

HOUSE FINANCE COMMITTEE  
April 18, 2014  
5:19 p.m.

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CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 5:19 p.m.

MEMBERS PRESENT

Representative Alan Austerman, Co-Chair  
Representative Bill Stoltze, Co-Chair  
Representative Mark Neuman, Vice-Chair  
Representative Mia Costello  
Representative Bryce Edgmon  
Representative Les Gara  
Representative David Guttenberg  
Representative Lindsey Holmes  
Representative Cathy Munoz  
Representative Steve Thompson  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Joe Balash, Commissioner, Department of Natural Resources;  
Daniel Fauske, President, Alaska Gasline Development Corporation;  
Michael Pawlowski, Deputy Commissioner, Strategic Finance, Department of Revenue.

SUMMARY

CSSB 64(FIN)

OMNIBUS CRIME/CORRECTIONS/RECIDIVISM BILL

CSSB 64(FIN) was SCHEDULED but not HEARD.

CSSB 138(FIN) am

GAS PIPELINE; AGDC; OIL & GAS PROD. TAX

HCS CSSB 138(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal note from the Department of Commerce, Community and Economic Development, one new fiscal note from the Department of Transportation and Public Facilities, one new fiscal note from the House Finance Committee, two new fiscal notes from the Department of Revenue, one new fiscal note from the Department of Natural Resources and one previously published fiscal note: (CED).

CSSB 140(FIN)

AIDEA: ARCTIC DEVELOPMENT PROGRAM/FUND

CSSB 140(FIN) was SCHEDULED but not HEARD.

#sb138

CS FOR SENATE BILL NO. 138(FIN) am

"An Act relating to the purposes, powers, and duties of the Alaska Gasline Development Corporation; relating to an in-state natural gas pipeline, an Alaska liquefied natural gas project, and associated funds; requiring state agencies and other entities to expedite reviews and actions related to natural gas pipelines and projects; relating to the authorities and duties of the commissioner of natural resources relating to a North Slope natural gas project, oil and gas and gas only leases, and royalty gas and other gas received by the state including gas received as payment for the production tax on gas; relating to the tax on oil and gas production, on oil production, and on gas production; relating to the duties of the commissioner of revenue relating to a North Slope natural gas project and gas received as payment for tax; relating to confidential information and public record status of information provided to or in the custody of the Department of Natural Resources and the Department of Revenue; relating to apportionment factors of the Alaska Net Income Tax Act; amending the definition of gross value at the 'point of production' for gas for purposes of the oil and gas production tax; clarifying that the exploration incentive credit, the oil or gas producer education credit, and the film

production tax credit may not be taken against the gas production tax paid in gas; relating to the oil or gas producer education credit; requesting the governor to establish an interim advisory board to advise the governor on municipal involvement in a North Slope natural gas project; relating to the development of a plan by the Alaska Energy Authority for developing infrastructure to deliver affordable energy to areas of the state that will not have direct access to a North Slope natural gas pipeline and a recommendation of a funding source for energy infrastructure development; establishing the Alaska affordable energy fund; requiring the commissioner of revenue to develop a plan and suggest legislation for municipalities, regional corporations, and residents of the state to acquire ownership interests in a North Slope natural gas pipeline project; making conforming amendments; and providing for an effective date."

^SB 138 FISCAL NOTE DISCUSSION

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JOE BALASH, COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES reviewed the fiscal notes attached to SB 138. The first fiscal note showed an operating cost of approximately \$3 million for FY 15. He pointed out the estimated supplemental cost resulting from the immediate effective dates. Some costs would be incurred before the fiscal year closed out.

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DANIEL FAUSKE, PRESIDENT, ALASKA GASLINE DEVELOPMENT CORPORATION, introduced himself.

Commissioner Balash discussed the first fiscal note including the expected operating costs associated with the AGDC's participation in Alaska Liquefied Natural Gas (AKLNG). Included in the costs were personnel and travel expenses for various expected meetings. The fiscal note requested funding for a one-time capital outlay for build-out of necessary facilities to support the staffing on AKLNG. The fund source was the AKLNG fund. The fund was established as part of SB 138. An additional amount was included to capitalize the fund over the pre-FEED process.

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Commissioner Balash discussed the next fiscal note, number 16 Alaska Industrial Development and Export Authority (AIDEA), Alaska Energy Authority (AEA) fiscal note. He stated that the director of AEA was available in the committee room for questions. The fiscal note showed no operating expenditures. The estimated capital expenditure for FY 15 was projected at approximately \$2 million to complete the studies requested in the uncodified section of the bill.

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Commissioner Balash continued with the note from the Department of Natural Resources including the expenditures expected for FY 17, which were converted into a one-time item. He noted that the one-time item included the personnel cost for six new individuals hired for marketing in exempt positions. He noted that the exempt positions were marketing-oriented personnel to assist in determining the best practice for marketing the state's LNG. The fiscal note had a significant travel item associated. The new personnel would travel overseas to communicate with the buyers of LNG with a travel cost of \$102 thousand for the next fiscal year. The large line item was \$7,115,000 to procure personal services to support the development of contracts.

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Vice-Chair Neuman asked about page 3 of the fiscal note and the \$350 thousand and \$325 thousand charged for expert analysis. He wondered why the cost of the service was so expensive.

Commissioner Balash replied that the department investigated the option of hiring a person with current expertise in LNG marketing with the Division of Oil and Gas. He stated that the experience in the market commanded an annual salary in the range of \$250 thousand. The additional funds were associated with their benefits. The other four marketing analysts would be compensated at a range of \$200 thousand annually. The final position was a standard range 20.

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Representative Wilson asked about contracting for the positions.

Commissioner Balash replied that the flexibility to use a contract was included in the procurement code for professional and technical services.

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Commissioner Balash discussed the next fiscal note from the Department of Revenue for \$750 thousand to support enhancements of the tax revenue management system and the accompanying regulations.

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MICHAEL PAWLOWSKI, DEPUTY COMMISSIONER, STRATEGIC FINANCE, DEPARTMENT OF REVENUE pointed out an additional notation on page 2 of the fiscal note recognizing the expansion of the educational credit for the broad vocational and donations of equipment under the production tax. He added a comment about the Department of Revenue's fiscal note. The Division of Oil and Gas shared services with the Department of Natural Resources, who took the lead on position requests.

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Mr. Pawlowski discussed another fiscal note from Department of Revenue for \$2.5 million from the AKLNG fund. The request would fund a financing studies investment for Alaskans, communities and regional corporations. The financial analysis would occur prior to the firm transportation services agreement with TransCanada.

Representative Gara discussed his concern regarding the transfer of \$2 million. He asked if the alternative pipeline would not spend \$2 million in the same year.

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Mr. Pawlowski replied that the funding was for studies needed by the Department of Revenue, which included a fund source change to the AKLNG project. He stated that AGDC was provided flexibility to pace both projects. The board was provided discretion about such pacing.

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Representative Guttenberg discussed the Department of Revenue Taxation and Treasury note. He believed that the note assumed that gas would be taken in-kind as opposed to waiting for a best interest finding.

Mr. Pawlowski stated that the note allowed the division to draft regulations describing the process in the event that the Department of Natural Resources modified leases. Another purpose was the process of accounting and adjustment in the tax revenue management system for either in-value or in-kind.

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Mr. Pawlowski continued with the next fiscal note for fund capitalization. The request was a supplemental for FY 14. The fund source was the AKLNG for \$69,834,500, which would allow the project to advance with the immediate effective date.

5:36:02 PM

Mr. Pawlowski discussed the last fiscal note in the packet for the Department of Transportation and Public Facilities for \$70 thousand in FY 15. The fund source was in AKLNG receipts, which would be derived from the earlier mentioned capitalization.

Co-Chair Stoltze noted that the bill had been passed out previously, but he wished to offer additional committee member comments for the record. The fiscal notes would accompany the bill out of committee.

5:38:10 PM

Representative Gara thanked the administration. He stated that the state-share numbers led to concern regarding the version with less ownership and the other with more. If the state did not buy-in to the equity stake, the state-share would reside in the lower third of the jurisdictions provided. He pointed out that the state-share was greater with a buy-in to the project. He cited Roger Marks, Legislative Consultant, Legislative Budget and Audit Committee who stated that countries with similar risks averaged approximately 80 percent of state-share while

Alaska was estimated at 20 percent less. Representative Gara expressed concern about Alaska receiving their fair share.

Representative Gara stated that his second issue was tied to the expansion of the pipeline. He preferred not to settle with royalty in-kind, but understood the idea. He appreciated the common ground reached by the administration and the legislature. He was unsure how he would vote on the House Floor.

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Co-Chair Stoltze stated that Representative Gara's concerns both written and verbal were included in the record.

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Representative Holmes observed a healthy balance of optimism and skepticism in the Capitol and among committee members. She realized that the state was in the early part of the process. She acknowledged the work ahead. She recalled a past contract that had been voted down. She requested that the administration make every effort to inform the legislature about future changes.

Co-Chair Stoltze stated that the contract was not ratified.

Representative Holmes stood corrected.

[5:44:10 PM](#)

Representative Wilson thanked the co-chairs for the latitude to ask questions. Most of the Interior delegation's concerns were linked to state energy issues. She stressed that burning wood was not a long-term solution for the Interior region. She thanked the team for answering questions multiple times. She wished for partnership with the right partner. She stressed that she would update her constituents as the project moved along.

[5:46:23 PM](#)

Representative Costello thanked the co-chairs and the administration. She appreciated the Alaska Hire and the LNG marketing amendments added to the bill by the committee.

She acknowledged her concern with the state's relationship with TransCanada.

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Co-Chair Austerman supported the concept of a gas pipeline. His concerns included those of the public. He wished to ensure that the public understood the changes in the state's tax regime resulting from the bill. He hoped that the administration took the education needs of the public seriously. He appreciated the candid conversations between the committee members and the administration.

[5:49:02 PM](#)

Representative Thompson thanked the co-chairs for providing access to the consultants and for the information related to the gas pipeline processes. He appreciated the presentations provided by the administration as they added to his comfort level in the project.

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Vice-Chair Neuman relayed his initial opinions regarding diversifying the state's income. He stated that the gas pipeline would lead to long-term sustainable energy for Alaska. He mentioned additional opportunities in mining that would benefit from the energy available from the advent of the gas pipeline. The many benefits would help to diversify the economy. He added that the benefits of jobs in the communities would help to balance the Department of Health and Social Services budget. He mentioned the alcohol and drug abuse in rural Alaska resulting from the lack of stability and employment. He pointed out the decline of oil production and noted that Alaska's future included the gas pipeline.

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Representative Guttenberg recalled his experience working to build the Trans-Alaska Pipeline System (TAPS). He believed that the new pipeline would lead to future employment for Alaskans. He appreciated Vice-Chair Neuman's optimism related to affordable energy throughout the state. He expressed concern about the process including the Memorandum of Agreement and Heads of Agreement that were untouchable by both the legislature and the public. He

stated that he did not understand if AGDC would work on two projects simultaneously. He stated that past pipeline projects led to false starts and he expressed worry about this project as well. He wished the best for the project and its outcome. He expressed both cynicism and optimism.

[5:58:02 PM](#)

Representative Guttenberg stated that the nuances of the economies in rural Alaska were complicated. He had eternal optimism for the state and believed it had resources for many years to come. He discussed characteristics common to Alaskans including optimism.

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Representative Edgmon thanked the co-chairs for their organization of the hearings related to SB 138. He acknowledged that the subject was complicated. He spoke to various oil and gas options including the Petroleum Production Tax (PPT) and the Alaska's Clear and Equitable Share (ACES). He believed the legislative product in SB 138 was the most rounded; it spoke to affordable energy and addressed the issue from a statewide perspective. He listed other components including infrastructure, ownership potential, instate provisions and bridges. He expressed cautious optimism for the project. He appreciated the stage-gated approach taken by the measure.

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Representative Munoz considered the moment historical. She stated that Alaska learned from the development of the oil industry. The legislation considered previous experiences such as municipal impacts and those of roads and bridges. She echoed the sentiments of Representative Costello related to local hire and training. She stated that the legislation incorporated many experiences and lessons from the past. She looked forward to the economic benefits of a gas pipeline in Alaska.

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Representative Gara thanked Co-Chair Stoltze and Co-Chair Austerman for allowing Mr. Harper to offer a different perspective. He thanked Senator Fairclough and Senator

French for arranging the meeting that allowed a more balanced view for the committee.

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Co-Chair Stoltze thanked the committee and staff for the flexibility on the issue. The issue forced many other meetings. He admitted to feeling a mix of skepticism and hope.

[6:08:26 PM](#)

Vice-Chair Neuman MOVED to REPORT HCS CSSB 138(FIN) out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

Vice-Chair Neuman MOVED the letter of intent attached to the bill. There being NO OBJECTION, it was so ordered.

HCS CSSB 138(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal note from the Department of Commerce, Community and Economic Development, one new fiscal note from the Department of Transportation and Public Facilities, one new fiscal note from the House Finance Committee, two new fiscal notes from the Department of Revenue, one new fiscal note from the Department of Natural Resources and one previously published fiscal note: (CED).

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ADJOURNMENT

[6:10:43 PM](#)

The meeting was adjourned at 6:10 p.m.