

**ALASKA STATE LEGISLATURE
LEGISLATIVE BUDGET AND AUDIT COMMITTEE**

April 25, 2012

3:49 p.m.

MEMBERS PRESENT

Representative Mike Hawker, Chair
Representative Kurt Olson
Representative Mike Doogan
Representative Scott Kawasaki (alternate)
Representative Bill Stoltze (alternate)

Senator Bert Stedman, Vice Chair
Senator Hollis French
Senator Lyman Hoffman
Senator Linda Menard
Senator Thomas Wagoner
Senator Kevin Meyer (alternate)

MEMBERS ABSENT

Representative Mark Neuman
Representative Bill Thomas

COMMITTEE CALENDAR

APPROVAL OF MINUTES
EXECUTIVE SESSION
OTHER COMMITTEE BUSINESS

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

KRISTIN CURTIS
Legislative Auditor
Legislative Audit Division
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Requested consideration for approval of purchases.

ACTION NARRATIVE

[3:49:18 PM](#)

CHAIR MIKE HAWKER called the Legislative Budget and Audit Committee meeting to order at 3:49 p.m. Representatives Hawker, Kawasaki, Doogan, and Olson, and Senators Stedman, Meyer, Menard, Hoffman, and French were present at the call to order. Representative Stoltze and Senator Wagoner arrived as the meeting was in progress.

Approval of Minutes

[3:49:43 PM](#)

CHAIR HAWKER announced that the first order of business would be the approval of the minutes.

[3:51:06 PM](#)

SENATOR STEDMAN made a motion to approve the minutes of March 28, 2012. There being no objection, the minutes from the meeting of March 28, 2012 were approved.

Executive Session

[3:51:23 PM](#)

SENATOR STEDMAN made a motion under Uniform Rule 22 to move to executive session for the purpose of discussing confidential audit reports under AS 24.20.301. There being no objection, the committee went into executive session at 3:51 p.m.

[4:08:26 PM](#)

CHAIR HAWKER brought the committee back to order at 4:08 p.m.

SENATOR STEDMAN made a motion for the final audits for the Virus Free Seed Potatoes Project and the Film Production Incentive Program - Financial Compliance to be released to the public. There being no objection, it was so ordered.

Other Committee Business

[4:08:59 PM](#)

CHAIR HAWKER explained that the oil and gas tax production consultants, PFC Energy, would complete the initial stage of their funding on April 30, 2012. Reporting that he and Senator

Stedman had spoken with the chairs of committees in which the legislation was being considered, he relayed that there was interest for maintaining a contract with PFC Energy throughout the special session. He shared that a daily rate had been agreed upon with PFC Energy, and, although the company had other commitments, there would be "as uninterrupted a service as we possibly could have during the course of the legislative [special] session."

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CHAIR HAWKER asked that the committee amend the current contract with PFC Energy, which was not to exceed \$650,000, to \$900,000, which would include the special session and interim issues and projects should the current issue remain unresolved.

[4:11:23 PM](#)

SENATOR STEDMAN made a motion that the Chairman of the Legislative Budget and Audit Committee be authorized to amend the current contract with PFC Energy to an amount not to exceed \$900,000.

[4:11:37 PM](#)

CHAIR HAWKER objected for discussion.

SENATOR FRENCH asked if the fiscal model would only be delivered after the passage of legislation, in order to adapt it to the legislation. He asked what the time frame was for delivery of the model after legislation was passed, and whether a model would be delivered if legislation was not passed. He asked if model prototypes were currently available, even though the legislation was still undergoing changes.

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CHAIR HAWKER, in response to Senator French, explained that the current contract with PFC Energy was comprised of six tasks, which included a fiscal model of the current Alaska tax structure with the capability for modeling proposed changes to the Alaska tax system. The second task was for a comparative analysis of the relationship between proposals from industry groups with those systems of other jurisdictions. The third task was to collect and assess the corporate responses from other stakeholders in Alaska. The fourth task was an assessment of the competing choices and the overall implications for fiscal

terms, which included the final transfer of the work by PFC Energy to the Alaska State Legislature. The fifth task included formal presentations to the legislative committees, and the last was "the retainer section." He clarified that all of the aforementioned were in the original contract with PFC Energy. He offered his belief that the concern by Senator French was for the fiscal model. He explained that the initial contract discussions with PFC Energy recognized that this was a "fluid and dynamic process" and would necessitate the ability to make changes. He offered examples of models to various scenarios, including shifting the progressivity curve to a gross or a net basis, or the ACES (Alaska's Clear and Equitable Share) tax regime, and noted that all of these required changes, edits, and adaptations to the model. He declared that the interpretation from these various models was necessary, in order for the fiscal model to relate to the question being asked. He established that the agreement with PFC Energy was for a fiscal model to be transferred to the Alaska State Legislature "upon completion of the project work program as determined by the chairman of the Legislative Budget and Audit Committee." He confirmed that, should the committee determine not to extend the PFC Energy contract, the most conclusive version of the model would be given to the legislature. He noted that the contract extension with PFC Energy would allow this contract to be terminated without advance notice, and would require that the model referencing specific legislation be given to the committee for possible distribution.

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SENATOR FRENCH expressed his understanding that although there could be possible confusion from additional prototype fiscal models, he did not agree. He asked to clarify that the most current fiscal model would be available from PFC Energy, whether or not legislation was passed, when the legislature adjourned.

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CHAIR HAWKER replied that the contract provided "for a judgment statement" and he read from the contract: "transferable to the Alaska legislature upon completion of the project work program as determined by Chairman Hawker." In response to Senator French, he said that the decision for contract termination would be made "when we get there." He suggested that this would be based on the facts and circumstances, possibly at the end of the special session if the committee was no longer utilizing and

developing the model. He pointed out that the Senate had never requested that PFC Energy share their model.

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SENATOR FRENCH, referencing earlier fiscal models such as ACES and Gaffney, Cline & Associates, stated that these models could be put onto a spread sheet, the numbers could be adjusted to produce different outcomes, and then it could be released to the public. He declared that this was useful for "advancing the public understanding of what we're doing, and our own personal understanding of what each different number meant, rather than asking that a set of parameters be run." He stated that this would allow all the legislators to experiment, rather than route all the requests through Chair Hawker for appropriate determinations. He opined that he preferred this earlier method.

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CHAIR HAWKER offered his belief that the Gaffney, Cline & Associates model was "an entirely different request of a consultant." He declared that the input variables for ACES were straightforward, whereas PFC Energy was offering the exact model which the Legislative Budget and Audit Committee had approved on December 5, 2011. He stated that this was not a "black box" model, but instead, a model to better aid the legislature for understanding the evolving and potential changes to the state fiscal system. He stated that this model style was "to avoid putting some sort of misleading black box model on the internet that said it's as easy as putting in a number and getting an answer." He declared that the projected fiscal changes were far more complicated with very challenging consequences.

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SENATOR STEDMAN reported that he had discussed the PFC Energy model with Janak Mayer, including corporate income tax rates, depreciation, capital expenses, operating expenses, and credits. He declared that the model was very complex, and any change to the variables was difficult to understand without a greater understanding of the model. He compared this to the David Wood model for gas, noting that it was neither complete nor available, even though it had been "in the works for four years." He pointed out that other models were available to give "rough ideas of the impacts of changing variables."

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REPRESENTATIVE KAWASAKI asked if members of the legislature had access to the PFC model, and he requested an opportunity to view the model.

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CHAIR HAWKER replied that the model and the work by PFC Energy had been available to legislators for the past 90 days. He noted that procedures had been established for the utilization of these consultants: top priority to committee chairs currently hearing the relevant bills; and the next priority for members of the committees actively involved in that legislation. He confirmed that individual members of the legislature were also able to talk with PFC Energy, or other legislative consultants. He suggested that any specific requests be made to him, and he would attempt to make the consultants available, as determined by the established prioritizations, while observing "the most efficient and effective utilization of the limited consulting resource that we have." He declared that this availability had become even more limited during the special session.

[4:27:34 PM](#)

REPRESENTATIVE DOOGAN, declaring that he was not competent to judge the work of PFC Energy, asked if the company had done the requested work, and if there was still sufficient work to justify the contract extension.

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CHAIR HAWKER offered his belief that the work had been accomplished, on time and on budget. He projected that, as there was the potential for a 30 day special legislative session, he had multiplied the 30 days by the PFC Energy daily rate, and arrived at the amount for the requested contract extension. He reflected that this would allow a reasonable amount of work to be accomplished.

[4:29:31 PM](#)

SENATOR STEDMAN expressed his agreement with Chair Hawker for the work by PFC Energy. He acknowledged that he did not know what changes might be forthcoming to the proposed taxation from the House Resources Standing Committee, and of those proposed

changes, which ones might replicate work already done or might require modifications. He declared that all the PFC Energy documents were available to both the House and the Senate.

[4:30:24 PM](#)

CHAIR HAWKER explained that the proposed contract was not for a fixed fee, and clarified that there would not be any obligations should the legislature adjourn early.

REPRESENTATIVE DOOGAN proffered his assurance that the contract proposal was a reasonable projection.

[4:31:37 PM](#)

CHAIR HAWKER removed his objection.

[4:31:47 PM](#)

SENATOR FRENCH stated his objection.

[4:32:05 PM](#)

A roll call vote was taken. Representatives Olson, Doogan, Stoltze, and Hawker and Senators Menard, Wagoner, Meyer, and Stedman voted in favor of the contract proposal. Senator French voted against it. Therefore, the contract amendment for PFC Energy was approved by the Legislative Budget and Audit Committee by a vote of 8 yeas - 1 nay.

[4:33:32 PM](#)

KRISTIN CURTIS, Legislative Auditor, Legislative Audit Division, Alaska State Legislature, requested that the Legislative Budget and Audit Committee consider and approve the solicitation and purchase of a new project and time accounting system. She projected that the system would cost \$85,000, as of the latest proposal received today. She assured the committee that her division would submit an RFP (request for proposal) to ensure the most competitive price available. She described that the current system was implemented in 1999, and had "reached the end of its useful life" as the operating system, Windows 95, was no longer supported. She explained that the system was used to manage projects, which included billing for single audit hours, and to prepare cost allocation plans.

[4:35:45 PM](#)

SENATOR STEDMAN made a motion that the Legislative Budget and Audit Committee authorize the Legislative Auditor to solicit and purchase a time and project accounting system not to exceed \$85,000. There being no objection, it was so ordered.

[4:36:08 PM](#)

MS. CURTIS requested that the Legislative Budget and Audit Committee consider and approve the solicitation and purchase of a new color copier, printer, and fax. She projected that the system would cost \$34,000, and based on the State of Alaska negotiated state-wide contract, no procurement process would be necessary. She explained that the Legislative Audit Division desired to change the report format to a more cost effective binding, and add color, to produce a more professional, polished audit report.

[4:37:07 PM](#)

SENATOR STEDMAN made a motion that the Legislative Budget and Audit Committee authorize the Legislative Auditor to solicit and purchase a color copier, printer, and fax in an amount not to exceed \$34,000. There being no objection, it was so ordered.

CHAIR HAWKER expressed his support for any necessary equipment purchases.

[4:38:19 PM](#)

ADJOURNMENT

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 4:38 p.m.