

MINUTES
SENATE FINANCE COMMITTEE
May 3, 2007
1:32 p.m.

CALL TO ORDER

Co-Chair Bert Stedman convened the meeting at approximately [1:32:02 PM](#).

PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Charlie Huggins, Vice-Chair
Senator Kim Elton
Senator Joe Thomas
Senator Fred Dyson
Senator Donny Olson

Also Attending: DAN DICKINSON, Certified Public Accountant, Certified Management Accountant; REPRESENTATIVE PEGGY WILSON; CLIFF STONE, Staff to Representative Peggy Wilson; TIM GRUSSENDORF, staff to Co-Chair Hoffman; TAMMIE WILSON; KATHY WASSERMAN, Alaska Municipal League; MIKE FORD, Alaska Native Health Board;

Attending via Teleconference: From an offnet location: MIKE BLACK, Director, Division of Community Advocacy, Department of Commerce, Community and Economic Development; From Wrangell: ROBERT PRUNELLA, Manager, City of Wrangell.

SUMMARY INFORMATION

SB 104-NATURAL GAS PIPELINE PROJECT

The Committee heard from a consultant. The bill was held in Committee.

HB 121-WORKERS' COMPENSATION RECORDS

The Committee heard from the sponsor. A committee substitute was adopted and the bill was held in Committee.

SB 72-COMMUNITY REVENUE SHARING

The Committee heard from the sponsor, the Department of Commerce, Community and Economic Development, municipalities, and a health care organization. A committee substitute was adopted and the bill was held in Committee.

#SB104

[1:32:07 PM](#)

CS FOR SENATE BILL NO. 104(JUD)

"An Act relating to the Alaska Gasline Inducement Act; establishing the Alaska Gasline Inducement Act matching contribution fund; providing for an Alaska Gasline Inducement Act coordinator; making conforming amendments; and providing for an effective date."

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

[1:32:14 PM](#)

DAN DICKINSON, Certified Public Accountant, Certified Management Accountant, continued his presentation from the previous meeting utilizing a PowerPoint titled, "Presentation to the Alaska Legislature Senate Finance Committee May 3, 2007" [copy on file].

Page 41

Internal Rate of return

Step One: Model An Owned Project

[Spreadsheet calculating the internal rate of return of 21 percent over ten years on a capital expenditure of \$20,000 and production of 1,000 units each year with operating costs of 0.1 dollars and revenue of \$5 for each unit.]

Page 42

Internal Rate of Return

Step Two: Model Capital Component of Tariff

Using PAYMENT function

[Spreadsheet related to the previous page that calculates a ten percent interest rate on the loan to purchase the equipment with annual payments of \$3,254.91 and the loan repaid in ten years.]

Mr. Dickinson used as an example a machine that produced "widgets" in detailing the spreadsheets.

[1:35:18 PM](#)

Page 43

Internal Rate of Return

Step Three: Model Third Party Line with no FT but with tariff

[Spreadsheet utilizing the data from the previous spreadsheets to calculate an internal rate of return of "#NUM!" over ten years with the annual tariff of \$3,354.90, annual revenues of \$5,000 and subsequent annual cash flows of \$1,645.10.]

Mr. Dickinson derived the amount of the tariff by adding the operating cost of \$100 per year to the payment cost of \$3,254.91 per year. The Excel software program would be unable to calculate the internal rate of return from this data because "if you just have a positive series of cash flows your rate of return is infinite". In determining whether to "do something" and "the answer is yeah you get money in every year then of course the answer is yes you do it." Attempting to compare this to "some other thing", given that "you're not capital constrained, it didn't cost you anything" the conclusion would be "you've got a series of positive cash flows that gives you an infinite rate of return."

[1:36:32 PM](#)

Mr. Dickinson suggested that "essentially the underlying calculation where you get those 80 and 90 percent rate of returns on the pipeline are because you've essentially done this calculation." This does not include whether the producer had made a firm transportation (FT) commitment.

[1:37:04 PM](#)

Page 44

Step Four: Model Third Party Line with some additional capital

[Spreadsheet identical to that of Page 43 except with a negative cash flow (investment cost) of \$100 in Year 0, and a calculated internal rate of return of 1645%.]

Mr. Dickinson stated that this spreadsheet factors upstream costs. He spoke to the 8 billion cubic feet (bcf) per day of gas in Prudhoe Bay that was re-injected. This gas had been processed and only required "a little bit of treatment and put it in the pipeline." If producers agreed to ship this gas through a third party-owned pipeline, but required that the pipeline must traverse to the location of existing facilities and thus no capital outlay would be required of the producers, the rate of return to the producers would be infinite. The rate of return would remain high if the producers incurred "a couple hook up costs" as reflected in the spreadsheet.

[1:38:10 PM](#)

Page 45

Internal Rate of Return

Step Five: Model Third Party Line with some more additional capital

[Spreadsheet identical to the previous with the exception of a \$2,000 investment cost and a recalculated internal rate of return of 82 percent.]

Mr. Dickinson noted that the producers could invest more capital, giving as an example the lease holdings at Point Thomson. At that location the gas was not "ready to go into a pipeline" and "billions of dollars of costs" would be necessary to develop the entire field. In this instance the rate of return would be lower.

[1:38:23 PM](#)

Page 46

Step Six: Model Third Party Line with yet more additional capital

[Spreadsheet identical to the previous two pages with the exception of an investment cost of \$6,750 and a recalculated internal rate of return of 21 percent.]

Mr. Dickinson explained this spreadsheet demonstrated "just how much capital costs you'd have to put in to bring it back down to a rate of return of 21 percent, which was what it was calculated ... on the original project."

[1:38:38 PM](#)

Mr. Dickinson expressed the following.

My point is, if you take the FT commitment and you say that is zero effect on a producer's finances, and you compare that to a situation in which the producer lays all the cash out, you're [going to] get a position where you're [going to] find that you create these absolutely fabulous rates of return. And the answer is that's not an appropriate analysis.

If that analysis were appropriate, then the State - we could just end all this nonsense now. The State could step forward and say we'll make the FT commitment if it really doesn't affect our finances. If it doesn't affect our credit rating, we can promise everyone that their [Alaska Permanent Fund] dividends won't be affected, why not do it. The State should step forward and do this risk-less thing and do the FT commitment.

But if in fact making an FT commitment needs to be reflected and needs to be dealt with to analyze a situation correctly, then - it's not a question of if, it is necessary to do that; if you don't, if you simply ignore that FT commitment, you're not analyzing the situation correctly.

[1:39:49 PM](#)

Page 47

FASB 47 Disclosure of Long Term Obligations (1981)

- This statement requires that an enterprise disclose its commitments under unconditional obligations that are associated with suppliers' financing arrangements. Such obligations often are in the form of take-or-pay contracts and throughput contracts.

Mr. Dickinson identified FASB as the Financial Accounting Standards Board. He read this provision of the Board into the record explaining that it was written at a time when leasing "and things like that first started appearing" as "off-sheet balance financing". The FASB determined that the off-sheet balancing information must be included in an entity's financial reports to allow reviewers a "fair picture". Firm transportation commitments were take-or-pay or "throughput" contracts.

[1:41:07 PM](#)

Page 48

FASB 47 Disclosure of Long Term Obligations (1981)

- Example 2
- 27. C Company has entered into a throughput agreement with a natural gas pipeline providing that C will provide specified quantities of natural gas (representing a portion of capacity) for transportation through the pipeline each period while the debt used to finance the pipeline remains outstanding. The tariff approved by the Federal Energy Regulatory Commission contains two provisions, a demand charge and a commodity charge. The demand charge is computed to cover debt service, depreciation, and certain expected expenses.

Mr. Dickinson announced he would bypass most language of FASB 47 and address Paragraph 27. He read the information into the record. The example of C Company used by FASB was "absolutely right on; ... absolutely on point".

[1:42:03 PM](#)

Page 49

FASB 47 Disclosure of Long Term Obligations (1981)

- 27. (cont.) The commodity charge is intended to cover other expenses and provide a return on the pipeline company's investment. C Company must pay the demand charge based on the contract quantity regardless of actual quantities shipped, while the commodity charge is applied to actual quantities shipped. Accordingly,

the demand charge multiplied by the contracted quantity represents a fixed and determinable amount.

Mr. Dickinson continued reading Paragraph 27.

[1:42:34 PM](#)

Page 50

FASB 47 Disclosure of Long Term Obligations (1981)

- 28. C' disclosure might be as follows:
 - o C company has signed an agreement providing for the availability of needed transportation capacity through 1990. Under that agreement, the company must make specified minimum payments monthly. The aggregate amounts of such required payments at December 31, 19X1 is as follows (in thousands):

Mr. Dickinson began reading Paragraph 28 to the Committee.

[1:43:08 PM](#)

Page 51

FASB Disclosure of Long Term Obligations (1981)

- 28 (cont.)
- 19X2 \$5,000
- 19X3 5,000
- 19X4 5,000
- 19X5 4,000
- 19X6 4,000
- Later years 26,000
- Total 49,000
- Less: Amount representing interest (9,000)
- Total at present value \$40,000

Mr. Dickinson noted how this information relates to the previous page.

[1:43:25 PM](#)

Page 52

FASB Disclosure of Long Term Obligations (1981)

- 28 (cont.)
- In addition the company is required to pay additional amount depending on actual quantities shipped under the agreement. The companies total payments under the agreement were (in thousands) \$6,000 in 19W9 and \$5,000 both in 19X0 and in 19X1.

Mr. Dickinson told of this additional requirement.

[1:43:32 PM](#)

Page 53

Contractual Commitments

[Page taken from an annual financial statement of BP detailing Expected payments by period under contractual obligations and commercial commitments, and Unconditional purchase obligations payments due by period.]

Mr. Dickinson directed attention to the Unconditional purchase obligations payments due by period.

[1:43:56 PM](#)

Page 54

BPs 2003 20(f)

- Unconditional purchase obligations (d)
- (d) Represents any agreement to purchase goods or services that is enforceable and legally binding and that specifies all significant terms. The amounts shown include arrangements to secure long-term access to supplies of crude oil, natural gas feedstocks and pipeline systems.
- Obligations set out for five years, after five years and in total

Mr. Dickinson read this information, noting it provided an explanation of the information contained on BP's financial statement shown on Page 53. Any FT commitment made by the company would be reflected in this section of its financial statements. The company was obligated to disclose the commitments to provide a "fair accounting" of its financial position under the rules of the FASB.

[1:44:54 PM](#)

Page 55

Why does this matter?

- Moody' Investors Service
- Authors (or "Contacts"):
 - Barbara Havlicek, Kevin Stoklosa, Greg Jonas, Laura Levenstein, Pamela Stumpp, Michel Madelain, Trevor Pijper, Wolfgang Draak, Waylon Iserhoff, Brian Cahill, Thomas Keller, Takohiro Morita
- The Analysis of Off-Balance Sheet Exposures, A Global Perspective
- July 2004

Mr. Dickinson informed that FASB's intent was to ensure that those evaluating financial statements "are getting a fair look at what the company is doing." Moody Investment Services was employed to evaluate the financial condition of a company by parties interested in investing in that company.

[1:45:36 PM](#)

Page 56

Moody's Rating Methodology

- Take-Or-Pay Contracts
- Take or pay contracts are another form of purchase commitment typically found in the ... energy industry. ... Such contracts can be problematic if market conditions and raw material prices change or if the price of the end product drops. Regardless of whether [or] not the contract becomes problematic, Moody's factors payments under take-or-pay contracts into the analysis of future cash flows and may also adjust the balance sheet if necessary. (Havlicek page 7)

Mr. Dickinson noted this statement was cited from The Analysis of Off-Balance Sheet Exposures, A Global Perspective. He read it into the record then explained that analysis of an FT commitment was not solely based on gas prices.

[1:46:32 PM](#)

Page 57

Why does this matter?

- Standard & Poor's
- Authors (and "Analytical Contacts"):
- Solomon B. Samson, Scott Sprinzen, Emmanuel Cubois-Pelerin, Kenneth C. Pfeil
- Corporate Ratings Criteria
- 2006

Mr. Dickinson spoke to the policy of Standard & Poor in analyzing FT commitments.

[1:46:44 PM](#)

Page 58

Standard and Poor's Rating Methodology

- Off balance-sheet financing
 - Analysis of liabilities is not limited to those shown on the company's balance sheet. Off balance-sheet items factored into the leverage analysis include the following:
 - Operating leases
 - Guarantees, debt of joint ventures and unconsolidated subsidiaries
 - Take-or-pay contracts and obligations under throughput and deficiency agreements...
 - (Samson pgs. 28-29)

Mr. Dickinson read this information into the record.

[1:47:07 PM](#)

Page 59

Standard and Poor's Rating Methodology

- Various methodologies are used to determine the proper adjustment value for each off-balance-sheet item. In some cases, the adjustment is straightforward. For example, the amount of guaranteed debt can simply be added to the guarantor's liabilities. Other adjustments are more complex or less precise.

(Samson pg. 29)

Mr. Dickinson continued reading, noting this represented the manner in which Standard and Poor analyzed off balance-sheet items.

Mr. Dickinson remarked, "The point is, one way of dealing with this IRR ... if you sign a FT commitment, you capitalize the present value of that, you stick that in the cash flow." He was unsure if this practice would be appropriate in the FT commitments made for the Alaska natural gas pipeline. However, accounting rules required that this information must be disclosed because "it's absolutely critical to understand a company's finances." Those utilizing such a disclosure must employ "their judgments" to "correctly analyze how to best do it." He guaranteed that "in almost every case, ignoring it is not the way to do it." A rate of return generated by ignoring this "seems fabulous" but possibly "may need to include that FT commitment and figure out just what that FT commitment means."

[1:48:19 PM](#)

Page 60

Closing Thought:

- E.C. Capen and D.F. Casey The Economics of Creative Financing
Society of Petroleum Engineers 11664 (1983)

Mr. Dickinson cited from this article, which was published at the time that awareness was given to off balance-sheet financing. He opined, "In a journal not known for its humor," this article attempted to address how companies internally "deal with those projects".

[1:48:48 PM](#)

Page 61

Closing Thought:

- Now and then, someone comes in and announces that he has discovered the businessman's equivalent to the Fountain of Youth - a corporate money tree. The person will instruct us that his pet project (PP) need not compete for cash in the budgeting process because he

has found a benefactor, Mr. S. Claus, willing to put up the money at not cost save some "small monthly payments" to be worked out later. These payments should come from PP's profits and represent no real drain in the company.

Mr. Dickinson read this quote from the article, defining the monthly payments as tariff payments.

[1:49:23 PM](#)

Page 62

Close of Closing Thought

- To be sure we seldom see requests as blatant as portrayed above, but we nevertheless sense some misunderstandings about how to evaluate projects that have alternatives to outright purchase of goods and equipment. Has the old maxim of prohibiting free lunches somehow been set aside with regard to so called creative financing? No, more likely the lunch costs more than normal, but we're not always sure who pays. (Capen & Casey pg. 241)

Mr. Dickinson continued reading from the article.

[1:49:46 PM](#)

Mr. Dickinson summarized as follows.

The point I'm trying to make with this quotation and with the other development is this is an error that folks make when they look at IRR. It's supposed to be based on cash flows, but you need to look at opportunity costs, you need to look at everything when you're doing that analysis. To answer the specific question that I was asked, I believe this was not done in the material that you were presented and that's why you see rates of return of 20, 30, 40, 50 percent. I don't think this project generates those kinds of rates of return. I hope this analysis showed the way to correctly analyze it and probably get a more appropriate rate of return.

[1:50:35 PM](#)

Senator Elton asked if analyses of the liability of an FT commitment factors in a negative netback. He understood that liability would only exist in the event of a negative netback.

[1:51:13 PM](#)

Mr. Dickinson corrected that the payments would still be required in situations that did not involve a negative netback, such as an "interruption in the flow" in which the full amount could not be tendered.

[1:51:53 PM](#)

Senator Elton surmised that a pause in flow created a negative net back.

[1:52:08 PM](#)

Mr. Dickinson affirmed.

[1:52:10 PM](#)

Senator Elton asked if Standard and Poor or Moody's Investor Service evaluations must include the possibility "that you get to a negative netback" and subsequently a value or "judgment call" was made.

[1:52:39 PM](#)

Mr. Dickinson affirmed, citing the publication of Moody's Investment Service reference to "whether it's troubled or not you need to analyze it correctly". He hypothesized that the credit worthiness of a company that made multiple FT commitments would be "no longer as high" and would experience "balance sheet impairment". A credit guarantee that was never used would have zero cost; however, the credit worthiness "under various circumstances" must be considered. The cost to a company in underwriting debt was "precisely the cost of balance sheet impairment".

[1:53:47 PM](#)

Mr. Dickinson recalled the situation in the 1980s at the time that the matter was "controversial", companies asserted they only undertook projects expected to be profitable, that the cost

of the lease would be covered by the revenue generated, and therefore the FT commitments did not require disclosure. The BP financial statement in which following the disclosure of the unconditional purchasing obligations a notation was made stating that the risk associated with the contracts was "discussed in a separate item". The separate explanation would likely claim that in the event that gas prices remained at the current rate, \$5 payments on the FT commitments would not be necessary.

Mr. Dickinson analogized that if the only risk was "simply that it's not going to be paid" the State should assume that risk. Issuing a "financial instrument - signing a contract that says 'we're [going to] make these payments for the next 20 years' that represents a real cost to a company" as an "actual impairment".

[1:55:09 PM](#)

Senator Elton had been told that the analysis conducted by Anthony Scott of the Department of Natural Resources utilized the same assumptions as used by ConocoPhillips. Senator Elton asked if Mr. Dickinson had conducted an analysis utilizing his own assumptions.

[1:55:50 PM](#)

Mr. Dickinson admitted he had not conducted an analysis. He did not advocate that the "off balance-sheet" must be disclosed, but rather that they could not be ignored. Capital costs and other expenses would be the same in both analyses.

[1:56:50 PM](#)

Senator Elton had been pressured to not "trust" Mr. Scott's analysis; however it was based on the same data and utilized the same "approach" as ConocoPhillips analysis. Additionally, no other analyses had been presented to contradict Mr. Scott's.

[1:57:27 PM](#)

Mr. Dickinson countered that for "a fly and a human being ... 97 percent of the DNA are the same, but the other three percent is critical". He guaranteed that the ConocoPhillips' analysis would not predict the same rate of return as analysis "that suggests

ignoring the financial obligations, leases or other commitments". This was the critical difference.

Mr. Dickinson stated that he was not a commercial credit analyst and suggested asking such an analyst "how this works". He acknowledged that he did not provide an "alternative answer" to the analysis prepared by Mr. Scott, informing that he had not been requested to do so.

[1:58:40 PM](#)

Senator Thomas spoke to the upstream risk concerns. The confirmed reserves of 35 trillion cubic feet (tcf) had been known "for a long time" and 150 - 200 tcf of reserves was estimated to exist in the North Slope region. He surmised that confirming a portion of the estimated reserves would reduce the risk. He asked the impact on the risk of the project if 60 tcf of reserves was confirmed to exist in the "developed area, from the Alpine field eastward".

[1:59:36 PM](#)

Mr. Dickinson responded that "part of issue" was the length of the FT commitments, whether ten, 15 or 20 years. A lender or creditor would consider the affect of increased confirmed reserves if the FT commitments were 20 or 25 years. The existing confirmed reserves of 35 tcf were sufficient for shorter term FT commitments. He agreed that the amount of confirmed reserves was "one of the three or four main" contributors to the risk level, and was a factor that "increases over time" and would be "sensitive to the length of the FT commitment". More confirmed reserves "makes everybody happier." However he posed, "but then are you trying to do an expansion, get it in sooner or will it play out in longer life and flesh out the outer years of the commitment". This was the primary factor in accessing the risk.

AT EASE [2:01:06 PM](#)

The bill was HELD in Committee.

#HB121

[2:03:28 PM](#)

CS FOR HOUSE BILL NO. 121(L&C) am

"An Act relating to release of information in individual workers' compensation records; and providing for an effective date."

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

Co-Chair Stedman announced his intention to report the bill from Committee at this hearing.

[2:03:59 PM](#)

Co-Chair Hoffman offered a motion to adopt SCS CS HB 121, 25-LS0501\M, as a working document.

There was no objection and HB 121, Version "M" was ADOPTED as a working document.

[2:04:26 PM](#)

REPRESENTATIVE PEGGY WILSON, sponsor of the bill, testified it would address workers' privacy, and prevent identity theft and discrimination in the workplace. Currently, names, addresses, telephone numbers, e-mail addresses, social security numbers and other identifying information of workers who had filed workers' compensation claims could be obtained from the Division of Workers' Compensation by any requestor. This was not acceptable given the increasing incidences of identity theft.

[2:05:47 PM](#)

Senator Thomas asked if the provisions of this legislation would "treat" the workers' compensation system differently than the Alaska Permanent Fund and other systems that hold identifying information.

[2:06:03 PM](#)

Representative Wilson answered it would not.

[2:06:18 PM](#)

Senator Olson asked about opposition to the bill.

[2:06:23 PM](#)

Representative Wilson told of members of the House of Representatives expressing support for continuing to allow access to names and addresses of those who filed a workers' compensation claim.

Senator Olson asked the reason.

Representative Wilson understood the intent was to allow attorneys to access names and addresses of those workers. She had confirmed that the provisions of this bill would continue to allow attorneys involved in litigation on a claim to access the identifying information.

[2:07:00 PM](#)

Senator Huggins clarified that access to the information would not be allowed without the worker's permission.

[2:07:14 PM](#)

Representative Wilson indicated in the affirmative.

[2:07:19 PM](#)

Senator Elton asked whether this legislation would impede child support enforcement efforts to compile employment records for the purpose of collecting child support payments.

[2:07:35 PM](#)

Representative Wilson was unsure.

[2:07:38 PM](#)

CLIFF STONE, Staff to Representative Peggy Wilson, testified that the language of subsection (b)(1) of AS 23.30.107 amended in Section 1 on page 1, line 14 provided that the prohibition would not apply to "... a governmental agency ...". Therefore, the identifying information could be shared with another State agency. Typically, the information shared was limited to names and addresses; social security numbers were released only for the purpose of identifying a specific "John Q. Smith".

[2:08:22 PM](#)

Senator Elton assumed that all governmental agencies could secure the workers' compensation information, including for example the child support enforcement agency of the State of Washington.

Mr. Stone affirmed.

AT EASE [2:08:56 PM](#) / [2:09:10 PM](#)

Co-Chair Stedman announced the bill would be HELD in Committee.

#SB72

[2:09:42 PM](#)

CS FOR SENATE BILL NO. 72(CRA)

"An Act relating to the community revenue sharing program; and providing for an effective date."

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

Co-Chair Stedman announced intention to not report this bill from Committee at this time.

[2:10:12 PM](#)

Co-Chair Hoffman offered a motion to adopt CS SB 72, 25-LS0506\M, as a working document.

Without objection, CS SB 72, Version "M" was ADOPTED as a working document.

[2:10:33 PM](#)

Co-Chair Stedman indicated spreadsheets were distributed that indicated the impact of this legislation to each incorporated and unincorporated municipal government in the state.

[2:10:46 PM](#)

Co-Chair Hoffman commented that the passage of SB 185 relating to the establishment of a "cost share" system to address the unfunded liability of the Public Employees Retirement System (PERS) and the Teachers Retirement System (TRS), "made tremendous progress" in reducing the potential bankruptcy of many local governments. At a cost to the State of approximately \$66 million, contribution rates for certain governments would be significantly reduced, while the rates of others would increase somewhat. He collaborated with Senator Olson in an attempt to achieve parity through the State revenue sharing program for those communities that had previously experienced a lesser or no unfunded liability.

[2:12:05 PM](#)

Senator Olson, sponsor of the bill, testified he introduced this legislation on behalf of the Alaska Municipal League. The original version "presented the League's views on how the municipalities throughout the state, from the largest to the smallest, would share in the revenues from our mineral wealth". He appreciated Co-Chair Hoffman's decision to retain much of the intent of the original version of the bill and commended the effort to "provide equity for the state's help with municipalities, especially related to the PERS and TRS costs." This committee substitute was "a gigantic step forward in bringing financial stability to our struggling cities and communities."

[2:13:00 PM](#)

TIM GRUSSENDORF, Staff to Co-Chair Hoffman, detailed the committee substitute. Section 1 of the committee substitute would amend AS 29.60 by adding a new Article 11. Community Revenue Sharing Program., and accompanying new sections.

Mr. Grussendorf informed that Section 29.60.850. Community revenue sharing fund., on page 1 line 6, would establish the community revenue sharing fund by a transfer each fiscal year of the lesser of \$50 million or "an amount equal to three percent of the money received by the State during the immediately preceding fiscal year from all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments, and bonuses." The funding source would not include revenue from petroleum taxes.

Mr. Grussendorf stressed that the community revenue sharing fund would not be a dedicated fund and that appropriation from the fund for community revenue sharing payments by the Legislature was optional.

[2:14:43 PM](#)

Mr. Grussendorf explained Section 29.60.855. Community revenue sharing payments for communities., on page 2 line 4. Five percent of the "available balance" of the community revenue sharing fund would be allocated directly to unincorporated communities. Each unincorporated community would receive a minimum of \$25,000 unless sufficient funding was not available, in which case the amount would be equally divided between all communities. In the event that excess funds were available, the funds would be distributed per capita amongst the communities in amounts not to exceed \$50,000. The maximum amount an unincorporated community could receive from this program would be \$75,000. The limit was intended to ensure that payments to an unincorporated community did not exceed the amount of payments made to any incorporated municipality.

Mr. Grussendorf referenced an untitled spreadsheet that listed all unincorporated communities and the calculation of the distribution of the funding to each [copy on file].

[2:16:03 PM](#)

Mr. Grussendorf next outlined the provisions of Section 29.60.860. Community revenue sharing payments for municipalities and reserves., on line 20, utilizing an untitled spreadsheet that listed all boroughs and municipalities and calculations of distribution of the funding to each [copy on file]. He stated that 95 percent of the amount appropriated for community revenue sharing payments would be allocated for incorporated municipalities. Each organized borough would receive \$250,000 and each municipality would receive \$75,000 as a "base payment value". This information was contained in the third column, labeled Municipal basic Local Government Support, of the spreadsheet.

Mr. Grussendorf noted that subsection (b)(1) on line 29 would stipulate that the basic payment values be reduced on a pro rata basis in instances in which insufficient funds were available to allocate the full base rate.

[2:17:12 PM](#)

Mr. Grussendorf furthered that subsection (b)(2) on page 3, line 1 contained a provision to increase the base payment values on a per capita basis in the event excess funds were available. The amounts for each municipality and borough were shown in the fourth column labeled "Per Capita Distribution @ \$43.27" of the spreadsheet. The second column, "2005 Population", listed the census population for each community.

[2:17:25 PM](#)

Mr. Grussendorf reviewed the provision of subsection (c) on line 4, which reduced the amount allocated as the base payment value for certain boroughs and municipalities by specified percentages. The reductions correlated with the appropriations made through the provisions of SB 185 relating to assistance for communities with PERS unfunded liabilities. Payments on the liabilities were established for each PERS contributor as a percentage of the contributor's employee salaries. Statutory changes made by SB 185 would establish the percentage, or contribution rate, for each PERS contributor at 22 percent. The discrepancy resulting from those communities that had a higher contribution rate would be funded by the State and by those contributors that previously had a contribution rate of less than 22 percent.

Mr. Grussendorf pointed out that each community that enjoyed a decrease in the contribution rate was subject to the reduction to the community revenue sharing payment and was listed in the subsection along with the corresponding percentage of the reduction. This information was also reflected on the spreadsheet in the fifth column labeled "State Assistance pay to get to 22%" listing the percentage, and in the sixth column "% state PERS Contrib * Per Capita Distribution" listing the dollar amount.

Mr. Grussendorf utilized the Municipality of Anchorage as an example to demonstrate the calculations. The base payment value was \$250,000 and the per capita distribution for the community of 278,241 residents was \$12,039,488.07. The combined amounts equaled \$12,289,488.07. The previous PERS contribution rate was 61.76 percent, which was reduced to 22 percent for the Municipality with "State assistance" providing funding for the

remaining 39.76 percent. The amount of the base payment value plus the per capita distribution provided for in this legislation, multiplied by 39.76 percent, equaled \$4,886,517.59, which was then deducted from the base payment value plus per capita distribution amount to establish the total revenue sharing payment of \$7,402,970.48 for the Municipality. This amount was listed in the eighth column labeled, "total revenue with PERS adjustment".

Mr. Grussendorf qualified that the total deductions taken in the revenue sharing program of \$5.6 million differed from the actual amount of \$66 million that the State provided to offset the contribution rate reductions to these communities. He assured that the calculation of the amount for each community subjected to the reduction "across the board, it's the same type of deduction; for the same percentage".

[2:19:08 PM](#)

Mr. Grussendorf then described the redistribution of the funding reductions to those communities that either did not participate in the PERS system or did participate but had contribution rates lower than 22 percent before implementation of SB 185. The \$5.6 million total reductions were distributed amongst the eligible communities on a per capita basis and were listed in the ninth column, labeled "Redistribution of PERS adjustment per-capita (88.18)" of the spreadsheet.

[2:19:47 PM](#)

Mr. Grussendorf noted the tenth column, "Total Rev. Sharing Payment", totaled the basic payment value and the per capita distribution plus the per capita redistribution for those communities eligible for the redistribution. This column also carried forward the amounts of the eighth column for the communities that received a reduction.

[2:20:17 PM](#)

Mr. Grussendorf redirected attention to the State funding provided on behalf of the PERS unfunded liability of those communities that would have experienced contribution rates higher than 22 percent. The actual amount provided for each community was listed in the eleventh column labeled "State Assistance pay to get to 22%". This figure was added to the

community's adjusted revenue sharing payment to achieve the "Total State PERS Assistance & Revenue Sharing" shown in the twelfth column. The funding provided to reduce Municipality of Anchorage's contribution rate by 39.76 percent was \$26,218,049, which, added to the adjusted total revenue sharing payment, totaled \$33,621,019.48.

Mr. Grussendorf stated that the thirteenth and final column of the spreadsheet was labeled "Percent share of Total State Assistance and Revenue Sharing" and listed the percentage of the total revenue sharing appropriation each community received. The Municipality of Anchorage received 30.20 percent.

[2:20:51 PM](#)

Mr. Grussendorf continued explaining the committee substitute, addressing Section 29.60.865. Eligibility., on page 4 line 27. This language was the same as that utilized in other statutes to establish the definition of unincorporated community. The State must verify that an infrastructure existed that would be able to receive and expend the funding. The community of Metlakatla qualified as a "reserve".

[2:21:24 PM](#)

Mr. Grussendorf informed that the method to determine the population of a community would be the same as previous methods and was provided for in Section 29.60.870. Determination of population., on page 5 line 12.

[2:21:38 PM](#)

Mr. Grussendorf alluded to the definitions specified in Section 29.60.879. Definitions., on line 21.

[2:21:48 PM](#)

Senator Olson asked how the eligibility requirements would be applied for a community that had a lien filed against it, particularly those filed by the federal Internal Revenue Service (IRS).

[2:22:05 PM](#)

Mr. Grussendorf did not have an answer to the question.

[2:22:15 PM](#)

Senator Huggins, noting that the per capita calculations would be based on data from the 2005 census, asked if this census contained the most updated information available.

[2:22:33 PM](#)

Mr. Grussendorf answered it was the most reliable source of population estimates. "Problems" with the 2006 census data had arisen rendering it unreliable.

[2:22:47 PM](#)

Senator Huggins pointed out that the population of some communities had significantly increased or decreased since the 2005 census was taken.

[2:23:02 PM](#)

MIKE BLACK, Director, Division of Community Advocacy, Department of Commerce, Community and Economic Development, testified via teleconference from an offnet location that the agency had been responsible for distribution of funding through the previous revenue sharing plan. He supported revenue sharing and this legislation was an improvement to other plans. He also supported the inclusion of assistance to unincorporated communities. He pointed out that the population of unincorporated communities located within a borough would be included in the population count of that borough. He supported the fairness relative to the assistance provided for the PERS and TRS unfunded liability.

Mr. Black identified the relevance of liens filed against funds allocated to certain local governments, particularly those with "debt issues". An attachment filed by the federal Internal Revenue Service (IRS) would result in the IRS securing the revenue sharing funds. Primacy over debt owed to other parties was less clear.

[2:25:21 PM](#)

ROBERT PRUNELLA, Manager, City of Wrangell, testified via teleconference from Wrangell that he had not received the

spreadsheets. He would provide written comments after reviewing the information.

Co-Chair Stedman assured he would speak with the witness at a later time.

[2:26:11 PM](#)

TAMMIE WILSON, resident of the Fairbanks North Star Borough, testified in Juneau in appreciation of this legislation. The Borough as well as the City of Fairbanks needed this funding, given property tax issues. She favored it's consideration of the PERS and TRS cost sharing plan over other proposals because it was "easier to understand" than multiple bills would be. She preferred that the funding would be provided every year, although she understood that revenue sharing payments would be lower or would not be made in years the State received less revenue.

[2:27:02 PM](#)

KATHY WASSERMAN, Alaska Municipal League, testified in Juneau that she had understood that public testimony would not be heard until the following day. She requested additional time to distribute the committee substitute and accompanying information to members and permission for members to comment at a future hearing.

[2:27:50 PM](#)

Co-Chair Stedman reiterated that the bill would not be reported from Committee at this hearing.

[2:27:58 PM](#)

MIKE FORD, Alaska Native Health Board, testified in Juneau in support of the bill, opining that the committee substitute reflected "a good step forward". He explained the relevance of this bill to the Board. Lack of revenue for municipalities and unincorporated communities affected health care.

[2:29:19 PM](#)

Senator Thomas clarified unincorporated communities would receive a base rate of \$25,000 plus additional funding if

available and that the maximum per capita adjustment would be \$50,000.

[2:29:58 PM](#)

Senator Olson appreciated the efforts made in developing this legislation. The communities which he represented could utilize the funding as "they feel like they're out their withering on the vine".

[2:30:18 PM](#)

Senator Elton understood the minimum and maximum payments an unincorporated community could receive. He predicted that if less than \$50 million was available in a given year for this program, the \$75,000 maximum payment would not be reached. The proposed appropriation made in this bill was \$48 million.

[2:30:51 PM](#)

Mr. Grussendorf identified two communities, Deltana and Tok, in which the per capita adjustment calculations would be more than \$50,000 if the limit was not established and the program was funded to the maximum amount of \$50 million. These communities would have received higher payments than some municipalities.

[2:31:32 PM](#)

Co-Chair Hoffman remarked that the maximum payment amount was intended as incentive for those larger communities to incorporate.

[2:31:53 PM](#)

Senator Dyson requested an overview of the fiscal notes, specifically identification of those relevant to the committee substitute.

[2:32:18 PM](#)

Mr. Grussendorf reported that all the fiscal notes before the Committee were not applicable and that updated fiscal notes would be prepared. The cost for Fiscal Year 2008 (FY 08) would be \$48.1 million and future appropriations would be a maximum of \$50 million annually. The appropriations would be deposited into

a "pool" with the Legislature determining the amount of annual allocations in a manner "they see fit for that fiscal year".

[2:32:58 PM](#)

Co-Chair Stedman ordered the bill HELD in Committee.

#

ADJOURNMENT

Co-Chair Bert Stedman adjourned the meeting at [2:33:36 PM](#)