

HOUSE FINANCE COMMITTEE

April 14, 2010

9:10 a.m.

9:10:51 AM

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 9:10 a.m.

MEMBERS PRESENT

Representative Mike Hawker, Co-Chair
Representative Bill Stoltze, Co-Chair
Representative Bill Thomas Jr., Vice-Chair
Representative Allan Austerman
Representative Mike Doogan
Representative Anna Fairclough
Representative Neal Foster
Representative Les Gara
Representative Reggie Joule
Representative Mike Kelly
Representative Woodie Salmon

MEMBERS ABSENT

None

ALSO PRESENT

Representative Jay Ramras; Senator Joe Thomas; James Armstrong, Staff, Co-Chair Stoltze; Tim Benintendi, Staff, Senator Donny Olsen; Devin Mitchell, Executive Director, Alaska Municipal Bond Bank, Department of Revenue; Mark Davis, Economic Development Officer, Alaska Industrial Development and Export Authority, Department of Commerce, Community and Economic Development; Senator Kevin Meyer, Sponsor; Jomo Stewart, Staff, Senator Kevin Meyer; Sam Kito, School Facilities Engineer, Department of Education; Katie Koester, Staff, Representative Paul Seaton; Eddy Jeans, Director, School Finances and Facilities, Department of Education and Early Development; Representative Chris Tuck, Sponsor; Aurah Landeau, Staff, Representative Chris Tuck; Senator Bert Stedman, Co-Chair, Senate Finance Committee, Sponsor; Senator Joe Paskvan; Roger Marks,

Petroleum Economist, Legislative Budget & Audit Committee; Chuck Logsdon, Petroleum Economist, Legislative Budget & Audit Committee; Kevin Brooks, Deputy Commissioner, Department of Administration; Chris Christensen, Deputy Administrative Director, Alaska Court System; Senator Lesil McGuire, Sponsor; Esther Cha, Staff, Senator Lesil McGuire; Martha Moore, Chair, Alaska Brain Injury Network; Angela Salerno, Division of Senior & Disability Services, Department of Health and Social Services.

PRESENT VIA TELECONFERENCE

Debbie Baldwin, Director, Division of Child Development, Rural Alaska Community Action Program; Steve Williams, Program Officer, Alaska Mental Health Trust Authority; Jill Hodges, Executive Director, Alaska Brain Injury Network; Dr. Christie Artuso, Director, Neuroscience Services, Providence Alaska Medical Center, Anchorage; Kristin English, Chief Operating Office, Cook Inlet Tribal Council.

SUMMARY

HB 69 EARLY CHILDHOOD ED: PARENTS AS TEACHERS

CSHB 69(FIN) was REPORTED out of Committee with a "do pass" recommendation and with attached new fiscal impact note by the Department of Education and Early Development.

HB 317 EDUC. FUNDING: BASIC/SPEC NEEDS/TRANSPORT

CSHB 317(FIN) was REPORTED out of Committee with no recommendation, with a Letter of Intent by the Education Committee, and with previously published fiscal notes: FN1 (EED), FN2 (EED).

HB 421 PUBLIC EMPLOYEE SALARIES

HB 421 was REPORTED out of Committee with a "do pass" recommendation and with three attached new fiscal impact notes by the Legislature, the Court system, and the Office of the Governor.

CSSB 144(FIN)

MUSK OXEN PERMITS

SB 144 was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal note: FN1 (DFG).

CSSB 219(FIN)

TRAUMATIC BRAIN INJURY: PROGRAM/MEDICAID

CSSB 219(FIN) was REPORTED out of Committee with a "do pass" recommendation and with attached previously published fiscal notes: FN1 (DHS), FN2 (DHS).

SB 230 BUDGET: CAPITAL, SUPP. & OTHER APPROPS

SB 230 was HEARD and HELD in Committee for further consideration.

SB 235 CHARTER/ALTERNATIVE SCHOOL FUNDING

HCSSB 235(FIN) was REPORTED out of Committee with a "do pass" recommendation and with attached new fiscal note by the Department of Education and Early Development and previously published fiscal note: FN1 (EED).

CSSB 269(FIN)

ECON. STIMULUS BONDS: REALLOCATION/WAIVER

CSSB 269(FIN) was REPORTED out of Committee with no recommendation and previously published fiscal notes: FN 1 (CED), FN2 (REV).

SB 305 SEPARATE OIL & GAS PRODUCTION TAX

SB 305 was HEARD and HELD in Committee for further consideration.

#sb230

SENATE BILL NO. 230

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

[9:11:23 AM](#)

JAMES ARMSTRONG, STAFF, CO-CHAIR STOLTZE, introduced the legislation.

[9:12:10 AM](#)

AT EASE

[9:12:36 AM](#)

RECONVENED

Co-Chair Hawker MOVED to ADOPT CS SB 230(FIN) (26-GS2824\P) as working document before the committee.

Co-Chair Stoltze OBJECTED for discussion.

Mr. Armstrong provided a sectional analysis of the capital budget using the spreadsheet "2010 Legislature Capital Budget: Statewide Totals, Senate Structure" (4/13/10; 13:07 by the Legislative Finance Division, copy on file). He explained that the spreadsheet details the difference between the governor's request and the Senate version of the bill.

Mr. Armstrong began with Section, noting that earlier in the legislative session the governor had put capital budget money into the supplemental bill. The supplemental portion was put into the Senate version of the capital bill and totaled \$118 million. Section 2 is the deferred maintenance portion of the governor's request and was increased by the Senate by roughly \$19 million to a total of \$124 million. Section 3 is the governor's main request and totals \$1.631 million. Section 4 includes the Senate additions to the bill and totals \$472,574,000 in general funds. Section 5 is the cruise ship money; the Senate added \$20 million cruise ship funds for projects mainly in Southeast Alaska. Section 6 is appropriating language for the education bonds, the Senate's version; he noted that the language would be amended in another version based on what the House passed out the previous day. Section 7 is total spending for the Senate, or \$2,771,481.2. Section 8 compares to the governor's request of \$1,921,212.0.

Mr. Armstrong pointed out that there are also technical corrections that would be addressed in a forthcoming CS.

[9:16:14 AM](#)

Representative Fairclough asked for more information regarding duplicated funds. Mr. Armstrong replied that he would get the information.

Co-Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, the CS was ADOPTED as a working document.

CSSB 230(FIN) was HEARD and HELD in Committee for further consideration.

#sb144

CS FOR SENATE BILL NO. 144(FIN)

"An Act relating to hunting permits and tag fees for musk oxen."

9:18:00 AM

TIM BENINTENDI, STAFF, SENATOR DONNY OLSEN, explained that the bill would authorize a second permit for resident and subsistent hunters to take musk oxen. He added that the bill would double the chances of getting an animal but would not change the current bag limit of one per year, either a cow or a bull. The second permit applies when a hunter is unable to get a musk ox under the first permit. He stressed that non-resident hunters could not take advantage of the second permit.

Mr. Benintendi informed the committee that musk oxen are the only game animal left in Alaska with a one-permit restriction. He reviewed the four game management areas musk oxen are located in and noted that the current estimation of the size of the herd is 4,400; annually between 325 and 350 are available for harvest. He noted that wildlife biologist regulators in the Department of Fish and Game have determined that the size and health of the herd would allow for expansion of hunting. The department estimates that the minimum number of additional permits would be 50 to 60 and that approximately 25 animals would be harvested per year under SB 144.

Mr. Benintendi remarked that the Board of Game would have authority under the bill to reduce or eliminate subsistence tag and fee requirements. The bill would also change the calendar year to a regulatory year, which would accommodate August to March hunts and allow hunters to pay once for the season. The legislation would take effect August 2010. The fiscal note is zero. The bill has the support of the department and several hunting groups.

Vice-Chair Thomas acknowledged the Tenakee Springs group in the audience.

[9:22:11 AM](#)

Co-Chair Stoltze stated that he supported the residence preference provision in SB 144.

Representative Fairclough questioned whether the provision meets constitutionality since a recent ruling. Mr. Benintendi replied that out-of-state residents could take part in drawing hunts (as opposed to permit hunts) and so are accommodated.

Co-Chair Stoltze asked whether there could be a situation in which non-resident hunters would feel disadvantaged. Mr. Benintendi answered that the provision would not take away existing rights but only adds to opportunities for Alaskan resident hunters; other hunts would not be impacted.

Co-Chair Stoltze referred to challenges from non-resident fishermen.

Representative Fairclough stated that she preferred to have Alaskan preference.

Co-Chair Stoltze closed public testimony.

[9:25:02 AM](#)

Vice-Chair Thomas MOVED to report SB 144 out of Committee with individual recommendations and the accompanying fiscal note.

SB 144 was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal note: FN1 (DFG).

#sb269

CS FOR SENATE BILL NO. 269(FIN)

"An Act relating to the waiver of volume cap of recovery zone economic development bonds authorized by 26 U.S.C. 1400U-2 and reallocation by the Alaska Municipal Bond Bank Authority of the waived volume cap; relating to the waiver of volume cap of recovery

zone facility bonds authorized by 26 U.S.C. 1400U-3 and reallocation by the Alaska Industrial Development and Export Authority of the waived volume cap; increasing the total amount of bonds and notes that the Alaska Municipal Bond Bank Authority may have outstanding; relating to revenue bonds and to obligations secured by lease that are issued by the Alaska Municipal Bond Bank Authority; relating to allocations of tax credit and bonding limits imposed by the federal government; and providing for an effective date."

9:26:00 AM

DEVIN MITCHELL, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL BOND BANK, DEPARTMENT OF REVENUE, reported that the primary portion of the bill would use federal allocations to finance certain recovery zone bonds and other tax credit structures. There are also aspects that relate specifically to the bond bank, including an increase in the borrowing level of the bank from \$750 million to \$1 billion. He added that the bond bank issues obligation bonds to the state. The cap has been increased several times over the past six years. The revolving balance is currently approximately \$120 million.

Mr. Mitchell explained that the increase is being requested in light of historical community need as well as projected need and opportunities. Other changes related to the bond bank are in the revenue bond allowances. Currently, the bond bank is not allowed to participate in hydroelectric project loans; SB 269 would eliminate that restriction. Restrictions against loaning to the state and participating in revenue bond loans buying existing buildings would also be eliminated. He thought the restrictions were put in place when revenue bond statutes of the corporation were created and were outdated. The ability of communities to borrow money would be improved.

Mr. Mitchell spoke to American Recovery and Reinvestment Act (ARRA) allocations made to the Department of Labor and Workforce Development (DLWD) for labor statistics. He explained the Build America Bond Program, which provided an opportunity for the issuer of tax-exempt debt to benefit through a direct subsidy from the U.S. Treasury rather than selling the tax exempt debt to an investor and having the investor benefit. The rate on the bond program is 35

percent. Billions of dollars have been issued in 2009 and 2010. He explained the structure as a combination of tax-exempt and taxable bonds; there is a yield curve in every market that typically starts with lower interest rates and climbs to higher rates later in the maturity schedule. There has been a break-over point between years eight and twelve of the maturity schedule; switching over the Build America Bond Program during that time is beneficial. The investor has to pay taxes, but the department gets a 35 percent subsidy. The benefit has been as much as 2 percent in interest rate reduction. The recovery zone economic development bond allocation provides for a 45 percent subsidy rather than 35 percent.

Mr. Mitchell related that the bill would provide ability to use the allocations. The final portion of the bill is the allocation of other tax credit structures through the state bond committee, including qualified school construction bonds and energy credit bonds. There is a \$28.9 million allocation for the school construction bond program without a means to allocate the money to communities, who are eligible for 100 percent reimbursement on interest expense.

[9:34:48 AM](#)

Representative Fairclough asked when municipal bank bond authority was last raised. Mr. Mitchell replied two and a half years ago.

MARK DAVIS, ECONOMIC DEVELOPMENT OFFICER, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY (AIDEA), DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, added that AIDEA would undertake the reallocation of recovery zone facility bonds. He detailed that the bonds are tax-free bonds that could cover private activity bonds. He noted that the problem with the allocation is that some cannot be used and some are too small. He provided the example of the Aleutians East Borough receiving a zero allocation because of unemployment, while the Aleutians West census area received a \$7 million allocation that cannot be used as it is not a governmental entity. In addition, the City and Borough of Yakutat received an allocation of only \$148,000, which is too small to use. Senate Bill 269 would allow AIDEA to reallocate funds to boroughs that could not otherwise use them.

Mr. Davis stressed that timing is important as the bonds will expire January 1, 2011; the facility bonds will not be used without SB 269. He noted that the facility bonds that AIDEA would acquire are tax exempt and could be used for any industrial, commercial, retail, or office use (country clubs and massage parlors are excluded). The bonds would be used as private activity conduit bonds as AIDEA's bond authority has sunset. Regulations would be issued; AIDEA is directed on page 7 to use regulations that would try to reallocate the bonds back to the areas from which they came.

Representative Doogan requested more information about the building segment in Section 4. Mr. Mitchell explained that the typical issue with the language is the partnering of a community with a state agency. For example, when a department rents office space from a municipality the bond bank is not allowed to provide lower-cost capital to the community for the project.

[9:39:38 AM](#)

Representative Doogan wanted a specific example. Mr. Mitchell relayed being approached by Bethel regarding a building that would have accommodated a combination of state agencies and city agencies; the bond bank was not able to help.

Representative Doogan queried the issue with equipment. Mr. Mitchell responded that the intent of the amendment was that there is no need to exclude equipment. Certificates of participation can theoretically be issued for equipment, or a lease for equipment can be entered into. The ability to help with lower-cost capital for equipment is limited.

Representative Doogan pointed to two possible definitions of "equipment." The first is buying a fire truck; another is equipment to finish buildings. He asked whether the legislation was looking for a way to bond fire trucks or assist in the expensive process of equipment to get a project up and running. Mr. Mitchell believed the fire truck example was more fitting. He alluded to safety checks that limit the ability to fund anything through the program. For example, there is a credit review process. There must be an ability to repay. Secondly, when issuing tax-exempt debt, an entity is limited in various ways by the necessity of having an obligation in compliance with

Internal Revenue Service (IRS) rules. For example, what is financed must be durable; the life of the debt cannot exceed the life of the assets. He did not think the program would be used to replace other means of financing equipment like computers.

[9:43:48 AM](#)

Representative Austerman asked for a clearer explanation of what the legislation would do. Mr. Mitchell replied that the \$750 million borrowing limit could be exceeded, based on the historical use of the program by communities and the projected need around the state. He emphasized that the bond bank is a moral obligation of the state; there is a statutory requirement for a reserve fund that is pledged to the bond issue and about one year of debt service. The pooled reserve is larger than any one bond issue. The bond bank is required to ask the state for replenishment when there is a draw on the reserve due to borrower default. The statutory framework creates a moral obligation or intent to replenish. He noted that there has never been a need to replenish.

Representative Gara remarked that the federal proposal seemed useful. He asked whether there was interest in the bond projects. Mr. Mitchell believed that the allocations would be utilized, particularly the economic development bonds. He noted that there are boroughs that have already used the bonds: Ketchikan Gateway Borough had a \$3,744,000 allocation and Juneau has a \$7,586,000 allocation planned for May. Ketchikan was able to get cost of capital on a 30-year note at 3.35 percent, for example. He detailed the financing strategy to get the greatest benefit where interest rates would be highest. He believed any community issuing debt would welcome the opportunity.

[9:48:24 AM](#)

Representative Foster summarized that the bill would raise the cap so that local governments could take advantage of lower interest rate economic development and facility bonds. He queried the risk of increasing the cap on the maximum authority of the bond bank. Mr. Mitchell responded that there were layers of credit in between the state's general fund and the particular obligation. He believed the risk was not significant.

Mr. Davis added that AIDEA's bonds would be conduit bonds; there would be no risk to AIDEA. The bond obligations go from the bond holder to the bond issuer; AIDEA steps out of the process.

Representative Austerman spoke of the debt in California and wondered how high Alaska's guarantee of the bonds should go. Mr. Mitchell replied that the \$750 million cap has developed over 40 years. Borrowers have become more self-reliant in recent years as obtaining capital funds from the state has become more difficult. He stated that his comfort level was high compared with the alternatives because communities would be paying more without the program. For example, the bond bank worked with the City and Borough of Juneau to fund the Bartlett [Regional Hospital] expansion; the revenue bond on its own would have paid about \$10 million more in interest over the life of the bond without the bond bank. The projects would have been accomplished but at higher cost to the state through higher interest rates. He emphasized that the program has already been successful and is an alternative that would help communities save money.

Co-Chair Stoltze closed public testimony.

[9:53:22 AM](#)

Representative Doogan pointed to the density of the language in the first line of the fiscal note.

Co-Chair Hawker explained that the fiscal note acknowledges that a legal framework and advisory costs would be needed in order to accommodate the reallocation of the funds. He thought the \$80,000 was a fair price and that it was worth the investment to help communities.

Vice-Chair Thomas MOVED to report CSSB 269(FIN) out of Committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSSB 269(FIN) was REPORTED out of Committee with no recommendation and previously published fiscal notes: FN 1 (CED), FN2 (REV).

[9:55:35 AM](#)

AT EASE

[10:00:14 AM](#)

RECONVENED

#sb235

SENATE BILL NO. 235

"An Act relating to charter school approval and funding."

10:00:23 AM

Co-Chair Hawker MOVED to ADOPT Work Draft HCSSB 235(FIN), Version 26-LS1256\E as a working document before the committee.

Co-Chair Stoltze OBJECTED for discussion.

SENATOR KEVIN MEYER, SPONSOR, explained that the bill would help charter schools get started. He discussed the challenges charter schools experience in finding affordable buildings. Senate Bill 235 would amend existing state statute to allow the Department of Education and Early Childhood Development (DEED) to compete on behalf of Alaska charter schools for facility maintenance and start-up grants nationally available to the U.S. Department of Education. Currently, Alaskan charter schools are not eligible. The bill would first remove the statutory cap of 60 charter schools (there are currently 26 charter schools in Alaska). Second, the bill would create a statute requiring some sort of state mechanism to comply with the federal grant program, amending current law to establish the per person facilities aid program required under the U.S. Department of Education eligibility requirements.

Senator Meyer noted that the cost would be nominal (\$1.00 per pupil) in order to keep overall costs down. He believed minimal state involvement would maximize local incentive. He emphasized that local school district would have the final say regarding which charter schools are accepted. The bill would improve the state's ability to secure federal start-up funds, make charter schools eligible to compete for federal grants, reduce a major barrier in the development of charter schools, and increase educational choices for parents and opportunities for students. He requested the committee's support.

JOMO STEWART, STAFF, SENATOR KEVIN MEYER, spoke to the CS. He pointed to a clarification on page 2, lines 19 through 25, regarding the 90/10 split between federal funding,

state funding, and the obligations of the school districts. Line 22 clarifies through language. The phrase reads: "The department shall provide a participating share that is equal to the difference between the allowable costs of a project and the combined available federal funding and state aid provided." He stressed that the obligation regarding the match is the remainder after accruing federal and state funding.

Representative Gara queried the \$1.00 per pupil amount. Senator Meyer replied that some state contribution was required; since the amount was not stipulated, the sponsors tried to do the minimum.

Representative Gara affirmed that the contribution was necessary to participate in the federal grant program. He asked whether the federal grant program was dedicated to charter schools. Senator Meyer replied that charter schools would be allowed to apply through DEED for federal grants for charter school facilities.

Representative Gara asked whether there was a grant program specifically for charter schools. Senator Meyer answered in the affirmative.

Representative Gara supported providing state funds for charter schools. He asked whether a state match would be required. Senator Meyer responded that the only state match was the \$1.00 per student; the rest would come from the federal government.

[10:07:01 AM](#)

Vice-Chair Thomas queried the drop-out rate in high schools. Senator Meyer did not know.

Representative Fairclough believed the number was around 40 percent but has been on the decline. She noted that the drop-out rate was much lower for charter schools.

Vice-Chair Thomas thought there would be a bigger difference. Senator Meyer thought the rate was typically less in charter schools.

Co-Chair Stoltze reported that charter schools in the Mat-Su Borough have the highest rate of achievement. He added that not all charter schools go through grade 12, but he

believed the drop-out rate was very low in charter schools ending in the eighth grade.

Vice-Chair Thomas stated that he had not originally been a fan of charter schools but that he had come to support them. Senator Meyer concurred that he had been skeptical but now believed they served a good purpose.

Representative Joule asked Representative Kelly whether the charter school in Fairbanks had affected the drop-out rate there. Representative Kelly answered that the rate was better but he did not know the number.

Representative Gara elaborated that there were two kinds of optional schools in Anchorage, optional schools and charter schools. He thought charter schools provided an option for parents; however, he pointed out that the most actively involved parents tended to opt for charter schools, and that affected the graduation rate. He stated support for the charter school system and the legislation.

Co-Chair Stoltze noted that optional and charter schools are not the same as far as funding goes.

10:11:35 AM

Representative Kelly asked whether conforming to the national model to get federal funding would negatively impact charter schools. Senator Meyer replied that he had had similar concerns about possible strings attached to federal money. He believed the program wanted charter schools to remain autonomous. He assured the committee that the local school district still has the final say about the charter schools.

Representative Kelly verified that Alaska was under the cap by about half.

Representative Salmon remarked that there had been no options in earlier days in rural communities. He believed improving charter schools would benefit young people who could not thrive in regular schools. He supported the idea.

Co-Chair Stoltze spoke in support of providing more money for charter school facilities. He believed charter schools had been effective.

10:15:07 AM

Representative Foster queried the interest in charter schools in rural communities and whether schools have said they would go after the federal funds. Senator Meyer answered that he had not heard from all 26 charter schools, but the more active schools were very interested in and supportive of the bill. He had not heard from the Nome charter school.

Mr. Stuart pointed out that there had been much response throughout the process.

Co-Chair Hawker remarked on the fiscal note for \$150,000 to administrate the program. He communicated concerns about the increment to state costs and wondered whether the fiscal note could be program receipts rather than general funds.

SAM KITO, SCHOOL FACILITIES ENGINEER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, detailed that 5 percent would be allowed for administrative costs if the grant were received. He provided more information about the grant. Competition for a federal program implemented in 2001 through the No Child Left Behind program resulted in two recipients, California and Indiana. In 2009, the U.S. Department of Education offered another grant competition for four grants between \$2 million and \$10 million for a charter school assistance program, but there was no funding provided.

Mr. Kito told the committee that SB 235 would increase DEED's ability to get competitive facility funding. He noted that there was no guarantee that the state would receive the funding. The bill would establish the structure of a program that would not function until federal money was received. In order to have the ability to receive the money, regulations would have to be established, which would cost an initial \$150,000. He estimated that additional staff of one and one-half employees would be necessary to administer the program for five years until the sunset date. He based the estimate on experience with other federal grants.

Co-Chair Hawker asked whether the fiscal note summarized costs for a grant that had yet to be awarded. Mr. Kito responded that the Senate Finance Committee had modified

the fiscal note so that in the first year the department would develop regulations and would not apply for the grant program. He stressed that personnel would not be hired until the state successfully competed for the grant funding. The initial cost would be to establish regulations to administer the program.

[10:21:49 AM](#)

Co-Chair Hawker summarized that the regulations would be written, the grant would be applied for, and people would be needed to administer the program if the grant were received. He asked for more information. Mr. Kito answered that the amount would be for reimbursable services to the Department of Law for promulgating the regulations.

Co-Chair Hawker thought contractual services would be more correct than personal services. He asked why it was necessary to write the regulations before applying for the grant. Mr. Kito believed that the regulations had to be in place before funding could be received.

Co-Chair Hawker was still uncomfortable.

[10:23:46 AM](#)

Representative Kelly described concerns regarding federal control coming with federal money. He thought there were too many regulations. He asked whether the federal government could be charged back for the cost of writing regulations. Mr. Kito responded that that there was no guarantee that Alaska could win a competitive grant; he pointed out that if the grant money was won there might not be enough time to write the regulations.

Representative Kelly asked whether there were regulations already existing that could apply. Mr. Kito responded that the state does not have a program with a competitive process that matches the requirements. Regulations would have to be written to describe a process for prioritizing project applications for charter school facilities in the event that there is not enough money between the state, local, and federal sources.

Representative Kelly reiterated his frustrations.

[10:27:18 AM](#)

Co-Chair Hawker asked whether the time needed to write the regulations could be part of the process instead of trying to implement the program immediately; the administrative money could be requested as part of the regular budget cycle after the grant was awarded. Mr. Kito replied that he was not comfortable relying on funding that may not be available. Co-Chair Hawker stressed that he was also uncomfortable relying on money that might not be available.

Representative Gara suggested using the same process municipalities use when they get capital money from the legislature. He suggested writing a provision stating that the department would allow charge-backs to the extent permitted by federal law to recoup the on-going costs of grant administration. Mr. Kito thought the course of action could work for the five years the program would be in effect. The federal program is intended as a step-up or start-up program. He believed the intent was that the federal program would participate at decreasing levels of funding as the state funding levels increased, until the state had a viable facilities program for charter schools.

[10:30:38 AM](#)

Representative Fairclough suggested changing the debate. She proposed zeroing out the additional staff for the out years and keep the \$150,000 for the regulations period. She maintained that charter schools had proven successful already, and there should be a mechanism to fund such success as there is currently funding inequity. She spoke in support of the legislation.

Vice-Chair Thomas agreed that charter schools were a success and supported a fiscal note that allowed for the writing of the regulations and went out two more years.

Co-Chair Hawker asked committee to consider a zero appropriation in FY 11 and then indeterminates for FY 12 to FY 16; if a significant grant is received, more money might be needed.

Representative Doogan thought the first \$150,000 in FY 12 was to write the proposal and subsequent increasing fiscal notes were for the costs of running the program in the event that the grant was received. Mr. Kito responded that the first \$150,000 was to write the regulations that would

establish the program. He noted that the department would still be able to apply for the grant if there were no appropriation this year, but would not be able to start the regulation process until the grant was successfully received.

Representative Doogan queried the advantage of the original proposal. Mr. Kito responded that the program would be established and the funding could immediately be used for school district projects. Representative Doogan understood that the issue was timing.

[10:36:57 AM](#)

Representative Joule queried the mechanism already in place with the public school districts. Mr. Kito responded that currently districts can apply for grants that can cover all facilities, but charter schools have not received much support related to facilities.

Representative Joule established that charter schools are under the umbrella of the school district in which they reside. Mr. Kito explained that there are charter schools that are the responsibility of the school districts but charter school facilities are not getting much attention.

Representative Foster asked whether having the regulations in place would enhance the state's ability to get the federal funds. Mr. Kito responded that the more robust the program, the better the applicant scores. He thought that a program in regulation might affect the scores in a competition.

Mr. Stuart added that some of the eligibility requirements are universal. He stated that writing the regulations now would enhance the state's ability to pursue other grants.

[10:40:13 AM](#)

Representative Kelly suggested that the school districts apply to prove motivation at the local level. Mr. Kito supported opening up the opportunity for additional funding. He noted that currently schools would be competing against all other state projects. He had not seen charter school applications through the existing grant program and thought a specific program would be good.

Representative Kelly wanted to send a signal of support for the program and for taking off the cap. He also wanted local communities to do the work of selling the need to local districts. He stated that he supported either a zero or indeterminate fiscal note. He stressed his frustration about the need to fund a person for a year to write regulations.

Senator Meyer agreed that the charter school process has been frustrating as some school districts do not embrace the idea. He believed that the program could get dropped without adequate funding. He supported Co-Chair Hawker's proposal of the indeterminate fiscal note.

Representative Kelly stated his support of charter schools and agreed with Co-Chair Hawker's plan.

Co-Chair Hawker requested a new fiscal note with a zero for FY 11 and indeterminates for FY 12 through FY 16 to emphasize the expectation that schools would get involved and drive the program.

10:45:00 AM

Co-Chair Stoltze did not want the costs to be forced back on school districts that did not support charter schools.

Co-Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, the CS (Version 26-LS1256\E) was ADOPTED.

Co-Chair Stoltze closed public testimony. He emphasized his support of charter schools.

Vice-Chair Thomas MOVED to report HCSSB 235(FIN) out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

HCSSB 235(FIN) was REPORTED out of Committee with a "do pass" recommendation and with attached new fiscal note by the Department of Education and Early Development and previously published fiscal note: FN1 (EED).

10:47:20 AM

RECESSED

11:21:02 AM

RECONVENED

#hb317

HOUSE BILL NO. 317

"An Act increasing the special needs funding and base student allocation for public schools, and extending the adjustment for student transportation funding; and providing for an effective date."

11:21:11 AM

Co-Chair Hawker MOVED to ADOPT Work Draft CSHB 317(FIN) (Version 26-LS1378\P, Mischel, 4/13/10) as a working document before the committee. There being NO OBJECTION, it was so ordered.

KATIE KOESTER, STAFF, REPRESENTATIVE PAUL SEATON, explained that the committee substitute would first increase the base student allocation (BSA) by \$125 per year for FY 12 and FY 13 and second increase the block funding for special education gifted and talented vocational and bilingual education by 1.5 percent for FY 12 and FY 13. The intent was to have the money spent on vocational education, as stated in the Letter of Intent by the Education Committee (copy on file).

Ms. Koester noted that the CS deletes Section 1, which had extended inflation adjustment for pupil transportation and correlated to the adjustment to increases in the consumer price index (CPI).

Representative Gara questioned whether deleting the inflation adjustment would allow for cost increases. Ms. Koester replied that the deletion would remove changes in the CPI. She believed there might not be much inflation in some years. She pointed out that Section 1 was put in place in 2008 as a recommendation of the Joint Legislative Education Funding Task Force.

Vice-Chair Thomas commented that the increases should be adjusted to graduation rates rather than to inflation. He thought the goal of the Education Committee was success; he did not think increasing the BSA had resulted in success.

Co-Chair Stoltze acknowledged concern related to improving graduation rates.

11:26:06 AM

EDDY JEANS, DIRECTOR, SCHOOL FINANCES AND FACILITIES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, remarked that most pupil transportation contracts in the state have an automatic inflationary adjustment built in. He noted that the contracts are increased each year by the Anchorage CPI. He pointed out that the previous version of HB 317 repealed a sunset clause on applying the Anchorage CPI to the pupil transportation contracts; the new version removed the adjustment to transportation except related to student population.

Representative Gara opined that as costs for pupil transportation go up, districts will have to decrease staff and supply funding if the legislature does not increase the increment. He liked the pupil transportation inflation adjustment and did not like betting on inflation in coming years. He suggested putting Section 1 back in the bill.

[11:29:30 AM](#)

AT EASE

[11:39:59 AM](#)

RECONVENED

Co-Chair Stoltze MOVED Conceptual Amendment 3:

Page 2, following line 24 Insert:

Sec. 7. Section 11, ch. 9, SLA 2008, is amended to read:

Sec. 11 AS 14.09.010©, added by sec. 2, ch.9, SLA 2008 [OF THIS ACT] is repealed June 30, 2013 [2011].

Co-Chair Hawker OBJECTED for discussion.

Co-Chair Stoltze detailed that Conceptual Amendment 3 corrects a mistake that removed the sunset extension; without the extension, the program would sunset. The amendment would give the program an additional two years before considering the policy measure.

Co-Chair Hawker noted that the amendment restores language that was in the Education Committee version of the bill.

Co-Chair Hawker WITHDREW his OBJECTION. There being no further objection, Conceptual Amendment 3 was ADOPTED.

Representative Gara MOVED new Amendment 2:

Page 2, line 17:
Delete "\$5,805"
Insert "5,830"

Page 2, lines 21-22:
Delete "5,930 [\$5,805]"
Insert "5,980 [\$5,830]"

Co-Chair Stoltze OBJECTED for discussion.

Representative Gara explained the amendment. Currently, the proposal is for the BSA for the next two years to go up by \$125 per year. He was concerned that the BSA has gone up \$100 over the last two years, slightly behind inflation. Over the next three years the BSA should lag behind inflation at \$125 per year. The \$125 increase on the \$5,800 BSA is less than 2 percent. He stressed that since the actual inflation rate is unknown, he was concerned about setting the rate for three years out.

Representative Gara stated concerns about other reductions that would become necessary if the BSA does not keep up with inflation. The Department of Education and Early Development normally uses the previous three years to establish an average inflation rate for Anchorage projections; for the past three years the average has been 2.7 percent. He pointed to a chart on page 2 and asserted that a 2.7 increase over the next three years would come to \$151 to \$155 BSA increase. He noted that the incremental cost of increasing the BSA from \$125 to \$150 would be approximately \$6 million per year.

Representative Gara believed the Education Task Force had done an important thing when they added funding for special needs and the area cost differential. He did not believe the additional funds were intended to be lost to inflation increases.

[11:44:24 AM](#)

Co-Chair Hawker MAINTAINED his OBJECTION. He believed the topic had been thoroughly discussed by committed people and he wanted to respect their determination.

Co-Chair Stoltze also objected to the amendment. He did not want to bind any future legislature to an amount in

statute. He observed that education funding only went up, not down, except an administrative formula decrease in FY 97.

Mr. Jeans agreed that the only time the foundation program was reduced was in 1987 under Governor Sheffield.

[11:48:26 AM](#)

A roll call vote was taken on the motion.

IN FAVOR: Foster, Gara, Doogan
OPPOSED: Kelly, Salmon, Thomas, Austerman, Fairclough, Hawker, Stoltze
Absent from the vote: Joule

The MOTION FAILED (7-3).

Representative Thomas emphasized that his vote against the amendment was not a vote against education.

Co-Chair Hawker explained the fiscal notes.

Co-Chair Hawker MOVED to ADOPT the Letter of Intent [from the House Education Committee] dated February 10, 2010. There being no OBJECTION, it was so ordered.

Co-Chair Hawker MOVED to report CSHB 317(FIN) out of Committee with individual recommendations, the Letter of Intent, and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSHB 317(FIN) was REPORTED out of Committee with no recommendation, with a Letter of Intent by the Education Committee, and with previously published fiscal notes: FN1 (EED), FN2 (EED).

#hb69

HOUSE BILL NO. 69

"An Act establishing in the Department of Education and Early Development a voluntary parent education home visiting program for pre-elementary aged children; and establishing a rating system for early childhood education."

[11:51:50 AM](#)

REPRESENTATIVE CHRIS TUCK, SPONSOR, explained that the bill was also known as the "Parents as Teachers Act." He described parents as a child's first and most important teachers. House Bill 69 would empower parents with the knowledge and resources to help their children develop into successful students with stronger scholastic achievements. Research has shown that the early years are critical in a child's development and lay the foundation for later success in school and life. The bill would allow the Department of Education and Early Childhood Development (DEED) to offer early childhood learning methodology to parents as an education option for families with children ages zero to five. Parents who choose to participate would be supported by local childhood development specialists. Parents as Teachers uses a research-based model that helps parents and other family members understand what to expect during each state of development, how to promote the best development in children, and how to prepare children for success in learning in the future. The program can save money for schools by helping families detect problems that can be corrected before starting school. The program fits with many educational philosophies.

Representative Tuck noted that the program would offer resources to families to help parents learn about child development and opportunities to network with other parents in groups. Children are also given opportunities to develop social skills through interactions with peers. Referrals are made with the consent of the family and are based on the family's needs. Currently the program is serving nearly 50 communities throughout the state and is funded through federal grants, in-kind donations, and public/private partnerships. Parents as Teachers works through any local entity, including school districts, tribal councils, and other community organizations. The bill intends to develop local partnerships that will increase local control, maximize in-kind support, and more fully integrate early education into communities.

Representative Tuck informed the committee that the average cost would be \$3,000 per family, reflected in the fiscal note as a total of \$4 million per year for state-wide coverage. About 12 percent of the amount would go to materials for the parents and 4 percent would go to overhead.

11:56:26 AM

Co-Chair Hawker MOVED to ADOPT Work Draft CSHB 69(FIN) (Version 26-LS0281\W) as a working document before the committee. There being NO OBJECTION, it was so ordered.

Representative Tuck detailed that the CS was a simplified version of the CS forwarded by the Education Committee. Both versions establish a Parents as Teachers early childhood education system through DEED for ages 5 and under; however, the previous version was more prescriptive. The proposed CS before the Finance Committee would give DEED the flexibility to do the program as it works best in various communities while still meeting quality standards.

Representative Tuck noted that Section 1 provides the title. Section 2 establishes a statewide voluntary learning system; subsection (a) requires that there is evidence-based education, parental involvement, and adherence to accepted best practices and early learning guidelines; subsection (b) directs DEED to develop local partnerships to implement the program; and subsection (c) adds a three-year sunset clause. He underlined that a previous version provided that the bill would serve 650 children for the first two years and then be expanded statewide; the current CS would take a more simple approach by providing for the program state-wide and providing for a sunset date in 2013. He believed extending the date for three years would allow for measurable results in childhood education.

Co-Chair Stoltze acknowledged the number of people who support the bill.

11:59:39 AM

Representative Fairclough asked whether Representative Tuck had attended budget discussions for a K through 12 pilot program. Representative Tuck responded that he had not.

Representative Fairclough queried results from the pilot program. Representative Tuck replied that he did not have the results immediately available but he understood that the program provided many early education opportunities; he viewed the bill as one more tool.

AURAH LANDEAU, STAFF, REPRESENTATIVE CHRIS TUCK, responded that the pilot program serves several hundred children

state wide. The two-year program is in its second year and the results would be forthcoming. She pointed out that a main difference between the pilot program and the Parents as Teachers program is that through the later families are offered resources to create an early environment wherever families are.

Representative Fairclough asked for a comparison with the Best Beginnings program. Ms. Landeau answered that Best Beginnings provides the Imagination Library and other things while Parents as Teachers is a model that entity could provide.

Representative Fairclough pointed out that the federal government is ramping down funding on the Parents as Teachers program the state currently has; the education subcommittee had looked at that and did not want to start new pilot programs until results were received from DEED regarding the pre-K pilot program, which was in the current operating budget at \$2 million. She did not believe there were results from the \$2 million investment. She voiced caution about investing in another pre-K program in spite of fact that Parents as Teachers does a good job.

Representative Fairclough referred to an amendment that Representative Gara had proposed at a subcommittee meeting for \$600,000 that included Parents as Teachers. She questioned additional funding of another pre-K program. In addition to the \$2 million for the pre-K pilot, funding for the Best Beginnings programs was increased from \$200,000 to \$380,000 as well as adding \$600,000 for another pre-K amendment.

Representative Fairclough emphasized her support of early childhood education but reiterated concerns about additional spending.

[12:04:16 PM](#)

Representative Tuck informed the committee that the bill was first introduced the year previously in order to expand the program statewide to respond to a need. Because of the success rate, other communities wanted the program. Expansion is limited by the federal funds. He referred to experience serving on a school board, where people knew that providing early learning opportunities leads to later success. He had proposed using school facilities that were

empty during the summer period for early childhood programs. The Alaska Association of School Boards wanted to implement the program statewide. He asserted that the Parents as Teachers program was the right program, as it involves the parents and provides opportunities for communities. He pointed out that the recent Moore vs. State case demonstrated that pre-K with parental involvement is a key factor.

Vice-Chair Thomas spoke as a co-sponsor and supporter of the bill. He reported that five parents from his district had flown to Juneau to speak to him in support of the program. He referred to another \$42 million program that has not been successful. He wanted to start education earlier to improve graduation rates. He pointed out that in a small community, everyone can help the children.

[12:08:04 PM](#)

Representative Fairclough agreed that the Parents as Teachers program was wonderful; constituents had advocated to her about the program as well. However, she reiterated concerns that almost \$3 million new funding was already being allowed in the operating budget for pre-K programs. She also worried about choosing money for an individual program rather than letting communities decide what programs are best for their particular location. She pointed out that Head Start, Best Beginnings, Campfires of Alaska, and others were also trying to get state money.

Co-Chair Hawker opened public testimony.

DEBBIE BALDWIN, DIRECTOR, DIVISION OF CHILD DEVELOPMENT, RURAL ALASKA COMMUNITY ACTION PROGRAM (RURAL CAP) (via teleconference), spoke in support of the legislation. She informed the committee that RurAL CAP serves over 1,500 children between the ages of zero and five and their families in 29 communities throughout the state. The program provides early childhood education and family support services through Head Start, Early Head Start, Parents as Teachers, child care, and the pre-K program. She stated that RurAL CAP believes the Parents as Teachers is one of the best early childhood and family support programs offered in the home environment. The program is internationally recognized as a program that serves families from pregnancy until kindergarten through

voluntary visits and group socialization conducted by a certified parent educator.

Ms. Baldwin asserted that the family environment can be a major predictor of cognitive, social, and emotional abilities; some believe it can be a predictor of crime and educational attainment. Parents as Teachers provides parents with information and age-appropriate activities based on brain research and windows of opportunity for development, which improves parent practices and leads to both school readiness and educational achievement. The program has existed for over 25 years in the country and RurAL CAP has over 11 years of experience offering Parents as Teachers programs in Alaska. In 1999, the program started with 27 families; today 450 families are being served in 19 communities.

Ms. Baldwin reported that the program works because pre- and post-screening and assessment results show children achieving gains in all areas of development. In addition, developmental data and interviews with kindergarten teachers show that Parents as Teachers children are transitioning to kindergarten with key indicators of school readiness as defined by the Alaska Early Learning Guidelines. Pre- and post-parent surveys document changes in parental attitudes and beliefs about child-rearing. The results are used to individualize parent education.

Ms. Baldwin stressed that the program is results oriented. RurAL CAP can demonstrate the number and frequency of positive interactions between parent and child upon entering and exiting the program and how many parents are reading to their children more often. Parents report having more confidence in their parenting practices as a result of learning about early brain development and other age-appropriate information.

Ms. Baldwin stated that a voluntary, high-quality early learning system for any state should have a variety of programs offering options in intensity, duration, and comprehensiveness. She recognized that not all families want or need a four-hours-per-day, four-days-per-week, out-of-the-home preschool experience for their young child. The wait list for the Parents as Teachers program indicates that there are many families who would like support and partnership developed in their home environment.

Ms. Baldwin relayed experience in a small community outside Bethel where she attended a parent involvement meeting at the K-12 school. A parent from the early childhood program was sharing with other parents what a window of opportunity meant for parents working with a young child.

Ms. Baldwin responded to earlier remarks by Representative Fairclough. She testified that the federal government is not ramping down support for Parents as Teachers; rather, all entities are competing for the money through the DEED Alaska Native Education Equity Programming Fund. The program supports increasing educational outcomes for Alaska Native students from birth to post-secondary. Grants have been awarded over the past two years. She stressed that money is available, but has already been earmarked.

Ms. Baldwin maintained that there are results from the Parents as Teachers program and that the program is very different than the pre-K pilot program, as it focuses on the home environment.

Ms. Baldwin supported the \$600,000 increase to Best Beginnings and/or Parents as Teachers. She noted that RurAL CAP is looking at shutting down services in five communities to about 100 children and families starting in August 2010 because there is not sustainability under current federal funding.

[12:17:35 PM](#)

Co-Chair Hawker closed public testimony.

Co-Chair Hawker addressed the fiscal note. He pointed out that it was outdated and needed to be updated.

EDDY JEANS, DIRECTOR, SCHOOL FINANCES AND FACILITIES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, detailed that in the new fiscal note the numbers for FY 12 through FY 14 would be the FY 13 number from the old fiscal note, or \$4,124,400. He explained that the previous version of the bill had a phase-in provision limiting the number of participants for the first couple of years.

Co-Chair Hawker asked how the department determined the amount of money that would be required per student. Mr. Jeans replied that the fiscal note was based on the current

Parents as Teachers program, which cost about \$3,000 per family.

Representative Foster spoke in support of the program and pointed out that there was higher unemployment in the Native community and that fewer young people make it to college or vocational school. He noted that more Native people went to jail and had to rely on public assistance. He emphasized the critical importance of early childhood development especially for Native Alaskans. He informed the committee that 60 percent of participants in the Parents as Teachers program were Alaskan Native.

[12:20:53 PM](#)

Representative Gara queried the timing. Co-Chair Hawker felt time was needed for accurate analysis. He stated that one of the things he liked about early childhood programs such as Best Beginnings and the Imagination Library was that they were not government programs; parents were involved. He was concerned that the legislation was making the program a government program.

Representative Gara stated that he supported Head Start and traditional pre-K programs. He acknowledged citizens who wanted programs like Parents as Teachers because government was less involved. He thought the program was a good compromise for many people. He acknowledged those who had supported the development of the program and the legislation.

Co-Chair Hawker wondered whether the bill represented an acknowledgment that the current pre-K pilot program was a failure. Representative Gara did not believe so. He thought there were many ways to accomplish early childhood education. He pointed out that the program cost less than Head Start and was still effective. He noted that the legislation was not intended to make the program the state's model for pre-K education, but would be part of a range of options.

[12:25:14 PM](#)

Vice-Chair Thomas voiced disappointment about funding for the programs that resulted in success. He hoped the program would help.

HB 69 was SET ASIDE until later in the meeting.

[12:27:20 PM](#)

RECESSED

[1:45: 33 PM](#)

RECONVENED

#sb305

SENATE BILL NO. 305

"An Act relating to the tax on oil and gas production; and providing for an effective date."

[1:46:04 PM](#)

Co-Chair Hawker explained that SB 305 addresses the decoupling of oil from gas as related to the oil and gas production tax and the interplay of the issue with Alaska Gasline Inducement Act (AGIA) legislation in the forthcoming open season. He reported that the bill had been thoroughly vetted on the Senate side with a lot of technical analysis and that the bill had also been carefully reviewed in the House Resources Committee.

Co-Chair Hawker stated his intent to accomplish the mission of the sponsors. He anticipated a difference of opinion from the administration on the necessity of passing the bill. He outlined his plan for the bill in the House Finance Committee.

[1:50:55 PM](#)

SENATOR BERT STEDMAN, CO-CHAIR, SENATE FINANCE COMMITTEE, SPONSOR, provided an overview of the history of the legislation. His initial concern was looking at the issue from a fiscal position and determining that the state was potentially at a fiscal disadvantage at the level of billions of dollars. He recognized the difficulty of communicating the magnitude of the fiscal challenges. He explained Senator Paskvan's role as a legal advisor on the legislation. He believed Senator Paskvan had the advantage of entering the legislature after the discussions on the Petroleum Production Tax (PPT), Alaska's Clear and Equitable Share (ACES), and AGIA; he believed a fresh eye would be helpful.

[1:54:13 PM](#)

Senator Stedman referred to the time when the state functioned under the Economic Limit Factor (ELF) or tax and royalty regime and was transitioning to a production-sharing arrangement. He noted that North America is basically structured under the tax and royalty approach and most of the global hydrocarbon basins have production-sharing or profit-sharing arrangements. He recalled that after extensive legislative review of the ELF structure, the fiscal regime of Alaska was restructured to production sharing. He noted that months were spent in the legislature adjusting the new structure, especially related to progressivity. The royalties had been left in place; however, it became clear that the share going to the state would decline when the price of oil went from \$60 to \$80 per barrel. Concern about the decline led to progressivity, an added tax that would protect the state when oil prices were high. The decision had been made to stop the PPT at \$60 per barrel; in hindsight that was too low. There was debate about progressivity.

Senator Stedman referred to negotiations for a gas line under the Murkowski administration and a proposal to take 20 percent of the gas (12.5 percent of royalties plus 7.5 percent severance), own 20 percent of the pipe, have a 20 percent capital credit, and a 20 percent base tax. The base tax was increased to 25 percent. At the time, there was no gas to speak of. Cook Inlet was separated from the discussion as an old, declining basin; the new tax regime did not apply to it. The only gas in the state was in Cook Inlet and in the Arctic. The gas field in Prudhoe Bay was going to be taken in-kind. All of the focus of the discussions at the time was on oil. Gas was intentionally set aside.

[1:58:09 PM](#)

Senator Stedman continued that adjustments were made through ACES and AGIA; the 20 percent ownership in pipe and the 20 percent ownership in gas fell away. However, the gas tax structure was still left in place.

Senator Stedman underlined that the legislature had structured progressivity around oil. He described gas as a lower-valued hydro-carbon; oil produces six times more energy per volume than gas, and is eight or ten times more valuable. In the eight to ten range there is not a lot of impact on the fiscal regime. There has been a structural

change within the economy and the energy world in the past three or four past years. Vast supplies of natural gas have been discovered globally, lowering the pressure on gas, while upward pressure has been put on oil. Currently, oil is valued at about \$80 per barrel and gas is at \$4, a 20 to 1 ratio.

Senator Stedman relayed that a couple of years ago, the Legislative Budget and Audit Committee found a consultant to make a mathematical model of Prudhoe Bay, Kuparuk, and Alpine fields so that the legislature could measure and evaluate a potential gasoline proposal. He had requested that the consultant review the oil tax structure and the gas tax structure and measure the offset (or subsidy or dilution) resulting from large gas volumes and oil volumes; the total revenue was going down instead of up.

Senator Stedman referred to a March 2, 2010 memorandum from Dr. David Wood, a consultant to the legislature (copy on file) calculating the impact over the past couple of years. Dr. Wood had presented his findings to the House Resources Committee. Some believed the policy implications were huge and asked for a presentation before the Legislative Budget and Audit Committee.

Senator Stedman reported that he had become greatly concerned about Dr. Wood's analysis of the dilution effect in terms of the fiscal impact to the state but also about the lack of recognition in the legislature of the potential impact. He emphasized that the mechanism is extremely complicated and the numbers are unbelievably large.

Senator Stedman continued that the AGIA open season came around and Mr. Tony Palmer from TransCanada came before the legislature to discuss potential costs of a mainline pipe. Mr. Palmer referred to estimated tariffs and price expectations.

[2:03:50 PM](#)

Senator Stedman maintained that under the AGIA terms the state faced a contractual obligation to lock in the gas tax by May 1, 2010. He noted that the state has the ability to adjust oil tax up or down, but not gas tax.

Senator Stedman explained that the Senate Finance Committee had spent several weeks studying the information available,

starting with the basic structure of the oil and gas tax. Oil was covered in the first week and then the hypothetical 4.5 billion cubic feet per day (Bcf/day) gas model. He underlined that the conclusions were "not pretty." The administration did a review as well, but their numbers were not any better.

Senator Stedman emphasized that the state had a good revenue stream with oil, but when oil is 15 times more valuable than gas, the total dollars to the treasury went down with gas. He was alarmed that the state has spent thirty years waiting for a gas line and a strong gas economy, when it was clear that without gas revenue, there would be no gas economy.

Senator Stedman pointed to current numbers, stressing that what matters is the relationship between oil and gas prices. With oil standing alone, the state would make \$8.6 billion; with gas, the state would make \$330 million. Noting that the progressivity calculations are based on 30 days, with 30 days before first gas at ten to twelve years out, the revenue stream would be \$8.6 billion (annualized over 12 months). Given that number, the legislature might work the budget details.

[2:08:22 PM](#)

Senator Stedman continued that first gas could come, and thirty days later the state might find out, for example, that the same volume of oil (500,000 barrels) was being pumped and gas was flowing well, but the revenue would then be only \$5.2 billion. He warned that under the example, the state could suddenly lose \$3.4 billion and make only \$330 million in gas. The net loss could be \$3.1 billion. The gas line would have to be shut down and there would be serious budget problems. Nothing could be done because the state would be under contractual obligation for the following ten years.

Senator Stedman questioned how the legislature could answer to future generations for such a significant loss after waiting thirty to forty years for gas to flow. He commented that he and other legislators had traveled throughout Canada and the United States to energy conferences and looked carefully at the models. There had been consideration about how to incentivize an oil basin, including adjusting progressivity, production-sharing, and

base tax numbers or shifting property taxes for things like a gas treatment plant.

Senator Stedman stressed that the Arctic has a world-class oil basin. He argued that the state was not creating an incentive, but giving away revenue at a "staggering" magnitude. For example, the state could build a \$100 million road to encourage drilling and exploration or build a port at Anchorage for several hundred million. He did not want the state to give away billions of dollars year after year.

Senator Stedman suggested buying equity in a project, such as buying 10 or 20 percent of the pipe, so that the state would make the 12 or 13 percent regulated rate of return rather than handing the cash to others.

Senator Stedman emphasized that the problem was the quickly approaching lock-down date on May 1, 2010, the first day of binding open season.

[2:14:04 PM](#)

Senator Stedman warned that the magnitude of the problem is so severe that if AGIA succeeds and the first binding open season succeeds, the industry could lock the state down and it would be "game over." He pointed out that the only leverage the state has left is oil, if gas cannot be moved. He argued that politically, oil taxes could not be raised by one third (the amount required to make up the gap in the previous example). Compared to other structures around the world, he believed the current tax structure in Alaska is a burden. He felt that the state was currently giving its oil away and that oil revenue had to be protected through adjustments and incentives, and the gas pipeline had to be made competitive and attractive.

Senator Stedman stated that he did not want the legacy of giving away the state's oil. He noted that the state can legally decouple at any time, but he argued that if it is done before May 1, 2010, there would be less fiscal risk than waiting until after the date. He thought the state could gamble that the price of gas would go higher than the price of oil, but he did not think the projections supported such a gamble. He believed there would be higher-valued oil and lower-valued natural gas because of the amount of gas available.

[2:18:43 PM](#)

Co-Chair Hawker stated for the record that he agreed with the problem identified by Senator Stedman. He relayed that he had participated in the discussions about PPT, ACES, and AGIA. In 2006, there was a session during which the new proposal for the profit-sharing production tax was vetted. He noted that it had been universally appreciated that the ELF had become outdated and needed to be replaced. A special session was called where the debate continued. During the interim between two special sessions, he and others met to consider the deadlocked bill; the "producer pay plan" was crafted as an evolution of the profit-sharing production tax involving an incentive to lower tax rates for producers increasing production.

Co-Chair Hawker continued that the new bill made it through the House and was fine-tuned by the Senate; the producer pay plan developed into the profit-sharing production tax (PPT). The bill was crafted in his office with the Department of Revenue (DOR) to address the oil ELF, but as time passed, it became clear that the gas ELF also needed to be addressed through a different formula. He witnessed that the crafters of the legislation had believed they did not have to worry about the gas tax for another 15 years. They understood that it would be complex to structure both a new tax on oil and on gas and decided to put them under the same tax regime, although there was a different price structure on oil than on gas; one was sold by the barrel and the other by thousands or millions of cubic feet. In addition, there was a significant value difference. The same tax rate could not be put on the different values.

Co-Chair Hawker recalled that the crafters came up with the idea of the British Thermal Unit (BTU) equivalency formula. However, that would work only if the BTU equivalency was the same as the price equivalency. They knew that combining low-value gas and high-value oil would result in a diluted tax structure, but knew also that there would be 15 years to deal with the problem.

[2:23:13 PM](#)

Co-Chair Hawker noted that the progressivity feature added by ACES exacerbated the problem as it triggered profound value differences. Next, AGIA was passed and provided

"fiscal certainty" for the players: the gas-production tax would be fixed at the start of the first day of the binding open season. The lock-in provision based on the start of the first open season suddenly reduced the 15 years they had previously assumed they had to 15 months. He admitted that when AGIA passed, he had not made the connection that the time would be shortened.

Co-Chair Hawker agreed that on May 1, 2010, the state would be locked in to the gas tax structure for ten years. He emphasized that the crafters of the structure had not intended the outcome.

SENATOR JOE PASKVAN informed the committee that he had arrived at the same conclusion as Senator Stedman regarding the need for decoupling gas and oil. He had begun by reading the AGIA statutes to understand the extent of the lock-in that the state was facing on May 1. He had reviewed the opinion of Attorney General David Marquez and his analysis under the Stranded Gas Development Act of the risk to the state of Alaska.

Senator Paskvan reported that he had called the current Attorney General Dan Sullivan two months ago and told him he believed there was a tremendous risk and that he was not legally comfortable with. He emphasized that the legal issues were complex. He thought the number one issue before the current legislature was the fiscal issue. He agreed that the magnitude of the problem was so great that it could result in Alaska giving up 100 percent of any production tax on natural gas and 100 percent of its royalty. The state would have to use oil savings while the gas flows.

[2:27:57 PM](#)

Senator Paskvan stressed that the monthly analysis of the situation was that Alaska would be bringing in about \$725 million per month in the first 30 days before the 4.5 Bcf/d of gas flows; after the gas flows, the state would receive less than \$500 million per month. Hundreds of millions of dollars would be lost each month. He called the situation a "third-world resource extraction model" where the state would pay while the resource leaves the state.

Senator Paskvan argued that decoupling gas and oil would result in absolutely no increase in oil tax and that the

trigger point at 25 percent and the slope of progressivity would remain the same. The gas tax would remain the same, at 25 percent with the same slope of progressivity. The state would be protected if gas became more valuable than oil.

Senator Paskvan underlined the conclusion that decoupling is necessary. He added that the only other issue before the legislature was the question of the methodology of determining the gas production tax obligation specifically referenced in AGIA statute Section 320. He referred to a presentation by DOR Commissioner Pat Galvin to the Senate Finance Committee. Commissioner Galvin had used the point-of-production tax (the system put in by regulation 15, AAC.90.220) and arrived at a gas production tax obligation of \$1.2 billion. Decoupling and using a point-of-production analysis, using the same structure used by the commissioner would allocate 78 percent of the cost to oil and 22 percent of the cost to gas. The tax obligation on a decoupled basis would be approximately \$1,015,500. He stressed that that is the beginning point for negotiation.

Senator Paskvan concluded that the state should keep its eye on the top line for gross revenues for both products on a decoupled basis and then look at the negotiation position by making sure that the starting point is at the billion dollar range.

Co-Chair Hawker noted that SB 305 was the proposed solution and would be presented by the consultants.

[2:32:18 PM](#)

Representative Gara commented on the difficulty of shifting ideologies without preconceptions. He noted that with some language changes he might agree with the senators and Representative Hawker. He pointed out that he had been present throughout the PPT and ACES debates and had not been told once that Alaska could have a gas pipeline and an oil pipeline that produced less revenue than an oil pipeline alone. He believed the issue was very important.

Representative Gara stated that he, Senator Hollis French, and others had tried to push for separate oil and gas taxes and were told that it could not be done. He wanted to enter into gasline negotiations from the strongest position possible. He listed previous concerns that had been

addressed, including that it made sense to leave progressivity in. He had committed to let industry deduct gas field costs from oil taxes in order to move a gasline forward, and he thought it would be wise to craft language so that the small amount of gas produced on the North Slope would not have to be burdened with decoupling in the meantime.

Vice-Chair Thomas stated concerns about the timing of the legislation; he worried that the House would not have the time with the legislation that the Senate had. He agreed that the issue was huge. He did not want to lose money, but he wanted more information about the gas taxes and urged proceeding with caution.

[2:37:34 PM](#)

Senator Stedman pointed out that currently there was cross-subsidy going on as there was gas in the Arctic and Cook Inlet as well as Prudhoe Bay-Kuparuk, but emphasized that SB 305 was revenue-neutral. He recalled that in the last three years the impact to the treasury has been roughly \$250 million without gas. There was language in the bill to protect the industry so they would get the current dilution. The crafters did not want to "rock the boat"; they wanted to protect the state from being locked in on May 1.

Co-Chair Stoltze emphasized the importance of the May 1, 2010 date and the consequences of the administration deciding not to sign the bill. Senator Stedman agreed regarding the importance of the date.

Co-Chair Hawker reported that the administration had testified that it views the problem as less severe.

Vice-Chair Thomas queried what could happen if the governor vetoed the bill. He wondered whether the legislature could override the veto in time. Senator Paskvan did not know. He believed the effective date on the statute was January 1.

Co-Chair Stoltze hoped there would be more testimony related to the importance of timing.

[2:42:07 PM](#)

AT EASE

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Representative Fairclough believed there was time before May 1 to fully understand the issue.

Co-Chair Hawker pointed to extensive testimony and analysis on the bill's website.

ROGER MARKS, PETROLEUM ECONOMIST, LEGISLATIVE BUDGET & AUDIT COMMITTEE, introduced himself and his partner as being from Logsdon & Associates and under contract with the Legislative Budget and Audit Committee to assist the legislature in gas taxation matters.

Co-Chair Hawker queried their qualifications related to oil and gas issues. Mr. Marks replied that they had worked for the Tax Division of DOR for many years on the oil and gas production tax and issues of gas commercialization.

CHUCK LOGSDON, PETROLEUM ECONOMIST, LEGISLATIVE BUDGET & AUDIT COMMITTEE, added that they had over fifty years of experience between the two of them in evaluating petroleum taxation related to the Alaska fiscal system.

Mr. Marks provided a summary of the premise and rationale for the bill and a description of how the bill works, using a PowerPoint presentation, "SB 305: The De-Coupling of Oil from Gas for the Oil and Gas Production Tax, Logsdon & Associates, House Finance Committee, April 14, 2010" (copy on file). He began with Slide 2, "Acronyms":

BBL	barrel
BCF	billions of cubic feet
MMBTU	millions of BTUs
BOE	barrel of oil equivalent

Mr. Marks detailed that a barrel (bbl) is how the volume of oil is measured and the unit of how oil is sold. Billions of cubic feet (Bcf) refers to how the volume of gas is measured. He explained that natural gas contains mostly methane but also butane and heavier hydrocarbons; while the volume is measured in cubic feet, it is sold in terms of the millions of British Thermal Unit (BTU) content (MMBTU). Finally, the barrel of oil equivalent (BOE) puts gas on the same basis of oil so they can be added up, measured, and compared by converting MMBTUs of gas to bbls of oil. A barrel of oil has 6 million BTUs; taking the amount of BTUs of gas and dividing by 6 puts the gas on a barrel of oil equivalent (BOE).

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Mr. Marks turned to Slide 3, "The Problem":

- The progressivity part of the production tax rate is based on per barrel oil or per BTU gas profitability
- Under current law oil and gas are combined for calculating the progressivity
- Oil is worth much more than gas
- With a major gas sale, combining the lower value gas with the higher value oil will "dilute" the per barrel oil profitability:
 - Driving down the progressivity factor
 - Materially reducing production taxes

Mr. Marks detailed that there is currently a base tax rate of 25 percent on the oil and gas production tax; progressivity is added to that to give a higher rate if the value of the oil or gas is above a certain rate.

Co-Chair Hawker summarized that when gas comes on the unit higher values of the oil are diluted.

Mr. Marks reviewed Slide 4, "Oil vs. Gas Value":

- Now:
 - Gas: \$4/mmbtu
 - Oil: \$80/bbl (\$13/mmbtu)
- Department of Energy forecast for 2020:
 - Gas: \$8/mmbtu
 - Oil: \$120/bbl (\$20/mmbtu)
- Transportation cost deductions:
 - Gas: \$5.00/mmbtu to Lower 48
 - Oil: \$6.00/bbl (\$1.00/mmbtu)

Mr. Marks detailed that on a straight BTU to BTU basis, oil is currently worth about three times as much as gas. The U.S. Department of Energy forecast for 2020 (when it is hoped that a major gas sale would start) is \$8/MMBTU, while the forecast for oil is around \$20/MMBTU, or about 2.5 times as much as gas. In addition, in Alaska the differences are exacerbated by transportation costs. The tax is based on net value. Gas will have a much higher transportation cost than oil per MMBTU, about five times as much.

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Mr. Marks directed attention to Slide 5, "How the Tax Rate is Determined":

- Base 25% rate
- Plus progressivity
 - Progressivity is based on the net value per BOE:
 - Oil Alone: Total oil value / Total oil barrels
 - Combined Oil & Gas: Total oil and gas net value / Total oil and gas BOE's
 - When lower value gas is added to the higher value oil the average net value of the combined oil and gas goes down

Representative Doogan asked whether part of the problem would be a lot of low-value gas compared to relatively less high-value oil. Mr. Marks responded that he was correct and suggested thinking of the relationship as a fraction with the numerator being the value and the denominator being the amount of production.

Representative Doogan noted that a lot of the issue is related to the theory that there would be a lock-down when companies nominate gas during the open season. He asked whether the problem would be exacerbated as more gas is nominated. Mr. Marks responded that he was correct; the greater the difference between oil and gas value, the larger the problem, and the more gas there is relative to oil, the greater the problem.

Mr. Marks turned to Slide 6, "Reference Case," or how the world might look in 2020:

- Oil
 - 500,000 barrels per day
 - \$120/bbl market price
- Gas
 - 4.5 bcf/day
 - \$8/mmbtu market price
- Upstream costs
 - \$2.2 billion capital
 - \$2.2 billion operating

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Co-Chair Hawker noted that the same reference numbers had been used in the previous committee. He asked whether the upstream operating and capital expenses were reasonable costs to anticipate. Mr. Marks believed the numbers were reasonable and consistent with current costs, adjusted for inflation plus additional costs that may occur with new fields like Pt. Thompson.

Representative Austerman asked whether the 500,000 barrels per day was taxable oil. Mr. Marks agreed; the numbers are DOR's forecast for production in 2020.

Mr. Marks moved on to Slide 7, "What Happens under Status Quo":

- Oil taxes under status quo prior to gas production:
Net value of oil = \$86/bbl (tax rate 47%)
Oil Tax = \$6.1 billion
- Add a 4.5 bcf/day of gas:
Combined net value of oil and gas = \$47/bbl (tax rate 32%)
Total oil & gas taxes: \$5.5 billion
- **Bottom line:** The drop in the tax rate of oil more than offsets all the the taxes on gas. Not only does the state not received any additional revenues from the gas, but oil revenues drop as well.

Mr. Marks detailed that the numbers assume oil production similar to present levels and no gasline, 500,000 barrels per day and the \$120 Lower 48 price. When the costs are subtracted to get to the net or production tax value, the net value is approximately \$86/bbl. Given the way progressivity works, when the amount above \$30 is subject to a 0.4 percent slope per dollar, the tax rate is 47 percent at \$86/bbl. The tax rate would be \$6.1 billion annually.

Mr. Marks explained that adding a 4.5 Bcf/day gasline on top of the oil production would not affect oil; but combining the lower-value gas with the higher-value oil would reduce the \$86/bbl average BOE value down to \$47/bbl.

Co-Chair Hawker asked whether the scenario would occur when the switch is flipped on and gas is produced. Mr. Marks agreed; the prices would occur when the average value of

the oil is diluted by the gas. Without the gas, oil would have the \$86/bbl tax value at 47 percent tax rate; switching on the gas would bring the combined value down from \$86/bbl to \$47/bbl (tax rate at 32 percent).

Mr. Marks highlighted that the total taxes would then be \$5.5 billion for both the oil and the gas. There would be no additional taxes from the gas and the oil revenue would drop as well.

Mr. Marks reported that over the past months he and Mr. Logsdon had looked extensively at other international petroleum fiscal regimes. They could find no other place on the planet where a jurisdiction combines substances of different values and the basis for taxation is the combined per unit value.

Co-Chair Hawker clarified that the comparisons referred to annualized numbers. Mr. Marks concurred, and emphasized that the \$5.5 billion was the total taxes from the oil and the gas both, compared to the \$6.1 billion that was oil alone.

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Representative Kelly queried writing regulations [adopted by DOR during AGIA] related to changing the point of production and the BTU oil equivalent. Mr. Marks replied that he would get to the issue.

Representative Doogan asked the value of gas in the example. Mr. Marks replied that the value of gas on a MMBTU basis would be about \$1.60 and on a BTU basis \$9 to \$10. The dilution effect drags the oil taxes down and the gas taxes up, but the net effect is that the oil effect overwhelms the gas effect, which creates the drop in revenue when oil and gas are both being produced.

Vice-Chair Thomas asked what would motivate a person who voted against ACES to vote for decoupling. Mr. Marks replied that the issue was a policy call. He stated as an analyst that whether a person liked ACES or not, it was the law of the land. He stressed that ACES would stay in effect just as it was passed except that it would apply to oil and gas distinctly.

Co-Chair Hawker agreed that the question was on his mind as well. He reiterated that the crafters of PPT knew that the dilution problem would have to be dealt with. He believed the issue was a long-term consistency one and that SB 305 would "buy an insurance policy, just in case."

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Representative Austerman asked for clarification about the numbers arrived at. Mr. Marks replied that the assumptions start with \$86/bbl oil and the gas at \$9 on a BOE basis and ends up with an average of \$47 for per unit value oil and gas combined.

Representative Austerman queried the value of the \$8 when oil and gas are combined. Mr. Marks responded that the value was about \$1.60.

Representative Gara went back to Representative Kelly's question. He summarized that (related to valuing the gas) the Senate had passed a version on a BTU basis; the House Resources Committee worked with the administration and came up with a point-of-production basis for the value. Whether there is a BTU basis that results in a lower gas tax or a point-of-production basis that is higher, the goal is to not start the open season with a gas tax that is too low as it might only go lower with negotiations. He queried the regulations passed with a definition of gas taxes. He asked whether the DOR regulations would be overridden if SB 305 were passed.

Mr. Marks clarified that there were two different issues. With decoupling, there would be the issue of allocating costs between oil and gas. The regulations adopted by DOR several weeks ago stipulate that under AGIA the gas part of the tax is locked in. Since under the status quo there is one total tax that does not separate gas tax and oil tax, the department needs to come up with a way to ascribe how much of the \$5.5 billion is gas. Tax is being allocated, not costs, using gross value. He agreed that if SB 305 passed, the adopted regulations would not make sense. Decoupling would make clear how much the gas taxes are.

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Representative Gara wanted assurance that Mr. Marks would work with the administration if SB 305 says that the

regulations are no longer necessary. Mr. Marks thought the question was for the administration.

Representative Fairclough summarized her understanding: the oil tax at \$6.1 billion is an equivalent when taken into barrels; when the 4.5 Bcf/day gas is added, which will be taxed at the combined rate, the new combined rate equals the \$47 per barrel (taxed at 32 percent). She asked the values of the oil and the gas. Mr. Marks replied that the value of oil has not changed.

Representative Fairclough queried the difference in the tax rate. Mr. Marks replied that the tax rate on the \$86 oil is 47 percent.

Representative Fairclough asked for clarification. Mr. Marks explained that the tax went from 47 percent to 32 percent because of progressivity. Even though there is higher value for the oil, dropping the tax rate 15 percent on the total value accounts for the \$1.6 billion less.

Mr. Logsdon added that the weight average should come out to \$47/bbl if the volume in barrels were multiplied by the barrel price for oil and the volume of the gas were multiplied by the barrel equivalent price of the gas. Mr. Marks elaborated that if the 4.5 Bcf/day on a BOE basis was divided by 6, the result would be about 750,000 BOEs per day; 750,000 BOEs of gas and 500,000 BOEs of oil, or a production ratio of 60 percent gas and 40 percent oil.

Mr. Marks continued that the other side is relative value. He compared \$86/bbl oil; at a BOE equivalent, the gas is about \$9 (\$1.66/MMBTU). He stressed that to put oil and gas on an equivalent basis, the \$8 gas with transportation costs subtracted is worth about \$1.66/MMBTU.

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Mr. Marks turned to Slide 8, "What Happens with Decoupling [Using relative gross value to allocate cost]":

- \$120 oil and \$8 gas
 - Status quo taxes = \$5.5 billion
 - De-coupled taxes = \$7.9 billion
- **\$2.4 billion difference**
- Annual difference at other prices:
 - \$100 oil / \$8 gas: **\$1.4 billion**

- \$80 oil / \$8 gas: \$0.8 billion

Mr. Marks detailed that the difference between the status quo and decoupling would be around \$2.4 billion. When decoupling, the costs need to be allocated between oil and gas. He referred to a recent amendment by the House Resources Committee to allocate based on the relative gross value of oil and gas (the gross value is market price less transportation). Using the gross value, the difference would be \$2.4 billion between the status quo and decoupling. He noted that the bigger difference between oil and gas value, the bigger the difference between the status quo and decoupling. He covered the annual difference at other prices for oil.

Co-Chair Hawker queried the break-even point. Mr. Marks replied progressivity is not linear. Co-Chair Hawker stated that the closer oil and gas come in price, there is less of a problem. Mr. Marks thought the question was how SB 305 would decouple oil from gas.

Co-Chair Hawker contended that SB 305 is hard to understand and must be taken in context with the entire statute; he believed the presentation defined the simpler concept embodied in the bill.

Representative Austerman asked whether the PowerPoint information was based on the amended bill coming out of the House Resource Committee or the Senate version. Co-Chair Hawker answered that the two versions were the same for the purposes of the current conversation; the major difference in the House Resources Committee version is an additional mechanism that would make the tax take effect for about three days, go away, and then take effect ten years in the future. The mechanism remained unchanged.

[3:18:10 PM](#)

Mr. Marks asserted that SB 305 was changing one small thing in how the production tax works, which would make a big difference. He directed attention to Slide 9, "How SB 305 Works," highlighting the difference in calculation between the current tax regime and decoupling:

- Currently
 - Each company calculates one statewide progressivity rate based on all combined oil and

gas activity (oil, Cook Inlet gas, other in-state gas)

- Under SB 305: **Two** Progressivity Calculations
 - **Bucket 1**: Same current activity (oil, CI gas, other in-state gas) will continue to be calculated together
 - No tax increase on current activity
 - **Bucket 2**: Progressivity on export gas will be calculated distinctly (same formula)
 - Will not dilute oil progressivity

Mr. Marks detailed that currently there is one progressivity rate based on all combined oil and gas activity. Progressivity under SB 305, by contrast, would use two calculations, first separating current activity and export gas into two "buckets." Bucket 1 would contain all current activity; there would be no tax increase.

Co-Chair Hawker stated that there would be no change in activity and no change in taxes.

Mr. Marks continued that without SB 305, there would be only one statewide bucket and when a major gas deal happens, the gas exported would dilute the value of the oil. Senate Bill 305 would set up a new bucket (Bucket 2) containing only the export gas; progressivity would be calculated on the export gas exactly as it is calculated under ACES. He underlined that calculating the export gas separately would prevent the export gas from diluting the oil activity.

Co-Chair Hawker summarized that the oil activity, calculated as it is currently would remain in Bucket 1, while the new export gas would be in Bucket 2 with a separate calculation.

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Representative Gara asked whether gas that is not exported but used in the state would remain under the current ACES tax. Mr. Marks responded in the affirmative.

Co-Chair Hawker noted that Cook Inlet gas would stay permanently under ELF. Mr. Marks added that it would be calculated under progressivity but would pay under ELF.

Representative Austerman asked how "export gas" was defined. Mr. Marks replied that export gas is gas that leaves the state and is used outside the state, with the exception of Cook Inlet gas.

Co-Chair Hawker clarified that the gas referred to would be from the North Slope. Mr. Marks agreed that the liquid natural gas (LNG) is part of Bucket 1; export gas would come from outside of Cook Inlet and leave the state, such as North Slope gas that would go to Canada and the Lower 48.

Representative Gara pointed out that there could not be a separate, lower tax on gas used in-state. He asked whether the Bucket 2 language could stipulate that decoupling would begin when North Slope gas began to be exported. He was concerned with constitutional issues. Mr. Marks responded that Bucket 2 would be empty until a major gas sale is made and that the in-state gas would be Bucket 1.

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Mr. Marks pointed to Slides 10 and 11 with visual illustrations of the two buckets.

Representative Fairclough asked whether Bucket 1 would have the combined tax rate and Bucket 2 would not. Mr. Marks answered in the affirmative; the combined tax rate currently in effect would be in Bucket 1.

Co-Chair Hawker added that pure decoupling, or putting all gas in one bucket and all oil in another, would penalize the companies that are currently producing both oil and gas.

Mr. Marks reported that the bucket system was structured in the Senate Finance Committee; the intent was that there not be a tax increase at this time.

Vice-Chair Thomas queried the tax rate for spur lines taken off the main gasline. He wondered what the royalty rate would be to the in-state users. Mr. Marks responded that under the current production tax, all in-state gas has a tax rate that is subject to old ELF provisions, a low tax of \$0.17/MMBTU regardless of the price.

Vice-Chair Thomas clarified that the rate applied to any gas used in the state.

Co-Chair Hawker acknowledged that current statute could face federal constitutional challenges, as different tax structures are set up for in-state gas from the same source. He stated that the possibility would not become real until the state has actually exported gas. He thought the issue did not have to be dealt with in the current legislative session.

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Representative Gara wanted the bill written in a way that is constitutional. He fully intended to leave the lower tax rate on in-state use of gas as long as possible.

Representative Gara summarized that by mixing oil and gas, the state essentially short-changes itself on the oil tax rate in cases where there is low-priced gas. Mr. Marks agreed.

Representative Gara stated for the record that the state is currently giving a benefit to companies like ConocoPhillips by allowing them to dilute oil tax payments with Cook Inlet gas costs. Mr. Marks agreed.

Co-Chair Hawker took issue with the language "short-changing" the state, which implied a motive that he did not think existed.

Representative Gara restated that one of the benefits to producers who provide in-state gas is a slightly lower tax rate. Mr. Marks responded that PPT was designed as a state-wide tax based on state-wide activity. Combining oil and gas does reduce the tax.

Co-Chair Hawker explained that the sponsor's bill did not intend to fiscally impact current producers relying on current law. The bill intended to accommodate the interim period and not disrupt producers from developing new gas sources. He noted that the House Resources Committee addressed the issue by creating a window that would open and then close through a trigger mechanism. He referred to concerns about the mechanism and hoped to find a better one allowing a durable statute that would provide the hold-harmless for existing producers. He reported that his

office had been working closely with the consultants and DOR; both had arrived at a similar concept on a joint proposal that would address the issue.

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Representative Kelly asked whether the major players from the industry would be present for the discussion. Co-Chair Hawker anticipated that they could join in public testimony voluntarily or they could be required to join. Representative Kelly wanted a complete record and hoped they would be required to participate.

Representative Austerman asked for clarification regarding LNG. Mr. Marks explained that the portion of the gas that stayed in-state would be Bucket 1; North Slope gas that was exported through an in-state line through Southcentral and Valdez would be Bucket 2.

Co-Chair Stoltze stated that he did not want producers to be compelled to testify.

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Representative Kelly maintained that it would be a mistake to leave out information from the group because of the short time allowed.

Representative Fairclough agreed with comments on both sides of the issue and suggested that a time could be specified for testimony from the players.

Co-Chair Hawker spoke to the timeline for the amendment.

SB 305 was HEARD and HELD in Committee for further consideration.

[3:40:22 PM](#)

AT EASE

[4:03:00 PM](#)

RECONVENED

#hb69

HOUSE BILL NO. 69

"An Act establishing in the Department of Education and Early Development a voluntary parent education home visiting program for pre-elementary aged

children; and establishing a rating system for early childhood education."

[4:03:28 PM](#)

Co-Chair Hawker expressed reservations about the \$4 million per year fiscal note.

Vice-Chair Thomas MOVED to report HB 69 out of Committee with individual recommendations and the accompanying fiscal note.

Representative Fairclough OBJECTED for discussion. She noted that she and Representative Thomas had met regarding the bill and had agreed to address violence against children in the home.

Representative Thomas agreed that he would do everything he could.

Representative Fairclough removed her objection. There being NO further OBJECTION, it was so ordered.

CSHB 69(FIN) was REPORTED out of Committee with a "do pass" recommendation and with attached new fiscal impact note by the Department of Education and Early Development.

#hb421

HOUSE BILL NO. 421

"An Act relating to the compensation of certain public officials, officers, and employees not covered by collective bargaining agreements; and providing for an effective date."

[4:05:48 PM](#)

KEVIN BROOKS, DEPUTY COMMISSIONER, DEPARTMENT OF ADMINISTRATION, stated that the bill would provide a 2 percent increase over each of the next three years for employees of the legislative, judicial, and executive branches who are not covered by collective bargaining agreements. Approximately 800 employees would be affected in the judicial branch, 500 in the legislative branch, and 1,700 in the executive branch.

CHRIS CHRISTENSEN, DEPUTY ADMINISTRATIVE DIRECTOR, ALASKA COURT SYSTEM, testified in support of the legislation. He stated that the court system has the largest group of non-union employees. He noted that court system employees as a group are the lowest paid branch; about 70 percent of court employees are range 15 or less, which causes problems with turnover and training. He stated that court employees are hard-working and dedicated. He added that over the past 20 to 25 years, non-union employees have received substantially lower pay increases than actual increases in the cost of living. For example, a range 10A today is making more than 20 percent less than a range 10A in the mid-1980s (not taking into account reductions in benefits such as health insurance).

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Co-Chair Hawker noted that there was a fiscal note for the legislative branch and stated his concerns regarding rising costs. He wanted to zero out the executive and legislative branches as he did not like passing additional salary increments when unemployment was so high in the state. He acknowledged that all the employees deserved to be treated equally.

Co-Chair Stoltze hoped there would be a fiscal note reflecting true costs related to a constitutional amendment on increasing the legislature.

Vice-Chair Thomas MOVED to report HB421 out of Committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

HB 421 was REPORTED out of Committee with a "do pass" recommendation and with three attached new fiscal impact notes by the Legislature, the Court system, and the Office of the Governor.

Representative Kelly commented that he had difficulty supporting the bill but he wanted to treat the non-bargaining employees in the same manner as the bargaining ones.

Co-Chair Stoltze acknowledged the hard work of court employees.

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RECESSED

4:20:03 PM

RECONVENED

#sb219

CS FOR SENATE BILL NO. 219(FIN)

"An Act establishing a traumatic or acquired brain injury program and registry within the Department of Health and Social Services; and relating to medical assistance coverage for traumatic or acquired brain injury services."

4:20:30 PM

SENATOR LESIL MCGUIRE, SPONSOR, spoke to the subject of traumatic brain injury (TBI). She reported that Alaska has the highest incidence of TBI in the nation. There are a variety of causes, including accidents, snow machine crashes, and domestic violence; in addition, many senior citizens have brain injuries as a result of stroke, aneurism, and tumors. She highlighted that the numbers increase as veterans return from service in Iraq. She reminded the committee of a past presentation where soldiers with TBI had testified. She noted that Alaska Natives in particular have been affected by TBI.

Senator McGuire informed the committee that SB 219 would establish a new brain injury program within the Department of Health and Social Services (DHSS) as well as a registry for TBI. Alaska has not had such a program in its history. She added that Alaska leads the nation in TBI, especially in the categories of veterans, the elderly, and Alaska Natives.

Senator McGuire pointed out that the fiscal note was fairly minimal. She felt the program was sustainable. The goal is to have a place for citizens to go to access resource and information about TBI. The Alaska Brain Injury Network, Inc. (ABIN) was founded by people who were affected by TBI. She hoped the new program in DHSS would allow access to federal Medicaid dollars in the form of matching money. She referred to an earlier plan to create a waiver; she had come up with a solution with less fiscal impact in response to concerns. She noted that the program coordinator would access other Medicaid funds already in existence and harness them for families who cannot afford treatment for TBI; federal funds matched 50/50 with state funds.

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Senator McGuire hoped that Alaska could become part a larger information and resource network. She hoped that the DHSS coordinator for the program would network with other groups, including the Department of Military and Veterans Affairs (DMVA), the Native corporations, and the survivor network. She concluded that TBI is a permanent, life-altering injury; there is no way to re-generate brain cells. However, with early intervention and treatment, people can live productive lives.

Co-Chair Stoltze asked whether the bill was endorsed by veterans.

ESTHER CHA, STAFF, SENATOR LESIL MCGUIRE, replied that the sponsor had been in contact with veterans who suffer from TBI; the ATBI has been working with DMVA and hoped to increase cooperation.

Vice-Chair Thomas asked whether Fetal Alcohol Spectrum Disorder (FASD) and Alzheimer's disease were covered under the bill. Ms. Cha replied that FASD and Alzheimer's and other degenerative diseases are not covered under the program because they are covered under other Medicaid waiver services.

Vice-Chair Thomas queried a letter by the Department of Corrections stating that 42 percent of the population has a diagnosable mental health disorder. Ms. Cha thought the statistic was correct. Vice-Chair Thomas was concerned about co-mingling in the prisons.

[4:30:31 PM](#)

Co-Chair Stoltze opened public testimony.

STEVE WILLIAMS, PROGRAM OFFICER, ALASKA MENTAL HEALTH TRUST AUTHORITY (via teleconference), testified on behalf of Jeff Jesse in support of the legislation. He reported that the Alaska Mental Health Trust Authority (AMHTA) in partnership with DHSS, ABIN, and other community stakeholders and providers have worked for several years towards the improvement of service for Alaskans with traumatic or acquired brain injuries. Unfortunately, a significant number of Alaskans suffer from TBI; DHSS reports that there are 800 cases per year that result in either death or

hospitalization. It is estimated that 3,000 Alaskans visit a hospital emergency room each year with a mild TBI and over 10,000 Alaska are estimated to be living with a disability resulting from a TBI.

Mr. Williams stated that AMHTA supports SB 219 and sees it as an integral step for Alaska towards the development of an integrated system of care for Alaskans with traumatic or acquired brain injuries, including partnering with tribal organizations, DMVA, and community and non-profit partners who are providing services and support to these individuals. The trust does not think that it is efficient for different entities develop their own systems of care for folks with TBI; SB 219 is an integral step towards pulling the groups together to increase efficiency.

Mr. Williams noted that the 42 percent statistic mentioned by Representative Thomas regarding the number of prison inmates with mental health disorders came out of a study done in December 2007. He offered to send the results of the study.

[4:34:30 PM](#)

JILL HODGES, EXECUTIVE DIRECTOR, ALASKA BRAIN INJURY NETWORK (via teleconference), spoke in support of the bill. She explained that ABIN has traveled to many communities and heard from thousands of Alaskans who have experienced brain injury. She relayed that every brain injury is unique, but the needs and concerns have been consistent across the state. There is not an official home in Alaska state government to address the concerns; there is also no rehabilitation program.

Ms. Hodges noted that there are both long-term goals and short-terms components of the legislation. She highlighted the case management aspect of the bill, which she believed to be a good starting point for state government; it utilizes a significant number of federal receipts and provides a service that can be accessible to both rural and urban Alaskans. The services would be put in the hands of community providers.

Ms. Hodges continued that the military has brought attention to brain injury and also the development of case management. Studies have shown that the approach reduces emergency room visits and deters more costly care. Most

importantly, the approach increases readiness for employment and vocational rehabilitation efforts. The network has consistently heard that people with TBI want to return to work, military personnel want to return to duty, and Alaska Natives want to participate in subsistence activities again. Case management can help build the ability to do these things.

Ms. Hodges referred to research showing the amazing abilities and the elasticity of the brain. She informed the committee that ABIN strongly supports SB 219.

DR. CHRISTIE ARTUSO, DIRECTOR, NEUROSCIENCE SERVICES, PROVIDENCE ALASKA MEDICAL CENTER, ANCHORAGE (via teleconference), testified in support of SB 219. She told the committee that Alaska has outstanding acute care services but there is a shortage of the services needed. She noted that Alaskan youth, athletes, and military personnel are affected. She relayed the story of a 41-year-old man who suffered TBI who was re-hospitalized 27 times in 18 months; there were no appropriate services for him.

Dr. Artuso reported that the Providence Alaska Medical Center neuroscience services department wants to partner with the state, the AMHTA, and ABIN to develop the needed services. She urged the committee to support the legislation.

[4:41:30 PM](#)

KRISTIN ENGLISH, CHIEF OPERATING OFFICE, COOK INLET TRIBAL COUNCIL (via teleconference), spoke in support of SB 219. She explained that the tribal council provides social services for many in the Anchorage area, but also provide services to primarily Alaska Natives throughout the state. She pointed to a correlation between substance abuse and TBI; 46 percent of clients in the residential and de-tox center have self-reported TBI and 36 percent have reported TBI in outpatient services. She pointed out that the numbers are probably low.

Ms. English noted that TBI has been linked to mood, stress, and behavior disorders, which are in turn linked to substance abuse. The tribal council believes the bill will provide support to the substance abuse community.

MARTHA MOORE, CHAIR, ALASKA BRAIN INJURY NETWORK, testified in support of the legislation.

Co-Chair Stoltze closed public testimony.

Representative Fairclough queried the two positions in the fiscal note.

ANGELA SALERNO, DIVISION OF SENIOR & DISABILITY SERVICES, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, replied that the department did not request the positions because they believed existing staff could do the work.

Representative Fairclough MOVED to report CSSB 219(FIN) out of Committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSSB 219(FIN) was REPORTED out of Committee with a "do pass" recommendation and with attached previously published fiscal notes: FN1 (DHS), FN2 (DHS).

[4:47:24 PM](#)

RECESSED

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ADJOURNMENT

The meeting was adjourned at 8:08 PM.