

ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE

March 5, 2013

8:11 a.m.

MEMBERS PRESENT

Representative Kurt Olson, Chair
Representative Lora Reinbold, Vice Chair
Representative Mike Chenault
Representative Bob Herron
Representative Charisse Millett
Representative Andy Josephson

MEMBERS ABSENT

Representative Dan Saddler

OTHER LEGISLATORS PRESENT

Representative Doug Isaacson
Representative Steve Thompson
Representative T. Wilson
Senator Click Bishop

COMMITTEE CALENDAR

HOUSE BILL NO. 71

"An Act extending the termination date of the Alaska regional economic assistance program; and providing for an effective date."

- MOVED CSHB 71(L&C) OUT OF COMMITTEE

HOUSE BILL NO. 84

"An Act relating to applying military education, training, and service credit to occupational licensing and certain postsecondary education and employment training requirements; providing for a temporary occupational license for qualified military service members; and providing for an effective date."

- MOVED HB 84 OUT OF COMMITTEE

HOUSE BILL NO. 76

"An Act relating to electronic filing of certain information with the Department of Labor and Workforce Development; relating to surcharges, rate increase reduction, prohibition on the

relief of certain charges, the unemployment trust fund account, and the offset of certain unemployment compensation debt under the Alaska Employment Security Act; relating to the definition of 'covered unemployment compensation debt' in the Alaska Employment Security Act; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 74

"An Act relating to development project financing by the Alaska Industrial Development and Export Authority; relating to the dividends from the Alaska Industrial and Export Authority; authorizing the Alaska Industrial Development and Export Authority to provide financing and issue bonds for a liquefied natural gas production system and natural gas distribution system; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 71

SHORT TITLE: AK REGIONAL ECONOMIC ASSISTANCE PROGRAM

SPONSOR(S): REPRESENTATIVE(S) HUGHES

01/16/13	(H)	READ THE FIRST TIME - REFERRALS
01/16/13	(H)	L&C, FIN
02/18/13	(H)	L&C AT 3:15 PM BARNES 124
02/18/13	(H)	Heard & Held
02/18/13	(H)	MINUTE(L&C)
03/04/13	(H)	L&C AT 3:15 PM CAPITOL 106
03/04/13	(H)	MILITARY TRAINING CREDIT/TEMP. LICENSE
03/05/13	(H)	L&C AT 8:00 AM BARNES 124

BILL: HB 84

SHORT TITLE: MILITARY TRAINING CREDIT/TEMP. LICENSE

SPONSOR(S): REPRESENTATIVE(S) SADDLER

01/24/13	(H)	READ THE FIRST TIME - REFERRALS
01/24/13	(H)	L&C, FIN
03/04/13	(H)	L&C AT 3:15 PM CAPITOL 106
03/04/13	(H)	UNEMPLOYMENT; ELEC. FILING OF LABOR INFO
03/05/13	(H)	L&C AT 8:00 AM BARNES 124

BILL: HB 76

SHORT TITLE: UNEMPLOYMENT; ELEC. FILING OF LABOR INFO

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

01/18/13 (H) READ THE FIRST TIME - REFERRALS
01/18/13 (H) L&C, FIN
03/04/13 (H) L&C AT 3:15 PM CAPITOL 106
03/04/13 (H) AIDEA: LNG PROJECT; DIVIDENDS;
FINANCING
03/05/13 (H) L&C AT 8:00 AM BARNES 124

BILL: HB 74

SHORT TITLE: AIDEA: LNG PROJECT; DIVIDENDS; FINANCING

SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

01/16/13 (H) READ THE FIRST TIME - REFERRALS
01/16/13 (H) L&C, FIN
02/08/13 (H) L&C AT 3:15 PM BARNES 124
02/08/13 (H) Heard & Held
02/08/13 (H) MINUTE(L&C)
03/04/13 (H) L&C AT 3:15 PM CAPITOL 106
03/04/13 (H) ** Meeting will Recess and Reconvene at
03/05/13 (H) L&C AT 8:00 AM BARNES 124

WITNESS REGISTER

GINGER BLAISDELL, Staff
Representative Shelley Hughes
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Testified during the discussion of HB 71.

KRIS CURTIS, Legislative Auditor
Legislative Audit Division
Legislative Affairs Agency (LAA)
Juneau, Alaska

POSITION STATEMENT: Testified and answered questions on HB 71.

KIM SKIPPER, Staff
Representative Dan Saddler
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 84 on behalf of the sponsor,
Representative Dan Saddler.

SARA CHAMBERS, Professional Licensing Operations Manager
Division of Corporations, Business, and Professional Licensing
Department of Commerce, Community & Economic Development (DCCED)
Juneau, Alaska

POSITION STATEMENT: Testified and answered questions during the discussion of HB 84.

CHRIS CHRISTENSEN, Associate Vice President
State Relations
University of Alaska
Anchorage, Alaska

POSITION STATEMENT: Testified during the discussion of HB 84.

MARK SAN SOUCI, Regional Liaison
Military Families for the Northwest
Deputy Assistant Secretary of Defense for Military Family and
Community Policy
U.S. Department of Defense (DOD)
Tacoma, Washington

POSITION STATEMENT: Testified in support of HB 84.

DIANNE BLUMER, Commissioner
Department of Labor & Workforce Development (DLWD)

POSITION STATEMENT: Testified and answered questions during the discussion of HB 76.

BRYNN KEITH, Deputy Commissioner
Department of Labor & Workforce Development (DLWD)
Juneau, Alaska

POSITION STATEMENT: Testified and answered questions during the discussion of HB 76.

PAUL DICK, Director
Employment Security Division (ESD)
Department of Labor & Workforce Development (DLWD)
Juneau, Alaska

POSITION STATEMENT: Testified and answered questions during the discussion of HB 76.

DON ETHRIDGE, Lobbyist
Alaska State AFL-CIO
Anchorage, Alaska

POSITION STATEMENT: Testified and answered questions during the discussion of HB 76.

PAUL GROSSI, Lobbyist
Alaska State Pipe Trades UA Local 375;
Ironworker Management Progressive Action Cooperative
Juneau, Alaska

POSITION STATEMENT: Testified and answered questions during the discussion of HB 76.

DOUG HOLMES, President
National Foundation for Unemployment Compensation and Workers'
Compensation
Washington, D.C.

POSITION STATEMENT: Testified during the discussion of HB 76.

SARA FISHER-GOAD, Executive Director
Alaska Energy Authority (AEA)
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: Presented a PowerPoint and answered questions during the discussion of HB 74.

TED LEONARD, Executive Director
Alaska Industrial Development and Export Authority (AIDEA)
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska

POSITION STATEMENT: Testified and answered questions of HB 74.

ACTION NARRATIVE

[8:11:32 AM](#)

CHAIR KURT OLSON called the House Labor and Commerce Standing Committee meeting to order at 8:11 a.m. Representatives Millett, Reinbold, Josephson, Chenault, Herron, and Olson were present at the call to order.

HB 71-AK REGIONAL ECONOMIC ASSISTANCE PROGRAM

[8:12:02 AM](#)

CHAIR OLSON announced that the first order of business would be HOUSE BILL NO. 71 "An Act extending the termination date of the Alaska regional economic assistance program; and providing for an effective date."

[8:12:44 AM](#)

REPRESENTATIVE REINBOLD moved to adopt the proposed committee substitute (CS) for HB 71, labeled 28-LS0288\U, Martin, 2/22/13 as the working document.

CHAIR OLSON objected for the purpose of discussion.

[8:13:09 AM](#)

GINGER BLAISDELL, Staff, Representative Shelley Hughes, Alaska State Legislature, stated the bill for reauthorization of the Alaska Regional Development Organizations (ARDORs) was requested by several chairs of individual ARDORs. She explained that the ARDORs do not sunset but will simply end. Currently, the ARDORs are scheduled to end on June 30, 2013. She related that HB 71 would extend the end date until 2018. During review of the program it was discovered that an audit has never been conducted, which should be done for performance sake. Additionally, the committee substitute, Version U, would change the end date until 2016, which would follow the projected completion date of the proposed audit.

[8:14:23 AM](#)

KRIS CURTIS, Legislative Auditor, Legislative Audit Division, Legislative Affairs Agency (LAA), stated that she believes 2016 is appropriate date, which would allow the division time to complete an audit. She suggested the audit would start in January or possibly earlier.

REPRESENTATIVE HERRON agreed an audit is needed since the program hasn't been audited in 25 years, but also because the ARDOR program should be reviewed for possible consolidation. Currently, 12 ARDORs exist, but he suggested that several ARDORs are under performers. Therefore, he concluded that a fewer number of ARDORs may be beneficial to the overall health of the organization.

[8:15:58 AM](#)

REPRESENTATIVE MILLETT echoed Representative Herron's comments. She informed members that she has served on the Department of Commerce, Community & Economic Development's (DCCED) finance subcommittee this legislative session. She reported that the state spends \$807,000 per year for 12 ARDORs, which amounts to \$62,000 per ARDOR. Some ARDORs are prolific and operate effectively, including the Anchorage Economic Development Corporation (AEDC), Southwest Alaska Municipal Conference (SWAMC), and Southeast Conference ARDORs. However, she questioned what other ARDORs, such as Dillingham, Cordova, Juneau, Bethel, and Nome, are doing with the \$62,000 they receive. The aforementioned makes her frustrated, she related. Upon reviewing the aforementioned successful ARDORs, she found them to be structured with significant engagement with private sector economic development groups. She opined that at some

point the state should not continue to fund - at \$800,000 per year - functions that can be done by the private sector. Furthermore, there is duplication of effort since the state already has the Department of Commerce, Community & Economic Development (DCCED). Representative Millett relayed that while she understands the reasons to develop the ARDORs, she is unsure the current program is effective.

[8:17:49 AM](#)

CHAIR OLSON asked whether the audit would address these issues.

MS. CURTIS answered yes; the auditors would take the concerns expressed today under consideration when requesting the special audit. She related that the request would be put forth and audited - typically on a first come, first audited basis. She said the auditors would review the legislative intent of the program and review the committee's concerns when the request is drafted.

REPRESENTATIVE JOSEPHSON noted that he also sits on the DCCED's finance subcommittee and reported that the ARDOR budget has been cut. Thus, the program will have to fight for its survival.

[8:18:58 AM](#)

CHAIR OLSON removed his objection. There being no further objection, the proposed committee substitute (CS) for HB 71, labeled 28-LS0288\U, Martin, 2/22/13, was adopted.

CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on HB 71.

[8:19:41 AM](#)

REPRESENTATIVE MILLETT reiterated her concern regarding whether the program is effective and if these organizations need the \$62,000 per year for each ARDOR to survive. With regard to spending the funds to maintain the program while the audit occurs, she suggested that each ARDOR could come before the committee - one by one - to articulate any accomplishments. In fact, she related that she has attempted this assessment with some ARDORs during which she has heard each ARDOR echo its role as essentially what she has viewed as DCCED's function. Therefore, the ARDORs seem like a large duplication in government, she reiterated. Representative Millett stated that

although she does not object to moving the bill from committee, she would recommend the program sunset.

CHAIR OLSON asked if she would like to hold the bill further.

REPRESENTATIVE MILLETT answered no; that she can voice her opinion on the House floor and will discuss the bill further with others.

[8:22:01 AM](#)

REPRESENTATIVE JOSEPHSON related that while the finance subcommittee decided to cut the ARDOR program funding - as mentioned earlier - there was not any testimony or inclination by the chair, Representative Costello, to end the ARDOR program. He agreed with Representative Millett that this is a conversation for the House floor.

REPRESENTATIVE HERRON offered that the ARDOR program - given the right circumstances - is very important to the state. He did not think the department has the boots on the ground to really generate localized efforts that do contribute. He said he will defend the ARDOR program, except for the underperformers, which clearly exist. Thus the consolidation and better use of state funding is probably appropriate.

CHAIR OLSON related the bill has a further referral to the House Finance Committee.

[8:23:38 AM](#)

REPRESENTATIVE REINBOLD moved to report the proposed committee substitute (CS) for HB 71, labeled 28-LS0288\U, Martin, 2/22/13, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 71(L&C) was reported from the House Labor and Commerce Standing Committee.

[8:24:07 AM](#)

The committee took an at-ease from 8:24 a.m. to 8:26 a.m.

HB 84-MILITARY TRAINING CREDIT/TEMP. LICENSE

[8:26:40 AM](#)

CHAIR OLSON announced that the next order of business would be HOUSE BILL NO. 84 "An Act relating to applying military education, training, and service credit to occupational licensing and certain postsecondary education and employment training requirements; providing for a temporary occupational license for qualified military service members; and providing for an effective date."

KIM SKIPPER, Staff, Representative Dan Saddler, Alaska State Legislature, speaking on behalf of the sponsor, Representative Saddler, stated that HB 84 relates to military training credit and temporary licensing. The goal of HB 84 is to help separating service members transition quickly and effectively into the workforce. Each year, approximately 1,200 service members separate from military service in Alaska. Americans in the military service receive world class training, education, and experience during their time in uniform, which are assets that should not be lost to them or Alaska's communities. This bill asks the Department of Commerce, Community & Economic Development (DCCED), Division of Corporations, Business and Professional Licensing (DCBPL), the University of Alaska (UAA), and the Department of Labor & Workforce Development (DLWD) to evaluate military training and education and assign civilian credit where appropriate, without comprising current licensing standards. This bill would improve the probability of veterans finding jobs by accelerating the state's licensing process and early education credits. Service members often experience delays and lost opportunities qualifying for licenses and academic credit, even though they have the applicable training and experience. As of July 2012, 19 states have enacted legislation and over 30 states are considering similar legislation in 2013. She related that this bill concept originated last legislature by former Representative Bill Thomas, who introduced a similar bill. She explained that factors such as budget cuts and federal sequestration will see more veterans seeking civilian jobs. The state has an obligation to find ways to give veterans opportunities to leverage their military experience into academic credit, job certification, or vocational training credits. She concluded that bills such as HB 84 help make that happen to everyone's benefit.

[8:29:22 AM](#)

CHAIR OLSON asked about the fiscal notes.

MS. SKIPPER answered that the effective date of HB 84 is 12/31/2013. The DCCED's fiscal note of \$137,000 is for the DCBPL to meet requirements of the bill.

[8:29:47 AM](#)

REPRESENTATIVE JOSEPHSON, referring to page 2, subsection (b), asked if the committee should be concerned about the required experience, degree, or diploma or certificate listed.

MS. SKIPPER responded that the certification or credits require substantial equivalence. Thus any substantially equivalent experience, training, or academic credits can be considered for licensure. She deferred to the DCBPL to expand on this.

[8:30:48 AM](#)

REPRESENTATIVE JOSEPHSON referred to subsection (c) [on page 2, lines 22-24] and inquired as to the expedited procedure for licensure.

MS. SKIPPER answered that this subsection would give veterans a priority for licensure to speed up the licensing process.

[8:31:27 AM](#)

REPRESENTATIVE REINBOLD said she thinks HB 84 is a good bill. She stated that the U.S. has already paid for the training for the military with federal tax dollars so it only makes sense to transfer the experience. She commended the bill.

[8:31:59 AM](#)

REPRESENTATIVE HERRON asked whether a new board would be created [in the DCCED.]

MS. SKIPPER answered no; but to meet the effective date 11 affected boards would need to schedule meetings and review the requirements. She deferred to the department to more fully respond.

[8:32:43 AM](#)

SARA CHAMBERS, Professional Licensing Operations Manager, Division of Corporations, Business, and Professional Licensing, Department of Commerce, Community & Economic Development (DCCED), introduced herself.

[8:33:26 AM](#)

REPRESENTATIVE HERRON said he supports the bill. He then asked whether HB 84 could ask existing boards to accomplish the tasks.

MS. CHAMBERS answered that many boards don't meet frequently enough to review the requirements for equivalency or propose regulations to articulate the equivalency to staff to properly administer licensure. She estimated an additional meeting for each of the effected boards in order to deliberate and work through the regulations process. She said an additional handful of programs the division administers will also be affected. Thus, part of the fiscal note includes the cost of adopting regulations and properly noticing all licensees.

[8:34:40 AM](#)

REPRESENTATIVE HERRON asked the House Finance Committee to review the fiscal note.

[8:34:52 AM](#)

CHRIS CHRISTENSEN, Associate Vice President, State Relations, University of Alaska (UA), read from prepared testimony, as follows:

For the record, I am Chris Christensen with the University of Alaska. I'm here today to talk about Section 2 of the bill, which directs the University's president to adopt policies and procedures to award credit for military training, education, and service time. While the bill hasn't yet become law, I'm pleased to tell you that the university is in compliance with this mandate.

I'd like to begin by noting that the university is committed to offering quality educational experiences to active military, veterans, and their dependents. GI Jobs, which is a magazine and web portal that exists specifically to serve military members in their transition back to civilian life, has designated both UAA and UAF as "military friendly schools". Only 15 percent of all the colleges, universities, and vocational schools in the country have earned this distinction. He said this is probably one of the reasons that the Department of Defense (DOD) is

pushing this legislation nationwide. It's actually a pretty sad commentary on education in the Lower 48 - that so few schools actually get this designation.

The web portal guidetoonlineschools.com, which bills itself as the most comprehensive authority on distance education has last year put out a list of the most military-friendly online colleges in the country, and we're proud that the University of Alaska was ranked number five. As the entity that made that rating possible by your support, we think you should be very proud of that also.

[8:36:37 AM](#)

MR. CHRISTENSEN continued to read prepared testimony as follows [original punctuation provided]:

I'm based in Anchorage so while I work for the statewide system I am most familiar with UAA. That campus has close to 2,000 active duty military and veteran students, which is close to 10 percent of the student body. After winning the military friendly designation three years in a row, UAA didn't just rest on its laurels. Last year, it formed a Military and Veteran Student Task Force which is currently inventorying all the existing services that we provide: programs, academic and administrative policies, and recommending improvements. Last year UAA opened a Military & Veteran Student Resource Center in the student union to act as an on-campus central service point for military and veteran students and their families. The UAA is one of just 11 schools in the entire country selected by the U.S. Department of Veterans Affairs to participate in the "VetSuccess on Campus" program, which places full-time V.A. coordinators on campus to work with our resource center servicing the military veteran students and their families.

In the short time I've been with the university, the single issue I have heard about the most is transfer of credit. This is a subject that arouses great passion, and military transfer credit is just one piece of this bigger issue.

The Board of Regents has adopted a written policy that the campuses must accept in transfer as much credit as is appropriate to a student's new degree and graduation requirements. All three campuses have established transfer credit policies designed to give maximum credit for courses and training taken elsewhere, including in the military.

[8:38:16 AM](#)

MR. CHRISTENSEN continued to read prepared testimony as follows [original punctuation provided]:

We do believe that awarding appropriate credit for military training is one of the university's core responsibilities and another way we can show our commitment to our military and veteran students.

While testifying last year [on similar legislation] I discovered there are tremendous misconceptions about what the university is doing, which is why I wanted to testify today, Mr. Chair.

Transfer credit processes at the university are managed at the campus level, although there is necessarily a great deal of uniformity in the system. All three campuses transfer credit based on recommendations made by "ACE," which is the acronym for the "American Council of Education." ACE has had an agreement with the Department of Defense (DOD) since the end of World War II to review military training and experience for the award of equivalent college credits. Its recommendations on equivalent college credits are utilized by thousands of colleges and universities across the country.

[8:38:35 AM](#)

MR. CHRISTENSEN continued to read prepared testimony as follows [original punctuation provided]:

Each of UAA's three campuses actually has written agreements with the defense department to use the ACE recommendations. Our three campuses are also members of the SOC consortium. "SOC" stands for the "service members' opportunity colleges." This is a consortium of over 1,000 colleges and universities across the

country that enroll military, veterans, and dependents in special degree programs, both on-campus and through distance learning. Its purpose is to let the military members actually get degrees, instead of just accumulate credits as they move from base to base. The UA has signed written agreements with the other members of the consortium to, among other things, follow specific guidelines to ease transferability of credit. For example, a military students working on an associate's degree at UAA only need three UAA credits to earn the degree. UAA will accept all of the rest of the credits from other schools in the SOC consortium.

UAA is currently accepting approximately 51 credits on average from military students at any of the regionally accredited military institutions, such as the Community College of the Air Force, the Service Academies, and others. At UAF, a military student can use approximately 30 credits of typical training for the Bachelor of Emergency Management Degree, or 90 credits for a General Studies BA that doesn't require satisfying particular major requirements.

Neither UAA nor UAF has any limitation on the number of military transfer credits that they will award. They used to, but they've done away with it in the past few years, as part of our continual process to review the system and make it better.

I could go on - but the bottom line, Mr. Chair - while I don't have figures for the entire system, UAA alone awards over 21,000 hours a year of military transfer credit for training, for education, and even for time spent in the service, and the number is increasing every year. As of this year, approximately 99.5 percent of the students who requested military transfer credits received those credits. Alaska is widely known to service members as a state that welcomes and appreciates the military and I think that Alaska's university, as demonstrated by our existing policies reflects those prevailing social values pretty accurately.

I'd be happy to answer any questions that members may have.

8:41:40 AM

REPRESENTATIVE REINBOLD characterized this effort as outstanding. She asked whether he does his own follow-up.

MR. CHRISTENSEN said he would follow-up personally.

REPRESENTATIVE REINBOLD said she asks this question because some agencies did not provide the information requested to the finance subcommittees. She recalled that Mr. Christensen testified that an online publication attributes UAA as being military friendly and rated number five. She asked for more information on the publication. Additionally, she requested information on the SOC program. She thanked the UAA for working on making it possible to transfer credits since this is a "hot button" issue for her as well as for others. She appreciated the effort and sees the university as moving in the right direction.

8:42:55 AM

CHAIR OLSON pointed out that several military veterans serve on the committee. He also offered his appreciation for the bill.

8:44:04 AM

MARK SAN SOUCI, Regional Liaison, Military Families for the Northwest; Deputy Assistant Secretary of Defense for Military Family and Community Policy, U.S. Department of Defense (DOD), related his support for HB 84. He noted he has been watching and listening to testimony on this bill. He agreed with Ms. Skipper's outline and concurs with Mr. Christensen's comments. He then provided some abbreviated comments from his written testimony submitted to the committee.

MR. SAN SOUCI said two years ago, the U.S. Department of Defense began asking states to give separating service members credit so that they may not be held back from finding employment or finishing a degree. As Representative Reinbold remarked, the training has been paid for through federal taxes. Last year the legislature passed identical language in a bill introduced by Representative Thomas, but the bill languished on the Senate floor and died on the last legislative day. He acknowledged the language in this bill was ever so close in passing. He reported that the DOD is making efforts due to the unemployment rate - primarily in September 2012 - of over 736,000 unemployed veterans, the jobless rate for post 9/11 veterans at 9.9

percent, and an unemployment rate of 18.1 percent for young male veterans ages 18 to 24.

MR. SAN SOUCI echoed Ms. Skipper's testimony that in the past two years, about 25 states enacted new laws to help grant veterans credit towards licensing and/or academic credit. Thus far in 2013, 30 states are in the process of considering similar legislation. He said he appreciated the legislature considering HB 84, which only seeks to obtain academic and training credit where credit is due and does not ask for direct licensure if it is not equivalent. In cases in which the regulatory agency or board determines partial credit, it will still save time and money.

[8:46:48 AM](#)

MR. SAN SOUCI said another point to consider is that the more credit given to a veteran towards licensing or a degree or certification, the more school slots can be made available to civilians, especially in programs where there may be waiting lists. The Department of Defense (DOD) recognizes that if it is going to ask credentialing bodies to evaluate military training and experience it must also be easier for them to do so. In that respect, the DOD is working feverishly with the U.S. Department of Labor to link service transcripts of military occupations with civilian to private sector licensure requirements, while also asking state regulatory authorities in six pilot states - Washington, Illinois, Maryland, New York, Virginia, and Colorado - to review select military occupations to determine whether the training and experience are sufficient to be useful in rendering licensing credit in a given occupation.

[8:47:33 AM](#)

MR. SAN SOUCI noted one point Mr. Christensen did not mention is that as of March 1, 2013, the DOD has also worked with the respective military services to create a joint service transcript, or JST, which will be a common purple transcript - generic to all military services for uniformity. The JST will be an official tool designed to ease the burden of translating one service's coding and course descriptions and training to another. He anticipated this will streamline and standardize the process to evaluate credits.

[8:48:53 AM](#)

The committee took an at-ease from 8:48 a.m. to 8:51 a.m.

[8:51:21 AM](#)

CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on HB 84.

[8:51:47 AM](#)

REPRESENTATIVE REINBOLD moved to report HB 84 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, HB 84 was reported from the House Labor and Commerce Standing Committee.

HB 76-UNEMPLOYMENT; ELEC. FILING OF LABOR INFO

[8:55:24 AM](#)

CHAIR OLSON announced that the next order of business would be HOUSE BILL NO. 76 "An Act relating to electronic filing of certain information with the Department of Labor and Workforce Development; relating to surcharges, rate increase reduction, prohibition on the relief of certain charges, the unemployment trust fund account, and the offset of certain unemployment compensation debt under the Alaska Employment Security Act; relating to the definition of 'covered unemployment compensation debt' in the Alaska Employment Security Act; and providing for an effective date."

[8:55:37 AM](#)

DIANNE BLUMER, Commissioner, Department of Labor & Workforce Development, introduced herself and other departmental staff present.

[8:57:00 AM](#)

BRYNN KEITH, Acting Deputy Commissioner, Department of Labor & Workforce Development (DLWD), stated that HB 76 does four things. First, it would allow for the electronic filing of reports and documents. Second, it will improve the department's ability to recoup fraudulent unemployment insurance payments. Third, it would adopt minor changes to bring the department into conformance with federal law that governs the unemployment insurance program. Fourth, it would change how unemployment tax rates are set in order to keep more money in the hands of Alaska's employers and employees, and to keep money circulating

through the economy while protecting the integrity of the trust fund.

8:57:49 AM

PAUL DICK, Director, Employment Security Division, Department of Labor & Workforce Development (DLWD), offered to provide a section by section analysis of the bill, with brief commentary on each section. He explained that Section 1 would add a new section authorizing the commissioner the use of electronic filing methods in place of paper, which is a measure to modernize the division and is an efficiency measure for the state. Section 2 would authorize the legislature to appropriate funds to the Unemployment Trust Fund, in conjunction with Sections 5 and 6, which will be covered later.

8:59:18 AM

MR. DICK stated that Section 3 would conform to federal law, which essentially will prohibit relief of charges to reimbursable employers, which are governmental agencies for which the department processes their benefits and charge them back for the benefits the department paid out. He highlighted that this section would apply to employers with a repeated pattern of failure for untimely response to the division's request. He contrasted the number of governmental employers, 200 governmental employers, with the 18,000 private employers and noted that the division has not had any specific issues with governmental employers responding to requests. Section 4 would repeal and reenact AS 23.20.290 (f), replacing a table method for determining unemployment insolvency adjustments with a more precise calculation method. As part of the tax rate, the Unemployment Insurance (UI) trust fund solvency adjustment examines the fund's solvency in comparison to wages. This basically would collapse the table into verbiage and would take the calculation from tenths of a percent to hundredths of a percent. Section 5 would authorize the commissioner to eliminate or reduce increases in unemployment insurance (UI) tax rates. This would only apply to given years within the tax rate, conditional upon another measure of solvency - the average high cost multiple - or the measure of solvency calculated by the U.S. Department of Labor Employment and Training Administration. The rate would be calculated at 0.8 or greater. This section is intended to provide UI tax relief to employers during times when the economy is in recession, deferring the taxes to subsequent years when the economy is growing and

healthy and pertains only to years in which the tax rate is being increased.

[9:02:04 AM](#)

MR. DICK informed the committee that Section 6 would bring the state into conformity with federal law [Public Law 112-40] by removing the department's authority to waive collection of a penalty established due to misrepresentation. Section 6 also would require a minimum of 30 percent of the UI penalties collected due to misrepresentation to be deposited to the UI Trust Fund. He reported that currently, those funds from penalties are deposited in the general fund. This federal law conformity would dictate that 30 percent of the penalties be deposited to the UI Trust Fund, which benefits the fund's balance and can help mitigate tax increases for employers. Section 7 would authorize the department to participate in an offset program called the Treasury Offset Program. Currently, 21 states participate in the program. This would become another tool to aid the department in collections, he said. The department already offsets liabilities through the PFD garnishment program. This would expand this effort and be very beneficial to the state since it would give the department the authority to offset federal income tax refunds from out-of-state people who are out of jurisdiction and from whom it is difficult to collect.

MR. DICK moved on to Section 8, which would amend AS 23.20.520 by adding a new paragraph to define "covered employment compensation debt" in accordance with the federal statutes definition. Section 9 would amend the state's uncodified law specifying that AS 23.20.279, Section 3 of this bill, applies to overpaid benefits established after October 21, 2013 - the date which ties into federal law that requires enactment of the conformity provision by that date. Sections 10-12 pertain to effective dates and the authority to adopt regulations.

[9:04:28 AM](#)

REPRESENTATIVE JOSEPHSON referred to a chart in members' packets entitled, "Unemployment Insurance Trust Fund Balances and Benefits Paid/Taxes Collected 2005-2012." He compared the actual fund balance on September 30, 2012, to what would have occurred if HB 76 had been in effect. Although the differences from 2005 to 2010 are marginal as there is virtually no difference in the net balance for the first five years. However, then a marked change occurs. He asked for an

explanation of the change. For example, in 2009 the fund balance for the department was \$319 million, but under HB 76 would be \$313 million, but last year the figures are \$264 million versus under this bill \$189 million. He asked the reason for the significant disparity that begins in 2010.

MS. KEITH replied that there are a lot of moving parts in these calculations. Not only would the division suspend all of the tax increases during these periods, but the division has a solvency adjustment, which allows the department to increase or decrease to a certain degree. Additionally, the division has penalties that flow into the fund. She reiterated that lots of moving pieces affect the calculations. She characterized the figures at the end of 2012 as a cumulative result. She suggested it might be helpful to go back some additional years to provide an extended period to better view the overall effect.

MR. DICK added that in 2009 the U.S. went into a recession and the division sees the effects of cost increases during these years, which resulted in increases in rates in the last three years. The chart reflects the cumulative rate increase for each of those years, which results in a further decline in the balance. He added that with HB 76, which is essentially a tax deferral program, the trust fund will work its way up to the targeted rate of 3 percent over the years when the economy is growing and rates would have been going down. He described this as a concept for tax deferral and in the subsequent years, assuming the state is beyond the recession and the economy is growing. One of the moving parts in the overall formula of the tax rate is benefit costs compared to wages. Thus, as more people are employed, the employment rate decreases and the costs decrease and normally the division would experience a tax decrease. However, because of the trust fund factor working its way up to a targeted rate, the tax increase is essentially deferred into subsequent years.

[9:09:36 AM](#)

REPRESENTATIVE JOSEPHSON inquired as to the maximum unemployment benefits in Alaska.

MR. DICK answered that the maximum unemployment benefit is \$370 per week and the minimum amount is \$56 per week.

REPRESENTATIVE JOSEPHSON asked how that compares with other states' benefits.

MR. DICK responded that Alaska is approximately in the middle of the pack. He offered that some states pay unemployment benefits of \$550 so Alaska maybe a bit above the middle.

REPRESENTATIVE JOSEPHSON asked whether the Unemployment Insurance Trust Fund has ever been insolvent.

MR. DICK replied no, adding that the UI trust fund has never been insolvent since statehood.

[9:10:49 AM](#)

REPRESENTATIVE JOSEPHSON asked whether the current system allows for peaks and valleys that is boom and bust cycles.

MR. DICK answered yes; the current system allows a solvency adjustment. As the economy weakens the UI Trust Fund balance will typically decrease, which then reverses with economic upswing. He acknowledged the fluctuation and referred to the table in members' packets entitled, "Alaska Department of Labor & Workforce Development Employment and Security Division, Historical Average Combined UI Contribution Rates, Rate Class 10," which ranges from 4.84 to low of 1.65. The rates fluctuate between years and if one were to overlay a chart of the economy, the relationship would be visible, he said.

[9:12:10 AM](#)

REPRESENTATIVE JOSEPHSON related his understanding that the current system allows for some departmental flexibility, to increase or decrease, in terms of the employee and employer rates.

MR. DICK clarified that the rates are established through a formula in statute, and thus the department does not have any discretionary at this time.

REPRESENTATIVE JOSEPHSON asked what the federal government does in the event the state under collects and a greater demand for unemployment exists.

MR. DICK answered that the federal government has guidelines for reviewing trust funds. First of all, penalties are not imposed for becoming insolvent; however, the federal unemployment program requires states to continue to pay UI benefits. As many as 32 states have had to borrow to pay these benefits and have had to subsequently repay the federal government with interest.

[9:13:50 AM](#)

REPRESENTATIVE JOSEPHSON asked how the other states became insolvent and how does Alaska avoid it.

MR. DICK responded that although he is not familiar with programs or systems in other states, he believes the issue has been driven by the economy and recessions in those states. For example, California currently owes \$10 billion and Michigan also has substantial debt. He reiterated that he has not studied the interplay between the system and their economies.

REPRESENTATIVE JOSEPHSON related his understanding that Alaska is one of 18 states that have never been in an insolvency situation.

MR. DICK answered that is correct.

[9:14:48 AM](#)

REPRESENTATIVE REINBOLD remarked that the electronic filing is a great idea. This bill helps Alaska be federally compliant and businesses be sustainable. She commented that Alaska is not doing so well compared to other states with respect to competition. She said there isn't any cost to the department and it seems as though it will streamline the process and make things more efficient. She thanked Mr. Dick for bringing this forward.

[9:15:41 AM](#)

REPRESENTATIVE CHENAULT referred to Section 5 of the bill, which will give the commissioner a lot leeway in suspending all or part of the unemployment rates. He asked whether there is any concern with the ability to adjust .3 percent yearly regardless of the unemployment rates.

MR. DICK answered that currently the structure is such that the UI Trust Fund solvency adjustment can only increase or decrease by .3 percent per year. Section 4 would remove the .3 percent decrease aspect. Therefore, the department would still have the ability to implement a .3 percent increase, which is intended to provide protection to employers, to stair step, and in years of increase to increase the rate. He informed the committee that the department believes the .3 percent limitation on decreases should be eliminated when the economy recovers to allow

employers more tax relief, get more money in the economy, and help the economy grow even more.

[9:17:21 AM](#)

REPRESENTATIVE CHENAULT asked who pays the federal government unemployment benefits.

MR. DICK answered that the federal benefits the division pays out is 100 percent reimbursed by the federal government.

[9:18:14 AM](#)

DON ETHRIDGE, Lobbyist, Alaska State AFL-CIO, said that the Alaska AFL-CIO supports the fraud protection measures in HB 76, but does not support Section 5. He expressed concern that the changes in Section 4 add politics into a formula-driven process that has worked for many years. After all, Alaska is solvent and doesn't have to go to the federal government for money. Currently, state and federal budget cuts are being discussed, including cuts to the capital budget. Construction trades depend on unemployment benefits during the winter to avoid going to the Lower 48 for work. He concluded that politics is the wrong way to go to address [the UI tax rates]. He asked the committee to consider adjusting the calculations if the formula needs adjusting and encouraged the committee not to introduce politics into the equation.

[9:20:34 AM](#)

REPRESENTATIVE MILLETT requested clarification as to how Mr. Etheridge believes politics play a role in this rather than viewing the amount of unemployment collected as an economic decision. She said she did not view Section 5 as politicizing the movement of the unemployment rate.

MR. ETHRIDGE answered that if the commissioner is making the decision, the pressure would be on the commissioner to reduce the unemployment rate, whether or not it is viable to do so.

REPRESENTATIVE MILLETT disagreed that there would ever be a scenario in which the DLWD commissioner would place the UI Trust Fund in jeopardy. In fact, she suggested the effect would be the exact opposite in that the reduction [of UI taxes under the bill] would come at a time when the economy needs adjustment. She maintained it isn't always about politics, but rather what is best for the economy and the employee. She maintained that

neither the commissioner nor the governor would put Alaska's unemployment benefits at risk.

MR. ETHERIDGE said he hoped that would be true, but he maintained his concerns.

9:23:06 AM

PAUL GROSSI, Lobbyist, Alaska State Pipe Trades UA Local 375; Ironworker Management Progressive Action Cooperative, said he shares the same concerns [as Mr. Etheridge]. He characterized the bill as basically a housekeeping bill, the vast majority of which he supports, to help the department perform its job better and better comply with federal requirements. However, he expressed concern over Section 5 of HB 76. He explained that the formula was put into place over 30 years ago and was designed by David Teal, the [legislative fiscal analyst in the] Legislative Finance Division. Thus far it's worked perfectly without any insolvency - for over 30 years. In the good times, he predicted the proposed changes will work well and assist employers. However, in bad times it could lead to underfunding and should the economy take a drastic downturn, it could lead to insolvency or add to the possibility of insolvency.

MR. GROSSI explained that the formula has a three-year look back period with various parts to the formula designed to lessen the increase and decrease in taxes to employers and employees. Thus the formula is designed to level out the peaks and valleys. He expressed concern that [HB 76, Section 5] could add additional risk. He related that his clients have employers and his [clients] want the employers to get the benefits; however, he was unsure how much benefit [Section 5] would mean. He estimated that it would probably range from \$30 to \$40 annually per employee, which isn't significant but could help. However, if the formula is such that it is currently overfunding the [UI Trust Fund], he suggested changing the formula. In fact, David Teal is still available and no one knows the formula better than him, he said. He cautioned against placing this decision in the hands of one person. Granted, he said he trusts the new DLWD commissioner and does not believe anyone would intentionally harm the fund, he pointed out that predicting what will happen to the economy next year is difficult.

9:27:21 AM

MR. GROSSI maintained that if the formula is overfunding [the UI Trust Fund], then the legislature should review the formula

since it is the legislature's job to do so and not the job of the DLWD commissioner. The legislature determines funding so if a problem with the formula for the UI Trust Fund exists, the legislature should address it and not place the fund at risk.

MR. GROSSI brought up another point that would help employers. He said that if the [UI Trust] fund becomes insolvent, the federal government will need to step in to ensure that unemployment benefits are paid; however, the state would be required to reimburse the federal government the funds, including interest. In fact, it really would be the employers who would be charged since the UI tax being withheld is the employers' money. Thus, while the legislature is trying to help employers with this bill, it ultimately may put employers at risk. He urged members to thoroughly review this bill.

CHAIR OLSON said the commissioner acted appropriately by bringing this issue to the committee in the form of a bill.

[9:29:19 AM](#)

REPRESENTATIVE MILLETT related her understanding that Mr. Grossi trusts David Teal, and asked if Mr. Grossi would rather Mr. Teal make the adjustments. Representative Millett opined that the formula doesn't need to be rewritten; HB 76 merely requests the latitude to make a small adjustment to the formula. She questioned whether the concern is with the DLWD commissioner making the adjustment. She suggested that [Section 5] does not make a significant request nor would anyone ever want to ever make the fund insolvent. While the increment and the benefit to employers might be minimal under the bill, it seems like a wise thing to consider when the economy is bad. She asked again whether Mr. Grossi's objection was specifically to the DLWD commissioner making the decision and if he believes the legislative finance analyst is the more appropriate person to make the determination.

MR. GROSSI clarified that he trusts the current DLWD's commissioner, but he emphasized again that the formula has worked. Therefore, if the formula needs to be adjusted, it should be reviewed. "It's not David Teal," although he obviously designed is a good system that has never experienced insolvency. Although California and other states have had problems with insolvency, Alaska has not, even though the economy suffered severe downturns such as the one during the mid-80s. In fact, the system survived the mid-80s. He highlighted that the good thing about this formula is that it

considers the [UI Trust] fund, the number of employees, plus a whole gambit of factors, and determines what is needed. He suggested if the formula needs minor changes to keep it working effectively, it could occur while still giving employers a break.

9:32:34 AM

CHAIR OLSON reiterated it is within the commissioner's purview to make this decision, but he did not believe this function is in Mr. Teal's current job description.

9:32:49 AM

REPRESENTATIVE HERRON, referring to page 3, lines 23-26, questioned whether the issue or concern with Section 5 is with the "in whole" language and if it should be limited to "in part".

MR. GROSSI responded that he doesn't know. He suggested that the review did not need to be limited to Mr. Teal, but perhaps the actuaries and Mr. Teal could review the formula and determine whether it needs to be changed to give employers relief. However, it should be done in such a way that doesn't put the fund at risk. After all, chances are - especially during the good times - the changes would be fine, but if overfunding is the issue, it seems as though that adjustment could be made through the formula, which could then suffice for another 30 years. He agreed he does not have the solution to this issue, but reiterated that it seems the actuaries and Mr. Teal could review the formula.

9:35:10 AM

REPRESENTATIVE HERRON, after considering the comments and reading Section 5, suggested the committee should consider deleting the "in whole" language from Section 5, but keep the "in part" language with side boards.

CHAIR OLSON indicated he does not intend to move HB 76 today.

9:36:05 AM

REPRESENTATIVE MILLETT referred to a letter in members' packets from the National Federation of Independent Business (NFIB) dated January 18, 2013, from which she read the following statement: "House Bill 76 revises the contribution requirements

to keep the trust fund solvent and allows the commissioner the authority to eliminate or reduce increases in unemployment insurance tax rates when the fund is fully funded, based on standards to ensure the actuarial soundness of the unemployment trust fund." She then asked if Mr. Grossi agrees or disagrees with the statement.

MR. GROSSI answered he agrees with the intent. He maintained his concern about the uncertainty of whether the fund will remain solvent. He recalled Mr. Etheridge indicated the future is unknown. In fact, none of us knows the future. He expressed concern that if the [UI trust fund] is reduced and the state experiences a downturn in the economy, it would harm employers. He suggested Representative Herron's concept would at least make it less of a possibility and is moving in right direction.

[9:38:27 AM](#)

REPRESENTATIVE MILLETT pointed out that the voice of small businesses, the NFIB, is saying they support the bill, while the unions express fear that the commissioner - who is very aware of the state of the fully funded UI [trust fund] not being able to make a small adjustment. "It baffles me," she said. Representative Millett remarked that it seems like a contradiction between the union and small business owners, who would be most affected.

MR. GROSSI noted that he also represents small employers and also wants to help small employers, but wants to avoid unintentionally harm to them or the fund.

REPRESENTATIVE MILLETT suggested perhaps he was worried about negligence.

MR. GROSSI answered that he would characterize his concern not as pertaining to negligence but due to a lack of knowledge.

[9:40:00 AM](#)

CHAIR OLSON offered his belief that the commissioner's goal and the one he stated are similar. He suggested the commissioner has the best interests of the state at hand.

REPRESENTATIVE REINBOLD said this is the first time she has heard insinuations and mistrust and she found the undercurrent as inappropriate. She also said she knows the commissioner, who has a reputation of working well with labor. She said she was

unsure if the concern is that under the current commissioner that insolvency would result. She highlighted that the NFIB letter speaks loud and clear in its support of HB 76, and added that the state needs to support its small businesses.

[9:41:17 AM](#)

REPRESENTATIVE JOSEPHSON, with due respect to his colleagues, said he was puzzled by Representative Reinbold and Representative Millett's comments, who indicated they seem to find differences between management and labor as shocking. He said, "I don't find it shocking. It's the history of humanity. It goes back to the guilds in the 1700s. Of course there is a difference. I woke up knowing that. I take his - Mr. Grossi's - comments as just being concerned about some employers who he represents"

CHAIR OLSON interjected that this might be best under committee comments. He remarked he's appalled that someone might think a political decision is occasionally made in this building.

[9:42:16 AM](#)

COMMISSIONER BLUMER said that although HB 76 lists the commissioner of the Department of Labor & Workforce Development (DLWD) as the decision-maker, she cannot imagine the decision would be made in a vacuum. She stressed the importance of considering the best interests of the state and highlighted that the current governor would not want to put the state in the position of borrowing from the federal government. She offered her belief that sideboards on the bill exist that defines when the decision can be made, in conjunction with the actuary. Thus the decision would not be made in a vacuum and would not be harmful to businesses in the state. She concluded that all who know this administration know that wouldn't be the case.

[9:43:32 AM](#)

DOUG HOLMES, President, National Foundation for Unemployment Compensation and Workers' Compensation, stated he also serves as the president of UWC, an organization that monitors unemployment insurance policy and law at the federal and state level. He provided his background, including his service as a UI administrator, legal counsel, and Secretary of the Council for the Ohio system. He retired from state service and became president of the national organization. He related he watches these issues closely and often consults with states on solvency

efforts related to unemployment insurance. He referred to Sections 4 and 5 of HB 76 and offered to provide his perspective on how Alaska fits relative to other states and the federal guidelines. He indicated that Alaska is in a good place in terms of solvency of the UI trust fund.

[9:45:36 AM](#)

MR. HOLMES, with regard to Section 5, explained that the .08 high cost multiple equates to about \$230 million so even if Alaska dropped to .08 it would still have \$230 million in the UI trust fund, which would be a fairly good balance given the state's benefit payout history. He offered his belief the risk of insolvency is minimal or non-existent and suggested that it seemed reasonable to place the review with the commissioner and actuary, which would provide some flexibility and enable the state to respond.

MR. HOLMES said one issue that arises in each state is determining the appropriate trust fund balance and the impact on the ability to keep money in the state to use for job creation or to reduce the cost of employment. He acknowledged this is a judgment call; however, Alaska's unemployment tax rate per employee as a percent of total wages is relatively high compared to other states. He also suggested the UI trust fund [balance] is high. Hence, it seems like an appropriate time to consider flexibility and the language in Section 5 is suitable, doesn't place the state at risk, and would give the state flexibility. Additionally, the interest rate being provided for the UI trust fund balance is about 2.5 percent and the interest is applied to the UI Trust Fund itself; these are dedicated dollars that are part of the federal unified budget and can't be used for other purposes so some restriction exists. Further, the more money deposited to the UI Trust Fund may improve the overall solvency, but it is only maintained in federal unified budget and can't be used for other purposes.

[9:48:29 AM](#)

MR. HOLMES summarized that Alaska is in good shape in terms of the UI Trust Fund as a percent of total wages and the average high cost multiple. Even if the fund dropped to the .08 rate, the UI Trust Fund would still have a balance of \$230 million.

[9:48:59 AM](#)

[HB 76 was held over.]

[9:49:25 AM](#)

The committee took an at-ease from 9:49 a.m. to 9:53 a.m.

HB 74-AIDEA: LNG PROJECT; DIVIDENDS; FINANCING

[9:53:28 AM](#)

CHAIR OLSON announced that the final order of business would be HOUSE BILL NO. 74 "An Act relating to development project financing by the Alaska Industrial Development and Export Authority; relating to the dividends from the Alaska Industrial and Export Authority; authorizing the Alaska Industrial Development and Export Authority to provide financing and issue bonds for a liquefied natural gas production system and natural gas distribution system; and providing for an effective date."

[9:53:35 AM](#)

SARA FISHER-GOAD, Executive Director, Alaska Energy Authority (AEA), Department of Commerce, Community & Economic Development (DCCED), informed the committee that her PowerPoint presentation will update the committee on the proposal to bring liquefied natural gas (LNG) to the Fairbanks area. She said HB 74 would develop a catalyst and financing package with the strength of the Alaska Industrial Development and Export Authority (AIDEA) to provide low-cost North Slope natural gas and propane to Interior Alaska. This package provides an opportunity for the project to happen, but passage of HB 74 does not necessarily mean the project would move forward since numerous assumptions have been made and lots of work is happening to determine feasibility. This presentation will show the status of the project development and where a significant difference can be made with the financing package to provide lower cost heating fuel to Interior residents. She reiterated the project provides the catalyst and gives AIDEA additional tools, although she noted HB 74 is primarily a financing package [slides 2-3]. She described the LNG project as one that would help build out the LNG to Interior Alaska by trucking gas to consumers while assuring the private sector is used as much as possible. The natural gas would be liquefied on the North Slope and trucked to Interior Alaska and propane would be delivered to the Interior. Although the initial phase would serve Fairbanks and the North Pole area, gas would also be made available for other parts of Interior Alaska. The LNG would be stored and degasified in the Interior and the distribution system would be built out to

provide natural gas for heating. Additionally, the distribution system would lay the foundation when a gas line comes to Interior Alaska and the LNG customers could transition to have their gas distributed from the pipeline [slide 4]. Ms. Fisher-Goad pointed out the LNG trucking value chain [slide 5]. The AEA and AIDEA have been working to develop the proposed LNG project. In fact, AIDEA has worked with the proposers and sent a letter of interest out to help develop the package and initiate the due diligence.

[9:57:36 AM](#)

MS. FISHER-GOAD explained what's been happening with the cost of heating fuel and what this project could do to make a significant difference for many customers in Interior Alaska [slide 6]. She explained the graph, noting fuel oil is roughly \$4 per gal and this project proposal has the wholesale LNG cost at approximately \$3.50 per thousand cubic feet (Mcf). This figure was based on information from project proponents who anticipate natural gas contracts will be available from the North Slope to provide gas at that price. She explained that the blue part of the graph is the liquefaction plant, the green part of the bar charts is trucking, and the yellow portion is the regas storage and distribution portion which brings natural gas to the home. Thus, this graph demonstrates the cost savings in using natural gas versus fuel oil, which could reduce costs, which start at \$4, by nearly 50 percent for Interior residents. She referred to an earlier question by the committee, which was to ask why an electricity future wouldn't be considered as an alternative. She turned to slide 7, entitled, "Heating Energy Supply Comparison," which shows that electricity costs would need to be \$.04 - \$.06 per kilowatt per hour (kWh) in order to be competitive. She said she appreciated the economist's development of the slide since it demonstrates the heating costs for electricity in Fairbanks is currently at \$.22 per kWh. She pointed out the significant difference between electricity and fuel oil costs, which also demonstrates the reason AIDEA is considering the LNG trucking proposal to Fairbanks.

[10:00:11 AM](#)

MS. FISHER-GOAD turned to plant use and expansion which begins to discuss the startup costs in district [slide 8]. The initial plant would be a 9 billion cubic feet (Bcf) plant that would provide 4.5 Bcf for space heat, 2.0 Bcf for electricity, and 2.5 Bcf for industrial use. At start up, the eligible customers are estimated at 7,800 LNG and 1,800 propane customers. As the

distribution system expands, the LNG plant would serve 15,900 LNG and 2,700 propane customers.

10:01:01 AM

MS. FISHER-GOAD discussed the capital cost breakdown [slide 9]. The estimated cost of the LNG plant is \$220 million, with the regas, storage, and redistribution for a total startup cost of \$425 million. She explained that the estimates are based on project proponents who developed this project last year. This concept is not a new concept, but is one that has developed in the past few years to provide an affordable fuel source to the Fairbanks area. She reiterated that these assumptions are being vetted and the due diligence is starting with Mr. Leonard's team on the technical discussion of the project.

10:02:09 AM

MS. FISHER-GOAD then turned to [slide 10] with regard to household heating savings, which compares the current monthly fuel oil costs in the Interior with the potential range of fuel oils with the natural gas future. She highlighted that this demonstrates AEA's mission to reduce the cost of energy for Alaskans. The aforementioned coupled with the fact that AIDEA is the development financing agency for the state results in a very good marriage of sister agencies to develop a project to help pursue gas for Interior Alaskans. There would also be significant savings in heating costs if LNG can be trucked to Fairbanks at this point. Furthermore, changing from oil heat to LNG also provides a reduction in the uncertainty of the price [slide 11]. She pointed out that there is a direct correlation between crude oil prices and fuel oil prices. In 2008, Alaskans using diesel fuel began to see a significant increase in heating costs. Of course, Interior Alaska and rural Alaska are the colder parts of the state. With the LNG future, the swing between low and high prices is reduced. However, as crude prices fluctuate, a significant difference exists. Additionally, use of natural gas can reduce overall emissions, which has been a significant concern in Interior Alaska [slide 12]. Thus natural gas could help increase public health benefits substantially.

10:04:55 AM

MS. FISHER-GOAD moved on to the long-term use of LNG [slide 13]. She recalled concern was raised in terms of what would happen to the infrastructure as a pipeline is developed. However, all the

existing entities can be served by the pipeline, including the existing space heating and electrical generation, she said. The pipeline would replace the trucking system; however, the liquefaction plant is moveable and could continue to serve areas in which a pipeline would not serve. Thus AEA and AIDEA believe a real significant industrial development can be done post pipeline. Additionally, this can assist with further expansion of rural Alaska river system and highway system in order to continue to supply LNG and propane to other areas of the state.

[10:06:28 AM](#)

CHAIR OLSON asked for the project's timeframe.

MS. FISHER-GOAD projected that if everything pencils out and AIDEA is able to develop the financing package that it would like, first gas would flow into the system in the last quarter of 2015 [slide 14].

[10:07:06 AM](#)

TED LEONARD, Executive Director, Alaska Industrial Development and Export Authority (AIDEA), Department of Commerce, Community & Economic Development (DCCED), stated that HB 74 would provide authorization for AIDEA to participate in the financing through two separate streams of funding. One stream would be AIDEA's direct financing of \$275 million to the project through AIDEA's issuance of \$150 million in bonds. The rate on the direct financing would be the bond rate plus 25 basis points that AIDEA will have for managing the project. The second revenue stream would be direct financing of \$125 million at 3 percent, which is set in statute [from the Sustainable Energy Transmission and Supply Fund established last year] [slide 14-15]. Additionally, the Governor's proposed FY 14 capital budget proposes another \$50 million in general fund dollars for the purpose of reducing direct costs to consumers in Interior Alaska. This would be an equity investment by the state using some type of public-private partnership (P3) agreement.

[10:08:24 AM](#)

MR. LEONARD explained the funding sources for the initial distribution system build out totals \$355 million. Additionally, based on existing statutes, credits can be used in distribution and production phases. More specifically, the credits are available for providing LNG storage. He anticipated

LNG storage on the North Slope and in Fairbanks for regasification.

10:09:22 AM

MR. LEONARD highlighted the potential financing tools potential finance options for initial build out [slide 16]. The financing AIDEA is requesting for the initial distribution system build out would consist of \$425 million with communities and utilities providing full financing for the expansion of a 9 Bcf to a 13.5 Bcf plant. He described the funding, which includes a direct loan for the production facility for \$125 million, with the general fund appropriation providing the investment for the equity portion for the state, with funding including the storage credit. In order for the project to work, private investment must occur, estimated at approximately \$70 million of the \$425 million.

10:10:43 AM

MR. LEONARD explained the different costs to bring gas to Fairbanks, excluding the distribution system [slide 17]. He detailed the interest at \$.25 for the \$10.28 per Mcf. The principal on the loan would be \$.46 per Mcf; and the return on equity would be \$.21 per Mcf. He pointed out that the majority of the cost to bring gas to Fairbanks is in the trucking, the natural gas contract, and a small amount of actual operations [as depicted on the colored bar graph on the right of the slide.]

10:11:34 AM

MR. LEONARD related the project timeline and milestones [slide 18]. He explained that the feasibility stage is currently happening, from February to August 2013. The plant and storage is anticipated to start in June 2013, with gas delivery anticipated in the last quarter of 2015. The build out of the distribution system would happen in 2014-15. He reported that AIDEA and AEA have had a team in Fairbanks meeting with proponents - the project sponsors. Last week three days of meetings were held. AIDEA has two engineering firms on board to begin analyzing the two turnkey proposals from project sponsors, including HDR, Inc. and MEI, LLC. He advised that MEI is an expert on building liquefaction plants and to date the company has built approximately 300 plants around the world. Additionally, AIDEA also has financial advisors who have begun to review the financial feasibility of the plant, which will

continue through June 2013. He reiterated the goal to have first gas delivered during the last quarter 2015.

[10:13:15 AM](#)

REPRESENTATIVE REINBOLD recalled Fairbanks households would convert to gas. She asked for an estimate of the time frame and the approximate cost per household for conversion.

MS. FISHER-GOAD estimated that the costs would range from \$300 to \$500 per household. However, due to the significant annual savings AIDEA believes some incentives exist for conventional financing to help handle the necessary conversion costs. Since AIDEA is currently working through the due diligence, she did not anticipate Fairbanksans to do so until due diligence is completed and when the project and cost-savings figures are proven up.

[10:14:58 AM](#)

REPRESENTATIVE REINBOLD asked for clarification on the private investment of \$70 million as part of the potential finance options.

MR. LEONARD answered that money would come from the project sponsors, which is likely going to be one of the utilities. Additionally, on for storage side the investment would come from the various utilities investing in the distribution system, including Fairbanks Natural gas, and the new utility, Interior Gas Utility. He pointed out that this type of project is one in which AIDEA is currently involved; as AIDEA invests its money, the project sponsor is also expected to invest, which creates a combination of funds to perform the build out and the project construction.

[10:16:19 AM](#)

REPRESENTATIVE REINBOLD, referring to the moveable facility, asked where the facility would move and the cost to move it.

CHAIR OLSON also asked whether the LNG facility would be skid mounted or if it would be dismantled and rebuilt.

MR. LEONARD answered that he doesn't have the cost to move the facility; however, it is a modular facility. It is built in parts and constructed so it would be moved in the same way. One possibility would be to move it to Fairbanks next to the

proposed pipeline and "it would be a customer to utilize... gas coming off the pipe to make LNG," which would be trucked to mining operations, for example. He noted the Ambler mine is scheduled to come on line in 2019 and other mines have indicated a preference for LNG, if possible. Further, the LNG would be trucked down the Richardson Highway; however, he does not currently have the cost for that trucking. He related this would be part of the due diligence undertaken by the agency. He offered his belief that the cost of moving the plant would not be a significant cost for the plant.

[10:18:08 AM](#)

REPRESENTATIVE CHENAULT said he noticed one slide did not include trucking capital. He asked whether any estimate existed. He anticipated it would be reasonable but wondered why the trucking estimates were not included.

MS. FISHER-GOAD answered that trucking is obviously a part of cost to get to Fairbanks. The financing that will be made available by AIDEA and the potential \$50 million would not be used in the development of the trucking cost. She related her understanding from discussions with the utility proponents mentioned earlier that the trucking portion would be contracted with a company to provide this service. She agreed the cost exists, but the financing package would not be used to finance the trucking cost.

[10:19:47 AM](#)

REPRESENTATIVE CHENAULT commented that although he understands the need for the project and supports the project, he has some questions. He asked whether AIDEA is considering any financing distribution for other communities.

MR. LEONARD answered yes; that under the SETS program AIDEA has been contacted by small community outside of Anchorage for an air gas propane system and distribution system for it. He related that AIDEA is beginning to receive requests through the SETS program.

[10:21:12 AM](#)

REPRESENTATIVE CHENAULT related that the state funded a gas pipeline to Homer, which will be repaid, in part, through an assessed fee on rates. However, Homer has assessed its [property owners] in the amount of about \$3,900 per parcel in

order to get a gas distribution system. He was curious as to whether other communities have contacted AIDEA as he anticipated other communities will expect to have distribution systems and ask for funding. Therefore, he expressed hope the state is ready and willing to assist other communities in that endeavor. Representative Chenault then said he hoped to move the bill forward once questions are answered.

[10:23:08 AM](#)

REPRESENTATIVE JOSEPHSON remarked this seemed inexpensive considering the alternatives. He recalled one slide would serve 15,000 customers; however 100,000 reside in the Fairbanks North Star Borough. He asked how this would serve the additional 85,000 people.

MR. LEONARD answered that instead of people the number of customers is estimated. He said a full build out is estimated to serve 19,000 customers, although currently there are 22,000 to 25,000 total units.

[10:24:14 AM](#)

REPRESENTATIVE JOSEPHSON asked about \$105 million for distribution system and asked whether that refers to trucking not retrofitting homes.

MR. LEONARD answered that the \$105 million distribution is to get the pipeline to the neighborhoods and the mains to the neighborhoods. After the mains are completed, a hookup from Fairbanks Natural Gas or IGU - which is estimated from the main to the house at \$300 to \$500 per household - would need to happen.

[HB 74 was held over.]

[10:25:16 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 10:25 a.m.