance of bulk fuel tanks, pipelines, valves, pumps, meters, and electrical control systems and other related components. Thus far in FY 06, powerhouse technical assistance has been provided to 18 communities. The funds being requested would provide this assistance to an additional ten communities. The additional funds being requested for FY 07 would allow technical assistance to be provided to 50 to 75 communities.

[10:05:31 AM](#)

Senator Bunde asked regarding the program's general fund appropriation.

[10:05:39 AM](#)

Ms. Fisher-Goad stated that \$100,700 was allocated to the Circuit Rider Program in FY 06.

Senator Bunde, observing that this request would add \$300,000 to the original \$100,000 FY 06 allocation, "thought that supplemental requests should be smaller than the original request."

Senator Bunde stated that it would be interesting to "know the total required funding for energy and heating assistance for Rural Alaska."

Co-Chair Wilken responded that this information would be requested.

[10:06:42 AM](#)

Senator Stedman asked the reason this item is being requested via the supplemental bill rather than being presented in the FY 07 Operating Budget bill. That avenue would be more appropriate.

Ms. Fisher-Goad stated that this request is included in the FY 06 supplemental bill in order to allow the funds to be utilized as soon as possible. This would address the Governor's Rural Energy Action Council concerns.

Senator Stedman opined that July 1, 2006, which is the beginning of the FY 07 fiscal year, would be an adequate date.

[10:07:36 AM](#)

Senator Dyson informed the Committee that, as a matter of public policy, the Postage Stamp Rate was developed in order to allow people, particularly those in Rural areas, to actively participate in government via the United States mail. Over a century ago, it was determined that telephones and telegraphs could also further this endeavor and thus the Universal Service Fund was established. It allowed denser populated areas and commercial entities to subsidize rural area individuals' abilities in this regard.

Senator Dyson continued that, "electric power is a universal thing that individuals and communities need to have in order to operate in our modern world." Therefore, he asked whether discussions have included the development of some sort of "rational system that allows for everyone to have access at some level to electric power and it to be some kind of fair subsidization from the places where it can happen very efficiently, i.e. the large populations ... to those areas where it is tougher to have power."

Senator Dyson determined that there are currently eight or ten programs that address energy issues, "many of them overlap, some of them are contradictory," and there is no consistent comprehensive way to overview the issue. He agreed that "the cost of delivering fuel" once a year is a different circumstance and could not be compared to communities which have hydro power or easy access to natural gas. While it would be "reasonable" for the Committee to accommodate this issue, "an inordinately awkward system that does not have a rational base" currently exists.

Senator Dyson recalled raising this issue often, without success, during his ten years as a Legislator. "One solution might be to develop a bill "that forces that kind of an integrated system" to accomplish a rationalization effort that would "promote a fair and equitable way of dealing with a very significant problem."

[10:11:38 AM](#)

Co-Chair Wilken characterized Senator Dyson's remarks as being "very perceptive" and challenging.

[10:12:01 AM](#)

Senator Dyson asked whether the Administration or any other entity has considered such an approach.

[10:12:13 AM](#)

Ms. Fisher-Goad understood that such a proposal has, on occasion,

been discussed. However, she deferred to the Office of the Governor for further information. In addition, various utilities in the State might weigh in on such legislation.

[10:13:00 AM](#)

Senator Stedman agreed that fuel costs in Western Alaska, where it is substantially colder than Southeast Alaska, are an issue. In addition, Central Alaska might eventually have access to unlimited natural gas supplies. It would behoove the State to further the development of both hydro and natural gas supplies and hydro interties for the coastal areas. This would assist in minimizing dependence on fossil fuels and reduce environmental challenges.

[10:14:01 AM](#)

Senator Hoffman noted that the development of a natural gas line would benefit the communities of Fairbanks, the Mat-Su Valley, Anchorage, and Kenai. However, Western Alaska would be unable to tie in to such a line. A "different time would be approaching" and the Legislature should consider this future scenario. "It is a State resource and all people should benefit potentially equally; but there's no way that we're all going to be able to benefit equally even though the resource comes from Rural areas of the State, although its owned by all Alaskans." This is one of the reasons he is supportive of the programs being presented by the Governor.

Department of Transportation and Public Facilities

Section: 4(6)(H)

RDU: Marine Highway System Marine Vessel Operations

Supplemental Need: The Alaska Marine Highway System (AMHS) is anticipating a \$14,774,800 fuel supplemental need due to increased fuel costs and increased fuel usage. The approved FY 06 budget was based on approximately 10.7 million gallons of fuel at \$1,425,000 per gallon. The Marine Highway System is projecting to use approximately 13,251,000 gallons of fuel due to increased ferry usage. The estimated delivered fuel price for FY 06 is \$2.26 per gallon.

The FY 06 operating plan provides ferry service to many coastal communities that lack links to the main road system. Additionally, the plan improves the mobility of people and goods while enhancing the marketing potential of AMHS.

\$14,774,800 General Funds

[10:15:59 AM](#)

NANCY SLAGLE, Director, Division of Administrative Services, Department of Transportation and Public Facilities stated that this \$14,700,000 request would address the fuel needs of the Alaska Marine Highway System (AHMS) for FY 06. The initial FY 06 budget was based on a fuel price of \$1.425 per gallon. This price was "tied" to the State's Spring Revenue Forecast. The current price projection is \$2.26 per gallon. AHMS has also experienced increased fuel consumption. The original fuel usage was estimated to be 10,600,000 gallons; however, the revised fuel usage estimate is 13,200,000 gallons, as the AHMS has increased its level of service.

[10:18:05 AM](#)

Senator Stedman recalled that, due to Committee concern, a lengthy discussion on fuel prices occurred during the FY 06 budgeting process. He acknowledged that forecasting future oil prices is difficult. Continuing, he asked regarding his recollection of a price of \$1.17 or \$1.18 per gallon.

[10:18:47 AM](#)

Ms. Slagle responded that the average price per gallon for FY 04 was slightly over one dollar a gallon. The average price for FY 05 was \$1.51 per gallon. She noted that fuel prices are based on the Oil Price Information Service (OPIS) price plus cost of delivery.

[10:19:37 AM](#)

ROBIN TAYLOR, Deputy Commissioner, Alaska Marine Highway System, Department of Transportation and Public Facilities, and former State Senator, stated that the original budget submitted by the Department was \$1.14 per gallon, based on the previous year's records. At the request of the Department, the Legislature adjusted the price upward to \$1.425 per gallon toward the end of the Legislative Session. At one point during the summer of 2005, the per-gallon price was \$2.60.

[10:20:26 AM](#)

Senator Stedman stated that while the AMHS is more expensive to operate when oil prices are increasing, the State also generates more revenue from crude oil prices. The scenario could be characterized as "a wash". The 25-percent additional fuel consumption is the result of scheduling changes and other endeavors to increase the efficiency and ridership of the AMHS.

Senator Stedman asked that the increase in consumption and scheduling endeavors be further discussed. In addition, a FY 07

forecast would also be appreciated, as a more accurate budget cycle would serve to minimize supplemental requests.

Senator Stedman stressed how "critical" it is to coastal Alaska to have a functioning AMHS. The worry is that sometime in the future, large supplemental requests would be more unwelcome than they are today. The idea would be a get ahead of that issue.

Co-Chair Wilken asked that Senator Taylor provide an overview of future needs.

Senator Taylor responded that in March 2005, the Legislature had approved a \$16 million supplemental request for the AMHS, without there being "dramatic increases in fuel costs."

Senator Taylor explained that AMHS would sell its mainline vessels and replace them with high-speed vessels. While that transition has begun, he was "unsure as to how much thought was given to that process", because even though both the Senate and House of Representatives provided additional money to operate the M/V Kennicott, no funds were included to operate the M/V Taku or the M/V Aurora, which provides year-round service to Prince William Sound, as the belief was that both those vessels would be sold. However, the M/V Taku has been the sole operating vessel traversing from Prince Rupert, British Columbia, Canada northward this past winter. It's been the "workhorse." The M/V Kennicott has been operating in the Gulf of Alaska with runs between Kodiak, Valdez, Cordova, Homer, Whittier, Unalaska and other communities. The M/V Tustumena, which traditionally operates that route, has been undergoing repairs for six months. That was a known situation. The reason that that situation had not been accommodated in the budget is a mystery.

Had the M/V Kennicott been tied up and the M/V Taku and M/V Aurora sold, AMHS would have been operating with approximately 30 percent less service and no ferry service would have been provided in Prince William Sound during the winter. That would have been unacceptable. Therefore, when asked about the management changes being considered in the FY 06 budget, he replied he had decided not to sell the M/V Aurora and M/V Taku, as the reduced level of service would have been quite disturbing to the Murkowski Administration. As a consequence, additional service beyond that contemplated in the budget has been provided. The budget that had been presented was "inappropriate for what realities were being faced by the fleet."

Senator Taylor voiced optimism that "a much more detailed operating plan than what we've been able to provide" in the past would be

forthcoming. The AHMS vessel schedule published in the fall of 2005 was the first one he was able to provide input to since his recent appointment to his position. AMHS's ticketing and sales fiscal year runs from October first through September 31st of each year. Thus, supplemental requests that provide funds through July first of each year must be meshed with that AMHS budgeting cycle. In essence, AHMS must budget for a year and four months. That is one of the contributing factors in the supplemental request being presented today.

Senator Taylor stressed that people rely on AMHS service and had bought and made plans to travel on boats that were budgeted to be sold.

Senator Taylor stated that past AHMS budgeting appears to have relied on the Alaska Marine Highway Fund, which has been totally depleted, as well as the fact that a large supplemental request would be presented each year; this as an inappropriate manner in which to conduct business. It is certainly not "a comfortable way to do business for the people of the coastal communities that rely on" the system for essential transportation.

[10:26:36 AM](#)

Senator Bunde understood that the State does not possess the refinery capacity to provide diesel fuel for AMHS; therefore oil is refined elsewhere and shipped to the State.

Senator Taylor clarified that while there is refinery capacity in the State, there is an inadequate distribution system. Therefore, the State must purchase refined products outside of the State.

[10:27:24 AM](#)

Senator Bunde asked whether a gallon per mile per passenger comparison has been conducted between the new fast ferries and the traditional ferries. While acknowledging that traditional ferries incur high personnel costs, he asked whether fast ferries are cheaper to operate.

Senator Taylor responded that while fuel consumption is determined by the speed at which a fast ferry is operated, overall the fast ferries are more expensive to operate. The fast ferry M/V Fairweather is averaging 150 to 200 gallons an hour more than the fast ferry M/V Chenega due to the speed at which it has been running. The fast ferries could burn 500 to 700 gallons an hour when operated at full speed. The M/V Chenega is using 350 to 400 gallons per hour. The cost per passenger is subject to how many

passengers board the ship. Ferry passenger ridership is lower than desired levels. It should be noted that the desired levels are achieved in the summer months, particularly on the Lynn Canal route. In addition, due to a recent AHMS promotion, ridership has been near capacity on the Bellingham, Washington northbound route. While no profit is being generated, the runs "are coming a lot closer to breaking even and are costing us a lot less to operate that boat than it would have been to tie that boat up".

Senator Taylor stated that a report regarding fast ferries would be presented to the Administration by the end of the week. This report would assist the Department in providing "greater guidance" to the Legislature on the issue. Legislative assistance would be sought in regards to decisions such as where vessels should be deployed, how long should they be operated, and other economic issues. Such decisions could not be made without adequate information.

[10:29:52 AM](#)

Co-Chair Wilken informed the Committee that a separate presentation from the AHMS would be forthcoming.

[10:30:11 AM](#)

Senator Dyson noted that, in addition to determining the fuel consumption per hour, fuel consumption per nautical mile should be calculated.

Senator Taylor stated that that information could be provided.

Senator Hoffman asked regarding the ridership comparisons of Alaskans verses non-Alaskans.

Senator Taylor stated that that would be difficult to determine as Alaskans travel extensively in and out of the State. He estimated 80 percent of the overall revenue is generated by summer traffic, with winter travel generating approximately 20 percent of the revenue.

[10:31:14 AM](#)

Senator Stedman asked for a breakout of Alaskan verses non-Alaskan travel in the winter months.

Senator Taylor stated that that information was not available. He noted that military personnel leaving and entering the State provide a lot of traffic on the ferry system. Alaskans who are unable to travel through Canada because they have had a Driving

Under the Influence charge or are carrying guns generate other traffic.

[10:32:18 AM](#)

Ms. Slagle stressed the urgency of the request, as AMHS funding would be depleted in March. Beyond that point, AMHS would be required to tie up vessels.

[10:33:00 AM](#)

Section: 8(a)

RDU: Capital - Congressional Earmarks

Supplemental Need: Improvements to the Alaska Ship and Drydock facilities - construction of a new 2,500-ton ship lift and land level ship transfer system. This project contributes to the Department's Mission by reducing injuries, fatalities and property damage and by improving the mobility of people and goods.

\$9,000,000 Federal Receipts (Fed Rcpts)

Ms. Slagle informed the Committee that the federal re-authorization of the federal highway bill in August 2005, contained many Congressional earmarks including one for the Ketchikan shipyard. While most of the Congressional earmarks would be included in the FY 07 capital budget or in the regular supplemental, there is a concern with the earmark for the Ketchikan shipyard. "Basically, the shipyard has signed an agreement with the office of Naval Research to design and construct a \$30 million high speed expeditionary craft". The problem is that some changes to the shipyard must occur in order to meet the timelines for that contract. This would include such things as the addition of a new 2,500-ton ship lift. Bids could be advertised in March 2006 and construction could begin shortly thereafter.

Co-Chair Wilken stated that that would be "a nice addition to the shipyard".

[10:35:25 AM](#)

Office of the Governor

Section: 6(a)

RDU: Executive Office Operations Gas Pipeline

Supplemental Need: Continue the efforts related to the development of the gas pipeline and bringing North Slope gas to market. Lapse date of June 30.

\$1,000,000 General Funds

LINDA PEREZ, Administrative Director, Division of Administrative Services, Office of the Governor, explained that the previous \$500,000 appropriation to the Governor's Office for work related to the State gas pipeline has been fully expended. This requested funding would allow the gas pipeline negotiations to continue by providing for staff resources, consultants, meeting costs and travel. She noted that, after further review, it was decided that this request could be reduced to \$500,000.

Co-Chair Wilken acknowledged that an amendment to that effect would be developed.

[10:36:14 AM](#)

Co-Chair Green asked whether the \$500,000 request would address both the FY 06 and FY 07 needs.

Ms. Perez affirmed.

Co-Chair Green asked the reason that FY 07 funding was included in this FY 06 Supplemental request.

Ms. Perez stated it is being presented in this manner as a continuation of the original appropriation. That original appropriation addressed expenses for FY 05 and FY 06. This would carry the effort forward by addressing FY 06 and FY 07 needs.

Co-Chair Green questioned whether including funds for a subsequent year in a current year's supplemental bill would be appropriate.

Co-Chair Wilken indicated that should not be the case.

Ms. Perez stated that the lapse date could be amended.

Co-Chair Wilken stated that further work on this request would be conducted, as the request should pertain to the proper fiscal year. He thanked Co-Chair Green for her observation.

Department of Law

Section: 6(b)

RDU: Oil, Gas and Mining Gas Pipeline and Other Oil & Gas Projects

Supplemental Need: FY 2006 Supplemental request of \$5,400,000 for work related to the state gas pipeline and to bringing North Slope natural gas to market, and other oil & gas projects, for fiscal years ending June 30, 2006, and June 30,

2007.
\$5,400,000 General Funds

[10:37:38 AM](#)

LARRY OSTROSKY, Chief Assistant Attorney, General-Statewide Section Supervisor, Oil, Gas and Mining Section, Civil Division, Department of Law testified via teleconference from Anchorage and stated that this request would provide funds to contract with outside consultants to address on-going royalty litigation, on-going Trans Alaska Pipeline Service (TAPS) tariff litigation, and gas pipeline efforts.

Mr. Ostrosky noted that the Oil & Gas Section of the Department of Law "represents the Department of Natural Resources with respect to royalty matters ... There's been a long history of issues between the State and North Slope producers regarding how to properly value the State's royalty share of oil."

Mr. Ostrosky explained that the "State's royalty is based on a net-backed value of oil and gas after certain costs, notably transportation, are subtracted. The disputes have tended to center on determining the value on oil, its destination, determining the costs, for example the cost of tankering, the cost of getting it there. And these disputes have led to Royalty Settlement agreements with the three major North Slope producers. The Royalty Settlement Agreements have eliminated many issues and provide for arbitration in lieu of litigation. But it's important for the Committee to understand even these arbitration proceedings resemble mini trials" in that they require discovery, expert testimony and other things. Historically, the Department has contracted with outside counsel to conduct the State's arbitration on large complex issues, "simply because we don't have the staff to gear up for large proceedings like these." The firm of Hoosey and McArthur (ph), which has represented the State in numerous royalty tax issues, is well versed in Alaska oil and royalty tax issues.

Mr. Ostrosky noted that a royalty arbitration currently being conducted with Exxon Mobile would be expected to cost \$1,700,000. "It will be money well spent." Two of the issues the State has prevailed in would provide approximately \$44,000,000 to the State. Were the State to prevail on another issue regarding transportation, an additional \$27,000,000 could be awarded.

Mr. Ostrosky stated that another major component addressed by the Department is tariff issues, specifically pipeline tariff issues. While there is a significant level of in-house expertise on this subject, the State must hire outside law firms in order to properly

prepare for the efforts exerted by the producers. The major case that is currently pending involves TAPS tariffs for the years 2003 through 2005. The State has contracted with a large international law firm that has more than 30 years of experience with the State's pipeline issues. The State filed a protest of the TAPS tariffs for the years 2003 through 2005 "based on a variance between interstate and intrastate rates." The State protested that the difference in the rates was "discriminatory" and proposed reducing the interstate rate "to what the RCA [Regulatory Commission of Alaska] found to be the appropriate intrastate rate". Were the State to prevail in this case, its royalty production tax revenues could increase by more than \$100,000,000 a year.

Mr. Ostrosky stated that tariff cases involving this amount of money are large and complex. "Each side files extensive testimony and rebuttals" and the upcoming hearing is anticipated to last a minimum of one month.

Mr. Ostrosky stated that the Department has primarily contracted with two international law firms for the gas pipeline project. While the Department has expertise in oil and gas issues, it does not have much in-house expertise in large commercial transactions, federal regulatory matters, federal tax matters, business law, or general energy law. The law firm of Preston Gates & Ellis would represent the State's interest in regards to the potential State financing of the gas pipeline. The other law firm, Morrison Forester, would provide expertise in regulatory, commercial, and transactions efforts. They have also been the State's chief contract drafter, which is hundreds of pages in length "and is extremely complex".

[10:44:28 AM](#)

Mr. Ostrosky stated that the firm of Morrison Forester has extensive experience regarding complex issues such as "explorer access to the gas pipeline, acquisition of State capacity to move State gas, RCA interaction, open season regulations, federal tax questions", and negotiations surrounding "the creation of a limited liability company that would own and operate the gas" pipeline. The creation of a limited liability company would be the vehicle through which the State could participate in the ownership of the gas pipeline. The creation of a limited liability corporation would be very lengthy and complex process.

Mr. Ostrosky anticipated that Morrison Forester would continue to be an integral part of the effort even after the gas pipeline contract is presented to the Legislature. Preston Gates and Ellis would also continue to be involved in matters involving such things

as various "financing options, certain Constitutional issues that might arise in respect to fiscal certainty", and issues pertaining to taking gas in kind in lieu of taxes.

Mr. Ostrosky noted that Preston Gates and Ellis would also assist the State "in assembling and organizing the administrative record on the case."

Mr. Ostrosky stated that the hiring of outside legal counsel is "an important investment in protecting the State's interests."

[10:47:55 AM](#)

DAVID MARQUEZ, Attorney General, Department of Law, stated that Mr. Ostrosky's statements were very thorough.

KATHRYN DAUGHHETEE, Director, Administrative Services Division, Department of Law pointed out that \$1,500,000 of this total \$5,400,000 request would support FY 07 needs. The FY 06 and FY 07 needs were "bundled together as a matter of brevity and convenience". Placing the FY 07 needs "in another vehicle" would be acceptable.

[10:49:26 AM](#)

Department of Commerce, Community and Economic Development

Section: 7

RDU: 2006 Arctic Winter Games Host

Supplemental Need: This funding will provide a grant to the 2006 Arctic Winter Games Host Society to support the Arctic Winter Games scheduled for March 5-12, 2006.

\$500,000 General Funds

Co-Chair Wilken noted that this request would address the needs of the Arctic Winter Games. Committee Members have received a copy of the Games budget overview, dated January 31, 2006 [copy on file] that has been developed by Senator Tom Wagoner, who represents the Kenai Peninsula Senate District, in which the Games would be held.

[10:50:05 AM](#)

BILL POPP, Representative, Kenai Peninsula Borough, testified via teleconference from an offnet site and stated that he would be available to respond to Committee questions.

Co-Chair Wilken was surprised that the budget included a \$1,200,000 expense for one week's use of school buses. Continuing, he asked

whether the \$500,000 funding shortfall reflected in this request could be addressed by the reconsideration of the school buses purchase.

Mr. Popp understood that "line of logic". However, he informed the Committee that the school bus funding was an unexpected Federal Transportation Authority Congressional earmark acquired by Senator Ted Stevens. Noting that the Kenai Peninsula has no bus authority, he stated that the restrictions accompanying the funding specify that the funds must be used for transportation hardware such as buses.

[10:51:37 AM](#)

Co-Chair Wilken understood therefore that unless the funds were utilized to purchase the buses, the funding would dissipate.

Mr. Popp affirmed.

Senator Hoffman asked how the buses would be utilized after the conclusion of the Arctic Winter Games.

Mr. Popp stated that the buses would be provided to the Kenai School District, which would use them as "activity buses throughout the entire school district as a legacy from the Games" to the host community. He noted that the District had provided a 20 percent match for the buses.

[10:52:21 AM](#)

Co-Chair Wilken asked what event prompted the need for the Games to seek additional federal and State funds.

Mr. Popp explained that while the Games' organizers had sought funding assistance at the federal level, the \$500,000 that was included in a recent National Defense Appropriation bill for the Games, would be provided directly to the Department of Defense to compensate for expenses they would incur when providing security at the Games. The funds would not and could not be spent by the organization.

Mr. Popp stated therefore that the \$850,000 shortfall identified in November 2005 remained. An expected \$200,000 federal grant was negated as the result of federal assistance being diverted for the Hurricane Katrina aftermath. The immensity of that hurricane also negatively impacted corporate and private donations. Thus, resulting funding shortfall has prompted this request. Recent fundraisers and appeals to corporations have assisted in reducing a

portion of the \$850,000 shortfall. This \$500,000 request is "pivotal" to the Games.

Co-Chair Wilken asked the amount the State appropriated to the Kenai Arctic Winter Games the previous year.

Mr. Popp understood that the previous appropriation was \$600,000. \$1,200,000 of State appropriations had been provided to support the FY 1996 Arctic Winter Games held in Eagle River. The organizers of the Kenai Peninsula Arctic Winter Games had hoped to generate a significant amount of funding from the private sector, however, that effort has been unsuccessful. Thus this request for State funds "is falling in line with past practice history".

Co-Chair Wilken asked for clarification as to whether the shortfall was due to the organizers' inability to raise funds or due to an increase in costs.

Mr. Popp replied that the shortfall is due to the "lack of ability to raise funds". While efforts were made to hold expenses, this project, like numerous non-profit organizations nationwide, has experienced fund-raising difficulties due to hurricane relief efforts in the United States and tsunami and earthquake relief efforts in other parts of the world. "Belts are being tightened and dollars are being spread thinner on the corporate fundraising front." This has been a "significant contributor to the difficulties" the Games have experienced in their fundraising efforts.

Co-Chair Wilken asked whether a list of capital items that exceeded their original budget could be provided.

Mr. Popp could not recall any component exceeding the original budget. Separate operating and capital budgets were developed. The request before the Committee would address operating budget needs of the Games. Capital budget needs had been completed in the prior budget cycle. A list of the capital projects addressed through \$3,500,000 in federal earmarks could be provided. That list included such things as a new ice rink in Homer, cross-country ski trail improvements, improvements to the Kenai multi-purpose center, and improvements to the Soldotna Sports Center.

[10:58:43 AM](#)

Co-Chair Wilken continued to "struggle" with the reason for there being a \$850,000 shortfall.

Mr. Popp reiterated that the projects in the Games' capital budget

were completely addressed through federal earmarks. The shortfall that is being experienced is in the Operating budget. The needs of 1,900 athletes and cultural performers from seven countries must be provided for. These needs are "pretty substantial". The cash budget over the past four budget years is a total \$4,300,000. The organizers are in the final phase of preparing for the March games and are "struggling" to meet the final operating budget monetary goal. The budget has been "stripped down substantially."

In response to a question from Co-Chair Wilken, Mr. Popp clarified that "the total cash budget since the inception" of the organization for the Kenai Arctic Winter Games four years ago is \$4,300,000.

Co-Chair Wilken asked for verification that the \$4,300,000 was solely operational funding.

Mr. Popp affirmed.

Co-Chair Wilken calculated therefore that the total operating budget needs would be \$4,300,000 plus the \$850,000 shortfall.

Mr. Popp clarified that the \$850,000 is included in the total \$4,300,000 budget. That is the amount that the budget is short.

Co-Chair Wilken understood that the \$850,000 shortfall was due to an inability to raise funds.

Mr. Popp affirmed and voiced appreciation for any consideration the Committee and the Legislature could provide.

[11:01:31 AM](#)

Department of Corrections

Section: DOC A

RDU: Fairbanks Correctional Center ACI Shop Building
Renovation for Crisis Overflow Beds

Supplemental Need: This project will provide funding to renovate the pre-engineered metal building that was previously used as the Alaska Correctional Industries Shop. This building will function as a 50 Bed Minimum Security Housing Crisis Overflow Unit, which will consist of two dormitories. An increase of beds is necessary at Fairbanks Correctional Center to support the increased prisoner population. As of October 25, 2005, the current out-of-state prisoner population was at 766 and the in-state population is at 108% of the institutional emergency capacity. With increased law

enforcement by local and state agencies, the Department has no expectation of any decline in the offender population.
\$800,000 General Funds

PORTIA PARKER, Deputy Commissioner, Department of Corrections, informed the Committee that this request is being advanced in this legislation because the overcrowding in the Fairbanks correctional facilities "has reached a point of critical" mass. A four-page handout titled "Projected Offenders Fairbanks Correctional Center Fiscal Year 2006-2007" [copy on file] that depicted occupancy levels being experienced at the facility was distributed. In order to address the situation, the Department has been forced to "dramatically increase the number of transports in and out of Fairbanks". The situation also impacts staffing overtime. Prisoners are being housed in the facility's gymnasium. This request would assist in alleviating the overcrowding situation by allowing a pre-engineered metal structure, formerly used as the Alaska Correctional Industries (ACI) Shop, to be remodeled into a crisis overflow dormitory style facility that could house 50 inmates.

[11:03:54 AM](#)

Senator Stedman asked why this problem had not been anticipated and addressed by the regular budget process instead of through a supplemental bill.

Co-Chair Wilken understood that the current situation resulted from a policy change.

Ms. Parker informed the Committee that the expansions of both the Bethel and Fairbanks correctional facilities have been included on the Department's list of needs. The overcrowding issue has been a problem for years. Recently there has been a "dramatic increase in the pretrial pre-sentence population" in Fairbanks. The cause of this is unclear: it could be the result of increased law enforcement efforts or increased prosecutors. The facility has been experiencing approximately 40 more prisoners on a regular basis year to date. In addition, the structure being considered for the remodel has become available. It has been determined that remodeling the ACI facility would be "the most cost effective way to deal with an emergency situation."

Co-Chair Wilken understood that there has been increased enforcement of Driving Under the Influence (DUI) infractions in the Fairbanks area. This has been accompanied by a policy change mandating that people arrested for a DUI must be held until they could be arraigned rather than being released within hours on bail. This has resulted in more people requiring beds and has added to

the pressure on the system.

[11:07:21 AM](#)

Co-Chair Green reminded the Committee that the need for additional correctional facilities in the State has been an issue of discussion for years. Arrests and convictions around the State have increased. Thus the situation in "Fairbanks is not an anomaly, it's just the trend." The fact that the State is "tough on crime" would impact the correctional system. "We've been begging for the construction of new facilities", and "the thought" was that new facilities would have been available by now in communities such as Fairbanks and Bethel.

[11:08:17 AM](#)

Senator Hoffman asked the status of the Yukon Kuskokwim Correctional Facility, which was ranked as "the number one need in the State".

Ms. Parker responded that discussions with Senator Hoffman and the City of Bethel have transpired and the Department is "ready to enter into discussions with the leadership at the City of Bethel to move forward on how to finance" and construct the 120-bed expansion.

[11:09:12 AM](#)

Co-Chair Wilken stated that this would conclude the fast track supplemental energy request presentations. The total amount being requested in this bill is \$51,998,000. He understood that the requests that would be presented in the separate regular supplemental bill might amount to \$114,000,000.

Co-Chair Wilken ordered the bill HELD in Committee.

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ADJOURNMENT

Co-Chair Gary Wilken adjourned the meeting at [11:09:57 AM](#)