

ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE

March 13, 2013

3:24 p.m.

MEMBERS PRESENT

Representative Kurt Olson, Chair
Representative Lora Reinbold, Vice Chair
Representative Mike Chenault
Representative Bob Herron
Representative Dan Saddler
Representative Andy Josephson

MEMBERS ABSENT

Representative Charisse Millett

OTHER LEGISLATORS PRESENT

Representative Kawasaki

COMMITTEE CALENDAR

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

HOUSE BILL NO. 112

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

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

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
03/05/13	(H)	-- Meeting Continued from 3/4/13 --
03/13/13	(H)	L&C AT 3:15 PM 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
03/05/13	(H)	-- Meeting Continued from 3/4/13 --
03/11/13	(H)	L&C AT 3:15 PM BARNES 124
03/11/13	(H)	Heard & Held
03/11/13	(H)	MINUTE(L&C)
03/13/13	(H)	L&C AT 3:15 PM BARNES 124

BILL: HB 112

SHORT TITLE: REPEAL FILM PRODUCTION TAX CREDIT

SPONSOR(s): STOLTZE

02/11/13	(H)	READ THE FIRST TIME - REFERRALS
02/11/13	(H)	L&C, FIN
03/13/13	(H)	L&C AT 3:15 PM BARNES 124

WITNESS REGISTER

PAUL DICK, Director
Central Office, Division of Employment Security (DES)
Department of Labor & Workforce Development (DLWD)
Juneau, Alaska
POSITION STATEMENT: Testified and answered questions during the discussion of HB 76.

BARBARA HUFF TUCKNESS, Director
Governmental and Legislative Affairs
Teamsters Local 959
Anchorage, Alaska
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: Answered questions during the discussion of HB 74.

MARK DAVIS, Deputy Director
Alaska Industrial Development and Export Authority (AIDEA)
Department of Commerce, Community & Economic Development (DCCED)
Anchorage, Alaska
POSITION STATEMENT: Testified during the discussion of HB 74.

PAUL GROSSI, Lobbyist
Alaska State Pipe Trades UA Local 375
Juneau, Alaska
POSITION STATEMENT: Testified during the discussion of HB 74.

JACK HEBERT, Member
Board of Directors
Alaska State Home Building Association (ASHBA)- Interior
President; Cold Climate Housing Research Center
Fairbanks, Alaska
POSITION STATEMENT: Testified during the discussion of HB 74.

TERRY DIZINSKI
Fairbanks, Alaska
POSITION STATEMENT: Testified during the discussion of HB 74.

REPRESENTATIVE STEVE THOMPSON
Alaska State Legislature

Fairbanks, Alaska

POSITION STATEMENT: Testified during the discussion of HB 74.

RICHARD GREEN, Member

Board of Directors

Alaska State Home Building Association (ASHBA) - Interior

Fairbanks, Alaska

POSITION STATEMENT: Testified during the discussion of HB 74.

AARON WELTERLEN, President

Alaska State Home Building Association (ASHBA) -Interior

Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 74.

REPRESENTATIVE PETE HIGGINS

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 74.

BRICE WARD, Mayor

City of North Pole

North Pole, Alaska

POSITION STATEMENT: Testified during the discussion of HB 74.

JERRY CLEWORTH, Mayor

City of Fairbanks

Fairbanks, Alaska

POSITION STATEMENT: Testified during the discussion of HB 74.

LUKE HOPKINS, Mayor

Fairbanks North Star Borough (FNSB)

Fairbanks, Alaska

POSITION STATEMENT: Testified during the discussion of HB 74.

JOE BEEDLE, President and CEO

Northrim Bank; Member

Alaska Bankers Association (ABA)

Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 74.

BILL BAILEY

Director, Public Relations

Fairbanks North Star Borough School District

Fairbanks, Alaska

POSITION STATEMENT: Testified during the discussion of HB 74.

HANK BARTOS, Member

Lowell Group

Fairbanks, Alaska

POSITION STATEMENT: Testified during the discussion of HB 74.

DENNIS GILLITZER

Fairbanks, Alaska

POSITION STATEMENT: Testified during the discussion of HB 74.

GARY ATWOOD

Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 74.

DAVID GARDNER, Vice President of Marketing and Member Services

Golden Valley Electric Association (GVEA)

Fairbanks, Alaska

POSITION STATEMENT: Testified during the discussion of HB 74.

ROGER BURGGRAF

Fairbanks, Alaska

POSITION STATEMENT: Testified in support of HB 74.

WILLIAM MCAMIS

Fairbanks, Alaska

POSITION STATEMENT: Testified during the discussion of HB 74.

BYRAN IMUS, Member

Laborers Local 942

Fairbanks, Alaska

POSITION STATEMENT: Testified during the discussion of HB 74.

REPRESENTATIVE BILL STOLTZE

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Testified as sponsor of HB 112.

DANIEL GEORGE, Staff

Representative Bill Stoltze

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Testified on behalf of the sponsor of HB 112, Representative Bill Stoltze.

ROBERTA GRAHAM, Assistant Commissioner

Office of the Commissioner

Department of Commerce, Community & Economic Development (DCCED)

Juneau, Alaska

POSITION STATEMENT: Testified and answered questions during the discussion of HB 112.

ACTION NARRATIVE

[3:24:54 PM](#)

CHAIR KURT OLSON called the House Labor and Commerce Standing Committee meeting to order at 3:24 p.m. Representatives Herron, Reinbold, Josephson, and Olson were present at the call to order. Representatives Chenault and Saddler arrived as the meeting was in progress.

HB 76-UNEMPLOYMENT; ELEC. FILING OF LABOR INFO

[3:27:15 PM](#)

CHAIR OLSON announced that the first 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."

[3:28:27 PM](#)

PAUL DICK, Director, Central Office, Division of Employment Security (DES), Department of Labor & Workforce Development (DLWD), offered a brief recap of HB 76. He stated that Section 1 allows the commissioner to allow electronic filing of documents in place of paper filing. Section 2 would allow for an appropriation into the unemployment (UI) trust fund and Section 3 is a conforming section for federal provisions for relief of charges for UI. Section 4 would repeal and reenact a table to address the trust fund solvency and also would allow for the UI trust fund solvency to be calculated at a more precise percentage, to the hundredths of a percent instead of to tenths of a percent. He related that Section 5 would allow the commissioner of DLWD to suspend all or part of the increases of the UI tax rates conditioned on an average high cost multiple of .8 or greater. He stated that Section 6 would bring the state into conformity with federal law by removing the department's authority to waive collection of a penalty established due to a

misrepresentation. Additionally, this section would authorize the department to deposit 30 percent of penalty collections into the UI trust fund. Section 7 would authorize the department to offset UI compensation debts through the federal treasury offset program - which addresses individual income tax refunds - and place them into the UI trust fund. Section 8 defines covered employment compensation. He concluded his summary by stating that Sections 9-11 relate to the effective date.

[3:30:39 PM](#)

BARBARA HUFF TUCKNESS, Director, Governmental and Legislative Affairs, Teamsters Local 959, offered to touch on the important points. She commended the department for requesting the bill and offered support for the bill except for Section 5. She said that the unemployment insurance tax formula has been in place for 20-plus years and is a sound formula. She related that the Teamsters Local 959 (Teamsters) represents about 7,000 working teamsters around the state in almost every industry, except for the tourism and fishing industries. She informed the committee that the Teamsters Local 959 is also incorporated as an employer so the Teamsters would be affected by the employer tax rates under the bill. In 2012, as an employer, the Teamsters paid \$37,000 in UI taxes. Additionally, the Teamster's employees, about 35 employees, paid approximately \$8,300 in UI taxes. She reported that Alaska is one of three states in the country with employer and employee contributions going into the unemployment insurance (UI) trust fund. The UI trust fund has been sound, even during the recent U.S. recession, in which 33 states became insolvent. In fact, the state has had a sound plan and has been able to make contributions to employees who find themselves unemployed.

[3:34:00 PM](#)

MS. HUFF TUCKNESS referred to questions the Teamsters asked the department and said while the DLWD's answers don't clearly prove the Teamsters point, they do raise some questions about Section 5 for the committee to consider as it deliberates HB 76. She read the first question the Teamsters posed, which asked whether employers and employees will be required to pay more than under the earlier [UI tax] rate if it had not been suspended in a situation in which the UI tax rate increases are suspended as referenced in Section 5 of the bill and the average high-cost multiple falls below the trigger. She related the department's response that if rate increases are suspended, employers and employees would be required to pay slightly more in UI taxes in

subsequent years than they would have if increases had not been suspended in earlier years. However, over the long term, the amount paid by employers and employees would be about the same or slightly less than if increases were never suspended. Thus, the department's view is the suspension would have the effect of deferring suspended taxes that would be absorbed over multiple years after the suspensions.

MS. HUFF TUCKNESS explained that the department's response raises the question regarding whether the impact on employers and employees will be significant enough to catch up over time, assuming the department's information is from an actuary. Granted, it's not a black and white issue as the UI tax rate is a complicated one with a formula. After all, the current system has worked. The department, she related, went on to respond that the intent of the aforementioned provision is to provide some flexibility so as not to overtax employers and employees in a year in which it is not necessary to do so. She questioned the definition of overtaxing and reminded members that the UI trust fund's purpose is to pay compensation for employees who are laid off from their jobs. In the event a substantial recession occurs and the UI rate increase has been suspended, she was unsure whether adequate funds will exist to cover UI. Further, she questioned whether reducing UI taxes on employers and employees might put the state into insolvency and necessitate borrowing from the federal government to ensure the UI trust fund has a sufficient balance. Additionally, if it became necessary to borrow from the federal government, the state would repay the loan with interest.

[3:37:51 PM](#)

MS. HUFF TUCKNESS related that in response to the Teamsters' question inquiring as to the meaning of the average high-cost multiple, the DLWD explained that the average high-cost multiple is a measure of the UI Trust fund's solvency used primarily by the federal government to compare state systems and to encourage states to keep a healthy amount in reserve. This measure looks at the state's recent history, the previous three national recessions or 20 years, whichever is longer, to determine which percentage of the employers' wages was paid out in unemployment insurance claims. The three highest cost years, in terms of percentages, are then averaged and compared to the current trust fund balance. An average high-cost multiple of 1.0 means the state has as much money in its trust fund as a percentage of the total wages of employers covered by the state unemployment insurance system as the average percentage was paid out during

those three higher cost years. Ms. Huff Tuckness related that percentages are used rather than the actual amounts since a larger economy would mean that more employees could potentially file for unemployment benefits. She explained that this would require a larger amount be paid out or required to be held in the reserve and assumes a potential run on the UI trust fund could occur in the event a large number of employees were subsequently laid off.

[3:39:37 PM](#)

MS. HUFF TUCKNESS expressed another concern regarding whether sufficient reserves could be built up if the UI tax rate is reduced if Section 5 was adopted. For example, the multiple has been nine-tenths of a percent for ten years and assuming the economy changes and the rates can no longer be suspended, using the contribution rate in 2011-12 - which increased by one-half of one percent - it appears as though the department could only collect three-tenths of one percent, which would be insufficient to build up the reserves in the UI trust fund. In fact, if the UI tax rates are suspended, she predicted the employer and employee would ultimately pay more in order to replenish the UI trust fund. The department responded that the suspension of a tax increase would likely result in a slightly higher tax rate in the next year or two since the current calculations in statutes and unchanged by HB 76 would move the UI trust fund balance back toward its desired rate between the 3.0-3.3 percent of total wages paid by employers covered by the system. She said the DLWD further predicted it is very unlikely that the UI tax rates would rise dramatically from one year to the next. However, this bill would delay the amount of time it would have to build up the reserves in the UI trust fund. She was unsure whether this proved the Teamster's point, but it highlights the issue.

MS. HUFF TUCKNESS reminded members that the Teamsters would be affected by the bill as both an employer and by its employees [each of which make contributions]. She highlighted that this raises the question on the proposed department flexibility on the UI rates and whether the department would need to subsequently catch up if it reduced rates [and an adverse economy reduced the UI trust fund balance.] She questioned changing the formula for a plan that has been working well for years. Further, Alaska's UI trust fund has not become insolvent as many states experienced when many employees in the Lower 48 became laid off and the states experienced a run on their funds. Actually, these Lower 48 states had a lack of contributions from

employers and employees going into the funds to ensure when a recession happens that the UI trust fund is adequately funded. She asked the committee to consider Section 5, and to please reconsider the impact of this section on employers and employees over the long term.

[3:43:20 PM](#)

REPRESENTATIVE JOSEPHSON asked whether the letter she referenced was from Mr. Rick Boyles [dated March 1, 2013.]

MS. HUFF TUCKNESS answered yes.

[3:43:48 PM](#)

REPRESENTATIVE JOSEPHSON asked whether the second document had been distributed to the committee.

MS. HUFF TUCKNESS answered no. In further response, Ms. Huff Tuckness repeated the definition of average high-cost multiple, as follows:

The average high-cost multiple is a measure of the trust fund's solvency used primarily by the federal government to compare state systems and to encourage states to keep a healthy amount in reserve. The measure looks at the state's recent history, the previous three national recessions or 20 years, whichever is longer, to determine which percentage of the employers' wages was paid out in unemployment insurance claims. The three highest cost years, in terms of percentages, are then averaged and compared to the current trust fund balance. An average high-cost multiple of 1.0 means the state has as much money in its trust fund as a percentage of the total wages of employers covered by the state unemployment insurance system as the average percentage was paid out during those three higher cost years.

[3:45:15 PM](#)

CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on HB 76.

[HB 76 was held over.]

The committee took an at-ease from 3:45 p.m. to 3:46 p.m.

HB 74-AIDEA: LNG PROJECT; DIVIDENDS; FINANCING

[3:46:59 PM](#)

CHAIR OLSON announced that the next 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."

[3:47:05 PM](#)

REPRESENTATIVE JOSEPHSON referred to a letter from a Dalton Highway trucker who expressed concern about traffic and safety issues. He asked whether AIDEA has a response to this concern.

SARA FISHER-GOAD, Executive Director, Alaska Energy Authority (AEA), Department of Commerce, Community & Economic Development (DCCED), stated that AEA has consulted with the Department of Transportation & Public Facilities (DOT&PF) with respect to the Dalton Highway and has every indication that the anticipated traffic is manageable with respect to the project.

[3:48:07 PM](#)

CHAIR OLSON asked whether the AEA could provide estimates on the amount of traffic for the first roll out and again once Fairbanks reaches 18,000 LNG customers.

MS. FISHER-GOAD replied that the initial traffic is anticipated to be 25 trucks each way on the Dalton Highway. She offered to provide an estimate on the further build out by the next hearing.

[3:48:45 PM](#)

REPRESENTATIVE SADDLER asked how AIDEA calculated the \$50 million in general fund funding necessary for the project to reduce the cost of providing LNG to Fairbanks.

[3:49:02 PM](#)

MARK DAVIS, Deputy Director, Alaska Industrial Development and Export Authority (AIDEA), Department of Commerce, Community & Economic Development (DCCED), answered that AIDEA performed modeling to determine impacts and determined \$50 million would be sufficient to reach the target of \$10.33 Mcf in Fairbanks. He explained that AIDEA estimated the cost of the potential LNG plant at \$200 million. He stated that AIDEA determined the \$50 million plus the \$125 million in the Sustainable Energy Transmission and Supply Development Fund (SETS) loan with some private capital could achieve that rate. He clarified the figure represented the minimum amount of general funds to accomplish the target rate.

[3:50:18 PM](#)

REPRESENTATIVE SADDLER asked for confirmation that the capitalization for the SETS fund is \$125 million.

MR. DAVIS replied that AIDEA is requesting to transfer to AIDEA \$125 million in addition to the existing \$125 million appropriated to the SETS fund last year.

REPRESENTATIVE SADDLER assumed last year's appropriation was for the potential LNG project. He asked for the purpose of the additional \$125 million in SETS funding.

MR. DAVIS responded that the additional transfer of funds to AIDEA from the Alaska Housing Finance Corporation (AHFC) with passage of this bill would be used for a loan, as stated in Section 10 of HB 74, at approximately three percent for this project. In other words, the \$125 million the legislature appropriated last year in Senate Bill 25 would remain in the fund. He clarified that AIDEA has divided the \$125 million into two segments: \$100 million has been invested in long-term instruments available for loan and bond guarantees that are essentially credit back stops and \$25 million has been invested in shorter term instruments, which is available for loans that could be made under the current SETS program.

[3:51:49 PM](#)

REPRESENTATIVE CHENAULT, referring to the fiscal note, related that the bonds will be secured by a capital reserve fund. He asked whether this refers to the SETS fund, such that the bonds will be secured through the SETS fund.

MR. DAVIS responded that the \$150 million in bonds AIDEA would be authorized to issue under the bill will have a backup of \$30 million based on the \$100 million already in the SETS fund available for credit back stops. These funds would only be used in the event of a defalcation of the bonds, he said. In further response to Representative Chenault, Mr. Davis explained the \$30 million is currently in the SETS fund and the \$125 million transferred from AHFC would be used in total for the loan.

[3:52:57 PM](#)

REPRESENTATIVE CHENAULT asked for further clarification that AIDEA does not intend to use more than \$125 million of the SETS fund to bring this project forward.

MR. DAVIS answered that the \$125 million under HB 74 would only be used if the proposed LNG project moves forward. The current SETS fund would remain; however, the SETS fund might be used as a credit backstop for the issuance of bonds, if bond were issued. In further response to Representative Chenault, he agreed [that such a credit backstop] would be the previously mentioned \$30 million.

REPRESENTATIVE CHENAULT referred to the fiscal note from AIDEA for \$125 million. He asked whether this would be needed since \$125 million is in the proposed operating budget for the SETS program.

MR. DAVIS replied that he has been informed that the House Finance Committee has approved a transfer; however, he opined that those funds should probably be reflected in the fiscal note.

[3:54:44 PM](#)

REPRESENTATIVE REINBOLD asked for the conversion costs for each residence.

MR. DAVIS answered that two issues arise with the distribution system. First, customers must hook up to the whole system, which is estimated to cost \$50 to \$500 per customer. He predicted that it would likely cost closer to \$300 per customer. Second, customers must convert from oil to gas for heating, but these costs would depend on the age of the oil boiler. Customers with relatively new boilers would need to change their burning system, which would be a modest cost. However, if the residence has an older system, the customer may need to replace

the entire boiler and system, which would basically be the cost of a furnace.

[3:56:10 PM](#)

REPRESENTATIVE REINBOLD recalled that a friend paid \$10,000 to replace her boiler. She asked for an estimate of boiler replacement costs, the party who will be responsible to pay for the conversion costs, and whether AIDEA has assessed a willingness from all of its customers to convert to gas.

MR. DAVIS, drawing from estimates from contractors in Fairbanks, estimated that the [average] boiler replacement cost would probably be close to \$8,000. He said part of the bonds issuance will be to ensure demand from customers.

REPRESENTATIVE CHENAULT again referred to AIDEA's fiscal note of \$125 million, which he said is in the governor's proposed FY 14 budget as a transfer from the Alaska housing capital corporation fund. However, he recalled that in the operating budget the funding source for the \$125 million is the general fund.

[3:57:47 PM](#)

PAUL GROSSI, Lobbyist, Alaska State Pipe Trades UA Local 375, stated that the plumbers and pipefitters believe this is a good bill. He related that about half of the plumber and pipefitter's membership lives in the Fairbanks area. He asked members for their support and said this will be a great bill.

[3:59:08 PM](#)

JACK HEBERT, Member, Board of Directors, Alaska State Home Building Association (ASHBA) - Interior; President, Cold Climate Housing Research Center, stated that HB 74 is a fine bill for the community. He said just a little light at the end of the tunnel will change the atmosphere in Fairbanks. He added that the Cold Climate Housing Research Center will look closely at options on conversions and ways to affordably do so.

[4:00:28 PM](#)

TERRY DIZINSKI echoed Mr. Hebert's comments that this is something that will really help Fairbanks stay alive. Fairbanks needs a break in fuel costs. He predicted that conversion costs from oil to gas will very quickly pay for itself since it will

be at such a reasonable cost. He urged members to pass HB 74 out of committee.

[4:01:29 PM](#)

REPRESENTATIVE STEVE THOMPSON, Alaska State Legislature, stated that this project has taken a number of years, but the project will cut heating costs by approximately 50 percent or more. He predicted the bill would also help Bush and rural Alaska, including lots of industrial projects that will start up with reduction in energy costs. He said the community is excited about this, as it has been a long time in coming and he would appreciate the committee's support for HB 74.

[4:02:18 PM](#)

REPRESENTATIVE JOSEPHSON, in the event that HB 4 passes and a pipeline project occurs with a spur to the Fairbanks North Star Borough, asked whether the retrofitting and conversion would still need to happen. He understood Fairbanks would move to natural gas.

REPRESENTATIVE THOMPSON answered that trucking natural gas will give Fairbanksans more immediate relief. He anticipated a pipeline being built by 2020, which would bring less expensive gas than trucking to the region; however, the community needs immediate relief. He predicted that a five-year wait would adversely impact the community since most of the people will move from Fairbanks. He concluded that it is all natural gas, the distribution system will be built out once the trucking happens, and it will also enhance the pipeline project since the distribution system will be built out and the community will be ready to receive gas.

[4:03:36 PM](#)

RICHARD GREEN, Member, Board of Directors, Alaska State Home Building Association (ASHBA) - Interior, stated he works for Spenard Builders Supply in Fairbanks. He said he hadn't planned on speaking but understood [the committee needed to hear from Fairbanks]. He said Fairbanks is excited to get gas. He also said that Fairbanks is not excited about having to truck the gas; however, it is a band aid that will help the community and give it a reprieve. He likened it to taking the best way a person could take home if he/she was stranded. He reiterated that the folks in Fairbanks want this [bill.]

CHAIR OLSON said he was pleased with an article that ran [not specified] in the community.

REPRESENTATIVE HERRON offered his belief that the article [not specified] energized people.

4:05:56 PM

AARON WELTERLEN, President, Alaska State Home Building Association (ASHBA) - Interior, offered his total support of a short-term solution to bring natural gas to Fairbanks since the community needs it to alleviate high energy costs. He understood [trucking gas from the North Slope] is a short-term solution, but the long-term solution will be a natural gas pipeline. He said he is completely in favor of HB 74.

4:06:41 PM

REPRESENTATIVE PETE HIGGINS, Alaska State Legislature, spoke in support of the LNG project. He urged members to pass HB 74 out of committee.

4:07:14 PM

BRICE WARD, Mayor, City of North Pole, asked to point out several things. First, he referred to HB 74 as providing a step project. The [LNG Plant and proposed trucking of gas to Fairbanks] is not the end goal, but is a step in the right direction. Second, this bill will allow the Fairbanks and North Pole areas to build out their distribution network to allow a larger diameter pipeline sufficient volume to not only make the project viable, but also provide natural gas to residents. Third, HB 74 would aid development of natural resources in the state by providing North Slope stranded natural gas anywhere in the state with truck access. Additionally, the LNG plant would allow propane to travel throughout the state's river system to rural villages, which is important since rural Alaska has much higher energy costs. This approach [HB 74] contains a broader approach than to just address Fairbank's needs since it can address rural Alaska's needs, too. He emphasized that this clean burning gas will be available statewide. While LNG would be transported to Fairbanks, this gas could also be transported to Tok, Cantwell, Delta Junction and other communities outside Interior Alaska. Finally, he hoped this will be the catalyst to build the distribution system. He stated that the North Pole City Council recently passed a resolution in support of HB 74. He encouraged the committee to pass the bill.

4:10:01 PM

JERRY CLEWORTH, Mayor, City of Fairbanks, said for the first time since he could remember the community of Fairbanks feels that the problems Fairbanks has been facing will be addressed and he appreciated the effort taken on energy projects. He explained that the package [in HB 74] is a series of loans that will be repaid. He acknowledged lots of capital and equity will be necessary for the build out of the distribution system to serve residences [and businesses]. He predicted a huge participation would be undertaken by Interior Alaska's residents. He thanked the governor for requesting HB 74 and its companion bill. He offered his appreciation for the work the governor and AIDEA have taken on these measures.

4:11:24 PM

LUKE HOPKINS, Mayor, Fairbanks North Star Borough (FNSB), stated that this bill is very critical to Fairbanks's economy. He pointed out that the Interior is being hammered by high space heating costs. Additionally, he reported that energy costs are even higher in rural Alaska. He said these loans will be repaid by ratepayers, as indicated by AIDEA. He noted earlier questions arose about conversion of residential and commercial structures to gas. He acknowledged this is important due to market penetration, but more importantly, the U.S. Environmental Protection Agency (EPA)'s fine particle, PM2.5 designation for air quality is still present. The air quality can be addressed by the natural gas distribution, which will alleviate and remedy the air quality problem in Fairbanks. He suggested the market penetration anticipated at 90 percent will resolve the problems with air quality without having the EPA take steps to enforce air quality. Further, this bill would also encourage development. He related that he often hears businesses state they would be willing to operate in the community if cheaper energy is available, but their business models are based on much cheaper energy costs. In conclusion, he asked members to consider the importance of HB 74 to the community and for Alaska.

4:14:33 PM

JOE BEEDLE, President and CEO, Northrim Bank; Member, Alaska Bankers Association (ABA), spoke in favor of HB 74 to allow AIDEA to provide financing for a LNG production and distribution system. He said from an atmospheric perspective, the Alaska

Bankers Association also supports the in-state gasline development. He offered his belief that these projects are complementary as is the enabling legislation. During the past year, the banks have collectively and individually supported AIDEA's Sustainable Energy Transmission and Supply Development (SETS) funds. Additionally, he reported that the banks have been working closely with AIDEA on the SETS program, which also includes commercial buildings energy efficiency financing.

MR. BEEDLE said specifically, with respect to HB 74, the bankers believe inherent manageable risks are associated with the LNG project; however, many financial tools are needed to bring this to fruition and attract investors and lenders. With respect to the fiscal notes, as Representative Chenault discussed, the bankers also want to ensure that Alaska retains the SETS program, which was funded last year. He pointed out that the SETS program addresses a different and more holistic need than a single project. Thus, Alaska's bankers do not wish to see HB 74 detract from the SETS program. Alaska's bankers believe it is possible for AIDEA to set aside the \$100 to \$125 million, which can be leveraged four to five times. He detailed that the funds are set aside in the form of a trust to get called upon in case of a default for credit enhancement or guaranteed issues to banks; however, it's not dollar for dollar. In fact, that amount can accommodate \$400 to \$500 million in loans for SETS and it could similarly help with other project development such as the LNG project. He expressed caution on fiscal notes, noting the banks are ready to work with the SETS program, this program, and other programs such as the Brooks Range Petroleum Corporation (BRPC) Mustang Oil Field Development Program. He said Alaska's bankers are comfortable with AIDEA's roles and promulgated regulations. In conclusion, he offered support for HB 74 and asked the committee to ensure the fiscal notes can accommodate both the SETS and project financing.

[4:18:44 PM](#)

BILL BAILEY, Director, Public Relations, Fairbanks North Star Borough School District (FNSBSD), stated this bill is paramount to the economic health of Interior Alaska and rural communities. The FNSB School District provides heat and power to 34 buildings, of which 23 buildings use fuel oil. During the 2011-2012 school year, the district burned 478,517 gallons of fuel oil and spent approximately \$4 million on electricity, he reported. The school district supports the legislature's effort to secure and supply affordable natural gas to the greatest number of Interior residences and businesses in the shortest

amount of time possible. This bill would help expedite that process. He recalled questions on the cost for conversion. He reported that one elementary school in the district used 22,000 gallons of fuel oil last year. He estimated cost of that fuel to be \$39,000, based on the fuel equivalent of \$2.67 per gallon. The district estimates that the conversion from fuel oil to gas would pay for itself in two years or less.

[4:20:37 PM](#)

HANK BARTOS, Member, Lowell Group, stated the Lowell Group has worked for five years to try to develop a low cost energy program for Fairbanks. He said that HB 74 is the way to go. He asked members to consider this as a project that would bridge to a pipeline. Currently, the cost of heating oil and gasoline is over \$4 per gallon. The cost of transportation diesel is \$4.30 per gallon and a kWh is over 20 cents. Fairbanks energy costs are some of the highest in the nation and have driven homeowners to heat their homes with wood burning appliances. In fact, the community has had record sales in wood burning appliances since wood is the cheapest energy source for heating. However, the use of wood for heating fuel has caused air quality issues. During November through March, North Pole and Fairbanks had significant numbers of unhealthy air days, with highs reaching 19-25 days for some months. He emphasized the only way to solve the air quality issue is to switch to natural gas and such a transition could reduce emissions by 90 percent. He cautioned that the EPA can cut federal highway funding in Alaska due to non-compliance with air quality. He urged members to solve the problem by passing HB 74.

[4:23:03 PM](#)

DENNIS GILLITZER stated he and his wife are senior citizens and have been affected by air quality issues, which has limited their activities. Further, their daughter lives in North Pole with small children in an area that is referred to as the "rectangle of death." He said he can't imagine kids going outside at recess in the elementary school across the street. He offered his belief that natural gas will go a long way to bring clean air to the area. He acknowledged he could leave the state, but he wants to stay in the area.

[4:24:19 PM](#)

GARY ATWOOD said he is a 60-year resident who spent 20 years driving a truck, and that he has also served as the business

manager for the Teamsters Local 959 during the pipeline days. He urged members not to take any action that would slow down the pipeline from the North Slope to Fairbanks. He highlighted that this bill could set up the infrastructure and delivery system [for use with a pipeline.] He predicted the pipeline could be built in a couple years with local hire. He expressed concern about delaying the pipeline and related that he has used all types of energy from wood to electric, but the cost of oil delivery is like picking up a second mortgage since it costs about \$1,200 every other month to heat his home.

[4:26:50 PM](#)

DAVID GARDNER, Vice President of Marketing and Member Services, Golden Valley Electric Association (GVEA), stated that as a major consumer of oil, GVEA strongly supports bringing lower cost fuel such as LNG to the Interior. He said that GVEA provides an essential service to more than 100,000 Interior residents from Cantwell to Delta Junction. Due to the price GVEA pays for fuel for its generators, this essential service - electricity - comes with the highest cost of any utility in the Railbelt. He predicted that burning natural gas in the North Pole expansion power plant could potentially save customers millions of dollars annually. In addition to cost savings, an LNG trucking could reduce space heating costs, lower air pollution levels, provide less expensive propane to villages along the Yukon River, and provide LNG to Anchorage during natural gas shortages. He concluded that GVEA is committed to this project to mitigate costs to the Interior residents, looks forward to working with AIDEA, and sharing its expertise and work products to help facilitate completion of this project as soon as possible. He urged the committee to support HB 74.

[4:28:27 PM](#)

ROGER BURGGRAF offered his support for HB 74. He stated that the LNG plant and trucking proposal is a short or mid-term proposal designed to bring reasonably priced gas to Fairbanks and Interior Alaska. He said he has been waiting since 1958 for Fairbanks to receive natural gas. When fuel oil costs were lower Interior residents survived; however, times have changed and electricity bills are very high with fuel costs typically even higher. As previously mentioned Fairbanksans have turned to wood to heat their homes, which has created air quality problems. He related that diesel and fuel oil costs are over \$4 per gallon, which is killing the community's ability to survive. The cold climate in Fairbanks makes it even more difficult. He

said, "EPA is breathing down our necks because of air quality problems and that can only be cured by getting natural gas." He reiterated that he has been waiting 53 years for gas to arrive in Fairbanks. He has not seen progress toward pipeline construction and even if a pipeline is approved it would still have an 8-10 year lag time. He concluded by stating, "We need gas and we need it now." He hoped the committee will look favorably on the proposal since Fairbanks's future is dependent upon this support. He pointed out that Fairbanks has supported other activities throughout the state and is now asking for support [for HB 74] today.

[4:31:02 PM](#)

WILLIAM MCAMIS agreed with Mr. Burggraf that Fairbanks has been waiting a very long time [for natural gas]. He stated that he will be a 50-year resident this fall and has observed project proposals over time, ranging from various gas pipelines and dams, but nothing has happened. In fact, one project on Chena Hot Springs Road was abandoned and has trees growing up at the site. Since 1998, the cost of oil went from \$1 to \$4, which means it has quadrupled in 15 years and the cost of electricity has similarly increased, with propane and wood costs also rising. Even though the LNG trucking project may not be perfect, it can be done in the near term and will solve air quality problems, decrease electricity, and space heating. He surmised that due to sequestration, significant reductions may happen at Eielson Air Force Base and Fort Wainwright. He predicted that energy costs will factor into those decisions. He thanked the committee.

[4:32:50 PM](#)

BYRAN IMUS, Member, Laborers Local 942, said his points have already been made. He said, "Fairbanks is slowly dying on the vine and this would just be a good start to get the momentum rolling ... and improve the long-term outlook for Fairbanks. People are not positive about the long-term viability of Fairbanks. This would be a great step in that direction. Thank you."

[4:33:37 PM](#)

[HB 74 was held over.]

[4:33:59 PM](#)

The committee took an at-ease from 4:33 p.m. to 4:35 p.m.

HB 112-REPEAL FILM PRODUCTION TAX CREDIT

4:35:04 PM

CHAIR OLSON announced that the final order of business would be HOUSE BILL NO. 112, "An Act repealing the film production tax credit; providing for an effective date by repealing the effective dates of secs. 31 - 33, ch. 51, SLA 2012; and providing for an effective date."

4:35:10 PM

REPRESENTATIVE BILL STOLTZE, Alaska State Legislature, as sponsor of HB 112, stated this bill would repeal the film subsidy program with transition language to allow film credits for those in the queue. While that effort adds cost, he felt it was fair to transition the program for those in the queue. Further, he offered his belief that the costs for the film incentives do not relate to the benefits for this program. The bill would also keep in place the state's film office. He supported having businesses talk to Alaskans, whether it is in the tourism industry or any other industry. In fact, the state has previously had a film office, which was reenergized with the advent of the initial film subsidy bill in 2008. Last year, the [Alaska Film Production Tax Incentive Program] was extended with a state commitment of \$300 million. He acknowledged that he is driven by his philosophy that this program isn't worth the money [given in tax incentives]. He advised members that he did not solicit people to testify on this bill since his district's constituents are driven by their own philosophy and don't have any financial stake in the program but speak as citizens. He asked to read a letter.

4:38:12 PM

REPRESENTATIVE STOLTZE said there was a call to action out and the subject was, "Urgent - Representative Stoltze to move to END the Alaska film industry - Importance: high."

REPRESENTATIVE STOLTZE read Mr. Ron Holmstrom's letter, as follows:

This is an emergency. It is the opening days of the present 2013 legislature. Representative Bill Stoltze has introduced HB 112, which will repeal the Alaska

film incentive program. This bill will effectively end feature film production in Alaska. I urge EVERYONE to write, call, or e-mail your legislators immediately to stop this malignant move before it goes any further. You can find your legislative contact

This bill is going to the House Labor and Commerce Committee this week so now is the time to get cracking. The hundreds of concerned businesses, actors, crew, and crafts people who will be directly affected by the death of the film industry. "Please pass this along" and help stop this madness!

REPRESENTATIVE STOLTZE pointed out that the word "malignant" was Mr. Ron Holmstrom's word. He recalled that Mr. Holmstrom is also a news person. He said lots of people have a financial interest in this and those who have an interest never want the funding to end. He said this becomes apparent during the budget deliberations, as well. He concluded that he expects to be outnumbered today [by testimony in opposition to the bill]. He suggested that many people who agree with him are at work or driving but he wanted to frame the discussion for members to better understand [the opposition to HB 112.] He offered his belief the department would likely be neutral on the bill.

[4:40:57 PM](#)

REPRESENTATIVE REINBOLD thanked him for bringing up the bill and indicated she would co-sponsor the bill.

REPRESENTATIVE STOLTZE concluded that he did not like to artificially [create support or opposition on bills, but prefers people spontaneously testify].

[4:41:38 PM](#)

REPRESENTATIVE SADDLER asked whether the tax incentive would be the end of the film industry.

REPRESENTATIVE STOLTZE replied he thinks it would be the end of the subsidy for the type of film industry that exists. He did not think the film industry [in Alaska] is sustainable since it is heavily subsidized. He said he doesn't use the term "tax credits" since the film industry is not an industry that pays taxes. He offered his belief that the term tax credits is really a misnomer since the program is a film subsidy so he'd

appreciate the committee adopting the term, as well. He acknowledged that the film industry has had some benefits, but he did not think the cost pencils out. He suggested that many people feel good about the scene being filmed in a stage or studio in Anchorage instead of Los Angeles or in Alaska instead of British Columbia, Canada. However, he asked at what cost these benefits have to Alaskans. He wondered how many people were truly excited about reality programs, such as Life's a Tripp.

[4:43:14 PM](#)

REPRESENTATIVE HERRON asked whether he had considered any other options or if this is the best fix.

REPRESENTATIVE STOLTZE responded that the committee could decide. He offered his belief that this bill is an appropriate fix, but the committee process will decide. He said he wants to be sure programs are working and make sure the cost benefit ratio is good. He said, "If there are better ideas out there - I would be happy with stopping the bleeding while we still have a good blood flow."

[4:44:26 PM](#)

REPRESENTATIVE HERRON related his understanding triage is possible, but the sponsor believes it is better to end it now.

REPRESENTATIVE STOLTZE answered yes.

[4:45:18 PM](#)

REPRESENTATIVE JOSEPHSON recalled the sponsor saying the committee would hear from those who have an economic interest [in the film industry]. He understood the state encouraged the aforementioned to have economic interest through 2023. He asked what the legislature should do about that action [taken last year.]

REPRESENTATIVE STOLTZE characterized [the film production tax credit program] as a bad idea. He said that the state had a different economic picture. He indicated [HB 112] has transition language that would allow the industry an opportunity to find a "cash cow" somewhere else. He suggested that some people are really enamored with the film industry, but he is not. He offered his belief the program should be stopped before

the state has given out more benefits. He further suggested that the program was a mistake and should be ended.

[4:46:42 PM](#)

REPRESENTATIVE SADDLER asked the sponsor to elaborate on the transition language, phase out of the program, and auditing provisions.

REPRESENTATIVE STOLTZE deferred to the department.

[4:47:26 PM](#)

REPRESENTATIVE JOSEPHSON recalled reading an article by Representative Costello that indicated the amendments and reforms were great. He asked whether some members still support this industry.

REPRESENTATIVE STOLTZE declined to speak for Representative Costello. He suggested the article could be interpreted on its face. He was unsure of Representative Costello's position on HB 112. He recalled some of the political issues the committee faced last legislature. He further recalled that last year's bill was improved during the process last legislature.

[4:48:35 PM](#)

DANIEL GEORGE, Staff, Representative Bill Stoltze, Alaska State Legislature, on behalf of the sponsor, Representative Bill Stoltze, stated that the Senate bill that passed last legislature increased the state's obligation by \$300 million. The fiscal note explains HB 112 would basically stop the expenditures granted by the Department of Commerce, Community & Economic Development (DCCED) by the expiration of the current program, which ends July 1, 2013. The total amount would be \$83 million, he said. Thus, the potential savings to the state in 2013-2023 would amount to \$217 million. He emphasized that film producers operated in Alaska prior to the program also went on the record to say they would operate in Alaska without the incentives. He further recalled an article in which "Denby's Catch" actually stated that fact. He concluded by saying, "There's a lot more here than meets the eye."

[4:49:49 PM](#)

REPRESENTATIVE STOLTZE said this bill is about Alaska's fiscal situation. He expressed concern about last year's bill. He

stated that he supported the bill since it had other measures attached to it. Further, he also supported last year's measure since the bill supported economic development in Alaska of a more real and tangible nature.

REPRESENTATIVE SADDLER asked him to expand on other elements in last year's film bill.

REPRESENTATIVE STOLTZE did not recollect, but he thought perhaps the bill contained Nenana Basin tax credits, corporate tax credits, and LNG storage credits.

[4:51:38 PM](#)

REPRESENTATIVE SADDLER asked whether DCCED has a position on the bill.

[4:52:21 PM](#)

ROBERTA GRAHAM, Assistant Commissioner, Office of the Commissioner, Department of Commerce, Community & Economic Development (DCCED), said the DCCED is neutral on the bill. She highlighted that the transition language recognizes the importance of continuity for the companies, actors, and businesses that need it. Ironically, the existing statutes which will go into effect July 1 and transfer the Film Production Tax Incentive Program from DCCED to the Department of Revenue (DOR) does not contain any transition language. Thus, according to legal opinions the DCCED has received, the 55-plus productions in the queue that have been prequalified for a tax credit will not be grandfathered in and will need to re-qualify under a new tax credit regime. This means budgets which have been approved would essentially need to be retooled, which may present some legal and financial issues she said. She clarified that HB 112 contains transition language which recognizes [the companies in the queue.]

[4:54:12 PM](#)

REPRESENTATIVE SADDLER asked for a brief description of the transition process and timeline for it.

MS. GRAHAM answered that under the existing standards if a production has not completed its work by June 30 the statute would be repealed and the new statute goes into effect. Once the statutes are repealed, the prequalified firms would be in limbo until they re-qualify with DOR under the new statutes,

which also would include the new tax credit percentages. She explained that the aforementioned will impact at least 55-plus another 10 to 15 productions that will go through the prequalification process between now and June 30, 2013. The DCCED has been working with the DOR on regulations and the proposed transfer program to the DOR. Additionally, the DCCED will retain the function of promoting and marketing the film industry as a destination.

[4:55:40 PM](#)

REPRESENTATIVE HERRON recalled the sponsor anticipates opposition in the form of e-mails on HB 112 and he noted he has also been receiving them. He asked whether the department has received e-mails on HB 112.

MS. GRAHAM said she has not seen them, but imagined the department has received them. In further response, she agreed to provide a summary of the e-mails.

[4:56:39 PM](#)

REPRESENTATIVE JOSEPHSON referred to page 2, line 17, of HB 112, which identifies an effective date of July 1, 2013. He asked whether the effective date would preserve the 55 programs in the system so they can finish their production and receive the credits.

MS. GRAHAM replied that she presumed so. The transition language would allow the Alaska Film Office to proceed to process the tax incentive credits as they are received, she said.

[HB 112 was held over.]

[4:57:50 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:57 p.m.