

SENATE FINANCE COMMITTEE

April 15, 2010

9:08 a.m.

[9:08:17 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:08 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

Senator Lesil McGuire, Sponsor; Mike Pawlowski, Staff, Senator Lesil McGuire; Senator Thomas Wagoner, Sponsor; Pat Galvin, Commissioner, Department of Revenue; Senator Charisse Millett, Sponsor; Ted Leonard, Executive Director, Alaska Industrial Development and Export Authority (AIDEA); Conrad Jackson, Staff, Representative Kurt Olson, Sponsor; Sue McLean, Director, Criminal Division, Department of Law; Linda Hall, Director, Division of Insurance, Department of Commerce, Community and Economic Development; Don Etheridge, Alaska State AFL/CIO; Fred Brown, Executive Director, Health Care Cost Management Corporation of Alaska; Representative Bill Stoltz, Sponsor; John Binkley, Chairman, Alaska Railroad Corporation

PRESENT VIA TELECONFERENCE

Carri Lockhart, Marathon Oil; Mark Stearns, Alaska Wood Molding, Anchorage; Peter MacSey, Steel Fab, Anchorage;

Mead Treadwell, Anchorage; Tom Favero, Fairbanks; John Reeves, Fairbanks

SUMMARY

- SB 309 GAS EXPLORATION\DEVELOPMENT TAX CREDIT
- SB 309 was heard and HELD in Committee for further consideration.
- HB 365 FISH PROCESSOR FEES, LICENSES, RECORDS
- HB 365 was heard and HELD in Committee for further consideration.
- HB 90 AIDEA: BONDING/TAXATION/RECORDS
- HB 90 was heard and HELD in Committee for further consideration.
- HB 314 WORKERS' COMPENSATION
- HB 314 was heard and HELD in Committee for further consideration.
- HB 357 AK RAILROAD CORP. LAND SALES
- HB 357 was heard and HELD in Committee for further consideration.
- HB 424 G.O. BONDS:EDUC./LIBRARY/RESEARCH FACIL.
- HB 424 was scheduled but not heard.
- HB 369 IN-STATE PIPELINE/ MANAGER/TEAM
- HB 369 scheduled but not heard.
- HCR 22 ALASKA NORTHERN WATERS TASK FORCE
- HCR 22 was scheduled but not heard.

[9:09:33 AM](#)

#sb309
SENATE BILL NO. 309

"An Act amending and extending the exploration and development incentive tax credit under the Alaska Net Income Tax Act for operators and working interest owners directly engaged in the exploration for and development of gas from a lease or property in the state; providing for an effective date by amending the effective date for sec. 2, ch. 61, SLA 2003; and providing for an effective date."

Co-Chair Stedman noted this was the first hearing of the bill. He said that amendments would be allowed today.

[9:12:12 AM](#)

SENATOR LESIL MCGUIRE, SPONSOR, explained that SB 309 has become an amalgamation of a variety of bills designed to incentivize oil and gas exploration efforts, both in Cook Inlet and in Prudhoe Bay. The first part of the bill deals with Southcentral Alaska which is suffering from a decline in drilling and exploration activities in the Cook Inlet area. Research indicates that by 2013, at the current drilling rate, there is a very real possibility that Liquid Natural Gas would need to be imported from Indonesia. The goal is to increase drilling activity in the area, which is unique and has many challenges.

Senator McGuire addressed the first part of the bill. During the interim, time was spent talking with Cook Inlet explorers in an attempt to develop incentives. The bill amends and extends the exploration and development incentive tax credits that were originally enacted in 2003 under the Alaska Net Income Tax Act. The current bill, SB 309 changes the 10 percent amount to 25 percent of a credit against state income tax liability. The 50 percent limitation on the amount of credits allowed to be taken in a single year was eliminated in SB 309. Now, 100 percent of all qualified credits for exploration and development can be taken in a single year.

[9:14:35 AM](#)

Senator McGuire explained that the second part of the bill would extend the sunset date of the investment tax credit from January 1, 2013, to January 1, 2020, allowing the companies to make longer-term business decisions.

Senator McGuire related that another part of the bill addresses infield drilling vs. new pockets of drilling in Prudhoe Bay. The bill would allow infield drilling to occur and credits taken for that, as well.

Co-Chair Stedman asked for an explanation of infield drilling. Senator McGuire explained that under the original legislation, drilling had to be done outside of an existing well. Infield drilling is done near an existing, proven well reserve. Previously, high risk areas were incentivized; however, this bill allows for infield drilling, as well. The state is willing to take a risk to move into higher risk activities.

[9:17:03 AM](#)

Senator McGuire highlighted the second part of the bill called the "Stamper Provision", provisions added by Senator Wagner. The main idea is to bring a jack-up rig (Section 11) into Cook Inlet. The provision would provide credits for the first, second, and third drillings. It would mean a state investment of between \$24 million to \$54 million. She termed it high risk activity.

Senator McGuire informed the committee about the fixes to Alaska's Clear and Equitable Share (ACES) production tax included in the bill. Small companies are asking for a reduction in the progressivity rate, the allowance of capital credits to be taken in one year, and the ability to access the oil and gas tax credit fund. Senator McGuire pointed out that there are more companies using the tax credits than originally was envisioned.

Senator McGuire stated support for the two proposed amendments.

[9:20:13 AM](#)

MIKE PAWLOWSKI, STAFF, SENATOR LESIL MCGUIRE, reported on the sectional analysis:

Section 1 amends AS 43.20.043 (a) by increasing the gas exploration and development tax credit to 25% on qualifies capital expenditures and annual costs from 10% for investments made after December 31, 2009.

Section 2 amends AS 43.20.043 (b) to conform to the changes made in section 1.

[9:21:14 AM](#)

Section 3 amends AS 43.20.043 (c) to repeal the 50% cap on the application of the gas exploration and development tax credit against the Alaska Net Income Tax.

Co-Chair Stedman asked for clarification of the tax liability. Mr. Pawlowski said it was the corporate income tax liability.

Section 4 amends AS 43.20.043 (e) to ensure that the value of a credit under AS 43.20.043 is passed through to consumers in a rate base submitted to a regulatory agency.

Section 5 amends AS 43.20.043 (g) to clarify that if a taxpayer elects to take a credit under AS 43.20.043 the taxpayer may not also claim a tax credit or royalty modification under other identified sections of Alaska law.

Section 6 amends AS 43.20.043 (i)(1) to allow a taxpayer to claim a credit under AS 43.20.043 for development in an existing field and for an expenditure that does not lead to production. Section 6 also clarifies that topping plants, treatment or liquefied natural gas and other manufacturing plants are not qualified expenditures.

[9:23:46 AM](#)

Section 7 amends AS 43.20.043 to clarify that a credit under AS 43.20.043 may be taken in the year in which the expenditure is made or cost is accrued, or in the following tax year.

Section 8 amends AS 43.55.023 (a) to allow a tax credit taken against a capital investment under ACES to be realized in the year in which the credit is accrued.

Co-Chair Stedman asked if the credit applies statewide or just to Cook Inlet. Mr. Pawlowski said it applied statewide under ACES. All previous sections apply to Cook Inlet.

Section 9 amends AS 43.55.023 (d) to conform to the change in section 8.

Section 10 amends AS 43.55.025 (a) to create a special tiered exploration tax credit of 80, 90 or 100 percent of total exploration expenditures.

Section 11 amends AS 43.55.025 by adding a new subsection (m) to clarify that the special credit established in section 10 is for the first three unaffiliated wells drilled into the pre-Tertiary strata in Cook Inlet using a jack-up drill rig. Also caps credits; lesser of 100% credit or \$25 million, lesser of 90% credit or \$22.5 million; lesser of 80% credit or \$20.0 million. Only one credit per person, may not include cost to construct or manufacture a jack-up rig and must be for work performed after June 30, 2010. If exploration results in sustained production of oil or gas, 50 percent of credit received shall be repaid. Taxpayer obtaining credit in this section may not claim credit under AS 43.55.023 or another provision in this section for the same exploration expenditure. Provides definitions for "jack-up rig", "reservoir" and "sustained production".

[9:26:37 AM](#)

Mr. Pawlowski explained that Section 12 is language that extends the sunset date.

Section 13 amends the uncodified law related to the carry forward of credits accrued under AS 43.20.043 beyond the sunset date of the credit.

Section 14 repeals AS 43.55.028 (e) (2) and (e) (3) which requires a small producer accessing the oil and gas tax credit fund to make additional expenditures within 24 months of claiming the credit.

Section 15 extends the sunset of the tax credit under AS 43.20.043 to 2020 from 2013.

Section 16 adds an immediate effective date.

[9:28:18 AM](#)

Co-Chair Stedman asked for a definition of jack-up rig and the stampede concept.

SENATOR THOMAS WAGONER, SPONSOR, related the history of units in Cook Inlet which have made it more appealing to use jack-up rigs. He stated that almost every place drilled contains gas. He recalled that during the Murkowski era the use of jack-up rigs was proposed to incentivize Cook Inlet. This bill allows for the drilling of three wells off shore using jack-up rigs.

Senator Wagoner explained that a jack-up rig is used for drilling in shallow or deep water. Of the three wells listed in the bill, the first would be incentivized at 100 percent of drilling costs up to \$25 million, the second well would be at 90 percent up to \$22.5 million, and the third well would be at 80 percent up to \$20 million. If a company hits a commercially sized deposit, then once it goes into production, over the next 10 years, the state would receive 50 percent of the credits back. He predicted that the state would make money from this provision.

[9:33:01 AM](#)

Senator Wagoner related that there are currently two or three small independent companies set to take advantage of the provision.

Co-Chair Stedman asked if one entity could qualify for all three incentives. Senator Wagoner said it had to be three different companies with three different wells. In addition, going below the pre-Tertiary level should give the state new, valuable geological information.

[9:34:40 AM](#)

Senator Thomas asked if the tax credits are consistent throughout the bill. Senator Wagoner replied that under the stampede provision information is available to the state. Senator McGuire clarified that as the bill sits now, there is no requirement of disclosure of broader provisions to DNR, such as income tax relief. The companies reported that they would not take the credit if forced to share that data. If the income tax relief is taken, the company does

not qualify for other exploration and development credits which are much more valuable. Companies are required to provide data, except for when it is related to income tax relief.

Senator Wagoner added that there are "corner shooters". If drilling data is made available, competing companies would take advantage of the proximity to wells on land leases with corners.

Senator Thomas thought that a data-collecting aspect could be added later.

[9:38:38 AM](#)

Co-Chair Stedman requested that Commissioner Galvin explain the bill's components.

PAT GALVIN, COMMISSIONER, DEPARTMENT OF REVENUE, suggested the bill be broken down into three segments. The first segment would be targeted credits for gas exploration everywhere south of the North Slope. This section of the bill provides an alternative to using production tax credits in the form of a corporate income tax credit - 25 percent of expenditures for gas exploration. It also enhances an existing program by increasing it from 10 percent to 25 percent.

Commissioner Galvin explained that the second area deals with jack-up rigs, an area DNR has focused on for years. There is an economic hurdle to overcome to get these in place. He opined that they would be used by many companies. The bill provides for a creative way to attract companies to explore and drill new wells.

Commissioner Galvin related that the third category enhances the overall production tax system; capital credits allowed the first year and the elimination of the requirement to make additional investments in order to qualify for a state purchase of capital credit certificates. Existing companies take advantage of these companies; however, new companies don't know if they qualify for full value. The bill eliminates a barrier and allows companies to purchase certificates.

[9:43:50 AM](#)

Co-Chair Stedman recalled past dialogue about splitting credits or postponing them. He requested information about why the credits are allowed to be taken in one year.

Commissioner Galvin explained the reasoning behind that provision. It would enhance the value of the credits. It would be an economic driver for the companies and not have a large impact on the state. From an administrative viewpoint, it is less cumbersome to give the credit at one time.

Co-Chair Stedman asked if that reason overrides the issue of predictability to the state. Commissioner Galvin appreciated the question. He said that during the 50/50 discussion there was merit to spreading the credits over two years. It was discovered that the information-sharing part has proven to be more valuable.

Co-Chair Stedman asked about the timing of the change to one year. Commissioner Galvin explained that the bill is currently written so that the changes take effect immediately, which is problematic. He thought an amendment would clean up the effective date and make the two provisions retroactive to January 1, 2010.

[9:48:01 AM](#)

Co-Chair Stedman noted two fiscal notes, one zero fiscal note from the Department of Natural Resources, and one indeterminate fiscal note from the Department of Revenue.

Senator Huggins MOVED to ADOPT New Amendment 1:

Page 1, line 4, following "in the state;":
Insert "relating to interest on certain underpayments or overpayments for the oil and gas production tax;"

Page 1, line 7, following "basin;":
Insert "relating to the use of the oil and gas tax credit fund to purchase certain tax credit certificates;"

Page 5, following line 21, insert a new section that reads: *Sec. 8. AS 43.55.020 is amended by adding a new subsection to read:

(i) Notwithstanding any contrary provision of AS 43.05.225 or (g) or (h) of this section, if the amount

of a tax payment, including an installment payment, due under (a)(1) - (4) of this section is affected by the retroactive application of a regulation adopted under this chapter, the department shall determine whether the retroactive application of the regulation caused an underpayment or an overpayment of the amount due and adjust the interest due on the affected payment as follows:

(1)if an underpayment of the amount due occurred, the department shall waive interest that would otherwise accrue for the underpayment before the first day of the second month following the month in which the regulation became effective, if

(A) the department determines that the producer's underpayment resulted because the regulation was not in effect when the payment was due; and

(B) the producer demonstrates that it made a good faith estimate of its tax obligation in light of the regulations then in effect when the payment was due and paid the estimate tax;

(2)if an overpayment of the amount due occurred and the department determines that the producer's overpayment resulted because the regulation was not in effect when the payment was due, the obligation for a refund for the overpayment does not begin to accrue interest earlier than the following, as applicable:

(A)except as otherwise provided under (B) of this paragraph, the first day of the second month following the month in which the regulation became effective;

(B)90 days after an amended statement under AS 43.55.030(a) and an application to request a refund of production tax paid is filed, if the overpayment was for a period for which an amended statement under AS 43.55.030(a) was required to be filed before the regulation became effective.

Renumber accordingly.

Page 9, following line 11, insert new sections that read:

*Sec. 15. The uncodified law of the State of Alaska is amended by adding a new section to read:

TRANSITION: APPLICABILITY OF SEC. 8 OF THIS ACT.
Section 8 of this Act applies to taxes, including installment payments of estimated tax, due on or after January 1, 2006.

*Sec. 16. The uncodified law of the State of Alaska is amended by adding a new section to read:

RETROACTIVITY OF SECS. 8-10 OF THIS ACT. (a)
Section 8 of this Act is retroactive to January 1, 2006.

(b) Sections 9 and 10 of this Act are retroactive to January 1, 2010.

*Sec. 17. The uncodified law of the State of Alaska is amended by adding a new section to read:

RETROACTIVITY OF REGULATIONS. Notwithstanding any contrary provision of AS 44.62.240, if the Department of Revenue expressly designates in the regulation that the regulation applies retroactively to a specific date, a regulation adopted by the Department of Revenue to implement, interpret, make specific, or otherwise carry out secs. 8, 9, or 10 of this Act applies retroactively to that date.

*Sec. 18. Section 13 of this Act takes effect July 1, 2010.

Renumber accordingly.

Page 9, line 12, following "Sec. 15.":

Delete "This"

Insert "Except as provided in sec. 18 of this Act, this"

Renumber accordingly

Co-Chair Stedman OBJECTED.

Senator Huggins stated that the amendment represents fair play and prevents unintended consequences from both overpayment and underpayment scenarios from the taxpayers.

Commissioner Galvin explained that the amendment is designed to clarify that when there are regulations requiring retroactivity, the tax penalty would not acquire interest on the underpayment. The department currently has discretion to waive penalties, but not interest.

Co-Chair Stedman asked for a synopsis of the interest rate. Commissioner Galvin explained that the interest rate is a

formula; the higher of either 11 percent or 5 percent above the treasury rate.

Co-Chair Stedman asked how often it is compounded. Commissioner Galvin said quarterly.

Co-Chair Stedman informed the public about a concern the amendment addresses.

[9:51:58 AM](#)

Commissioner Galvin referred to the bottom of page 2 and onto page 3, which clarifies the effective dates of the various sections of the bill.

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

Senator Thomas WITHDREW Amendment 2.

AT-EASE [9:52:53 AM](#)

RECONVENED [9:54:10 AM](#)

Co-Chair Stedman turned to the public testimony portion of the hearing.

[9:54:41 AM](#)

CARRI LOCKHART, MARATHON OIL, (via teleconference), testified in support of the legislation. She commented about the need for on-going, long-term exploration in Cook Inlet. She spoke about uncertainties in the market. She stressed that in order to qualify for the investment tax credit, Marathon Oil has to make capital investments, which will add some value back to the state.

[9:58:13 AM](#)

Senator Wagoner stated that the bill was good for Alaska.

SB 309 was heard and HELD in Committee for further consideration.

AT-EASE [9:59:18 AM](#)

RECONVENED [10:00:08 AM](#)

Co-Chair Hoffman brought the meeting back to order. He noted it was the first hearing of HB 365; however, the companion bill, SB 255, was heard on April 9.

#hb365

HOUSE BILL NO. 365

"An Act relating to sharing records regarding fish purchased by fish processors with certain federal agencies, to requirements to obtain and maintain a fisheries business license, and to payment of industry fees required of fish processors; and providing for an effective date."

SENATOR CHARISSE MILLETT, SPONSOR, explained that the bill enables processors to provide fish tickets to the National Marine Fisheries so the self-imposed commercial fisheries tax can attain a \$21 million loan from the federal government. She noted that the processors were uncomfortable with the amount of \$21 million. She referred to a Letter of Intent in the bill that addresses the understanding that the permit level would not fall below 260 permits. She talked positively about the buy-back mechanism and thought it would be a template for other fisheries.

[10:02:52 AM](#)

Senator Olson asked how many total permits there were. Senator Millett thought there were 380. Total permits fished last year were 212. The total bought back last year was 35. She thought there were 140 latent permits currently not being fished. Senator Olson asked how many permits were from out of state. Senator Millett said there were 193 non-resident permits and 99 of those were fished last year.

Co-Chair Hoffman asked if there was a provision to freeze the value of the permits so that as more permits are bought the remaining do not escalate in cost. Senator Millett replied that the bill did not contain that provision. The Letter of Intent addresses that potential problem.

Senator Thomas asked if there was a requirement to use a permit with any regularity, or if it could sit unused. Senator Millett said that permits were not required to be used on a regular basis. Senator Thomas pointed out that there used to be consistently 415 permits; now there are

380. He inquired what happened to those 35 permits. Senator Millett reported that the fisheries bought back and retired 35 permits.

Co-Chair Hoffman noted two zero fiscal notes, one from the Department of Revenue and one from the Department of Fish and Game, and a Letter of Intent.

HB 365 was heard and HELD in Committee for further consideration.

[10:07:32 AM](#)

#hb90

CS FOR HOUSE BILL NO. 90(FIN)

"An Act relating to bonding limitations and confidentiality of records and information of the Alaska Industrial Development and Export Authority; relating to municipal taxation of interests in certain property of the Alaska Industrial Development and Export Authority; providing for an effective date by amending the effective date of sec. 3, ch. 117, SLA 2000, as amended by sec. 2, ch. 74, SLA 2003, and by sec. 3, ch. 67, SLA 2008; and providing for an effective date."

Co-Chair Hoffman noted it was the first hearing on the bill.

TED LEONARD, EXECUTIVE DIRECTOR, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY (AIDEA), summarized the bill. He related that the first goal of the bill is to remove refunding bonds from AIDEA's bond cap. Refunding bonds retire old debt with new debt, with more favorable terms. He used the refunding of mortgages as an example. Refunding bonds does not affect agency liability. The second part of the bill would reinstate AIDEA's authority to issue bonds that existed before the July 1, 2000 sunset. It would require AIDEA to receive legislative approval for any bond over \$10 million that is issued to finance a development project. He pointed out that AIDEA bonds do not incur a liability for the state.

[10:10:24 AM](#)

Mr. Leonard shared how AIDEA is expanding its role in loan participation programs and in how development projects are done. Having the same bond debt process that was previously in place would allow for more flexibility to fund loans at the best rate.

Mr. Leonard shared the importance of the passage of SB 269, which allows AIDEA to have recovery zone bond allocation. In order for small businesses to participate, especially in rural areas, AIDEA needs to have a new program that could pool small projects in order to issue one bond.

[10:11:43 AM](#)

Mr. Leonard addressed another provision in HB 90 that clarifies which records and information AIDEA would keep confidential. Section 7, the part the House Finance Committee added last year that would extend the DMTS tax exemption, would have a gap due to the bill crossing fiscal years. He understood that HB 10 would take care of that problem. He concluded that the passage of HB 90, in conjunction with SB 269 and HB 10, would provide a stronger, more effective toolbox for AIDEA to assist businesses with attaining access to long-term capital, and to move forward with its strategic plan.

Co-Chair Hoffman noted a zero fiscal note from the Department of Commerce, Community, and Economic Development.

HB 90 was heard and HELD in Committee for further consideration.

[10:14:04 AM](#)

#hb314

CS FOR HOUSE BILL NO. 314(FIN)

"An Act relating to fees and charges for medical treatment or services, civil damages, and penalties as they relate to workers' compensation; and providing for an effective date."

CONRAD JACKSON, STAFF, REPRESENTATIVE KURT OLSON, SPONSOR, explained that the bill relates to medical treatment, service fees, and penalties as they relate to Workers' Compensation. Last year, the bill moved through the

legislature to extend the current fee schedule cap another year and to add a CPI modifier to the schedule. The current cap will expire on December 31, 2010. The extension was done to give the Medical Services Review Committee a little more time to meet and plan a new schedule. Currently, the fee schedule lacks up-to-date medical codes. At the conclusion of the Medical Services Review Committee's meeting, a recommendation to revise the fee schedule was made.

Mr. Jackson explained that Section 1 outlines the basis of the new schedule, which will include services such as emergency transportation, medical supplies, and injections. Sections 2 and 3 clarify the criminal and civil prosecution and penalties for Workers' Compensation fraud.

[10:16:34 AM](#)

Senator Thomas voiced concerns about the Workers' Compensation system as it pertains to fraud. He thought the focus was on the injured worker. Mr. Jackson deferred to others to address criminal law concerns.

SUE MCLEAN, DIRECTOR, CRIMINAL DIVISION, DEPARTMENT OF LAW, clarified that HB 314 is not an expansion into criminal law, but rather a clarification of criminal law. She referred to page 3, line 1, "is civilly liable to a person adversely affected by the conduct, is guilty of theft by deception". She stated that the proposed change separates the civil liability, which is now in Section C, from the criminal liability. It simply says that a person may be prosecuted under AS 11. It specifically addresses Senator Thomas's question. Broadening the statute ensures that fraudulent conduct by other than the employee is dealt with.

[10:21:15 AM](#)

Senator Thomas was still concerned about prosecuting for fraud under Workers' Compensation. Ms. McLean spoke of the difficulty of prosecuting when the statute provides otherwise.

Senator Thomas asked if this was the simplest way to approach the issue. Ms. McLean did not know of any other statute that addressed the issue.

[10:24:14 AM](#)

Senator Olson inquired if medical providers are affected by the expansion in the bill. Mr. Jackson said there had been a number of contacts from the medical community, which is why subsection (D) of Section 1 includes suggestions from the medical community. It is not the intention of the bill to limit services to injured workers.

Senator Olson asked if the medical community is satisfied with the bill. Mr. Jackson said they were.

Co-Chair Hoffman noted a fiscal note for \$75,000 in Workers' Safety Account Funds to cover the cost of producing a Workers' Compensation medical fee schedule from the Department of Labor and Workforce Development and a zero fiscal note from the Department of Law.

LINDA HALL, DIRECTOR, DIVISION OF INSURANCE, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, spoke in support of the bill, but voiced concern about the medical fee schedule that expires on December 31, 2010. She referred to charts in the bill packet that show that medical expenses and premiums in Alaska are significantly higher in the Workers' Compensation arena. She maintained that the fee schedule will not solve the problem, but would help. She responded to Senator Olson's question about the involvement of the medical community, who now are in agreement with the fee schedule. She testified in support of the bill.

[10:28:29 AM](#)

DON ETHERIDGE, ALASKA STATE AFL/CIO, spoke in support of the legislation. He stated that his concerns about fraud issues and medical coverage have been assuaged.

FRED BROWN, EXECUTIVE DIRECTOR, HEALTH CARE COST MANAGEMENT CORPORATION OF ALASKA, reported that he was a Workers' Compensation hearing officer for 25 years. He voiced a concern similar to Senator Thomas's, when a case is reaching a settlement and the insurance company is put in a position of using the criminal code to use leverage to drive down the value of the settlement. The consequence is a reduction in the value of the claim, but also a reduction to the health trust funds. In the settlement phase there is often a desire by the parties to waive future medical

benefits, and in that case the health benefit funds are put in a position of picking up costs.

Mr. Brown concluded with a suggestion to simplify the system by omitting Section 2 (b) in HB 314.

HB 314 was heard and HELD in Committee for further consideration.

[10:34:28 AM](#)

#hb357

CS FOR HOUSE BILL NO. 357(FIN)

"An Act relating to the sale of land owned by the Alaska Railroad that is not necessary for railroad purposes."

REPRESENTATIVE BILL STOLTZ, SPONSOR, explained the reason behind needing the legislation. The bill allows the railroad to sell property to current leaseholders. He referred to written testimony in the members' packets. He stressed that since the bill was brought forth there has been more openness on the railroad's part toward selling of land. The railroad president has indicated a willingness to do business. The lease holding proceeds would be replaced the earnings of any land that may be sold.

[10:38:05 AM](#)

Representative Stoltz spoke of respect for the railroad. He suggested that the state needs a better relationship with the railroad. He concluded that this legislation is one small piece of that effort.

[10:40:01 AM](#)

Senator Thomas brought up the definition of "non-essential", noting that about 50 percent of the railroad's income is from leased property. He spoke of issues in his district regarding the release of property. He questioned various examples of what might be considered non-essential applications.

Representative Stoltz did not have a definition of essential. He said the relationship is based on good faith and trust. He suggested that the bill opens the door to economic development. He did not want to imply that the 350

lease holders should expect their leases turned into available property. Instead, the legislation should allow the business communities and small communities to have an opportunity to engage in a discussion of lease sales.

[10:43:10 AM](#)

Co-Chair Hoffman asked if this bill requires the railroad to follow the Executive Budget Act. Representative Stoltz thought that the issue was worthy of future discussion.

Senator Olson asked if the sponsor was opposed to an amendment that would include the Executive Budget Act. Representative Stoltz thought debate on issues was good.

Co-Chair Stedman commented on the negative process of high jacking bills by one committee over the other. Co-Chair Stoltze added that he respects the committee process.

[10:45:13 AM](#)

Senator Olson inquired about lack of good faith in past disagreements with the railroad. Representative Stoltz replied that the bill does not address that concern.

Senator Olson asked if the sales mentioned in the bill are those that were in previous disputes. Representative Stoltz stated that the bill is advisory and does not intend to involve on-going disputes.

[10:47:03 AM](#)

Co-Chair Stedman noted a zero fiscal note from the Department of Commerce, Community, and Economic Development and a Letter of Intent.

JOHN BINKLEY, CHAIRMAN, ALASKA RAILROAD CORPORATION, explained that the lease of lands carries the railroad through the low financial points. He recalled the history of when the state purchased the railroad from the federal government in 1985, the legislature chose to keep the real estate holdings, about 35,000 acres, to provide income for the people of Alaska. He stressed that the legislation is for the people who own the railroad. He emphasized that the bill allows the railroad to sell land to leaseholders after bringing it before the legislature. He thanked the sponsor for the legislation because it has spotlighted an aspect of the railroad, the leaseholders.

[10:51:00 AM](#)

Co-Chair Stedman asked if Mr. Binkley supports the bill. Mr. Binkley reported being neutral on the bill. Co-Chair Stedman requested that Mr. Binkley submit any suggested changes to his office.

MARK STEARNS, ALASKA WOOD MOLDING, ANCHORAGE (via teleconference), testified in support of the bill. He said he was a leaseholder and he thought the railroad should be able to spend the proceeds of the land sales. He thought the legislation would benefit both the leaseholders and the railroad.

[10:53:31 AM](#)

PETER MACSEY, STEEL FAB, ANCHORAGE (via teleconference), related the tax structure on his property, lease held land for sixty years. He pointed out that he pays property tax for his leased land, as if he owned it. He listed four bills, HB 171, HB 173, SB 142, and SB 165 that authorize transfer of railroad land. He observed that when it's in public interest, it's no big deal; when it's in private interest, it's a big deal.

Co-Chair Stedman stated that a lot of the communities around the state charge property tax for land that is leased.

MEAD TREADWELL, ANCHORAGE (via teleconference), as a leaseholder, thanked the sponsor for the legislation. He thought his property was non-essential to the railroad and he expressed appreciation for a process to buy it. He agreed with Mr. Binkley that real estate revenues are important to the railroad.

[10:57:14 AM](#)

TOM FAVERO, FAIRBANKS (via teleconference), spoke as a leaseholder in support of the bill.

JOHN REEVES, FAIRBANKS (via teleconference), spoke in favor of the legislation so that he could own and make improvements to his property.

HB 357 was heard and HELD in Committee for further consideration.

#hb424

CS FOR HOUSE BILL NO. 424(FIN) am

"An Act providing for and relating to the issuance of general obligation bonds for the purpose of paying the cost of design and construction of library, education, and educational research facilities; and providing for an effective date."

HB 424 was scheduled but not heard.

#hb369

CS FOR HOUSE BILL NO. 369(FIN) am

"An Act relating to an in-state natural gas pipeline, the office of in-state gasline project manager, and the Joint In-State Gasline Development Team; requiring the development of an in-state natural gas pipeline plan, to be delivered to the legislature by July 1, 2011, that provides for a gasline that is operational by December 31, 2015; directing the Joint In-State Gasline Development Team to assume responsibilities under sec. 19, ch. 14, SLA 2009; requiring expedited review and action by state agencies or entities relating to the in-state natural gas pipeline project; and providing for an effective date."

HB 369 was scheduled but not heard.

#hcr22

CS FOR HOUSE CONCURRENT RESOLUTION NO. 22(FIN)

Establishing and relating to the Alaska Northern Waters Task Force

HCR 22 was scheduled but not heard.

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ADJOURNMENT

The meeting was adjourned at 11:01 AM.