

SENATE FINANCE COMMITTEE

April 5, 2010

10:06 a.m.

10:06:15 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 10:06 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Charlie Huggins, Vice-Chair
Senator Johnny Ellis
Senator Dennis Egan
Senator Donny Olson
Senator Joe Thomas

MEMBERS ABSENT

None

ALSO PRESENT

Jomo Stuart, Staff, Senator Meyer; Darwin Peterson, Staff, Co-Chair Stedman; Curtis Thayer, Department of Commerce, Community and Economic Development; Christopher Poag, Assistant Attorney General, Department of Law; Mr. John Binkley, Alaska Cruise Association, Alaska Railroad Association, Fairbanks; Chip Thoma, President, Responsible Cruising in Alaska; Joe Gledhof, Law Office of J.N. Geldhof; Mike Stedman, Vice President, Alaska ACT; Jeremy Gieser, Gastineau Guiding; Bob Janes, President, Gastineau Guiding; Roark Brown, Homer Ocean Charters; Sandra Loomis, Talkeetna Air Taxi; Tanja Cadigan, Owner, Caribou Crossings; Bret Carlson, Chef, Coldfoot/Deadhorse; Sarah Fisher-Goad, Deputy Director of Operations, Alaska Energy Authority, Department of Commerce, Community and Economic Development; Michael Pawlowski, Staff, Senator McGuire.

PRESENT VIA TELECONFERENCE

Karl Amylon, City Manager, Ketchikan; Dan Bockhorst, Ketchikan Ms. Blaisdell; Tom Smith, City Manager, Municipality of Skagway; Tim Cerny, Fairbanks Alaska, ACT; Deb Hickok, Fairbanks Convention and Visitors Bureau; Rick Erickson, Alaska Act, Ketchikan; Patti Mackey, Executive Director, Ketchikan Visitors Bureau; Joseph Lonham, Alaska Act, Ketchikan; Dick Coose, Self, Ketchikan; Rex Westergard, Alaska ACT; Fred Reeder, Alaska ACT, Survey Point Holding Company, Sitka; Bonnie Quill, Executive Director, MatSu Convention and Visitors Bureau; Paul Landis, Chief Operating Officer CIRI Tourism Corporation, Alaska ACT; Tammy Griffin, Alaska Hotel Lodging; Susan Gilpatrick, Gilpatrick's Hotel Chitna and Greenhouse; Deautua Crockett, Resource Development Council, Anchorage; Colleen Stephens, Stan Stephens Cruises; Jack Polster, Self, Homer; Former Governor Sheffield; John Cook, Alaska Railroad Board of Directors.

SUMMARY

SB 235 CHARTER/ALTERNATIVE SCHOOL FUNDING

SB 235 was HEARD and HELD in Committee for further consideration.

SB 236 TAX CREDITS FOR EDUCATIONAL CONTRIBUTIONS

SB 236 was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal note: FN1: (REV).

SB 287 IN-STATE GAS PIPELINE

SB 287 was HEARD and HELD in Committee for further consideration.

SB 301 POWER PROJECT FUND

SB 301 was HEARD and HELD in Committee for further consideration.

SB 312 VESSEL PASSENGER TAX

SB 312 was HEARD and HELD in Committee for further consideration.

#sb235

SENATE BILL NO. 235

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

[10:06:22 AM](#)

Co-Chair Stedman discussed the agenda. He noted that SB 220 is postponed. He mentioned one fiscal note for SB 235 from the Department of Education and Early Development (DEED) for \$301 thousand in general funds, including the \$150 thousand requested for the adoption of regulations and the remainder for one and one half administrative positions.

Senator Huggins commented that his office was in communication with DEED. He understood that the fiscal note could be cut by fifty percent through the elimination of the administrative positions.

SB 235 was HEARD and HELD in Committee for further consideration.

#sb236

SENATE BILL NO. 236

"An Act relating to tax credits for cash contributions by taxpayers that are accepted for certain educational purposes or for a college facility; and providing for an effective date."

[10:08:50 AM](#)

Co-Chair Stedman mentioned one zero fiscal note for SB 236 from the Department of Revenue (DOR).

Senator Huggins MOVED to report SB 236 out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

SB 236 was REPORTED out of Committee with a "do pass" recommendation and with one previously published indeterminate fiscal note: FN1: (REV).

#sb312

SENATE BILL NO. 312

"An Act providing for a reduction in the excise tax to \$34.50 for a passenger for each voyage on a commercial passenger vessel; providing for a reduction in the state excise tax imposed on a passenger on a commercial passenger vessel by the amount of tax on a passenger traveling on a commercial passenger vessel imposed by a municipality that does not elect to receive an appropriation of a portion of the proceeds from the state tax; authorizing an appropriation from the proceeds from the excise tax imposed on a passenger on a commercial passenger vessel for state-owned infrastructure to properly provide for commercial vessel or passenger visits; requiring a municipality receiving funds appropriated from the excise tax imposed on a passenger on a commercial passenger vessel to use the funds to improve port and harbor facilities and other services and infrastructure to properly provide for commercial passenger vessel or passenger visits; limiting the reduction for the excise tax imposed by a municipality on a passenger on a commercial passenger vessel to \$17.25 a passenger for each voyage; requiring the Department of Commerce, Community, and Economic Development to prepare and submit a report on the needs of communities to safely and efficiently host passengers subject to the state tax imposed on a passenger on a commercial passenger vessel, and to summarize the extent to which appropriations from the state tax have been used to defray the costs of meeting those needs; eliminating the authority to appropriate funds received from the excise tax imposed on a passenger on a commercial passenger vessel to an area of the state that is not one of the first five ports of call in the state for a commercial passenger vessel carrying a passenger subject to the state excise tax imposed on a passenger of that vessel; and providing for an effective date."

[10:10:17 AM](#)

DARWIN PETERSON, STAFF, CO-CHAIR STEDMAN, discussed the legislation.

SB 312 proposes to reduce the commercial passenger vessel (CPV) excise tax from \$46 per passenger to \$34.50 per passenger traveling on a commercial passenger vessel in state marine waters. The bill

will also allow a reduction in the amount of the tax for taxes paid to a municipality that levies its own passenger fee. The reduction could not exceed 50% of \$34.50 regardless of the amount of passenger fees charged by other communities.

In addition, SB 312 repeals the regional cruise ship impact fund. As a result, all revenues collected from the CPV tax would be deposited in the CPV tax account in the general fund. SB 312 will not affect community revenue sharing.

Finally, SB 312 will require the Department of Commerce, Community and Economic Development to create a report every three years that addresses the projected needs of the communities that host cruise ship passengers and the extent to which the tax proceeds have been utilized for projects in areas that are directly impacted by cruise passengers.

[10:11:38 AM](#)

CURTIS THAYER, DEPUTY COMMISSIONER, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, discussed tourism and the vessel passenger tax. He informed that the department is supportive of the actions outlined in the bill and he underscored the urgency to take action this session. The governor proposed legislation that included the exact provisions included in this bill. He believed that both elements were needed to make Alaska a destination by increasing the Alaska tourism marketing program. The department published a study showing that tourism impacts Alaska's economy. Following many decades of growth in the tourism sector, a decline is now faced. Travel to Alaska was off by more than seven percent. He noted that visitor spending decreased by \$270 million. The cruise industry has already signaled a willingness to be a partner in the solution by agreeing to drop the lawsuit against the state if the head tax is reduced. The state is likely facing a two year delay until cruise ship passenger volumes increase. Cruise lines indicate that they can refrain from making final decisions in 2012 following decisions by the legislature.

[10:17:15 AM](#)

Senator Thomas asked about the regional fund. He asked if money from the regional fund is designated to the commercial vessel tax account, could the funds then be appropriated to areas other than those directly related to the five ports of call.

[10:17:55 AM](#)

CHRISTOPHER POAG, ASSISTANT ATTORNEY GENERAL, DEPARTMENT OF LAW reported that all tax proceeds go into the general fund and can be appropriated for any public purpose. The guidelines in the bill are for the legislature regarding the spending of the proceeds. He noted that the legislature has the authority to appropriate the proceeds for any public purpose.

Senator Thomas clarified that the language in the initial bill led to difficulty, so removing the wording alleviates the potential problem and eliminates the lawsuit.

Mr. Poag added that one argument made by the industry is that spending the proceeds in non ports of call was unconstitutional and in violation of federal law.

Senator Thomas asked if the agreement was written. Mr. Poag responded that the written agreement has been modified with alterations in the format and signature block. He opined that the progress was good. He anticipated that an agreement would be executed by the end of the week.

Senator Olson opined that the governor was predicating the passage of this legislation on a promise to increase the number of cruise ships visiting Alaska without reference to the number of passengers on the ships. He asked if the department was in favor of establishing a trial period to determine that the legislature will deliver an effective and a sunset date to test the promises made by the cruise ship industry.

Mr. Thayer responded that a sunset clause for the provision has not been discussed. He supposed that two to three years is required to determine the ship deployment schedule. He pointed out that Europe is growing and building additional cruise ships that are not coming to Alaska.

[10:21:53 AM](#)

Co-Chair Stedman asked about the statute change for head tax and the money for the general fund. Mr. Poag noted that litigation is in progress. He stated that the position of the industry is that federal law places strong restrictions on how the proceeds can be spent. The issue is litigated until the court issues an order. Proceeds are spent on direct attributable benefits to passengers, the places they go, the services they require, and the infrastructure utilized. The proceeds ought to be spent on those types of projects.

[10:23:57 AM](#)

Senator Olson wondered if the legislature was willing to allocate the funds to areas other than the five ports of call, is that a violation of the agreement to drop the lawsuit. Mr. Poag responded that the key terms of the agreement are for the reduction of the tax rate. If the reduction and the offset come in this bill or another bill and are signed into law, the terms of the agreement state that they will dismiss the pending law suit. The periodic review process is geared toward looking at the methods used by the state to utilize the proceeds. A sunset clause is an option for the committee to consider, but it might disrupt the stability of the tax proceeds coming in on a yearly basis.

[10:25:22 AM](#)

Senator Thomas asked if the case is dismissed would be dismissed with or without prejudice. Mr. Poag responded "with prejudice."

[10:25:59 AM](#)

MR. JOHN BINKLEY, ALASKA CRUISE ASSOCIATION, FAIRBANKS, testified in support of the legislation. He informed that the goal of the legislation is to reach out to the cruise ship industry and make changes that encourage the industry to invest in Alaska. He stated that the administration framed the issue correctly. He noted that key elements include the agreement that the litigation would end. He noted that the latest version of the agreement arrived at six o'clock this morning and is vetted through the legal departments of the companies involved.

[10:29:05 AM](#)

KARL AMYLON, CITY MANAGER, KETCHIKAN (via teleconference), testified in favor of SB 312. He stressed that the loss of cruise ship passengers is having a negative effect in Ketchikan. The city is anticipating a revenue loss of \$2 million in 2010.

DAN BOCKHORST, CITY MANAGER, KETCHIKAN (via teleconference), testified in favor of SB 312. He echoed the comments of Mr. Amylon. He stressed the urgency of the matter.

[10:31:38 AM](#)

TOM SMITH, CITY MANAGER, MUNICIPALITY OF SKAGWAY (via teleconference) testified in support of the legislation. He expressed concern with Section 5. He advised the committee to scrutinize the bill.

[10:32:47 AM](#)

TIM CERNY, FAIRBANKS ALASKA, ALIANCE FOR CRUISE TRAVEL (ACT) (via teleconference) testified in support of the legislation. He explained that ACT has over 200 members in the Fairbanks area who would unanimously support SB 312. He stated that the bill would benefit the Fairbanks economy and the tourism industry.

DEB HICKOK, FAIRBANKS CONVENTION AND VISITORS BUREAU (via teleconference), testified in support of the legislation.

[10:35:31 AM](#)

RICK ERICKSON, ALASKA ACT, KETCHIKAN (via teleconference), testified in support of the legislation. He represented 20 members of Alaska ACT. He noted that this bill proves that Alaska is open for cruise ship business.

PATTI MACKEY, EXECUTIVE DIRECTOR, KETCHIKAN VISITORS BUREAU (via teleconference), testified in support of the legislation. She spoke in favor of the reduction of the head tax. She stated that tourism supports approximately 1500 citizens. She stressed the need for marketing that will bring tourists to Alaska. Businesses report a 20 percent loss in income for the last tour season. She sought a long term solution for marketing Alaska tour options.

[10:39:00 AM](#)

JOSEPH LONHAM, ALASKA ACT, KETCHIKAN (via teleconference) testified in support of the legislation. He informed that vacation is the number one use of funds for those seeking information about financial planning with Wells Fargo. Small business expansion drops without the cruise ship industry.

[10:41:38 AM](#)

DICK COOSE, SELF, KETCHIKAN (via teleconference) testified in support of the legislation. He advocated for the reduction in the cruise ship industry head tax.

REX WESTERGARD, ALASKA ACT (via teleconference) testified in support of SB 312.

[10:42:52 AM](#)

FRED REEDER, ALASKA ACT, SURVEY POINT HOLDING COMPANY, SITKA (via teleconference), testified in support of the legislation. He noted that the economy in Sitka is profound. He believed that the legislation allows those communities that have a head tax to be discounted from the state head tax. Revenue losses for Sitka are estimated to be over \$1.5 million in comparison to 2008. He opined that the city of Sitka will lobby the legislature for an increase in municipal revenue sharing to help offset this decline in their sales tax receipts.

[10:45:00 AM](#)

BONNIE QUILL, EXECUTIVE DIRECTOR, MATSU CONVENTION AND VISITORS BUREAU (via teleconference), testified in support of SB 312.

[10:46:45 AM](#)

PAUL LANDIS, CHIEF OPERATING OFFICER CIRI TOURISM CORPORATION, ALASKA ACT (via teleconference), testified in support of the legislation. He stated that businesses rely on the cruise ship industry. He stressed that the operations and jobs depend on cruise ships returning to Alaska. He opined that the head tax is driving ships away.

[10:49:18 AM](#)

TAMMY GRIFFIN, ALASKA HOTEL LODGING (via teleconference), testified in support of the legislation. She thanked the

co-chairs of the committee for introducing the legislation. She stated that her company does not have a contract with a specific cruise ship company, however, she benefits from cruise ship visitors.

SUSAN GILPATRICK, GILPATRICK'S HOTEL CHITNA AND GREENHOUSE (via teleconference) testified in support of the legislation. She stated that Valdez is a tourist destination and the trickledown effect of the tourism benefits her local business. She spoke about the importance of marketing efforts.

[10:53:24 AM](#)

DEAUTUA CROCKETT, RESOURCE DEVELOPMENT COUNCIL, ANCHORAGE (via teleconference), testified in support of the legislation. She noted that the head tax compromises the economy in Alaska.

COLLEEN STEPHENS, STAN STEPHENS CRUISES (via teleconference), testified in support of the legislation. She acknowledged the economic downfall and its effect on her business.

[10:55:53 AM](#)

CHIP THOMA, PRESIDENT, RESPONSIBLE CRUISING IN ALASKA, testified about the use of the collected head tax over the last ten years. He pointed out that Juneau collected over \$50 million in ten years and the funds were used for dock improvements for the cruise industry. The purpose of the head tax initiative was to provide important services that benefit the cruise ship industry. He supported the legislation, but supposed that it could be improved. He proposed a decrease of 15 percent of the head tax. He disagreed with Section 5. He noted that the fund is shared by all 12 ports of call. All 12 ports can apply for projects from the fund. He opined that the head tax money has been spent in admirable ways that benefit the passengers and the cruise ship industry.

JOE GLEDHOF, LAW OFFICE OF J.N. GELDHOF, urged removal of the regional account. He stated that there will be a time to lower the excise tax. He stressed that the needs for infrastructure and the benefit of the tax. He opined that allowing the further deduction from a reduced excise tax was premature. He stated that Juneau and Ketchikan require

completion of the new wharfs. He explained that he was not opposed to a reduction or partial elimination of the excise tax, but he opined that now was not the time. He stressed that work on the effective dates would prove helpful.

[11:02:51 AM](#)

MIKE STEDMAN, VICE PRESIDENT, WINGS AIRLINES, MEMBER, ALASKA ACT, testified in support of the legislation. He stated that twenty percent of the aircraft fleet will be laid off this summer as a result of the head tax.

[11:03:59 AM](#)

JEREMY GIESER, GASTINEAU GUIDING, testified in support of the legislation.

BOB JANES, PRESIDENT, GASTINEAU GUIDING, testified in support of the legislation. He stressed that the conservative route is to lower the tax and continue to encourage the industry to expand.

ROARK BROWN, HOMER OCEAN CHARTERS, testified in support of the legislation. He spoke of his group which supports the governor's initiative to restore the health of Alaska's travel industry. He stressed that the legislation must be passed to bring cruise passengers back to Alaska.

[11:08:00 AM](#)

SANDRA LOOMIS, TALKEETNA AIR TAXI testified in support of the legislation. She stated that her business does not have direct contracts with the cruise ship industry, yet her business reflects the industry's decline.

[11:10:41 AM](#)

TANJA CADIGAN, OWNER, CARIBOU CROSSINGS, testified in support of the legislation. She stated that she owns a small business in Juneau that struggled last summer due to the economic downturn.

BRET CARLSON, CHEF, COLDFOOT/DEADHORSE testified in support of the legislation. He mentioned various methods of income generation that are affected by the drop in tourism. The head tax reduction addresses the creation of wealth.

[11:15:22 AM](#)

JACK POLSTER, SELF, HOMER (via teleconference) testified in opposition to the legislation. He requested that the bill be given more attention.

[11:18:49 AM](#)

Co-Chair Stedman mentioned the fiscal note from the Department of Revenue reflecting an annual loss of \$22 million in cruise passenger vessel receipts.

SB 312 was HEARD and HELD in Committee for further consideration.

#sb301

SENATE BILL NO. 301

"An Act relating to the power project fund; authorizing the Alaska Energy Authority to charge and collect fees relating to the power project fund; authorizing the Alaska Energy Authority to sell and authorizing the Alaska Industrial Development and Export Authority to purchase loans of the power project fund; providing legislative approval for the sale and purchase of loans of the power project fund under the memorandum of understanding dated February 17, 2010; and providing for an effective date."

[11:19:22 AM](#) AT EASE

[11:20:06 AM](#) RECONVENE

SARAH FISHER-GOAD, DEPUTY DIRECTOR OF OPERATIONS, ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, stated that SB 301 authorizes the Alaska Energy Authority (AEA) to sell loans from the power project fund to raise capital for new projects and authorizes the Alaska Industrial Development and Export Authority to purchase the loan portfolio. The bill also authorizes AEA to establish fees for the power project fund loans. She continued that the bill is straightforward. She provided a sectional analysis.

Section 1: AS 42.45.010(a) is amended to allow proceeds from the sale of power project loans to be deposited into the power project fund (PPF).

Section 2: AS 42.45.010(D) repeals and reenacts AEA authority to adopt regulations relating to the loan program by specifically allowing AEA to establish fees for applications and loan originations.

Section 3: AS 42.45.010 is amended by adding new subsections-

(k) to provide that fees collected will be deposited into the general fund.

(l) provides authority to AEA to sell loans fo the PPF with legislative approval, allows AEA to repurchase loans sold under this subsection which default, allows proceeds received to be deposited into the fund.

Section 4: AS 44.88.080 is amended by adding new subsection (30) allowing AIDEA to purchase from AEA, as an investment of the revolving fund, PPF loans.

Section 5: Uncodified law is amended by adding a new section providing for legislative approval for AEA to sell and AIDEA to purchase certain power project fund loans. This section references the 2/17/10 MOU between AIDEA and AEA that memorializes the proposed terms of the sale and purchase.

Section 6: Provides for an immediate effective date

Senator Olson asked who benefits from the legislation. Ms. Fisher-Goad responded that the benefit is to future borrowers of the power project fund. Capital is raised in order to issue more loans. The authority to repurchase any loan that would perhaps default, allows AEA to receive the highest price possible. A discount rate is applied to this purchase. A risk analysis of the projects is not necessary.

Senator Olson asked if a discount exists to purchase the loans in the event of default. Ms. Fisher-Goad responded that the rate for repurchase is an annual rate of four percent if the loan was not repurchased within 30 days.

Co-Chair Stedman discussed the four zero fiscal notes.

[11:25:29 AM](#)

Senator Egan asked about the interest rates on the loans. He pointed out that none of the interest rates are at six percent. Ms. Fisher-Goad explained that the discount rate

equals the six percent and is applied to the purchase of the portfolio. The discount rate accounts for the long term cash flow of the loan payments. The discount rate was determined by running the cash flow of the loan payments out to arrive at a present value computation. The six percent discount rate accommodates that cash flow.

SB 301 was HEARD and HELD in Committee for further consideration.

#sb287

SENATE BILL NO. 287

"An Act amending the powers and duties of the Alaska Railroad Corporation and the Alaska Housing Finance Corporation related to the exercise of authority to purchase, transport, and sell natural gas produced on the North Slope for in-state use, and transferring exclusive and primary responsibility for the initiation and development of that project from the Office of the Governor and the Department of Natural Resources to those corporations; and providing for an effective date."

11:28:13 AM

MICHAEL PAWLOWSKI, STAFF, SENATOR MCGUIRE, discussed the legislation. He stated that SB 287 attempts to find a more permanent statutory framework to advance the gas line project to feasibility on prior to a bankable feasibility. Completing the right of way, gathering letters of interest from commercial buyers and sellers of gas, along with seeking interest from private pipe line companies that might be interested in constructing an instate natural gas pipe line are all accomplished by amending the provisions that govern the Alaska railroad. He stated that explicit authority for the construction, acquisition, and development of the gas pipe line project. An instate gas pipe line project has been inserted into the railroad's existing authorities. He pointed out several efforts to capitalize on Alaska's North Slope gas. The language on Page 3 attempts to limit the authorization to the Alaska railroad for the project that money was appropriated for in the Supplemental appropriations bill last year. He explained that Page 3, Lines 29-31, states that the goal of the effort is to be compatible, but not competitive with other efforts to commercialize instate gas. Explicit

direction is found in Section 4 on Page 4 describing the mechanisms through which the Railroad is required to go through to develop the project and bring it to the point where the big decisions can be made.

Mr. Pawlowski stated that the important points in Section 4 are found on Page 4, Line 26 through Page 5, Line 6 including the grant of the nonexclusive right of way and a process to achieve that right of way from the Department of Natural Resources (DNR). Section 5 is in the uncodified law and is transitional language that gives distinct tasks and line items to the Railroad Corporation to advance the project. He pointed out a provision on Page 6, Lines 8-19 that was added in the Senate Resources Committee that provides a mechanism to cancel progress on the project. The Alaska Railroad is a strong institution with a vibrant board of directors that is accustomed to overseeing project management. The original version of SB 287 included the Alaska Housing Finance Corporation to discuss the financing of the line, however, the entire project was limited to the definition and feasibility of the project as stated in SB 287. He commented that several fiscal notes were received that deserve further attention from the committee.

[11:34:20 AM](#)

Senator Thomas asked about Page 3, Line 16 and the commercial development of the central gas facility. He asked if the reference to a central gas facility was a reference to a new gas pipeline. Mr. Pawlowski responded that the gas treatment plant would be required for any project. The goal of Subsection 2 is to identify points of supply for the project.

Senator Olson asked if a new CEO for the Alaska Railroad will have expertise in the construction of a gas pipeline. Mr. Pawlowski responded that the CEO is not as important as the structure of the Railroad, in that they are exempt from the executive budget act.

Co-Chair Stedman referred to the fiscal notes from Department of Revenue. He detailed the fiscal notes. He discussed the difference and the new fiscal note forthcoming from the Department of Natural Resources.

[11:37:50 AM](#)

FORMER GOVERNOR SHEFFIELD (via teleconference), testified in support of the legislation. He stated that the legislation could advance the project following the foundation work provided in the bill. He pointed out that the Alaska Railroad Corporation is competent to support the issue. He spoke to the importance of the gas line and the creation of jobs including construction. He testified to the Railroad's capabilities.

[11:41:42 AM](#)

JOHN COOK, ALASKA RAILROAD BOARD OF DIRECTORS (via teleconference) testified in support of the legislation. He stated that a bill approved by the legislature and signed by the governor will be carried out to the best of the Alaska Railroad's ability. The railroad appreciates the faith in the industry. He stressed that the backup plan for gas includes the need for a bridging solution in the near term. He noted that the lack of a gas supply is affecting the private sector economy. He provided examples of this lack of gas supply and the effect on various potential projects.

[11:45:25 AM](#)

JOHN BINKLEY, ALASKA RAILROAD ASSOCIATION, FAIRBANKS, testified in support of the legislation. He stated that the Alaska Railroad Corporation Act created by the body and the legislature has a public purpose of economic development. He stressed the need for a strong and profitable customer base. With this bill, the Alaska Railroad will take responsibility for the existing work program with a focus on permitting, right of way, and design to present a feasibility study to the legislature followed by the bankable feasibility statement. He commended the great management team of the Alaska Railroad that despite the transition appreciates the opportunity to be included in the project.

[11:48:40 AM](#)

Senator Huggins asked if the transition of leadership impedes the Alaskan Railroad in relation to this project.

Mr. Binkley responded that no one individual adds to the success of the railroad. He believed that the transition allowed for opportunity to shape the Railroad and in the choosing of a new leader. He pointed out the strong board

of directors. The structure of the railroad has created the vision of public purpose through private sector means to achieve success and provide for economic development for Alaskans.

Senator Huggins commented that a successful instate gas pipeline is in the best interest of the Railroad. Mr. Binkley responded that the Alaska Railroad feels the economic downturn. A period of contraction occurred over the last period of years as revenues have decreased. The economic viability with the advent of instate gas is critical to the Alaska Railroad. He mentioned that the legislature set up the board of directors with commissioners from the Department of Transportation and Public Facilities and the Department of Commerce, Community and Economic Development who work to further the goal of economic development through a transportation infrastructure.

[11:53:58 AM](#)

Co-Chair Hoffman pointed out the fiscal note and the \$9.5 million estimate for pipeline engineering. He asked what product would be procured for the \$9.5 million.

Mr. Binkley answered that the anticipated cost is a preliminary estimate. He noted that the board is waiting to observe the evolution of the legislation prior to determining an exact fiscal note. The anticipated costs with the existing contracts and personnel to pursue the pre feasibility study and the feasibility study contribute to the quoted numbers.

Co-Chair Stedman discussed the fiscal note and the well founded cost estimate for construction due in June 2010.

Mr. Pawolowski responded that the issue was raised with the liaison to the Alaska Railroad. The original bill referenced a permit schedule designed in 2009. With the management transition, the schedule slipped. Current fiscal year work is scheduled for completion on July 1, 2011 which should be accounted for in the current fiscal year. This fiscal note must change to reflect that change in the bill.

[11:56:08 AM](#)

Senator Thomas suggested that the Alaska Railroad's intention is not to build a pipeline. He hoped that the work on permits and engineering would be subcontracted to corporations or entities that have the appropriate experience.

Mr. Pawlowski responded that insulating the existing operations of the railroad from the initial task was the reason for the creation of a subsidiary corporation.

Senator Thomas recognized the importance of the bill and the issues that include the Alaska hire and Alaska Native hire. He recommended changing the timelines to include training programs ensuring that the employees necessary are trained.

Co-Chair Stedman commented about the union agreements and the 0.5 Billion Cubic Feet (BCF) limit of AGIA, which restricts the transportation of the gas supply.

[11:59:33 AM](#)

Mr. Pawlowski referenced Page 3, Lines 29-31 which resulted from communication with the administration. The compatible yet not competitive language referencing the AGIA project was an explicit acknowledgement of the 500 million cubic feet per day limit under AGIA.

Co-Chair Stedman asked if the language included restricts the development to .5 BCF per day or less.

Mr. Pawlowski stated that the language specifically states that the state cannot exceed the half a BCF per day limit without exceeding the trouble damage provision. Scenarios can be reviewed that might exceed 0.5 BCF per day, but in terms of advancing the project, that decision must be taken later.

Co-Chair Stedman asked if 1 BCF per day is required for efficiency the state might encounter triple damage issue under the AGIA contract.

Mr. Pawlowski responded that Page 5, Lines 22-24 tasks the Alaskan Railroad with the identification of legislation that is necessary. He noted that the letters of intent found in sub 2 Lines 16-18 in that the producers and the market of the gas express an interest in something larger

than 0.5 BCG per day, legislation might be necessary to change that in the future.

Co-Chair Stedman asked if this language was too simplistic with the contractual arrangement between TransCanada and Alaska under AGIA. Mr. Pawlowski responded that the contractual obligation is important in the event that greater than 0.5 BCF per day becomes necessary for the project.

Co-Chair Stedman commented that with the efficiency of scale issue, the price at the consumer level is high at 250 million and efficiency of scale is not realized until 750 million is reached. Mr. Pawlowski commented that the official analysis will not be complete until July 1, 2011 under the current cost estimate work carried out.

SB 287 was HEARD and HELD in Committee for further consideration.

#

ADJOURNMENT

The meeting was adjourned at 12:03 PM.