

SENATE FINANCE COMMITTEE

April 4, 2012

9:05 a.m.

[9:05:57 AM](#)

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:05 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Senator Joe Paskvan; Tim Lamkin, Staff, Senator Gary Stevens; Ted Madsen, Staff, Representative Max Gruenberg; Janak Mayer, Manager, Upstream & Gas, PFC Energy;

SUMMARY

SCR 24 COMMISSION ON 100TH ANNIV. OF LEGISLATURE

SCR 24 was REPORTED out of committee with a "do pass" recommendation and with a new fiscal impact note from Legislative Council.

SB 100 PERS TERMINATION COSTS

CSSB 100(FIN) was REPORTED out of committee with a "do pass" recommendation and with a new fiscal impact note from the Department of Administration.

SB 192 OIL AND GAS PRODUCTION TAX RATES

SB 192 was HEARD and HELD in committee for further consideration.

SB 203 ENERGY ASSISTANCE PROGRAM & VOUCHERS

SB 203 was was SCHEDULED but not HEARD.

CSHB 129(FIN) DECEASED VETERAN DEATH CERTIFICATE

SCS CSHB 129(STA) was REPORTED out of committee with a "do pass" recommendation and with a previously published fiscal impact note: FN2(DHSS).

#sb100

SENATE BILL NO. 100

"An Act relating to employer contributions to the Public Employees' Retirement System of Alaska; relating to requirements that employers who terminate some or all participation in the Public Employees' Retirement System of Alaska pay termination costs; and making the changes retroactive."

[9:07:29 AM](#)

Co-Chair Hoffman MOVED to ADOPT the proposed committee substitute for SB 100, Work Draft 27-LS0272\E (Wayne, 4/3/12.)

[9:07:48 AM](#)

Co-Chair Stedman OBJECTED for the purpose of discussion.

[9:07:55 AM](#)

SENATOR JOE PASKVAN, explained that the CS was introduced in response to concerns raised by committee members. He related that the most important change was found in Section 1, of the CS that related to AS 39.35.255a, which established a "floor" for base salaries, as of June 30, 2008. He noted that the provision was left unchanged. He reported that Section 2 and Section 5 allowed a municipal employer to exclude up to 20 percent of its employees

[participation in the retirement plan] without triggering termination costs. He shared that the Alaska Municipal League felt the changes in the CS were a "reasonable" compromise. He concluded that the intent of the CS was to include the "20 percent rule", [20 percent partial termination rule] and maintain the salary base.

9:10:44 AM

Co-Chair Stedman REMOVED his OBJECTION. There being NO FURTHER OBJECTION, Work Draft 27-LS0272\E was ADOPTED.

Senator Paskvan summarized SB 100. He explained that the legislature passed a law [SB 125 enacted in 2008] which attempted to pay off the unfunded liability in the retirement system [Public Employees' Retirement System (PERS)] over time. The law required that municipal employers paid a 22 percent contribution rate on the greater amount of either a combined defined contribution and defined benefit salary base or total payroll beginning on June 30, 2008. The established floor addressed a concern that employers might convert PERS positions to non-PERS positions in order to reduce their PERS costs and transfer an unfair burden of the unfunded liability to the employees who remained in the system. The legislation allowed municipalities to transfer up to 20 percent of its employees to a different plan without the statutorily induced consequences of paying the costs of a termination study and the potential assessment of double the 22 percent for the terminated employees.

Senator Egan wondered if the provisions in the CS would still alleviate the concerns of small communities like Anderson. Senator Paskvan could not remember the details but thought the CS would provide relief.

Co-Chair Stedman noted that the fiscal note (FN 2 ADM) from the Department of Administration in the amount of \$86.6 thousand in FY 3013, reimbursed the department for cost related to the retroactivity clause in Section 9 and Section 10 of the legislation.

Co-Chair Hoffman MOVED to report CSSB 100(FIN) out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

[9:15:38 AM](#)

CSSB 100(FIN) was REPORTED out of committee with a "do pass" recommendation and with a new fiscal impact note from the Department of Administration.

#scr24

SENATE CONCURRENT RESOLUTION NO. 24

Establishing the Alaska Legislative Celebration Commission to organize events to commemorate the 100th anniversary of the first convening of the legislative branch of government in Alaska.

[9:16:18 AM](#)

TIM LAMKIN, STAFF, SENATOR GARY STEVENS, explained that the resolution established a small commission comprised of four legislators and three public members to plan and coordinate the 100th anniversary commemoration of the state legislature. The first territorial legislature convened on March 3, 1913.

Co-Chair Stedman discussed the fiscal note (FN 1 LEG). He reported that the fiscal note appropriated \$103 thousand in general funds to cover travel and per diem costs for the commission members.

Co-Chair Hoffman MOVED to report SCR 24 out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

SCR 24 was REPORTED out of committee with a "do pass" recommendation and with a new fiscal impact note from Legislative Council.

#hb129

CS FOR HOUSE BILL NO. 129(FIN)

"An Act relating to providing a death certificate for a deceased veteran without charge."

[9:18:25 AM](#)

TED MADSEN, STAFF, REPRESENTATIVE MAX GRUENBERG, explained that the bill provided four copies of a death certificate

for a deceased veteran for the purposes of eligibility benefits. The eligible individual was responsible for acquiring the certificates from the Division of Public Health, (Department of Health and Social Services).

Co-Chair Stedman pointed out that the Department of Health and Social Services fiscal note (FN 1 DHS) appropriated \$75 thousand in general funds to replace the reduction in program receipts for the Bureau of Vital Statistics.

Co-Chair Hoffman MOVED to report SCS CSHB 129(STA) out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

[9:19:53 AM](#)

SCS CSHB 129(STA) was REPORTED out of committee with a "do pass" recommendation and with a previously published fiscal impact note: FN2 (DHSS)

[9:20:08 AM](#)

AT EASE

[9:25:33 AM](#)

RECONVENED

#sb192

SENATE BILL NO. 192

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

[9:26:56 AM](#)

JANAK MAYER, MANAGER, UPSTREAM & GAS, PFC ENERGY, commented that the presentation, "Discussion Slides: Alaska Senate Finance Committee", (April 4 2012) (copy on file), contained corrections to numbers from yesterday's discussion on revenue comparisons, ("Discussion Slides: Alaska Senate Finance Committee", (April 3 2012) (copy on file), in an effort to uphold the accuracy of SB 192's model data. He explained that the model did not include property tax data which reduced the operating costs. He discovered that property taxes were included in operating costs in the Department of Revenue's (DOR) data in its "Revenue Sources Book." The difference had relatively

little impact on the ACES (Alaska Clear and Equitable Share) data. He noted a reduction of \$50 million in operating costs. He discovered that the inclusion of property taxes had a large impact on the SB 192 data, which reduced the level of revenue by \$200 million at \$110/bbl. (per barrel) price of oil in FY 2013.

He turned to Slide 2, "FY 2013 Revenue Comparison." The slide depicted two graphs that compared ACES, CSSB 192, and HB 110 (HB 110-Production Tax on Oil and Gas) provisions. The graphs illustrated revenues generated to the state from production tax and cash to oil companies. He noted that the HB 110 data illustrated significantly reduced revenue at prices of \$60/bbl. up to \$200/bbl. The provisions in CSSB 192 provided the state with more revenue and mimicked ACES up to \$100/bbl. then diverged from ACES and showed a revenue reduction with significant reduction at \$130/bbl. up to \$200/bbl., which placed revenue for the state at a middle point between HB110 and ACES. He cited the second graph; cash to companies that depicted an exact inverse when compared to state revenues. [The provisions of HB 110 provided more cash to companies, the least from ACES, with CSSB 192 in between.]

[9:31:47 AM](#)

He identified Slide 3, "FY 2013 Revenue Comparison" that portrayed two graphs comparing the "total state take" and "total government take."

He explained slide 4 titled, "FY 2013 Revenue Comparison." The chart depicted production tax, total state take, total government take, cash to companies, and FY 2013 percentage of government take at various prices per barrel of oil under HB 110 , CSSB 192, and ACES. He relayed that at \$110/bbl. the production taxes were \$4.782 billion under ACES, \$4.263 billion under CSSB 192, and 3.075 billion under HB 110. He noted that HB 110 authorized that all capital credits may be claimed under a single year instead of spread over two years. He stated that the figure represented the claimed capital credit allowance under HB 110. In the future production tax revenue would amount to an additional \$100 million to \$200 million less than under ACES.

Co-Chair Hoffman remarked that the industry sought increased revenue at high oil prices. He referred to the

"cash to companies" column in the chart on slide 4 and noted that at \$110/bbl. industry received \$4,582 billion under ACES and \$4,890 billion under CSSB 192. He added that at \$200/bbl. companies received \$7,440 billion under ACES and \$9,170 billion under CSSB 192. He stated that at \$150/bbl. to \$160/bbl. price of oil CSSB 192 granted industry approximately \$1 billion more over ACES. Mr. Mayer agreed and stated that was how CSSB 192 was designed to work. Progressivity was significantly reduced from ACES levels beginning at \$125/bbl.

Co-Chair Hoffman observed that CSSB 192 accomplished reducing the disparity between industry and the state of Alaska revenues as oil prices rise. Mr. Mayer agreed.

[9:36:17 AM](#)

Senator McGuire commented that she liked what CSSB 192 accomplished for the legacy fields, shown on the chart on slide 4. She felt that a balance was struck between the previous version of SB 192 and HB 110. She expressed concern that the incentives in CSSB 192 did not accomplish enough to stimulate new production. She requested projections to the model increasing base rates to 15 percent and 20 percent for incentivizing new production. Mr. Mayer responded that there were a number of ways to further incentivize new production. He reminded the committee that the incentives for new production in CSSB 192 offered a maximum of 5 percent on the progressive gross tax. He suggested that rescinding the 5 percent tax or extending the 7 year limit were alternative ways to increase the new production incentives. He warned that changing the base rate on the profit based production tax was much more difficult to accomplish. Administering different base rates for separate streams of production was complex and problematic. He offered that the only other way to provide more incentives through a change in the base rate was to lower the base rate for all production and try to retain a desired level of government take through taxes on the gross.

Senator McGuire referred to Slide 6, "Total Government Take Comparison Including New Production Incentives" that charted the percentages of government take in FY 2013 under ACES, HB 110, and CSSB 192. She wanted the government take on new production further reduced to 61 to 63 percent. She

requested additional hypothetical data modeling that outcome.

Co-Chair Stedman noted that the committee viewed previous data that modeled a tax structure without progressivity which, significantly reduced government take to the low sixty percent levels.

[9:40:31 AM](#)

Senator Ellis thought that the committee's goal for CSSB was "cost neutrality at \$100/bbl." He was uncertain that the projections on the slide reflected the goal. He queried whether that was still the objective. Co-Chair Stedman answered, "yes." He stated that the goal was to accomplish revenue neutrality at \$100/bbl. He reiterated that the model was adjusted for property taxes and shifted the states position downward. He noted a \$300 million dollar difference as a result and wanted to rectify the gap.

Senator Ellis wondered what options existed to achieve neutrality. Co-Chair Stedman advised that the progressivity calculation could be raised. Senator Ellis asked for confirmation that with further adjustments in the model, the state remained revenue neutral at \$100/bbl. Co-Chair Stedman agreed and added that as the model was refined the committee would revisit the position.

Senator Ellis stated that he appreciated the attention to detail in the process. He worried that the floor of the legislation did not fit the situation and requested an improvement over the Resources Committee version of the bill.

[9:43:44 AM](#)

Co-Chair Stedman related that he requested adjustments to the model relating to the floor. The adjustments necessary was the difference between the legacy fields and smaller fields. He referenced the chart on slide 4, the section, "Total State Take" at \$40/bbl. The total state take under ACES was \$1.414 billion and \$1.711 billion under CSSB 192. He determined "that was the effect of the floor", and was difficult to adjust. A prolonged price of \$40/bbl. created more problems than just the floor. He cited the total state take at \$100/bbl. under ACES was \$7.629 billion and under CSSB 192, \$7.310 billion. He remarked that the difference

between the figures was the revenue neutral gap that needed adjustment. He added that the data for the model needed further scrutiny to determine what credits, impacts, and oil fields were included in the figures to ensure accuracy.

Mr. Mayer turned to Slide 5 titled, "FY 2013 Revenue Comparison - Adjusted for \$400mm Credits Not Claimed Against Current Production." He explained that the numbers were adjusted down by \$400 million from the chart on slide 4, to clarify the impact of the additional credits on production tax and total state take.

He identified the slide on page 6 titled, "Total Government Take Comparison Including New Production Incentives." He reported that the graph and chart illustrated the difference between the percentage of government take for ACES, HB 110, and CSSB 192 for new production and existing production. He offered that the percentages for HB 110 represented entirely new production. The definition of new production for CSSB 192 was a work in progress. The intention was to significantly expand the definition compared to the designation of new production found in HB 110.

[9:48:49 AM](#)

In response to a question by Co-Chair Stedman, Senator McGuire responded that she was convinced by further testimony that adjustments to the base rate solely for new production was detrimental to the model and withdrew her earlier request.

Co-Chair Stedman wanted flexibility in the model. He thought that if a new type of oil discovery needed further incentive in the future, adjustments to progressivity or other type of modification could be made instead of necessitating changes to the structure that complicated the accounting process.

Senator McGuire felt that the model enabled the analysis of various types of incentives and how to achieve that with progressivity. She requested that PFC model a 10 year timeline instead of 7 year timeline. Co-Chair Stedman believed that with the "time value of money" the longer the timeline of an oil production curve the least impact was felt.

Co-Chair Stedman remarked that a solution that dealt with incremental production from the legacy fields was the last big component in CSSB 192 that required consideration. Various options were being examined and would be introduced to the committee in a timely manner for discussion and input from the administration, and industry.

SB 192 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

9:53:05 AM

The meeting was adjourned at 9:53 AM.