

HOUSE FINANCE COMMITTEE
March 28, 2013
1:53 p.m.

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CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:53 p.m.

MEMBERS PRESENT

Representative Bill Stoltze, Co-Chair
Representative Mark Neuman, Vice-Chair
Representative Mia Costello
Representative Les Gara
Representative Lindsey Holmes
Representative Scott Kawasaki, Alternate
Representative Cathy Munoz
Representative Steve Thompson
Representative Tammie Wilson

MEMBERS ABSENT

Representative David Guttenberg
Representative Alan Austerman, Co-Chair
Representative Bryce Edgmon

ALSO PRESENT

Rex Shattuck, Staff, Representative Mark Neuman; Michael Foster, Chair, Board of Directors, Knik Arm Bridge and Toll Authority; Paul Grossi, Lobbyist, Iron Workers of Alaska; Tom Brice, Alaska District Council of Laborers, Anchorage; Lois Epstein, Self, Anchorage; Joe Michel, Staff, Representative Bill Stoltze; Representative Mike Hawker, Sponsor; Rena Delbridge, Staff, Representative Mike Hawker; Patricia Hull, Alaska Film Group, Juneau; Randy Daly, Film Industry Participant, Kenai; D.K. Johnston, Alaska Filmmakers, Anchorage; Ron Holmstrom, Screen Actors Guild and American Federation of Television and Radio Artists, Anchorage; Representative Shelley Hughes.

PRESENT VIA TELECONFERENCE

Larry DeVilbiss, Mayor, Mat-Su Borough; Dan Sullivan, Mayor, City of Anchorage; Verne Rupright, Mayor, City of Wasilla; Susanne DiPietro, Self, Anchorage; Aves Thompson, Executive Director, Alaska Trucking Association, Anchorage; Bob French, Self, Anchorage; James Kenworthy, Self, Anchorage; Darcy Solomon, Member, Mat-Su Borough Assembly; Mike Delvin, CEO, Evergreen Films, Anchorage; Cody Lawhorn, SprocketHeads LLC, Anchorage; Deborah Schildt, President, The Alaska Film Group, Anchorage; Diana Fejes, Tax Consultant, Anchorage; Pius Savage, OMA YACON Pictures, Anchorage; Gary Zimmerman, General Manager, Alaska Rental Car Inc., Anchorage; Merna Jenson for Kelly Bender, Lazy Otter Charters, Whittier/Anchorage; Robin Kornfield, Vice President, Corporations and Marketing, NANA Regional Corporation, Anchorage; Steve Rychetnik, Cinematographer, SprocketHeads LLC, Anchorage; Maya Salganek, Director, University of Alaska Fairbanks Film Program, Fairbanks; Charlie Hewitt, Mirror Studios, Anchorage.

SUMMARY

HB 4 IN-STATE GASLINE DEVELOPMENT CORP

HB 4 was HEARD and HELD in committee for further consideration.

HB 23 KNIK ARM BRIDGE AND TOLL AUTHORITY

HB 23 was HEARD and HELD in committee for further consideration.

HB 112 REPEAL FILM PRODUCTION TAX CREDIT

HB 112 was HEARD and HELD in committee for further consideration.

#hb23

HOUSE BILL NO. 23

"An Act relating to bonds of the Knik Arm Bridge and Toll Authority; relating to reserve funds of the authority; relating to taxes and assessments on a person that is a party to an agreement with the authority; and establishing the Knik Arm Crossing fund."

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REPRESENTATIVE MARK NEUMAN, SPONSOR, communicated that HB 23 primarily worked on the Knik Arm Bridge and Toll Authority (KABATA) and the effort to build a bridge across Cook Inlet. The bill would allow a public-private partnership to move forward.

Co-Chair Stoltze clarified that the bridge would cross Knik Arm.

Vice-Chair Neuman confirmed that the bridge would cross Knik Arm. He detailed that the bill would allow KABATA to form a partnership with a private investor. The legislation would also increase the authority of pass-through federal bonds from \$500 million to \$600 million. He relayed that his staff would provide a sectional analysis.

Co-Chair Stoltze noted that an extensive committee conversation on HB 23 would occur at a subsequent meeting.

Vice-Chair Neuman discussed that the goal was to reduce costs in safety corridors. He spoke to the danger of the current highway systems and to the importance of reducing traffic. He shared that the Mat-Su Borough had provided information on future expansions into Point MacKenzie; the information showed a prospective town-site plan in anticipation of the bridge. The area was located north of the 14 square mile industrial port where a potential pipeline could run. He expounded that a rail spur would be located in the area and modules for Prudhoe Bay were built there as well. He pointed to new information from the Department of Revenue (DOR) related to moral obligations. He looked at the last page of a DOR letter and observed that the commissioner had tremendous confidence in KABATA's revenue projections and financial analysis. He discussed earlier testimony by Representative Mike Hawker related to the benefits of moving a project forward with private sector help. He stated that the public-private partnership was a new model being used across the United States to provide increased funds for transportation projects; users also paid for the projects.

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Vice-Chair Neuman emphasized the importance of the legislation to his community and further west into the Mat-

Su region. He relayed that one of the goals was to turn state resources into jobs for Alaskans.

Co-Chair Stoltze noted that a slideshow would not be presented during the meeting.

REX SHATTUCK, STAFF, REPRESENTATIVE MARK NEUMAN, provided a sectional analysis:

Section 1 repeals and reenacts AS 19.75.211(a). Authorizes the authority to borrow money and issue refund bonds on which the principal and interest are paid out of and secured by (1) the gross revenue derived from fees, rents, tolls, rates, charges, and other revenue; (2) revenue received by a private person or enterprise that has entered into a public-private partnership agreement with the authority; or (3) any revenue or money appropriated to the authority for that purpose, except a state tax or license.

Section 2 raises the limit on the amount of aggregated bonds the authority may issue to \$600,000,000.

Section 3 adds a new subsection to AS 19.75.211 that requires the authority to submit to the state bond committee a description of the bond issue before issuing bonds. The bonds may not be issued unless the state bond committee finds that the revenue can reasonably be expected to be adequate for payment of principle and interest on the bonds.

Section 4 amends AS 19.75.221(h) to specify what must be deposited in the reserve fund, which includes revenue derived by the authority from fees, rents, tolls, rates, charges, or other revenue appropriated for that purpose; and other revenue available to the authority.

Section 5 adds new subsections to AS 19.75.221. Subsection (i) specifies the specific purposes for which the money in the reserve fund can be used. Subsection (j) allows the authority to transfer income or interest earned by the reserve fund to other funds or accounts of the authority as long as the transfer does not reduce the reserve fund to less than the reserve fund requirement. Subsection (k) specifies how to value securities the fund is invested in to compute

the amount of the reserve fund. Subsection (1) requires the chair of the board to notify the governor annually of the amount required to restore the reserve fund to the reserve fund requirement. Subsection (m) defines "reserve fund requirement."

Section 6 amends AS 19.75.261 to exempt any real and personal property, assets, income, or other interests held by a private person or enterprise under a public-private partnership from all ad valorem taxes on real or personal property and special tax assessments of the state or a political subdivision of the state.

Section 7 adds a new section, AS 19.75.345, that establishes the Knik Arm Crossing fund.

Representative Gara asked whether there was a cap on the reserve fund.

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Vice-Chair Neuman replied that the fund would be capped at \$150 million. He detailed that the governor's proposed transportation plan included \$10 million for the current year and \$35 million for the next four years.

Representative Gara asked whether the fund could go beyond \$150 million. He asked for the location in the bill.

Vice-Chair Neuman replied that it was not expected to reach \$150 million. He did not know whether there was a cap. He noted that the KABATA board chair was available for technical questions.

Co-Chair Stoltze noted there was not an effort to exceed the \$10 million appropriation [for the current year].

Vice-Chair Neuman agreed. He added that if the bill moved forward, but the governor did not sign the contract, the money would be returned to the general fund.

Representative Gara surmised that there was no cap [on the reserve fund], but that people would be careful about the amount. He pointed to past testimony by some stating that the project could be short by \$1.5 billion due to a lack in toll revenue; he understood that KABATA disagreed with the statement. He asked whether the state would be responsible

for making up the difference if tolls were not adequate to cover the cost of bridge operation and construction in the long-term.

MICHAEL FOSTER, CHAIR, BOARD OF DIRECTORS, KNIK ARM BRIDGE AND TOLL AUTHORITY, replied in the affirmative. He added that the funding would be subject to appropriation.

Representative Gara noted that the bill did not contain language specifying that the state could owe the money. He wondered if the moral obligation was related to how the bonds worked.

Mr. Foster answered that the public-private partnership financial plan model specified that KABATA was responsible for making the availability payments. He explained that the reserve fund would cover payments to the private developer in the initial years when a shortfall in revenue would occur. He expounded that the financial market was reliant on the "subject to appropriation" language, specifying that the state would secure any payments that KABATA could not make.

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LARRY DEVILBISS, MAYOR, MAT-SU BOROUGH (via teleconference), testified in strong support of the legislation. He stated that every mayor in the Mat-Su Borough supported the project. He discussed that the community was in the process of laying out two town-sites that would be located at the northern end of the project; the location included new high school and middle school projects. He stated that without the infrastructure from KABATA the community was paying a price in blood. He stressed that current transportation infrastructure needed to be taken in a different direction because the fastest growing areas were on the west side of the region. He was shocked to see that the fatal injury rate per 100,000 miles was 22.48 on the Knik Goose Bay Road compared to 17.3 on the Parks Highway, 13.1 on the Turnagain Arm Highway, and 13.2 on the Seward Highway. He emphasized that the infrastructure was needed for residents' safety. He reminded the committee that the importance of the issue went much further than the borough; the Alaska Municipal League Conference of Mayors had voted in support of the project the prior year.

Co-Chair Stoltze commented on the tragic [highway] statistics from the Mat-Su Valley.

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DAN SULLIVAN, MAYOR, CITY OF ANCHORAGE (via teleconference), spoke in support of the legislation. He stated that the project would create over 1,000 jobs during its construction phase. He discussed that people were stranded when Glenn Highway closures occurred; the bridge would provide an important alternate route. He communicated that the Port of Anchorage was the primary state port, which generated significant truck traffic through the downtown area; the bridge would divert the traffic away from downtown. He believed the reduction in truck traffic would improve the quality of life in the city. He stated that over 98 percent of Anchorage's developable land had been developed; he believed the bridge would provide access to new undeveloped land for commercial and residential use in Mat-Su. He opined that a bridge with access to developable land was a great economic development concept in light of population growth in Mat-Su. He communicated that with population growth in Anchorage and Mat-Su, the Glenn and Parks Highways would be expanded; the projects would cost billions of dollars. He believed accommodating an alternate route that would provide toll revenue and would not require highway expansions was a "win-win."

Representative Gara referred to Department of Transportation and Public Facilities testimony that the highway expansions would take place with or without the bridge. Mr. Sullivan replied that a near-term expansion in conjunction with the bridge may preclude another expansion later on.

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VERNE RUPRIGHT, MAYOR, CITY OF WASILLA (via teleconference), vocalized strong support for the legislation. He spoke to population growth in the Mat-Su region. He stated that the project would provide a second route to and from Anchorage and would provide a shorter trucking route from the Anchorage port to Fairbanks. He mentioned the potential for heavier cargo and freight from Point MacKenzie. He remarked that if the project had been done over 30 years earlier it would have been significantly less expensive. He opined that population growth in Alaska

would not let up. He believed that the expansion of the Parks Highway corridor in tandem with the bridge would be helpful. He stressed that wider and faster multilane highways were not the answer as discovered in the Lower 48. He stated that a bridge would save truckers time and would open a better connectivity at a lower rate. He was unsure how the financing would all work, but he believed the project was needed for the state's economic health and growth. He emphasized that the project would be a strategic piece of infrastructure on an American national defense level. The bill would tie Port of Anchorage and Mat-Su into the Fairbanks area. He shared that the project would have been stalled for an undetermined period if Wasilla had not brought actions against the Anchorage Metropolitan Area Transportation System (AMATS) in 2009.

Co-Chair Stoltze thanked Mr. Rupright for standing his ground.

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SUSANNE DIPIETRO, SELF, ANCHORAGE (via teleconference), spoke in opposition to the legislation. She suggested that the bill was not about building the bridge, given that the legislature had previously passed enabling legislation for KABATA; the bill related to the financing mechanism for the project. She believed Sections 4 and 5 of the bill took an unprecedented and needless approach that would obligate the state to cover unlimited shortfalls in the project expenses. She detailed that the bill would create a reserve fund to be funded by legislative appropriation and KABATA would use the money to pay its debts and obligations to a private partner. She referenced language in Section 5(1) detailing that KABATA would tell the governor and legislature the amount needed in the reserve fund on an annual basis to cover debts. She noted that the language may seem innocuous; however, it provided a pledge to ratings agencies that the legislature would be responsible for covering any debt due to insufficient revenues. The markets would understand that the debts would be backed by the state.

Ms. Dipietro acknowledged that the legislation did not require the legislature to appropriate money annually; however, a failure by the state to honor the moral obligation would be treated as a default. Subsequently, markets would downgrade the state's credit rating. She

cited a DOR letter to former Senator Joe Thomas warning about the hazard (dated March 30, 2011, copy on file). She believed passing the bill would set the state up for a "Hobson's choice"; the legislature could refuse to appropriate funds, which would result in damage to the state's credit rating or it could continue to spend money that the state may not be able to afford. She emphasized that using a moral obligation reserve fund to cover operating expenses had never been allowed in Alaska and should not be allowed for the [KABATA] project. She expounded that the project would greatly expand the existing financial risk the state would be exposed to by the project. She stressed that passing the bill could create financial exposure that could cause rating agencies to negatively respond when reviewing the state's credit rating for future bonds. She pointed to existing statute that currently allowed KABATA to create a reserve fund without committing the legislature to continuous appropriations for the life of the project. She urged the committee to delete Sections 4, 5, and 7 of the legislation.

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Representative Kawasaki noted that the letter mentioned by Ms. DiPietro did not appear to be included in members' packets. Ms. DiPietro believed the information had been provided to committee members, but could follow up with the letter.

Co-Chair Stoltze noted that the [DOR] letter would be provided to the committee.

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AVES THOMPSON, EXECUTIVE DIRECTOR, ALASKA TRUCKING ASSOCIATION, ANCHORAGE (via teleconference), testified in support of the legislation on behalf of the association. The organization believed the bridge would provide a needed link to the Mat-Su area, that it would establish an efficient freight corridor to Interior and northern Alaska, and would offer a new route to the Port of Anchorage, which would alleviate truck traffic in downtown Anchorage. Additionally, the association hoped that the project would provide congestion relief on the Glenn and Parks Highways.

Co-Chair Stoltze asked Mr. Thompson if he liked both SB 23 and HB 23. Mr. Thompson replied in the affirmative.

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PAUL GROSSI, LOBBYIST, IRON WORKERS OF ALASKA, spoke in support of the legislation. The organization believed the bill would provide jobs for Alaskans and would establish a corridor towards development that would increase future jobs. Additionally, the organization believed the project was vital for [highway] safety. He told an anecdotal story related to the highway; the organization's manager had been stuck on the highway as a result of a closure due to a police chase for over 8 hours. He urged the committee's support for the bill.

Co-Chair Stoltze recalled the specific highway closure.

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TOM BRICE, ALASKA DISTRICT COUNCIL OF LABORERS, ANCHORAGE, testified in support of the legislation on behalf of the council. He cited safety concerns, the need for additional access, and the opportunity for further economic development as reasons for the council's support.

Representative Gara asked for verification that safety concerns on Knik Goose Bay Road and other areas could be alleviated by widening roads. Mr. Brice replied that laborers generally appreciated expanding access throughout Alaska including Lynn Canal Highway and Knik Arm.

Co-Chair Stoltze remarked that a right-of-way acquisition related to the Palmer Wasilla Highway corridor had been estimated to cost over \$150 million.

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BOB FRENCH, SELF, ANCHORAGE (via teleconference), spoke in opposition to the legislation. He stated that it was important to keep in mind that the bill related to KABATA's current financial plan that would require a moral obligation of the state. He stated that the lack of a low interest federal TIFIA [Transportation Infrastructure Finance and Innovation Act] loan would result in higher financing costs. He stated that the key missing piece of information was how the factors and the accuracy of

KABATA's toll revenue predictions would result in some unknown cost to the state. He remarked that a legislative audit intended to provide guidance on the issue had not been released to the public. He referred to a DOR letter addressed to Senator Joe Thomas stating that the authorization used in the legislation should be further defined to eliminate the ability of a private party to securitize the monetary obligations of KABATA. He noted that DOR had come out with a Request for Proposal (RFP) in January that was supposed to:

...review, verify, and confirm recommended financing structures for the state's participation in the Knik Arm crossing. The selected consultant will be providing assistance to the state in comparative financial analysis of certain aspects of the project's financing proposals. It will advise on the impact of the state finances by participating in the project and advise on the most advantageous terms for the state's participation.

Mr. French stated that unfortunately there had been a protest of the bid award, which meant that the finance committee would not receive the information unless the RFP was reissued. He recommended waiting to hear the legislation until KABATA had submitted a current financial plan and independent, expert reviews were available.

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Representative Gara asked why the current financial plan was different than the prior plan. Mr. French responded that the current plan relied on \$500 million in TIFIA financing, which represented roughly half of the project financing. He continued that when KABATA had been denied the federal funding the prior year, the authority had been told that if any federal money was provided that it would be no more than 33 percent of the project's costs. He furthered that as a result, at least \$200 million in funding would be missing. He stated that any other financing option for the \$200 million would result in higher costs. He communicated that KABATA had testified in prior meetings that the reserve fund could exceed the \$150 million by \$100 million or more due to the higher financing costs. He believed the cost could be approximately \$2.6 billion more.

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LOIS EPSTEIN, SELF, ANCHORAGE, testified in opposition to the legislation. She stated that the proposed Knik Arm bridge was not ready for construction and was not a financially sound investment using the so-called innovative financing mechanism. She relayed that it was not reasonable to assume that the bridge would improve safety on Southcentral roads; there were many ways to improve road safety and building an additional road was not one of the strongest solutions. She stated that the bridge's financial plan showed KABATA receiving a \$500 million low-cost federal loan; however, it had not been approved for the loan during its five prior attempts. She communicated that the proposed toll was among the highest in the country; therefore, many drivers would likely take the free Glenn Highway alternative. She furthered that KABATA's toll revenue forecasts were based on its consultant's projection of Mat-Su population growth, which was far greater than projections from other sources including DOR and the UAA Institute of Social and Economic Research.

Ms. Epstein continued that its bridge revenue projections were inconsistent with all other experts including AMATS. She noted that KABATA's consultant put most future growth in the western region of the borough, not in the Wasilla/Palmer areas where most experts believed the most growth would occur. She was disappointed that the state's plan to conduct an independent audit of bridge toll revenue was recently canceled. She relayed that any needed Glenn Highway expansion could be toll-funded including levying tolls only at peak times in order to spread out traffic; electronic tolling could be used, which would prevent the need for drivers to slow down.

Ms. Epstein pointed to a project cost of \$2.6 billion and noted there were substantial costs to the state that had been unaccounted for by KABATA. She urged committee members to spend time analyzing the project to ascertain how much the project would cost the state on an annual basis. She stressed that inaccurate traffic projections had resulted in an annual subsidy of more than \$2 million for the Whittier tunnel, which was a much smaller toll project; traffic had peaked in 2007. She emphasized that a subsidy could reach \$4 million per month. She accentuated that the bridge was not a wise fiscally conservative investment and that it would harm the state's transportation

infrastructure as a whole by syphoning away money that would otherwise be spent on maintenance and upgrades to existing roads and bridges.

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JAMES KENWORTHY, SELF, ANCHORAGE (via teleconference), testified in opposition to the bill. He addressed the state's liability in the project and pointed to Section 5 of the bill. He relayed that the state would have a moral obligation and KABATA would annually certify how much working capital it needed the legislature to appropriate to the reserve fund; the state's credit rating would be adversely impacted if the legislature did not appropriate the money. He expected that the contingent liability would cut the state's credit rating if the bill passed and a contract was signed in the fall. He recommended obtaining a DOR opinion in writing related to the effect of the provision on the state's credit rating. He suggested looking to other reserve fund legislation that included language specifying that it did not include an obligation of the state. He emphasized that HB 23 included the most open-ended blank check of all reserve funds considered by the state.

Mr. Kenworthy addressed the size of the cost related to the project. He referenced a memorandum he had provided to committee members (dated March 27, 2013, copy on file) that documented a minimum cost of \$2.6 billion. He stressed that Wilbur Smith (the traffic consultant used by KABATA) had a record on all of its national projects of overestimating toll revenue by 118 percent; two projects in South Carolina and California had gone bankrupt and others were having their finances restructured. He believed the \$600 million extra to finance the bridge through a private party made no sense; KABATA's August 2012 financial sheet showed that the private partner would put in \$72 million in equity and would take out \$737 million in cash flow. He stated that the difference between the State of Alaska (which could borrow long at less than 4 percent) and KABATA's estimate (that they would finance at a 12 percent annual payment) was \$600 million sent outside the state.

Mr. Kenworthy continued that KABATA had 17,000 fewer jobs than the Mat-Su Borough's current forecast. He relayed that KABATA's forecasts assumed over 4 people per household, while the actual number had been between 2.6 and 2.8. He

stated that KABATA's projection of 36,000 bridge trips per day in 2035 was a result of inflated numbers including larger families and more people. He noted that KABATA's number was twice the amount projected by CH2MHill. He concluded that the tolls would be off by a factor of 2. He believed the legislature should wait to review the audit; KABATA had a copy and comments were due on April 4, 2013.

Mr. Kenworthy spoke to how the project's liability compared to other projects under consideration including a dam, the pipeline, and other. He cautioned that the credit rating hit would raise the price of other projects before the upcoming year. He estimated that deficits were approximately \$55 million per year until 2035 and would increase to \$90 million per year due to substantial balloon payments included in the availability payment. He stressed that the deficits were more than the state was providing to AMATS in Anchorage or to Mat-Su; therefore, the bridge deficits would be more than the state aid. He wondered how the issue would be sorted out. He wondered if the cost would be put on the state debt service for allocation to pay \$3,500 over a 35-year period. He stressed the importance of obtaining financial plan if the state was considering financial guarantee. He relayed that the August 2012 plan contained four lanes of revenue and only two lanes of cost. He believed the Legislative Finance Division should review the information or the legislature should wait for the release of a recent audit. He emphasized the need for a financial plan that did not factor in TIFIA as a loan source and that only included traffic from four lanes of revenue when the cost of a four lane bridge was included. He stated that showing four lanes of traffic on a two lane bridge equated to an extra \$1.9 billion.

Mr. Kenworthy concluded that the plan should be for a 9,200 foot bridge; estimates in 2007 had been conducted for an 8,200 foot bridge. He discussed a settlement with the Municipality of Anchorage that would add costs to the east approach road. He relayed that KABATA had not followed its geotechnical consultant's advice to conduct more drilling on the east side of the inlet; there was clay in the area and it was not known how deep the pilings would need to be.

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Representative Gara was concerned about the potential state liability related to toll revenue and the cost of

construction and operation. He wondered if Mr. Kenworthy had an estimate and asked about his qualifications.

Mr. Kenworthy replied that KABATA's estimate for toll revenue was \$4.2 billion over 35 years. He pointed to his memo and relayed that the figures had been volatile since 2007; the projection had been as high as \$6 billion; it was \$4.8 billion in 2011. He stated that all other estimates were half of the estimate. The second issue related to the four lane/two lane financial calculations. He explained that it was necessary to get the balance sheets to a minimum bond-cover ratio of approximately 1.3 (i.e. \$1.20 to \$1.40 of revenue to cover \$1.00 of cost); KABATA's traffic studies showed over 22,000 trips per day. He stated the number was much higher than capacity on a restricted highway by 2026; there were four lanes of traffic with only two lanes paid for through 2051.

Representative Gara asked for an estimate of the state's moral obligation. Mr. Kenworthy estimated the figure to be \$2.6 billion, which he had provided in a paper titled "The Real Cost of the Knik Arm Bridge." He pointed to \$2.1 billion in KABATA's projected toll revenue that he did not believe would come to fruition. He reiterated an issue related to the projection for a four lane bridge. He addressed the lack of a TIFIA loan that had been included in KABATA's financial plan. He stated that TIFIA loans were currently 3.2 percent; however, private market revenue bonds were approximately 7 percent. He believed the bottom line did not relate to the traffic or the TIFIA loan, but to the fact that the bill would provide a complete state guarantee to pay whatever KABATA communicates is necessary to fund the availability payments under a 35-year contract. He emphasized that the cost of the contract with the consortium was not known; the current estimate was \$2.7 billion and previous estimates on KABATA's balance sheets had been up to \$4 billion. He added that the state would suffer a credit downgrade if it did not make up the difference to the availability payments.

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DARCY SOLOMON, MEMBER, MAT-SU BOROUGH ASSEMBLY (via teleconference), spoke in support of the legislation. He believed that testimony against the bill contained fallacies. He had been one of the original KABATA members. He discussed vision that had been responsible for

developing infrastructure in the United States and in Alaska. He recalled the vision to create a 360-degree intermodal transportation corridor that would bring the economies of Anchorage and Mat-Su together; the plan had begun with Port MacKenzie. He stated that there was a three-legged stool including the port, the rail spur to the Interior, and the Knik Arm Bridge. He believed that numbers presented by opposition did not take into consideration the value of what the vision brought to Alaskan residents. He emphasized that the people of Alaska overwhelmingly favored the bridge. He discussed that former Senator Ted Stevens had stated that the bridge could be built if Port MacKenzie was constructed. He addressed transporting natural resources from the Interior and bringing the workforce over from Anchorage. He pointed to a 1,500 bed prison in the area that was one-third full and employed 400 individuals. He stressed that it was necessary to focus on the benefit that the vision would bring and not the cost. He did not believe prior testifiers had been in support of other infrastructure projects including the rail spur. He opined that the bridge would be explosive and worthy for Mat-Su, Anchorage, and the North Star Borough. He emphasized that the project would benefit the state. He stressed that the project was one of the Mat-Su Borough's top priorities. He believed the project would move the economy forward exponentially.

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Co-Chair Stoltze CLOSED public testimony.

Representative Gara noted he had a question related to the moral obligation. Co-Chair Stoltze communicated his preference to have the discussion when there was more time.

Vice-Chair Neuman stated that none of the testifiers in opposition to the bill were experts in traffic analysis. He read from a DOR letter written by Commissioner Butcher dated March 30, 2011 (copy on file):

Finally, you asked about by confidence in the revenue projections and financial analysis provided by KABATA in its March 1 TIFIA letter of interest. KABATA has retained CITI, one of the largest and most successful financial services firms in the world, especially as it relates to government financing of infrastructure projects, to develop its financial models. KABATA

retained Wilbur Smith, a firm that has advised on many successful projects to do its traffic and toll models. I am confident that the revenue projections and financial analysis are objective and done to the highest of professional standards. This is the type of work that will be accepted and relied upon by the institutional investors that may be interested in financing this project.

Vice-Chair Neuman expressed emotion over misstatements that he believed had been made. He discussed current financial restraints and the search for ways to supplement and diversify revenue. He stressed that the bridge development would provide over \$1 billion in private industry investment and 1,500 jobs for the state. He remarked that the state was close to \$1 billion in deficit and pointed to the increased number of people on food stamps. He stressed that the number would continue to increase. He believed it was important to do everything the state could to partner with private industry to create jobs. He mentioned safety issues.

Co-Chair Stoltze noted that the date on the DOR letter from Commissioner Butcher should be changed from March 30, 2010 to March 30, 2011.

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Vice-Chair Neuman noted that the bill moved the project forward to a final design and contractual agreements that would be reviewed by the Departments of Revenue, Transportation, and Law. He stated that road projects were not typically brought back before the legislature for approval; he believed that doing so would be time consuming. He noted that the bill allowed the chief executive under the Department of Law to ensure that the state's interests were protected.

Co-Chair Stoltze stated that the bill would be revisited in the near future.

HB 23 was HEARD and HELD in committee for further consideration.

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AT EASE

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RECONVENED

#hb4

HOUSE BILL NO. 4

"An Act relating to the Alaska Gasline Development Corporation; making the Alaska Gasline Development Corporation, a subsidiary of the Alaska Housing Finance Corporation, an independent public corporation of the state; establishing and relating to the in-state natural gas pipeline fund; making certain information provided to or by the Alaska Gasline Development Corporation exempt from inspection as a public record; relating to the Joint In-State Gasline Development Team; relating to the Alaska Housing Finance Corporation; relating to judicial review of a right-of-way lease or an action or decision related to the development or construction of an oil or gas pipeline on state land; relating to the lease of a right-of-way for a gas pipeline transportation corridor, including a corridor for a natural gas pipeline that is a contract carrier; relating to the cost of natural resources, permits, and leases provided to the Alaska Gasline Development Corporation; relating to procurement by the Alaska Gasline Development Corporation; relating to the review by the Regulatory Commission of Alaska of natural gas transportation contracts; relating to the regulation by the Regulatory Commission of Alaska of an in-state natural gas pipeline project developed by the Alaska Gasline Development Corporation; relating to the regulation by the Regulatory Commission of Alaska of an in-state natural gas pipeline that provides transportation by contract carriage; relating to the Alaska Natural Gas Development Authority; relating to the procurement of certain services by the Alaska Natural Gas Development Authority; exempting property of a project developed by the Alaska Gasline Development Corporation from property taxes before the commencement of commercial operations; and providing for an effective date."

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Representative Costello MOVED to ADOPT the proposed Committee Substitute for HB 4, Work Draft 28-LS0021\R, (Bullock, 3/27/13).

Co-Chair Stoltze OBJECTED for discussion.

JOE MICHEL, STAFF, REPRESENTATIVE BILL STOLTZE, addressed the changes in the CS. He turned to page 4, line 21.

Vice-Chair Neuman asked for a copy of the changes.

Mr. Michel agreed. He began on page 4, line 21 and relayed that the CS changed the governing body from 5 members to 5 public members and 2 department commissioners designated by the governor. Line 24 had been changed from "members" to "public members." Board terms had been changed from 7 years to 5 years (line 30). Additionally, board members would serve at the pleasure of the governor instead of being removed for cause.

[3:25:24 PM](#)

Mr. Michel relayed that because the board had been increased to 7 members language had been increased from a vote of 3 members up to 4 members who were required to approve the sale and issuance of bonds (page 5, line 27). Language on page 6, lines 25 and 26 had been changed from "the corporation shall retain an attorney" to "the corporation shall retain legal counsel"; the change had been made to allow the corporation to hire a law firm or more than one attorney. Additionally, the term "suit" had been changed to "litigation" on line 26. He turned to page 9, line 26 where the term "shall" had been changed to "may" in the sentence: "...the corporation may finance, construct, or operate the natural gas pipeline as necessary." He pointed to the concern that the term "shall" was overly prescriptive and would not give the Alaska Gasline Development Corporation (AGDC) a choice in development decisions (e.g. to determine whether a community even wanted a pipeline).

Mr. Michel moved to page 10, lines 4 and 5. The words "fees, rental rates, and other charges" had been inserted for clarity per a Department of Law (DOL) recommendation. He pointed to page 11, lines 17 and 19 and explained that the bill maintained language that Department of Natural Resources shall grant a right-of-way lease if AGDC agreed

to the contract carrier covenants in AS 38.35.121 and added common carrier covenants in AS 38.35.120. He detailed that AGDC wanted the flexibility to elect or provide service as a common or contract carrier for future pipelines. The word "containing" had been inserted in the sentence: "The portions of records containing information..."(Page 12, line 5). The statute on page 12, line 6 had been changed from AS 40.25.110 to AS 45.25 to exempt the corporation from the Public Records Act (the previous language had exempted the corporation from a portion of the act). The language "if disclosed, could cause commercial or competitive harm" were inserted on page 12, line 19. The words "except for information that is confidential under another provision of state law or under a federal law or regulation" were inserted on page 12, lines 21 and 22. He noted that minor conforming changes to AS 40.25 had been removed.

[3:30:23 PM](#)

Mr. Michel communicated that the language "upon request under AS 40.25" had been inserted on page 12, line 27.

Representative Gara asked for clarification on the page number being discussed.

Mr. Michel replied that he was addressing page 12. He reiterated that the language "upon request under AS 40.25" had been inserted on page 12, line 27. The words "another provision of state law, a federal law or regulation" were inserted following language "disclosure of the information will violate" on page 13, lines 1 and 2. The language "the corporation shall determine fund management and may contract with the Department of Revenue for fund management" was inserted on page 13, lines 6 and 7; the language provided AGDC the option for DOR or another entity to manage the funds. The language "for the cost of managing the fund" was inserted on page 13, lines 11 and 12; the addition provided that the fund management cost would come out of the fund.

[3:32:14 PM](#)

Mr. Michel turned to page 15, lines 13 and 14, which placed AGDC under the Executive Budget Act related to its operating budget and the corporation's subsidiaries. He detailed that the organization's ability to bond and other

similar items were not subject to the act. A section from the prior bill under Article 2 had been removed related to federal taxation of interest on bonds per a DOR recommendation. The department believed the state should not provide investors with reason to think the state may step in and repay the debt in the event that debt was declared taxable; especially in light of current federal discussions related to eliminating municipal tax exemptions. He relayed that the word "private", which had fallen in between the words "the" and "sale" had been removed. He expounded that DOL had recommended that AGDC should have the ability to retain an independent financial advisor with any bond sale.

Mr. Michel moved to page 20 and explained that the bill did not include the term "moral obligation," but the moral obligation was derived by the formation of a capital reserve fund. He read new language on lines 7 through 13:

The corporation may not establish a capital reserve fund as described in this section except as expressly authorized by law. The enactment of this section does not express that authorization. Upon enactment of a law expressly authorizing the establishment of a capital reserve fund described in this section and for the purpose of securing one or more issues of its obligations, the corporation may establish one or more special funds, called "capital reserve funds," and shall pay into those capital reserve funds.

Mr. Michel expounded that the language provided that a capital reserve fund would not be created until AGDC asked for permission from the legislature. A drafting error had been corrected on page 21, line 27 where the word "of" was removed from the language "under of this chapter" to read "under this chapter." On page 24, line 22 the language "a comparison of the corporation's performance with the goals of the corporation," was removed following the word "auditor."

[3:36:51 PM](#)

Representative Munoz asked for the change on page 24. Mr. Michel replied that language had been removed from lines 21 and 22. He noted that a copy of all the changes would be provided to committee members.

Mr. Michel moved to page 38 related to the Regulatory Commission of Alaska (RCA). The language on lines 8 through 11 had previously stated that the RCA could investigate disputes related to a pipeline's open season; the language had been changed to read:

...to resolve the dispute, the commission may order an expansion of an in-state natural gas pipeline or order an open season under the terms provided for an expansion or open season in this chapter or AS 38.35.121(a)(4) and (c).

Mr. Michel addressed page 39, lines 5 and 6 that read "order an expansion of an in-state natural gas pipeline or order an open season under the terms provided for an expansion or open season in this chapter." Language had been inserted on lines 7 through 17 per a DOL recommendation, which allowed the RCA to extend timelines up to 90 days with consent of all parties for one-time only for good cause and written order; the provision did not apply to a precedent agreement filed before the issuance of a certificate, consideration of an application for a contract carriage certificate or an initial recourse tariff. He moved to page 41, line 20 where the words "but not before an initial recourse tariff is approved" had been inserted. He elaborated that the language made the intent explicit that a pipeline would need an RCA approved initial recourse tariff prior to entering into a presubscription agreement with shippers.

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Mr. Michel moved to page 42, line 6 where the words "do not include" had been inserted per a DOL recommendation. On lines 11 and 12 the words "and of uncommitted firm transportation capacity" had been inserted. The word "service" was inserted to read "firm transportation service agreement" on page 43, line 5. The word "approved" was inserted on page 43, lines 8 and 9 in front of the words "recourse tariff." Additionally, the word "approved" had been inserted in front of the words "precedent agreement" on line 14.

Co-Chair Stoltze remarked on how the amendment process would be addressed.

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Mr. Michel turned to page 44, lines 20 and 21 where the language "that the proposed service is not required by public convenience and necessity" was added. He elaborated that the language clarified that an applicant other than AGDC was fit, willing, and able and that the service was in the public convenience and necessity.

Representative Gara asked Mr. Michel to repeat the change.

Mr. Michel repeated the change to page 44, lines 20 and 21. He directed attention to page 46 lines 15 and 22 where the number "90" had replaced the number "30" to read "at least 90 days." The words "depreciable life" replaced the words "economic life" on page 47, line 1. Section (c) had been inserted on page 47, lines 5 through 14.

Co-Chair Stoltze asked for clarification on the change to page 47, line 1. He believed the change should be from "depreciation life" to "depreciable life." Mr. Michel affirmed.

Representative Gara asked if everything in Section (c) had been added on page 47. Mr. Michel responded in the affirmative.

Mr. Michel pointed to page 47 line 17 where the language "or violates a provision of this chapter" had been added. On page 47, line 19 the language had been changed from a 30-day notice period to read "90-day notice period, and the period of suspension."

Co-Chair Stoltze noted that the issue would be thoroughly discussed by the committee.

Mr. Michel continued on page 47, lines 24 and 25 where the clarifying language "after construction or an expansion of the pipeline, and at any time that a carrier files for a revised recourse rate" had been added. Language had been inserted on page 48, lines 5 through 7 reading "except that the depreciable life may be adjusted in accordance with the time period between the approval of the recourse tariff and the approval of the revised recourse tariff." He moved to page 54, lines 13 and 19. He explained that originally the bill defined a pipeline as a line that transports natural gas; the language "or will transport natural gas" had been added. He pointed to page 54, line 21, which stated that

the definition of natural gas pipeline had the meaning given under AS 31.25.390. He elaborated that previously the definition of a natural gas pipeline had been moved from AS 38.34 to AS 31.25.390 to conform to other portions of the bill. The language "including a presubscription agreement" had been added on page 54, lines 22 and 23.

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Co-Chair Stoltze noted that the changes were thorough because of the important nature of the bill. He WITHDREW his OBJECTION to the CS. There being NO further OBJECTION, the workdraft was ADOPTED. He asked the bill sponsor to provide comment on any concerns related to the CS.

REPRESENTATIVE MIKE HAWKER, SPONSOR, voiced agreement with most of the changes. He believed there were several areas that would have counterproductive consequences and may be detrimental to the progress of a pipeline. He asked his staff to highlight the concerns.

RENA DELBRIDGE, STAFF, REPRESENTATIVE MIKE HAWKER, spoke to inadvertent consequences the CS would have for AGDC related to confidentiality language and within the RCA framework that could delay timelines and the project significantly. She stressed that a 6-month delay of the project cost an additional \$100 million in inflation. She believed continued discussions on the items with DOL could lead to some resolutions with the committee.

Co-Chair Stoltze believed there were a couple of policy and technical issues that would require compromise.

Representative Hawker surmised that the issues primarily related to unintended consequences rather than policy differentials. He did not believe there were irreconcilable differences.

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Co-Chair Stoltze pointed to the complexity of the issue. Representative Hawker communicated willingness to work with the committee.

Co-Chair Stoltze relayed that representatives from the administration, the sponsor, and AGDC would be available to vocalize an agreement on the issue.

Vice-Chair Neuman wondered what would happen if an open season was unsuccessful.

Ms. Delbridge replied that there was no explicit provision that defined what would occur if an open season was unsuccessful. She elaborated that AGDC had no authority to move forward without a successful open season because commitments from shippers were needed to fund a project. She explained that AGDC would continue to retain assets if an open season was unsuccessful; however, a disposition of assets may not be appropriate at the time given that the corporation was designed to survive the initial pipeline and to consider other pipelines.

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Representative Holmes believed the state would have rights to the assets because of its ownership of AGDC. She asked for verification that the state could choose to take the assets back at any time.

Ms. Delbridge answered that she would obtain legal advice from AGDC's legal counsel and DOL related to the assets. She confirmed that the legislature would have the ability to terminate the corporation at any time.

Representative Holmes believed that any funds that were not subject to a moral obligation could be reappropriated by the legislature if it chose to do so.

Representative Hawker replied in the affirmative. He elaborated that the legislature always had dominion over the corporation; however, the state had an obligation to live up to any contractual agreements. He detailed if an open season was unsuccessful there would be no contracts or further obligation; however, the bill was crafted to create tools that were not limited by scope and potential benefit to the state in the building of one pipeline. He expounded that AGDC was allowed to look at projects that would provide gas to other regions of the state.

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Representative Gara asked when it would be appropriate to ask questions about the bill that were unrelated to the CS.

Co-Chair Stoltze responded that there would be an opportunity to discuss the bill at a later time.

Representative Gara asked when the bill would be heard again. Co-Chair Stoltze replied that the bill would be heard the following day. He remarked that he was working to balance the Speaker's desire for the bill to move forward, while providing the appropriate due diligence and process in committee.

Representative Hawker offered to speak with any committee members to help clarify any questions.

Co-Chair Stoltze noted the importance of due diligence.

Representative Gara noted that Co-Chair Austerman and Representative Edgmon were absent. He wondered when amendments should be ready. He opined that the following Monday would be easier. Co-Chair Stoltze hoped to have amendments by the following afternoon. He noted that Representative Thompson would be gone the following day as well. He believed the issue would be heard on Monday.

Representative Thompson remarked that he had made arrangements to be available the following day.

Representative Hawker appreciated the committee's time.

HB 4 was HEARD and HELD in committee for further consideration.

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AT EASE

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RECONVENED

#hb112

HOUSE BILL NO. 112

"An Act repealing the film production tax credit; providing for an effective date by repealing the effective dates of secs. 31 - 33, ch. 51, SLA 2012; and providing for an effective date."

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MIKE DELVIN, CEO, EVERGREEN FILMS, ANCHORAGE (via teleconference), spoke in opposition to the bill. He communicated that the bill would cause the company to cease its projects in Alaska. He spoke to his background; the company was currently in production of its first major feature film titled Walking with Dinosaurs 3D, which would be distributed later in the year by 20th Century Fox. He detailed that the film had been shot in Alaska and New Zealand. He emphasized that the company had made substantial capital investments in the state including in the construction of a \$6 million facility in Anchorage for the housing of post-production and screening operations and a high-tech advanced stage; the investment did not qualify for the tax credit, but represented investment the company was making in Alaska. He communicated that the global market was competitive for producers who had to find locations that could provide a good economic environment and a talented labor pool. He stressed that the existing tax credits were necessary for Alaska to compete globally and for the company to do business in the state. He spoke from his perspective as an Alaska resident and relayed his preference for doing business locally.

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PATRICIA HULL, ALASKA FILM GROUP, JUNEAU, spoke in opposition to the legislation. She spoke to the purpose of the group. She relayed that films took many years to plan and culminated in weeks or months of activity. She communicated that while a shoot may be brief, it represented a boon to communities where filming took place, infusing millions of dollars. She pointed to letters from small businesses throughout the state that had benefited from major films; one letter was written by a "mom and pop" snow removal company that had expanded to a year-round business after earning money from renting equipment to the film industry. She stated that the 27th legislature's decision to extend the credits by 10 years was visionary. She stressed that the credits allowed the industry to begin planning projects in Alaska.

Ms. Hull stressed that the rumor that the credits would be discontinued had caused a chilling effect. She stated that films that should be coming to the state were not; there was a film about the Nome serum run that would be filmed in Canada. She believed the legislative audit brought forward an accurate assessment of the strengths and weaknesses of

the tax incentives. She accentuated that the program had returned \$2.00 for every \$1.00 that was paid out. She stated that improvements to the program were scheduled to go into effect on July 1, 2013 including incentives to hire more Alaskans and a sliding scale application process fee. Another change included a content review; she believed that some Alaskans had been offended by the way they were portrayed in a reality television show and had taken aim at the industry as a whole. She stated that the content review would ensure that Alaska was portrayed in a positive light. She emphasized that the state was a unique and beautiful location to make films. She pointed to other beautiful locations and the aggressive courting of the film industry by other governments. She stated that Alaska's 44 percent tax credit was the most competitive. She emphasized that the legislation would sabotage years of constructive effort and would divert the potential for hundreds of millions of dollars away from the state. She noted that unlike some forms of economic development activity, it was not necessary to clean up after the film industry. She encouraged the committee to retain the legislature's 10-year commitment to the film incentive program.

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Representative Wilson noted that some of her constituents had been upset about the way they had been portrayed in a show. She pointed out that there had been a negative impact for some individuals related to their jobs and increased regulation as a result. Ms. Hull understood the issue existed. She observed that the reality television show genre was notorious for portraying people in a negative light.

Co-Chair Stoltze relayed that his motivation for the legislation was financial.

Ms. Hull stressed the importance of portraying the state in a positive way.

Representative Wilson noted that her constituents were miners and were working to make a living.

Representative Munoz asked whether Ms. Hull believed the reality television portion should be retained under the incentive program. Ms. Hull replied that she was not an expert related to the specific issue. She added that her

comments related to the reality television industry did not reflect the opinion of the Alaska Film Group. She stated that it was difficult to control content in the specific type of programming.

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CODY LAWHORN, SPROCKETHEADS LLC, ANCHORAGE (via teleconference), spoke to his education in film production. He stated that Alaska's image had changed subsequent to 2010. He pointed to the television show The Deadliest Catch and to Alaska's great potential for the film industry. He discussed the Drew Barrymore film Big Miracle that had been filmed in Alaska. He had returned to Alaska from school in 2011 to work as an unpaid production assistant on a Nicolas Cage film The Frozen Ground; he had received college credits and many valuable hours learning about the job. The position had led to other opportunities in the industry. He had just received his degree in film production in Portland. He discussed his desire to move home to make films and to help grow the industry in Alaska. He had come home to stay and had brought projects with him. He urged the committee to not pass the legislation. He asked the legislature to maintain the film bill extension.

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RANDY DALY, FILM INDUSTRY PARTICIPANT, KENAI, testified in opposition to the bill. He spoke to his role as the former president of the Kenai Peninsula Borough of Economic Development district and in the film industry. He addressed his support of business development, economic diversification, and a year-round stable economy in Alaska. He highlighted various examples of private funding responsible for building film studios in Anchorage. He emphasized that industry had invested millions of dollars into business development and production facilities. He stated that film and film production was a new industry that was diversifying Alaska's economy statewide; it was capable of producing well-paying, year-round jobs. He noted that energy and government revenue were in decline in the state. He stressed that it was the responsibility of citizens to explore new opportunities to provide a better future. He opined that film should be part of the future. He detailed that over the past few years the state had worked with private industry on legislation that would allow the industry to move forward; credits to the industry

would only be maximized when business was conducted with Alaskans and Alaskan owned businesses. He noted that the legislation also included a cap to limit financial exposure, a review process after five years, and the oversight of third-party certified public accountants. He stressed that it was time for the state to keep its word. He urged the state to act accountable and to allow the industry to conduct its work. He stated that vacillation on the issue sent the message that Alaska was not a stable place to do business. He urged the committee to not pass the legislation.

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D.K. JOHNSTON, ALASKA FILMMAKERS, ANCHORAGE, spoke against the legislation. He provided his personal background in the film and education fields. He had received many questions about why the legislature would entertain cutting down a program that had been working vigorously to establish itself over the past five years. He stated that the program had helped to create jobs, diversify the state's economy, promote new forms of education for Alaska's youth, and to bring together talented artists to tell Alaska's stories. He opined that a repeal of the film tax credit was a step in the wrong direction; whereas, the continuation of the program was a step towards new development. He shared that millions of dollars had been invested in the new industry and that turning Alaska's back on the industry would be a mistake. He pointed to multiple documents in members' packets expressing opposition to the bill (copy on file).

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RON HOLMSTROM, SCREEN ACTORS GUILD AND AMERICAN FEDERATION OF TELEVISION AND RADIO ARTISTS, ANCHORAGE, testified in opposition to the bill. He shared that he had worked the film industry since 1975 on both sides of the camera. He spoke to the federation's excitement that its Alaska membership had more than tripled since the incentive program's creation. He communicated that in the past year 12 feature films had qualified for the program; however, following the introduction of the legislation, there had been no applications. Additionally, the federation had not had any Alaskans join its rank of professional performers. He observed that Alaska had become less attractive to major production companies; however, he believed there was time to experiment with the program, which could be incredibly

fruitful for Alaskan workers and local businesses. He did not understand why the bill to repeal the program had been introduced. He was bewildered at the idea of closing down a young industry that had shown itself to be financially sound. He was available to discuss the business opportunity at any time. He stressed the importance of rebuilding the state's reputation as a film community and of moving forward with the film industry.

Co-Chair Stoltze remarked that government policy did have deleterious effects on the economy.

Representative Gara expressed support for the program. He asked whether a travel credit could work if the larger program was discontinued. Mr. Holmstrom replied the issue came down to arithmetic. He had dealt with motion picture budgets his entire adult life; the issue related to how much it would cost to get everything to the location for filming. He stated that there had been a move to improve the grip, electric, and camera equipment in Alaska, but the effort was currently not moving forward. He opined that subsidizing the expenses of moving trailers, dressing rooms, wardrobe trailers, and other could potentially help; however, it would be difficult to balance the savings against the tremendous above-the-line expenses (including actors, producers, writers, and directors), which made up at least half of a motion picture budget.

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Co-Chair Stoltze commented that the committee would look at alternatives to the overall elimination of the program.

DEBORAH SCHILDT, PRESIDENT, THE ALASKA FILM GROUP, ANCHORAGE (via teleconference), spoke against the legislation. She provided information about the organization. She stated that 32 films had been shot in the state since 1924; 24 of the films had been shot the state subsequent to 2000 and only 7 of the 24 had been entirely filmed in Alaska. She stressed that all 7 films shot entirely in Alaska had been made following the implementation of the film credit program. She emphasized that incentives were the way the business worked at present. She stated that HB 112 stifled the industry in the state. She highlighted that the industry had provided a positive economic impact on the workforce and businesses in Alaska. She pointed out that the program included increased

incentive for local hire. There were currently actors, students, and tradespersons enrolled in training programs statewide. The organization expected that hundreds of skilled workers would be added to the state's workforce in the upcoming year. She wondered where the individuals would go if the legislation passed. She spoke to the high paying jobs provided by the industry. She wondered why the legislature would choose to discourage the industry and reduce employment opportunities.

Ms. Schildt discussed the program's success and quoted from the 2012 legislative audit by Northern Economics (page 19):

...the state realizes a positive return on investment from the AFPTIP. The AFPTIP generates an estimated \$2 in Alaskan economic output for every \$1 dollar in tax credits - an economic multiplier of \$2.05 per the consultant's analysis.

Ms. Schildt stressed that the bill failed to take into account that only \$8.4 million out of the \$34 million in issued credits had been redeemed; leaving \$27 million in funds to be utilized by Alaskan corporations. She highlighted that money spent in Alaska generating the tax credit amounted to \$109 million and that much of the money continued to circulate in the state. She stated that the bill was a losing proposition; many producers had pulled out of production after the bill had been introduced. She expounded that the state would move backwards with the film industry if the bill passed, which would lead to the loss of millions of dollars. She stressed that the film credit program was new and improved; it was more Alaska-centric, it offered credits as opposed to subsidies, and offered proven value to Alaskans statewide. She urged committee members to vote no on the legislation.

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Co-Chair Stoltze made a statement about his influence related to the legislation.

DIANA FEJES, TAX CONSULTANT, ANCHORAGE (via teleconference), spoke against the bill. In 2012 she had been asked by NANA Development Corporation to examine the economics of the film credit program. She conducted an analysis using other states as models; projections showed that over a 10-year period the film industry could become a

\$1 billion industry if the state had an experienced workforce and the infrastructure to support larger films. She continued that over time almost \$4.00 of economic benefit could be realized for each \$1.00 of credit issued. She stated that indirect spending resulting from an industry is difficult to predict, but is a widely accepted concept. She pointed to the 2012 Legislative Budget and Audit Committee internal audit; the audit had found that over \$2.00 was returned for each \$1.00 of credit issued. She furthered that \$50 million of economic benefit had come directly from the incentive program through February 2012. She noted that the data was for a period of time prior to the strengthening of the program, which would provide additional benefit to the state.

Ms. Fejes stated that total spending during the 4-year period ending February 2012 was over \$58 million, which included all films produced whether or not the credit was allowed. She provided an example related to the benefits of the incentive program; if a film cost \$20 million to make and \$10 million of the amount was spent on Alaskan wages and businesses, the average credit was around 33 percent; therefore, cash out the door for the credit would be just over \$3 million, but \$10 million remained in the economy. She emphasized that between the multiple economic effects and the time value of money, the \$10 million could have a significant impact. She relayed that Alaska had one of the highest corporate tax rates in the U.S. at 9.4 percent. She stated that buying a credit at a discount of 80 to 85 percent provided industry more incentive to stay and increase business in the state.

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Co-Chair Stoltze turned the gavel over to Representative Costello.

Ms. Fejes continued to testify against the bill. She relayed that if the allowable tax credits were to be fully used over the upcoming 10 years it would cost \$200 million; however, a \$200 million credit would generate just under \$600 million in revenue for Alaska's economy. She discussed industries impacted by the indirect spend of the money in the state. She observed that the program was not perfect and that adjustments may be required; however, she suggested not throwing the baby out with the bath water. She stated that the program had energized many small

businesses and had helped larger businesses as well. New productions would keep individuals in the state. She stressed that starting and stopping a program from year to year would build distrust. She pointed to other competitive locations where film companies could take their work. She asked the legislators to continue the program.

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Representative Gara asked what the film production companies had paid in the state since the credits had taken effect. Ms. Fejes replied that many companies did not pay the taxes in state, which was the reason the incentive credits had originated. She explained that credits were approved and sold to entities such as banks, cruise ship companies and others conducting business in the state. The program helped the businesses to save on their taxes as credits were purchased at a discount.

Representative Gara remarked that he would follow up for more detail from the Department of Revenue. He believed that companies were taxed pro rata for their presence in a state based on the state's income taxes. Ms. Fejes replied that the statement was accurate relating to corporations; however, many of the film companies were constructed as pass-through entities such as partnerships.

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PIUS SAVAGE, OMayACON PICTURES, ANCHORAGE (via teleconference), spoke against the legislation. He discussed his background in the film industry. He shared that during his work in various locations people had seen films showing Alaska's beauty; the industry helped small businesses and tourism throughout the state. He pointed to current work with producers planning seven films in Alaska as a result of the film tax incentives. He spoke to one film that would employ all local actors. He discussed his work with many famous producers and actors. He was currently in conversations with investors for a project with an estimated budget of \$10 million. He mentioned another production that would cost \$16 million or more.

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Co-Chair Stoltze resumed chairing the meeting.

Mr. Savage continued to speak against the bill. He stressed that the beauty of Alaska attracted the industry. He mentioned that the introduction of HB 112 was discouraging investment and causing filmmakers to look to other locations such as Iceland. He stated that the decision was up to the legislature.

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GARY ZIMMERMAN, GENERAL MANAGER, ALASKA RENTAL CAR INC., ANCHORAGE (via teleconference), spoke against the bill. He communicated that the company benefited from the money spent by the industry in Alaska. He relayed that film production funds provided a substantial economic benefit statewide. He communicated that the rental car service industry generated over \$22 million in taxes and fees collected from renters and paid to the state and local government; when business increased, the money going to the state increased as well. He relayed that productions featuring Alaska promoted the state more successfully than advertising campaigns; the increased awareness helped to further the state's goal of promoting tourism. He continued that the film industry was just beginning to gain traction in the state. He asked the committee to allow the incentive program to benefit the film industry, Alaskan businesses and workers, and the state. He asked the committee to not pass the bill.

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KELLY BENDER, LAZY OTTER CHARTERS, WHITTIER; opposition testimony was read for Ms. Bender by Merna Jenson (via teleconference):

Good afternoon Chairman Stoltze and the House Finance Committee. I am not in the film industry; we are a business that has benefitted from the film industry. We operate a water taxi and sightseeing business in Whittier; we also have a small café. We hire Alaskans to work and live in the community where we operate. The impact the film industry has sometimes been direct. We helped out with a film shoot onboard our boat; the show aired this past fall. But sometimes it's indirect; like when we took out members of the cast and crew from movies that have been shot here on a sightseeing cruise. This was about \$12,000 to \$15,000 to our company. Often this business has come

during the shoulder season, a time when were slow and can use the additional income. This may seem like a drop in the bucket to some, but to us it meant that we paid our Alaskan employees, it meant we bought goods and services from our Alaskan suppliers. To us this is business or some might say stimulating the economy. This isn't really about [indecipherable]; it's about Alaskans and Alaska businesses making a go of it. The state puts a lot of money into industry that has finite resources. This industry has infinite reach and trickle-down effect, not to mention what it does for tourism like the previous speaker said. As a small business owner I'm asking you to continue to support the film industry in Alaska, which really means supporting business and economic diversity in Alaska. Please do not pass HB 112. Thank you.

Co-Chair Stoltze asked for a copy of the document.

[5:05:29 PM](#)

ROBIN KORNFIELD, VICE PRESIDENT, CORPORATIONS AND MARKETING, NANA REGIONAL CORPORATION, ANCHORAGE (via teleconference), spoke against the legislation. She pointed to the value of programs that encouraged the development of new opportunities for the next generation of Alaskan business. She relayed that NANA supported the film tax credit because the existing program had created jobs for its shareholders and private sector income for an array of Alaskan businesses. The organization wanted to be a part of building new economies in the state. She discussed other developments the organization had been involved in during the past including the Red Dog Mine. She furthered that NANA had looked at the film business as it did with any other business opportunity; the industry required support services including construction, food service, information technology, transportation, hospitality, and security. Additionally, the industry created specialized job opportunities that were not yet widespread in the state. She stressed that the entire state could get involved. The company had been involved in the production of a documentary about the people of Diomedes, Alaska and whales. She pointed to various national commercials shot in the state. She relayed that investment in training and facilities was made at NANA's own risk and was not eligible for tax credits; however, the credits were needed to bring the business to Alaska. She spoke to the global competition

for production locations. She urged the committee to reject the bill.

[5:09:10 PM](#)

STEVE RYCHETNIK, CINEMATOGRAPHER, SPROCKETHEADS LLC, ANCHORAGE (via teleconference), spoke in opposition to the bill. He discussed the company's work in the developing film industry. He stated that because of the tax incentive program he had been hired on multiple projects and had been able to remain in Alaska. He had been asked to be involved in several large budget films working to bring productions to the state. He recalled working on the film *Insomnia* in the past that had been filmed in Canada because Alaska had no incentive program. He emphasized that incentives always trumped location; he provided an example. The company was currently working with over 10 feature films that had invested years of time and money to come to Alaska. He pointed to the economic benefit provided to Maryland as a result of the Netflix original show *House of Cards*. He spoke to the benefit a dramatic series would provide Alaska. He stated that movie making was a business; there were as many conservatives as there were liberals. He emphasized that a film business in Alaska represented aggressive economic development. He urged the legislature to keep its promise of extending the film incentive program to 2023.

[5:13:21 PM](#)

MAYA SALGANEK, DIRECTOR, UNIVERSITY OF ALASKA FAIRBANKS FILM PROGRAM, FAIRBANKS (via teleconference), testified in opposition to the bill. She stated that the university's film program had been established in 2011; record numbers of students had applied. She stated that the students had already demonstrated great successes. She relayed that the bill would eliminate the university program and the opportunity for the students to move forward in the career field. She continued that students interested in the field had been leaving the state, which was one of the reasons for the implementation of the program. She furthered that the industry had turned to the university wondering where trained students were. She elaborated that the program was for a Bachelor of Arts to create producers, directors, and other; the program prepared students for work in the film industry and provided hands-on training. There had been a 60 percent enrollment increase since 2010 in the number of

student credit hours; there were students enrolled from all over the state. The credit program provided great publicity for the state. She shared that the program enrollment was growing approximately 10 percent per year; the university anticipated the figure would go up if the tax incentives continued. She spoke to the diverse population of students in the field. She stated that 50 percent of the students had been working on professional productions in the past 30 days.

Ms. Salganek continued that the students would go on to be leaders in the industry in the future. She estimated that the tax incentive had doubled the amount of work in the state and was bringing more labor hours per production for Alaskans. She stated that the incentives were providing hands-on training opportunities; internships would prepare students for higher level positions in the future. She discussed that the training program had been in development for over a year. Students would be devastated to learn that there would no longer be long-term career opportunities in the industry in Alaska. She continued to speak about benefits of the program. She implored the legislature to support the students and the film industry.

[5:21:19 PM](#)

CHARLIE HEWITT, MIRROR STUDIOS, ANCHORAGE (via teleconference), spoke in opposition to the bill. He shared that he was a Republican and owner/operator of Mirror Studios (a recording and post production facility in Anchorage). He discussed an additional revenue stream that was a byproduct of the film incentives. He explained that when a production was working in-state, many actors were needed for the post production process on other projects elsewhere. For example, during the filming of the movies Big Miracle and The Frozen Ground there had been numerous individuals using the studio for other film projects. He emphasized that the dollars were not insignificant and had not cost the state a dime. He expended significant money to bring the studio up to par prior to the implementation of the film incentive program. He had trusted the legislature's intent when it had voted to approve the credit program. He asked the committee to drop the bill and to keep the film credits until 2023.

[5:23:54 PM](#)

Co-Chair Stoltze stated that his concerns about the issue were fiscal. He CLOSED public testimony.

HB 112 was HEARD and HELD in committee for further consideration.

ADJOURNMENT

[5:25:42 PM](#)

The meeting was adjourned at 5:25 p.m.