

HOUSE FINANCE COMMITTEE
March 4, 2008
2:19 P.M.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [2:19:26 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair
Representative Kevin Meyer, Co-Chair
Representative Bill Stoltze, Vice-Chair
Representative Harry Crawford
Representative Les Gara
Representative Mike Hawker
Representative Reggie Joule
Representative Mike Kelly
Representative Mary Nelson
Representative Bill Thomas Jr.

MEMBERS ABSENT

Representative John Harris

ALSO PRESENT

Representative Ralph Samuels; Representative Craig Johnson; David Teal, Director, Legislative Finance Division; Tam Cook, Director, Legislative Legal Services, Legislative Affairs Agency; Jeanne Ostnes, Staff, Representative Craig Johnson; Eric Wade, Executive Director, Alaska Association of Conservation Districts, Juneau

PRESENT VIA TELECONFERENCE

Gino Graziano, Vice Chair, Alaska Committee for Noxious Weeds and Invasive Plants Management (CNIPM), Anchorage; Bryce Wrigley, Farm Bureau, Wasilla; Michele Hebert, Chair, Land Resources Program Cooperative Extension, University of Alaska-Fairbanks; Lori Zamseil, Committee Against Noxious Weeds in the North (CANWIN), Anchorage

SUMMARY

HB 326 An Act authorizing the governor to delegate to the adjutant general the authority to order the organized militia into active state service and authorizing the payment of Alaska National Guard called into active state service to fight wildfires at rates of pay established for certain emergency fire-fighting personnel; and providing for an effective date.

CSHB 326 (FIN) was reported out of Committee with a "no recommendation" and with a new zero note by the Department of Military and Veterans Affairs, new indeterminate note by the Department of Natural Resources and zero note #1 by the Department of Administration.

HB 330 An Act relating to management of noxious weeds and invasive plants; establishing the Noxious Weed and Invasive Plant Board; and establishing the noxious weed and invasive plant management fund.

HB 330 was HEARD and HELD in Committee for further consideration.

#HB336

HB 336 An Act directing the Alaska Energy Authority to conduct a study of and to prepare a proposal for an appropriately sized Susitna River hydroelectric power project; and providing for an effective date.

HB 336 was SCHEDULED but not heard.

#HB359

HB 359 An Act relating to probation and the offense of minor consuming or in possession or control of alcohol.

HB 359 was SCHEDULED but not heard.

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HJR 28 Proposing an amendment to the Constitution of the State of Alaska relating to the production tax revenue fund, dedicating a portion of the petroleum production tax to the fund, and limiting appropriations from the fund.

CSHJR 28 (FIN) was reported out of Committee with a "do pass" recommendation and with zero note #1 by the Department of Administration, fiscal note #2 by the Office of the Governor, fiscal note #4 by the Department of Revenue and new note by the Department of Revenue.

[2:20:53 PM](#)

#HB326

HOUSE BILL NO. 326

An Act authorizing the governor to delegate to the adjutant general the authority to order the organized militia into active state service and authorizing the payment of Alaska National Guard called into active state service to fight wildfires at rates of pay established for certain emergency fire-fighting personnel; and providing for an effective date.

Co-Chair Meyer summarized previous action taken on the bill during the 3/3/08 meeting, which includes adopting new fiscal notes.

Representative Hawker appreciated the technical corrections made to the Department of Natural Resources and Department of Military and Veterans Affairs fiscal notes.

Vice-Chair Stoltze MOVED to REPORT CSHB 326 (FIN) out of Committee with individual recommendations and with the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSHB 326 (FIN) was reported out of Committee with a "no recommendation" and with a new zero note by the Department of Military and Veterans Affairs, new indeterminate note by the Department of Natural Resources and zero note #1 by the Department of Administration.

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#HJR28

HOUSE JOINT RESOLUTION NO. 28

Proposing an amendment to the Constitution of the State of Alaska relating to the production tax revenue fund, dedicating a portion of the petroleum production

tax to the fund, and limiting appropriations from the fund.

Vice-Chair Stoltze MOVED to ADOPT work draft 25-LS1217\L, Cook, 3/3/08, as the version of the bill before the Committee. There being NO OBJECTION, it was adopted.

REPRESENTATIVE RALPH SAMUELS, SPONSOR, addressed previous discussion in the Committee comparing the long and short versions. He noted that by adopting the \L work draft, the short version had been adopted. The draft legislation removes funds from the progressivity and places it into the Constitutional Budget Reserve (CBR). At the same time, it changes the payout methodology into an endowment style payout.

Representative Samuels pointed out the chart as submitted by David Teal at the Division of Legislative Finance. (Copy on File). The chart highlights assumptions from the Department of Revenue and was based on an \$85 dollar per barrel for oil, indicating the automatic payment made into the fund and then the payout amount. The concept is to save as much as possible while oil prices are high.

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Co-Chair Meyer asked if the sponsor supports the short version as adopted. Representative Samuels replied he does. The long version would phase in over time, however, the short one address concerns voiced during the Committee process.

Representative Joule realized the Committee had previously passed a revenue sharing bill, which taps progressivity dollars. He asked if HJR 28 passes, what will happen to revenue sharing. Representative Hawker recalled the text of the revenue sharing bill uses progressivity as a measuring device, not an appropriation of funds. The bill clarifies an amount equal to a certain calculation based on progressivity. HRJ 28 actually dedicates funds.

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Co-Chair Meyer referenced the handout, highlighting revenue versus expenditures, while providing a mechanism for the payout. Representative Kelly wanted to see more information on anticipated budget growth, which was not

included in the handouts. Co-Chair Meyer pointed out the "Revenue Sources Book", which he thought addressed those concerns voiced by Representative Kelly. (Copy on File). Co-Chair Meyer agreed that the bill provides merit in how to use the savings for a long range benefit to the State.

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Co-Chair Meyer noted the Department of Revenue fiscal note needs a replacement.

Vice-Chair Stoltze MOVED to REPORT CSHJR 28 (FIN) out of Committee with individual recommendations and with the accompanying fiscal notes. Co-Chair Meyer OBJECTED in order that Representative Gara could ask a question.

Representative Gara asked to make sure that the analysis from the Legislative Finance Division (LFD) had been distributed. Representative Samuels apologized that the chart previously mentioned had not been handed out.

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Representative Gara understood that under the proposed bill, the model will become effective in 2009; he asked the projected spending as compared to anticipated revenues. He stipulated his concern about dedicating money to the point where the funding brings the State into a budget deficit.

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, referenced the graph, which highlights the information given an assumption based on a 3% General Fund spending growth, in which oil is at \$90 dollars per barrel. He apologized that he had not had enough time to make the model legible. The Division did opt not to hand out the spreadsheet. The spreadsheet goes back to the November 2007 model, determining the percentage base. The Division has provided only one chart at \$90 dollars per barrel; he added that at \$40 dollars, there would be no surcharged revenue.

Representative Gara noticed that all changes are projected onto the price of oil. He realized that when the Division was requested to project next year's surplus, they used the \$60 dollars per barrel price. He requested the projected numbers used by the Department of Revenue. Mr. Teal responded that they (DOR) had projected oil at \$66 dollars

per barrel. A new forecast is due out soon and that the projected forecast simply determines the model. It is the actual price which determines how much flows into the proposed account. The model can configure any price entered. Mr. Teal offered to assist Representative Gara, entering various price assumptions.

Representative Gara pointed out the 3% growth rate, which was chosen in the General Fund budget. He noted that in the last three years, it has been closer to 10%. Mr. Teal acknowledged that it has been 10% or higher, a lot of which is catch-up agency growth to the statewide operating costs. There is investment credit paid to the small producers. He reiterated that it is the statewide increases that are the cause of the 10% growth rate and that agency budgets are not growing, retirement costs will no longer be increasing and credits are fully funded. Those numbers were backed out.

Representative Gara requested a projected oil price projection. He said that at the anticipated \$66 dollars per barrel, he imagined the crossover point would be where expenditures start exceeding revenue at about 2012. Mr. Teal thought the start date would be 2011.

Representative Gara requested a chart indicating the Department of Revenue's projected oil price at a 3% and a 6% General Fund increase. Mr. Teal replied he would provide that info. Co-Chair Meyer encouraged that Mr. Teal work directly with Representative Gara and Representative Kelly.

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Representative Kelly mentioned growth in the General Fund budget. Representative Gara reiterated that he did not think the 3% increased number was correct. Representative Kelly recommended a 3%-6%-9% projection analysis. Mr. Teal offered to work with Representative Gara and Representative Kelly on various numbers used in the model. He added that the concern is the varying assumptions within the operating budget and in order to include many prices of oil, one would need to make many graphs. Each graph looks very similar unless it is closely scrutinized.

Representative Gara maintained that if the State assumes a higher price of oil, the State will not hit deficit mode

for many years; however, assuming a lower price, places the State in deficit mode much sooner [2011]. Either way, it will affect legislative judgment. He reiterated the request for the price used by the Department of Revenue. He asked if the State assumes \$66 dollar a barrel for oil with a 6% budget growth, would it bring Alaska closer to 2011 projection on when the deficit mode is reached. Mr. Teal responded it would be 2010.

In response to Representative Gara, Mr. Teal explained that the lower the price, the lower the anticipated revenue. The faster the growth rate chose for the appropriation, the higher the expenditures. The deficit is simply a function of revenue and expenditures.

Representative Gara asked if the deficit was reached because the \$66 dollars per barrel was used. He anticipated that in 2010, if that number was used, there could be that much less revenue. He questioned how much less would be deposited under the bill's proposal. Mr. Teal advised that under the official revenue forecast, the amount that goes into the fund is the CBR balance itself. When making the determination, he used the current CBR balance of approximately \$3.2 billion dollars and assumed that the \$2.6 billion dollar in the supplemental bill was accepted. The State would begin with a balance of over \$5 billion dollars plus whatever is deposited in 2009. It is anticipated that in 2010, an approximate \$400 million dollars would be deposited and would move through the life of the resolution, which is 2014.

Representative Gara clarified that it would begin in 2010 @ \$66 dollars per barrel. Mr. Teal said yes, the revenue forecast assumes that it would be in the mid \$60's and then drops to the \$45 dollar per barrel price, which means no revenue surcharge would be accessed.

Representative Gara stated that beginning in 2010, assuming the \$66 dollars a barrel price, all the CBR balance would have been swept; the State would be starting with an even budget by 2010. That year, no CBR money would be counted because the funds had been swept. In 2010, the State will hit the point where it will be spending \$400 million more than it is taking in. Mr. Teal explained that the number starts out at \$100 million dollars and stays that way through 2014, at which point, the revenue forecast falls into the \$40 dollar range and the deficit increases over \$2

billion dollars. Representative Gara wondered if that assumed that in 2014, the price of oil moved down to \$45 dollars per barrel. Mr. Teal said yes.

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Representative Kelly supported placing money into the proposed fund; he thought it could provide the State a "soft landing device" into the future. Mr. Teal noted that if the State uses the Department of Revenue's forecast for oil prices, there will be no soft landing cushion. He pointed out the graph indicates that expenditures are currently lower than revenue if oil stays at \$90 dollars per barrel. It depends on what is done with that surplus savings. If spent, the money is gone; if saved, those dollars would be available in the future. He emphasized that all that moves into that account is the surcharge. When the oil revenue is high, there will be a surplus because the oil revenue will be sufficient. The surcharge goes away rapidly when oil approaches the \$60 dollars per barrel price. At \$60 dollars per barrel, the surcharge is zero. If oil prices fall rapidly, the account will not be stocked up. The model indicates that kind of information using various assumptions.

Representative Samuels agreed that at \$60 dollars per barrel oil price, no new money would be flowing into the CBR. He spoke to his philosophy of the bill, to save as much money as possible right now so that future generations will continue to have a safety net.

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Vice-Chair Stoltze interjected that the "State does not have a budget shortfall but rather a spending surplus". He added that it is always a delicate process to achieve a super majority vote. He indicated his support for the proposed approach.

Representative Joule asked if the principle of the fund would be accessible. Representative Samuels said no. The CBR would become an endowment style fund with 5% available for spending by the legislature each year.

Representative Joule believed that essentially, the State would then have two permanent funds. Representative Samuels disagreed given the methodology of the payout.

Presently, the Legislature can access all the earnings; however, if the market tanks, the earnings go away. The payout methodology proposed in HJR 28 is different with two separate mechanisms. He predicted that as oil production declines over time, the State will be facing problems. Representative Joule stated he does not support "fencing the dollars off" completely.

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Representative Gara assumed that most of the projected payout will come from the first two-year deposits at roughly \$6 billion dollars. There is a projected deficit spending of nearly \$400 million dollars per year. He noted concern for the out-years and voiced support in creating an endowment using present dollars. He was confused how a constitutional amendment would put "something" away that no one could ever touch. He realized that the bulk of this future payout comes from the first two years of deposits. Mr. Teal responded that is true under the Department of Revenue's forecast and at \$85 dollar per barrel oil, the deposits would amount to approximately \$1.2 billion dollars per year for four years. Depending on the price of oil, there could be up to another \$5 billion dollars placed into the fund between 2010-2014.

Representative Gara inquired how it works once the voters approved it. Representative Samuels explained that the legislation would restructure the CBR.

Representative Gara asked when the State would be able to start accessing those funds. Representative Samuels responded that at present time, legislators are not able to access the corpus of the Permanent Fund either.

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Representative Crawford noted if there was a statewide disaster, the constitution can always be changed. The Legislature can always "right a wrong". He stated that he supports the legislation. Representative Samuels agreed with the comments made by Representative Crawford.

Representative Joule addressed his concerns with any attempt to change the Alaska Constitution.

TAM COOK, DIRECTOR, LEGISLATIVE LEGAL SERVICES, LEGISLATIVE AFFAIRS AGENCY, explained that the Constitution can only be amended by a 2/3 vote of the Legislature. A proposal must be approved by the voters and can be presented to the voters only during a general election.

Co-Chair Meyer requested that the Department of Revenue revise fiscal notes 3 & 4.

Co-Chair Meyer WITHDREW his OBJECTION. There being NO further OBJECTION, it was so ordered.

CSHJR 28 (FIN) was reported out of Committee with a "do pass" recommendation and with zero note #1 by the Department of Administration, fiscal note #2 by the Office of the Governor, fiscal note #4 by the Department of Revenue and new note by the Department of Revenue.

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#HB330

HOUSE BILL NO. 330

An Act relating to management of noxious weeds and invasive plants; establishing the Noxious Weed and Invasive Plant Board; and establishing the noxious weed and invasive plant management fund.

REPRESENTATIVE CRAIG JOHNSON, SPONSOR, noted that a constituent in his district purchased a strawberry plant in which they found a Canadian thistle growing. The Canadian thistle is an invasive species. Many types of invasive plants are prolific and can cause much economic damage. The State of Alaska has nothing in place to address these types of concerns. He added, there are federal dollars for states that have certain criteria in place for eradicating invasive species:

- Each state must have a policy in place
- The state would be required to have a weed-coordinator position
- The state is required to have a board that directs that position

Representative Johnson added, after statewide meetings last summer, a plan was submitted which allows the State to qualify for some of those federal monies. He pointed out that Alaska is in a unique situation; many states are

currently spending a lot of money to address invasive plants that are ruining crops and devastating wildlife habitat. Alaska has not reached a critical situation yet; he worried, however, that salmon spawning streams eventually would be blocked by certain species of plants.

JEANNE OSTNES, STAFF, REPRESENTATIVE CRAIG JOHNSON, mentioned an event that happened in December when a plane load of 3,000 contaminated Christmas trees arrived in Alaska. The airport did not have a specific plan in place to address the situation. She warned, Alaska needs a policy in place.

Ms. Ostnes continued, the legislation began as a bill through the summer with hearings held, attempting to build a board. During the process, it has been determined the fiscal impact to revise regulations for creation of a weed board. The note has been decreased to cover only the coordinator position. The ideas were submitted during the statewide discussions:

- To develop the program within the Department of Natural Resources
- Appoint a coordinator
- Revise the regulations
- Develop a plan for the State

Ms. Ostnes pointed out that the fiscal note was dropped from \$237 thousand dollars to \$80 thousand dollars with a sunset provision for the position. She listed tasks associated with the weed coordinator position.

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Representative Gara commented that the State of Alaska, Department of Transportation and Public Facilities (DOT) is the largest purveyor of noxious weeds. He pointed out that Department puts dandelions in their grass seed in the right-of-way expansion. He asked if there would be objection to mandating that Department alter its seeding policy. Representative Johnson noted the importance to discern that the Department is not planting plants that are dangerous. The work of the board would be to suggest regulations that require certified seed stock.

Representative Gara acknowledged that none of those weeds were dangerous except that they take away habit for native

plants. He understood that it is more expensive to use native seeds, as addressed in the original fiscal note. Representative Johnson reiterated that there are plants that are dangerous and that there must be a distinction between dangerous plants and natural species being replaced. The intention of the bill is not to address the seedlings used by the Department of Transportation, but address dangerous plants.

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Ms. Ostnes pointed out that 59% of the Alaska lands are federal holdings, 12% Native lands, 28% State lands and 1% private. Co-Chair Meyer inquired if the federal government had a program in place.

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GINO GRAZIANO, VICE CHAIR, (TESTIFIED VIA TELECONFERENCE), ALASKA COMMITTEE FOR NOXIOUS WEEDS AND INVASIVE PLANTS MANAGEMENT (CNIPM), ANCHORAGE, directed his comments toward the legislative impacts and what has been accomplished to date.

He spoke to the impacts of invasive plants and how they are affecting agriculture as well as tourism, wildlife and fisheries resource and management. He pointed out that Alaska is valued pristine areas and that the noxious plants can have harmful affects on tourism. Invasive plants displace many of the wildflowers and native useable plant vegetation. Plants such as purple loosestrife can clog wetlands and block fish passages.

Mr. Graziano pointed out that some states are attempting to restore spawning habit to comply with the Federal Endangered Species Act. As well, land values have diminished in many states because of the spotted knapweed. Agriculturally, it is difficult to sell certain parcels of land covered with spotted knapweed.

Mr. Graziano agreed with Representative Johnson regarding the large amounts other states are spending to control many of these plant species. He pointed out that there are over ten locations in Alaska where the spotted knapweed has been spotted.

Mr. Graziano referenced purple loose strife, which recently was added to Alaska's noxious weed list. The plant does migrate into water bodies, clogging those areas and that nothing else can grow in there. Much needs to be done in the State to prevent it from spreading.

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Mr. Graziano referenced leafy spurge, a plant currently not present in Alaska. The plant is toxic to stock and wild life. It costs agricultural producers and tax payers in the Dakotas, Montana and Wyoming over \$144 million dollars per year to manage. The sap can cause blisters and blindness. It is not found in Alaska yet but could find its way to the State. It currently does exist in the Yukon, Canada.

Vice-Chair Stoltze encouraged more testimony regarding conservation issues & solutions since problems statewide have been identified.

Mr. Graziano hoped that creating a State coordinator position would bring Alaska into to a participating roll in invasive plant management, by developing a strategic plan including all the necessary State agencies including the Department of Transportation, Department of Fish and Game and Department of Environmental Conservation. He added the roll of the position would share strategic information to locate infestations of weeds and then determine the necessary prevention tactics. The position could make recommendations for seeds, not including invasive plants. Current regulations are out of date.

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Mr. Graziano advised that the direction must come from the State through a strategic plan. The weed coordinator position should work with the already established organizations to help support existing weed management efforts. There are federal dollars available through the Noxious Weed Act. He urged a State program to support those efforts.

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Representative Gara asked about the Department of Transportation's involvement with the concern. Mr.

Graziano responded that the Department is a key player in the issues and should be given direction on how best to provide safety on the roadsides.

Representative Gara inquired if the Department had planted anything that concerned CNIPM. Mr. Graziano replied white sweet clover and reed canary grass have been planted by Department of Transportation and Public Facilities contractors along the roadside, both of which proven are proven to infest riparian areas on the Kenai peninsula. He added, the Peninsula is working to develop management strategies to address these concerns. The plant has proven to cause siltation of the gravel bars that salmon use for spawning. He listed a number of noxious weeds present on the roadsides.

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ERIC WADE, EXECUTIVE DIRECTOR, ALASKA ASSOCIATION OF CONSERVATION DISTRICTS, JUNEAU, spoke in support of the legislation echoing comments made by Mr. Graziano. He pointed out that the weed coordinator position would work with various conservation districts, departments statewide and the science community. He urged that action be taken by the Legislature to address the concerns.

Vice-Chair Stoltze pointed out that there has been very little leadership coming from the Division of Agriculture management team.

Representative Johnson reminded the Committee that many of the testifiers are passionate about the issue. He stated that the bill brings together interested voices, helping to create a plan and providing a small funding stipend.

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BRYCE WRIGLEY, (TESTIFIED VIA TELECONFERENCE), PRESIDENT, ALASKA FARM BUREAU, WASILLA, spoke in support of the legislation, stressing the importance of putting resources toward such a proposal. He urged greater support from State agencies. He commented that if action is delayed, the State will need much more funding than the requested \$80 thousand dollars. He attested to the effectiveness to early and aggressive response and urged passage of the bill.

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MICHELE HEBERT, (TESTIFIED VIA TELECONFERENCE), CHAIR, LAND RESOURCES PROGRAM COOPERATIVE EXTENSION, UNIVERSITY OF ALASKA-FAIRBANKS, spoke in favor of HB 330. She noted that within the agricultural community, the State should be cautious not to leave out invasive insects & plant diseases, both of which fall under the category of agricultural pests.

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LORI ZAMSEIL, (TESTIFIED VIA TELECONFERENCE), COMMITTEE AGAINST NOXIOUS WEEDS IN THE NORTH (CANWIN), ANCHORAGE, testified in favor of the legislation. She emphasized the severity of the problem, explaining that passage would bring federal money into the State for coordination of services to address the issues in an organized and coordinated effort. She reiterated the urgency for the legislation to quickly pass.

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PUBLIC TESTIMONY CLOSED.

Co-Chair Meyer stated that SB 330 would be HELD in Committee to create a new work draft.

Representative Thomas mentioned concerns involving invasive marine plants. He asked if the Department of Fish and Game handles those concerns. Representative Johnson reported the problem is new and quite complicated. He maintained that starting the process with plants is more doable during a 90-day session. He hoped to see language expanded down the road to address all invasive species.

Representative Thomas thought that more than one position would be needed to handle the load. Representative Johnson explained how the clearing house is anticipated to be set up, hiring a weed coordinator and appointing a board to go after the federal dollars. He believed that the legislation provides a reasonable process. Representative Thomas pointed out that in one season in Juneau alone, over 6,000 gallons of Round Up was sold at Costco.

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Ms. Ostnes referenced the chart, "Explosive Growth" contained in member's packets. (Copy on File). She maintained that currently, Alaska is in a lag phase.

HB 330 was HELD in Committee for further consideration.

#

ADJOURNMENT

The meeting was adjourned at 3:47 P.M.