

**ALASKA STATE LEGISLATURE
LEGISLATIVE BUDGET AND AUDIT COMMITTEE**

April 11, 2008

8:02 a.m.

MEMBERS PRESENT

Representative Ralph Samuels, Chair
Senator Lyman Hoffman, Vice Chair
Representative Mike Chenault
Representative Mike Hawker
Representative Mike Doogan
Senator Lyda Green
Senator Gene Therriault
Senator Charlie Huggins (alternate)

MEMBERS ABSENT

Representative Mike Kelly
Senator Johnny Ellis
Senator Bert Stedman
Representative Reggie Joule (alternate)
Representative Kevin Meyer (alternate)

COMMITTEE CALENDAR

APPROVAL OF MINUTES
AUDIT REQUESTS
OTHER COMMITTEE BUSINESS

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

PAT DAVIDSON, Legislative Auditor
Division of Legislative Audit
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions on the audit request for the Ted Stevens Anchorage International Airport (AIA).

CHERYL SUTTON, Staff
to Representative Ralph Samuels
and the Legislative Budget and Audit Committee
Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: As staff to the Legislative Budget and Audit Committee, answered questions on contracts.

ACTION NARRATIVE

CHAIR RALPH SAMUELS called the Legislative Budget and Audit Committee meeting to order at 8:02:51 AM. Representatives Doogan, Chenault, and Samuels, and Senators Green, Huggins and Therriault were present at the call to order. Representative Hawker and Senator Hoffman arrived as the meeting was in progress.

APPROVAL OF MINUTES

8:03:04 AM

CHAIR SAMUELS announced that the first order of business would be approval of minutes.

SENATOR GREEN made a motion to approve the minutes of the March 25, 2008, meeting of the Legislative Budget and Audit Committee. There being no objection, it was so ordered.

AUDIT REQUESTS

8:03:10 AM

CHAIR SAMUELS announced that the next order of business would be audit requests.

REPRESENTATIVE DOOGAN explained that he attended a presentation before the House Transportation Standing Committee early this legislative session that described the process for funding the Ted Stevens Anchorage International Airport (AIA). He expressed concern with the process that [the Department of Transportation & Public Facilities (DOT/PF)] uses to finance the AIA. He related his understanding of the funding process for the AIA is that the AIA sets its rates to fit its budget and if at the end of the year a shortfall exists, the AIA assesses its ratepayers. However, if an excess of funds exists, the AIA distributes it to its ratepayers, he noted. He stated that the funding process is not quite as he initially understood it. Apparently, he explained, some funds contain retained earnings and the [International Airport Revenue Fund (IARF)] is used to finance its operations. He noted that a separate fund finances any capital projects. He said that in delving into the funding

process that he discovered that the AIA has a history of underestimating the cost of capital projects such as the new airport terminal. He stated that he contacted Pat Davidson, Division of Legislative Audit, to discuss an appropriate scope of work for an audit request. He referred to the memorandum dated April 2, 2008 that is in the committee packet as outlining the audit request.

[8:04:55 AM](#)

CHAIR SAMUELS said that he does not believe he has a conflict, but for the record, he noted that his employer flies in and out of the AIA.

[8:05:15 AM](#)

SENATOR THERRIAULT inquired as to whether Representative Doogan could advise the committee of any discussions he has held with the auditor in order to help identify the scope of the proposed audit.

[8:05:43 AM](#)

REPRESENTATIVE DOOGAN explained that his initial audit scope was broad. However, the auditor assisted him in narrowing the scope of the audit, which is to focus on the construction part of the fund. He noted that the audit will specifically review some projects he identified.

[8:06:23 AM](#)

PAT DAVIDSON, Legislative Auditor, Division of Legislative Audit, Alaska State Legislature, stated that she held a conversation with Representative Doogan with regard to his concerns with the AIA. Ms. Davidson explained that she prepared a rough draft for his review. Ms. Davidson said she believes that the [memorandum dated April 2, 2008] represents an understanding of the scope of the audit and Representative Doogan's expectations of the audit.

[8:06:57 AM](#)

REPRESENTATIVE HAWKER made a motion to authorize the legislative auditor to conduct an audit of the capital project activity at the AIA in accordance with the objectives and scope outlined in the memorandum from Representative Mike Doogan dated April 2, 2008. There being no further objection, it was so ordered.

OTHER COMMITTEE BUSINESS

8:07:23 AM

CHAIR SAMUELS announced that the final order of business would be to take up other committee business. The first item will be to consider restatement of a motion for the gas to liquids contract.

8:07:50 AM

CHERYL SUTTON, Staff to Representative Ralph Samuels and the Legislative Budget and Audit Committee, Alaska State Legislature, stated that the Legislative Budget and Audit Committee previously approved a contract, but the motion contained a typographical error, which read, "Alaska Natural Gas to Liquids." She stated that a part of the motion should have read, "Alaska Natural Resources to Liquids." She noted that the contractual work is underway, but the motion needs to be restated to reflect the actual name of the business.

8:08:18 AM

REPRESENTATIVE HAWKER, correcting a motion previously made by the committee, made a motion to authorize the chair to enter into a contract with Dick Peterson of the Alaska Natural Resources to Liquids for an amount not to exceed \$50,000 to develop a report on Gas to Liquids opportunities in Alaska.

There being no objection, the motion was adopted.

8:08:47 AM

CHAIR SAMUELS stated that he has been asked by several members to develop questions on tax systems and tax questions on natural gas in order to provide preliminary work on issues that will come before the committee during the next legislative session.

MS. SUTTON explained that the committee was asked by several members to locate consultants with expertise on upstream issues. She noted that members may know from previous committee discussions that only a few people in the world have the necessary expertise to work on these issues. She noted that a few experts have performed work for the State of Alaska in one capacity or another. She offered that some members have expressed a desire not to use consultants who have previously

performed consulting work for the state, or who are currently engaged as consultants for the administration. She related that she contacted some consultants and has compiled a short list of consultants. She noted that she located a gentleman from England, David Wood, who has submitted a proposal to review fiscal design for upstream natural gas developments in Alaska. She stated that his business name is David Wood & Associates of Lincoln, United Kingdom (UK). She referred to information in committee members' packets that outlines his proposal and specific expertise labeled, "Fiscal Design for Upstream Natural Gas Developments in Alaska." She opined that Mr. Wood understands the scope of work and is interested in performing the professional work for the committee.

[8:10:41 AM](#)

SENATOR HUGGINS stated that conversation on this subject continues to be deferred. He said:

At a minimum, it's time for us to start gathering the data and contrasting the different regimes, because my feeling is we've made a giant step forward in commercialization of North Slope gas and this is part of the equation of fulfilling that project in delivering gas to market. So, it's essential. It's information we have to have and the sooner we have that, the sooner we can debate internally and ask more intelligent questions and mature the subject to the point that we can actually address the subject formally.

[8:11:26 AM](#)

CHAIR SAMUELS stated that he would like to make it clear to the committee that the committee is not selecting this particular entity as the committee's "go to guy." He recalled that in the past the committee has tended to select one [consultant] and information has flowed to that person rather than to select three or four consultants and compare [their information]. He opined this approach can also help to avoid personality issues. He stressed that this will not be the last motion before the committee on this subject. However, he characterized this contract as a step forward in the process to obtain information on [fiscal design for upstream natural gas developments in Alaska.]

[8:12:08 AM](#)

REPRESENTATIVE HAWKER made a motion to authorize the chair to enter into a contract with David Wood & Associates for an amount not to exceed \$75,000. This is a sole source contract because it is not practicable to follow formal solicitation requirements and it is in the committee's best interest to award this contract. David Wood & Associates is uniquely qualified and without conflicts to perform work on "Fiscal Design for Upstream Natural Gas Developments in Alaska."

[8:12:38 AM](#)

CHAIR SAMUELS objected.

[8:12:42 AM](#)

REPRESENTATIVE DOOGAN asked for clarification of the final product that David Wood & Associates would provide to the committee.

[8:12:53 AM](#)

CHAIR SAMUELS explained that the process would begin with a discussion and analysis of other regimes compared to the state. The committee wishes to explore how other regimes function and whether the rates are in the "middle of the road" as a means to begin a discussion on taxes. He related that the process would start with practical questions such as whether gas could fit into the current net profit system of credits and deductions, and if so, how that could be accomplished. Previous legislatures have discussed gas revenue exclusion and have found that separating out gas and oil can be problematic, he opined. He said that the two big issues are, "Can you practically fit taxes into the regime we have? And whether you can or you cannot, what rate do you want to [use to] show that we are competitive and to move the project forward?"

[8:13:51 AM](#)

MS. SUTTON offered that some preliminary discussions with Mr. Wood were held to determine any conflicts and to ascertain the scope of work for the proposal. She noted that an outline of the questions that were developed is in members' packets. She further noted that the final terms and scope of Mr. Wood's proposal is not yet completed, but highlighted that David Wood & Associates will cover everything that has been mentioned by Senator Huggins and Chair Samuels, and more.

8:14:33 AM

CHAIR SAMUELS removed his objection.

There being no further objection, the motion was adopted.

ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 8:14 a.m.