ALASKA STATE LEGISLATURE
HOUSE RESOURCES STANDING COMMITTEE
February 25, 2013
2:07 p.m.

MEMBERS PRESENT

Representative Eric Feige, Co-Chair
Representative Dan Saddler, Co-Chair
Representative Peggy Wilson, Vice Chair
Representative Craig Johnson
Representative Kurt Olson
Representative Paul Seaton
Representative Geran Tarr
Representative Chris Tuck

MEMBERS ABSENT

Representative Mike Hawker

COMMITTEE CALENDAR

HOUSE BILL NO. 72
"An Act relating to appropriations from taxes paid under the Alaska Net Income Tax Act; relating to the oil and gas production tax rate; relating to gas used in the state; relating to monthly installment payments of the oil and gas production tax; relating to oil and gas production tax credits for certain losses and expenditures; relating to oil and gas production tax credit certificates; relating to nontransferable tax credits based on production; relating to the oil and gas tax credit fund; relating to annual statements by producers and explorers; relating to the determination of annual oil and gas production tax values including adjustments based on a percentage of gross value at the point of production from certain leases or properties; making conforming amendments; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 99
"An Act extending the termination date of the Alaska Minerals Commission."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 72
SHORT TITLE: OIL AND GAS PRODUCTION TAX
SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

01/16/13	(H)	READ THE FIRST TIME - REFERRALS
01/16/13	(H)	RES, FIN
02/11/13	(H)	RES AT 1:00 PM BARNES 124
02/11/13	(H)	Heard & Held
02/11/13	(H)	MINUTE(RES)
02/13/13	(H)	RES AT 1:00 PM BARNES 124
02/13/13	(H)	Heard & Held
02/13/13	(H)	MINUTE(RES)
02/15/13	(H)	RES AT 1:00 PM BARNES 124
02/15/13	(H)	Heard & Held
02/15/13	(H)	MINUTE(RES)
02/18/13	(H)	RES AT 1:00 PM BARNES 124
02/18/13	(H)	Heard & Held
02/18/13	(H)	MINUTE(RES)
02/20/13	(H)	RES AT 1:00 PM BARNES 124
02/20/13	(H)	Heard & Held
02/20/13	(H)	MINUTE(RES)
02/22/13	(H)	RES AT 1:00 PM BARNES 124
02/22/13	(H)	Heard & Held
02/22/13	(H)	MINUTE(RES)
02/25/13	(H)	RES AT 1:00 PM BARNES 124

BILL: HB 99
SHORT TITLE: ALASKA MINERALS COMMISSION
SPONSOR(s): SADDLER

02/01/13	(H)	READ THE FIRST TIME - REFERRALS
02/01/13	(H)	RES, FIN
02/25/13	(H)	RES AT 1:00 PM BARNES 124

WITNESS REGISTER

SCOTT GOLDSMITH, Director
Institute of Social and Economic Research (ISER)
University of Alaska Anchorage (UAA)
Anchorage, Alaska
POSITION STATEMENT: Provided a PowerPoint presentation titled "Petroleum: Jobs and Revenues" and answered questions during discussion of HB 72.

TREVOR FULTON, Staff
Representative Dan Saddler

Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: Presented the committee substitute for HB 99, on behalf of the bill sponsor, Representative Saddler.

ACTION NARRATIVE

2:07:08 PM

CO-CHAIR ERIC FEIGE called the House Resources Standing Committee meeting to order at 2:07 p.m. Representatives Seaton, P. Wilson, Johnson, Saddler, and Feige were present at the call to order. Representatives Olson, Tarr, and Tuck arrived as the meeting was in progress.

HB 72-OIL AND GAS PRODUCTION TAX

2:07:25 PM

CO-CHAIR FEIGE announced that the first order of business is HOUSE BILL NO. 72, "An Act relating to appropriations from taxes paid under the Alaska Net Income Tax Act; relating to the oil and gas production tax rate; relating to gas used in the state; relating to monthly installment payments of the oil and gas production tax; relating to oil and gas production tax credits for certain losses and expenditures; relating to oil and gas production tax credit certificates; relating to nontransferable tax credits based on production; relating to the oil and gas tax credit fund; relating to annual statements by producers and explorers; relating to the determination of annual oil and gas production tax values including adjustments based on a percentage of gross value at the point of production from certain leases or properties; making conforming amendments; and providing for an effective date."

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SCOTT GOLDSMITH, Director, Institute of Social and Economic Research (ISER), University of Alaska Anchorage (UAA), declared that he was testifying as an individual, and not as a representative of UAA. He presented a PowerPoint, "Petroleum: Jobs and Revenues." [Included in members' packets.] He stated that the basis for a prosperous economy was good jobs and sufficient public revenue to support the public goods and services that are desired.

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DR. GOLDSMITH pointed to slide 4, "The Alaska Economy Runs on $$$ From Outside," and stated that the resources primarily came from money outside Alaska, as the Alaska economy was small and did not have a lot of capability to generate its own capital. He noted that revenue was generated from the sale of Alaska natural resources, including fish and oil, tourist spending, federal spending, and the increasing number of retirees in Alaska. Moving on to slide 5, he reported that once those revenue dollars were circulating in the economy and supporting the local businesses, banks, restaurants, and hospitals, the economy would grow.

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DR. GOLDSMITH introduced slide 6, "What is the Impact on Jobs and Revenues from a Cut in Petroleum Taxes." He declared that state revenues from currently anticipated production would fall as a result of a cut in the oil taxes, while budget cuts would reduce public and private jobs. He opined that an increase in petroleum industry investment would generate private jobs. If there were increased production, there would be an increase to the associated state revenue, which would then increase public and private jobs.

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DR. GOLDSMITH offered to walk through the analysis, comparing the loss of jobs and revenue to the state from a reduction in oil tax, with the gain of revenue and jobs from any increased oil activity generated by increased investments as a result of lower tax rates, slide 7.

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DR. GOLDSMITH declared that his description of what might happen, based on a reasonable set of assumptions, was not a prediction, slide 8, as he did not have the data to make a prophecy.

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REPRESENTATIVE P. WILSON asked if the loss and gain would be balanced, with a short lull.

DR. GOLDSMITH replied that it would not.

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DR. GOLDSMITH referred to slide 9, "What Happens to Investment When taxes Cut $1 Billion?" He noted that, although it was not a guarantee for oil industry investment if oil taxes were cut, as an economist, his general sense was that incentives did matter and if incentives were improved then investment would go up. He offered his belief that it seemed to be a reasonable assumption that a cut in oil tax rates would increase oil investment in Alaska. He suggested that leverage was a way to deal with this uncertainty. If taxes were cut by $1, there would be some leverage which would result in some of that money being invested in Alaska. He opined that the reduction in tax revenue could result in an investment in Alaska.

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DR. GOLDSMITH posed an analysis for which the leverage rate was 1, such that for every $1 billion of tax revenue reduced, there would be $1 billion of new investment by the oil industry. In response to Co-Chair Saddler, he said that this was just an initial analysis on this basis.

DR. GOLDSMITH explained that it was more difficult to do a prediction as opposed to a general description, as it was difficult to know what would be the characteristics of the new investment for timing and oil production. He moved on to slide 10, "Oil Development & Production: Each Project Unique," which depicted a time profile for the production of many of the North Slope fields since 1980. He pointed out how different and unique each development had been.

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DR. GOLDSMITH directed attention to slide 11, "Jobs to Production Relationship," and stated that there was not a simple relationship between the number of jobs in the oil and gas industry and the amount of production. The graphic on slide 11 demonstrated that, since 1980, the production per oil and gas worker had decreased from more than 250 barrels per day to currently less than 50 barrels per day. He noted that it was very difficult to capture this relationship from a simple metric.

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DR. GOLDSMITH continued with slide 12, "How Does the State Spend its Money?" and stated that it was impossible for him to know the impact on the state budget should the state lose $1 billion in revenue. He expressed that he did not know where the cuts would be, as those decisions were made by the governor and the legislature. He offered to review the impact of cuts in either the operating or the capital budgets, as well as the impact for additional revenue from the production of oil and gas.

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DR. GOLDSMITH shared slide 13, "Hypothetical $1 Billion Field." He posed that a hypothetical field was developed for $1 billion. It was not based on any particular field, but included the current costs from a $1 billion investment. The field output peaked at 18,000 barrels each day in its fifth, sixth, and seventh years of production, with a subsequent tapering off at an annual decline rate of 10 percent. The graph depicted the time profile of production and revenues that would be generated by this field. He stated that it was assumed to have a $20 tax per barrel for taxes and royalties, which was about half what the state collected per barrel in 2011. The assumption was for a marginal field that was relatively costly.

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DR. GOLDSMITH, in response to Co-Chair Saddler, said that the assumption was for a cost of $1 billion to develop the field, while the cost for operation had not yet been discussed.

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DR. GOLDSMITH addressed slide 14, "New Field: Direct Jobs," and stated his assumption for employment of 500 oil and gas workers for each of four years. He explained that this correlated to an earlier study of the North Star field, which he updated based on an adjustment to the cost of doing business in upstream oil and gas activities. He noted that the cost of development had gone up dramatically since the late 1990s. He declared that his assumption was for investing $1 billion and getting 2000 man years of employment, an equivalent to 2 man years of employment per $1 million of expenditure, which he opined was a conservative assumption for the direct employment impact.

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DR. GOLDSMITH introduced slide 15, "New Field: Direct Jobs," and offered his assumptions for operations, which were also drawn from the aforementioned North Star Field study. He opined that the operations employment was relatively modest, and continued for 25 years. He reported that the total production, slide 16, "25 Year Cumulative Totals," was 72 million barrels at $20 per barrel, with total revenue of $1.445 billion and direct oil patch jobs associated with development and production of 4,349 man years.

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DR. GOLDSMITH indicated slide 17, "Hypothetical Field: Make Room on Graph for Other Jobs." He noted that this generated employment directly in the oil patch, as well as other areas. He offered slide 18, "Petroleum Job Pyramid: The Economic Multiplier," which portrayed the multiplier effect of any direct activity, the secondary jobs. He drew attention to the inverted pyramid of employment, with the oil and gas employee at the bottom of the pyramid, and the field and development maintenance, the suppliers, and the consumer businesses each accommodating an increasingly larger tier above the oil employee. He directed attention to a list of jobs that would be associated with each tier to illustrate the breadth of the multiplier effect. He reported that the average annual wage for an oil and gas worker was $147,000, which was the highest for any industry in Alaska and which supported many consumer businesses.

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DR. GOLDSMITH reported on a recent McDowell & Associates report "Petroleum Multiplier," slide 19, which supported the idea that the multiplier pyramid was quite tall, as the numbers for direct employment were almost 4,000, with an impact to more than 40,000 other jobs. One way to measure this was to take the ratio of 4000 direct jobs, divided into the grand total of direct and indirect jobs, 45,000, for a ratio of about 10. This was one measure of the economic multiplier. If you included other intermediate employment impacts and support services in the multiplier, the ratio would change. He chose to work with a multiplier of 2.4, as it reflected the total number of jobs divided by the oil and gas industry and other support services, without the total number of direct and induced services.

REPRESENTATIVE TUCK asked about a previously reported multiplier of 19.1.

DR. GOLDSMITH, in response, explained that those were employment multipliers, although there were at least two other categories of multipliers, an income multiplier based on wages and salaries, and a sales multiplier based on total sales activity in an economy as a result of an initial investment. He offered his belief that the 19.1 multiplier could be the sales multiplier as it would be larger. He stated that the multiplier for oil and gas tended to be quite large because of the intermediate goods and technical services required during the field development, beyond that of the actual workers in the field. He noted that he was using a smaller measure of the multiplier for this analysis.

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CO-CHAIR SADDLER asked to clarify the implication and importance of the multiplier effect.

DR. GOLDSMITH, in response, stated that the larger the multiplier the larger the number of times the dollars circulate through the economy before they leak out. The more times a dollar circulated through the economy, the more jobs, income, and business opportunities were created for Alaskans. He offered an example for winning an out of state lottery, which would bring a large sum of money into Alaska to be spent in the state, generating income for other businesses. He pointed out that the longer this money stayed in the state, the more economic activity it generated for Alaska, hence the higher multiplier was better for the economy.

REPRESENTATIVE TUCK asked if the current example was for an employment multiplier.

DR. GOLDSMITH expressed his agreement.

REPRESENTATIVE TUCK asked if this assumed all the employees to be Alaska residents.

DR. GOLDSMITH replied that this assumption had not yet been determined, as he had only declared the number of jobs created.

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DR. GOLDSMITH returned attention to slide 20, "New Field: Total Oil Patch Jobs," which added the multiplier jobs to the earlier graph depicted on slide 17. As the assumed multiplier was 2.4,

this would add an additional 1.4 jobs to the already determined oil patch jobs somewhere else in the economy. He pointed out that this multiplier would create an additional 6,088 jobs, for a total of 10,437 jobs. He reminded that the hypothesis had included tax revenue of $20 per barrel, which would also generate additional jobs and spending. He suggested that these jobs would be included in operating and capital budgets, slide 22, "State Spending Bang per Buck & Multipliers." He referenced his earlier assumption that translated into two jobs per $1 million of spending, which was not much bang for the buck compared to the spending by state governments on operations. He reported that a state government could hire 12 full time jobs for $1 million, which was a bigger bang for the buck. He pointed out that the job multiplier would be smaller than with the oil and gas industry however, as there was not the necessary support personnel for state operations workers to do their jobs. He noted that, as the average state employee was not making $147,000 similar to the average oil and gas employee, the state employee would not support as many other jobs in the multiplier.

CO-CHAIR SADDLER asked for an explanation to the formula for the operations and capital multipliers.

DR. GOLDSMITH replied that the denominator in the operations formula was the bang for the buck, which in this case was 12 state government jobs per $1 million spent. As the multiplier was 1.66, this would result in an additional 8 jobs in the private sector, for a total of 20 jobs, which would become the numerator in the equation.

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REPRESENTATIVE SEATON asked for clarification regarding the multiplier effect from the average oil and gas salary of $147,000.

DR. GOLDSMITH, in response, explained that the oil and gas industry would directly hire 2 people at $147,000 apiece for each $1 million invested, with the remainder being spent on goods and services from other businesses. The employees of these other businesses would be reflected in the multiplier.

REPRESENTATIVE SEATON, referring to the $1 million investment, asked if it represented 12 jobs at $80,000 each, with almost nothing else spent on goods and services.

DR. GOLDSMITH stated that this equation was "pretty specific to people." In response to Representative Tuck, he directed attention to slide 23, "Bang per Buck & Multipliers," which summarized his earlier comments. This slide compared the assumptions to the creation of jobs from the spending of $1 million within state government operations, capital spending, and the oil and gas industry. Directing attention to the operations spending, he noted that the $1 million investment would directly hire 12 people in state government, and the multiplier would generate an additional 8 jobs in the private sector. He noted that $1 million spent on the capital budget would generate 4 jobs, with 3 additional jobs created by the economic multiplier. In the oil and gas industry, this same investment would generate 2 jobs, with an additional 2.8 jobs by the multiplier. He reminded the committee that he had taken a conservative approach for the oil and gas multiplier, although he opined that it was most likely a higher figure.

[Due to technical difficulties, the recording was interrupted and testimony was momentarily suspended.]

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REPRESENTATIVE TUCK referred to slide 22, and asked to clarify the difference between the oil and gas multiplier and the state job multipliers for state operations and capital expenditures.

DR. GOLDSMITH, in response, stated that the assumption for the number of workers that could be hired by the operating budget of $1 million was 12 state workers, whereas the hiring for the same capital budget would be 4 workers in the private sector. He stated that these assumptions had been researched in an earlier ISER report entitled "The Citizens Guide to the Budget." For the total number of jobs created by either operations or capital, it was necessary to use the economic multipliers, which were 1.66 for operations and 1.75 for capital. He pointed out that these assumptions were also based on the aforementioned ISER report. He explained that the use of the multipliers would determine that the total number of jobs created in operations would be 20 jobs, and for the capital budget there would be 7 jobs created.

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REPRESENTATIVE TUCK asked to clarify that the total jobs created by the state operations investment was 20 jobs, with 12 being state jobs.

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DR. GOLDSMITH summarized slide 23, stating that $1 million spent on the state operating budget would bring 20 jobs, on the capital budget would bring 7 jobs, and on the oil industry would bring about 5 jobs.

REPRESENTATIVE SEATON asked to clarify that the $1 million spent in the oil and gas industry would reduce the taxes by $1 million.

DR. GOLDSMITH replied that he would address that momentarily.

2:54:45 PM

DR. GOLDSMITH addressed slide 24, "New Field Total Jobs including Public Capital Spending," which depicted the annual addition of jobs, to the aforementioned slide 20, due to public spending of the revenues generated by the additional production. He shared his assumption for slide 24 that the additional public spending would go into the capital budget. Initially, as there was no production, there was no public revenue or spending; however, over time, that increased significantly. If those jobs were accumulated over a period of 25 years, there would be an additional 10,000 jobs for a total of more than 20,000 jobs. He allowed that the additional public revenue could be spent on the operating budget, instead, which would reflect a different pattern for job creation, slide 25, "New Field Total Jobs including Public Operations Spending." He stated that, as the multiplier for state government was very large, there would be a significant increase to the number of jobs.

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REPRESENTATIVE TUCK reviewed the slides for development of a $1 billion oil field, daily production in barrels, and revenues per year, asking if that was revenue to the industry.

DR. GOLDSMITH replied that it depicted revenues of $20 per barrel to the state.

REPRESENTATIVE TUCK continued his review, and pointed to the slide depicting the correlation of production to employment in the oil industry. He asked for clarification to slide 25.

DR. GOLDSMITH, in response, explained that this last graph showed what could be done with the $1.5 billion in public revenue generated by the 74 million barrels of additional oil in this hypothetical field. He offered that it would create a lot of jobs if the revenue was spent through the operating budget, though not as many jobs if spent through the capital budget.

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REPRESENTATIVE P. WILSON asked to clarify where the revenue originated.

DR. GOLDSMITH, in response, stated that the $1.5 billion was revenue to the state from the taxes and royalties that would be collected from the production of 74 million additional barrels of oil.

REPRESENTATIVE P. WILSON asked to clarify, as this was not referring to present conditions, what was being referenced.

DR. GOLDSMITH, in response, explained that this was a hypothetical case demonstrating the effects for employment and additional state revenue, if additional industry investment occurred that generated additional production.

REPRESENTATIVE P. WILSON asked to clarify that this was a hypothesis for the results from a reduction of tax to the oil companies, that it would create more oil production.

DR. GOLDSMITH, in response, stated that this was what could potentially happen, although it was not a prediction as he did not have the data for the necessary leverage. He acknowledged that it was a narrative with conservative assumptions for the generation of employment and revenue.

REPRESENTATIVE P. WILSON asked if this included the use of the correct levers.

DR. GOLDSMITH expressed his agreement, offering to show the results.

DR. GOLDSMITH offered his belief that slide 26, "Cumulative Jobs Generated," would summarize the answer for Representative Wilson. He stated that the graph displayed three cases in which the state tax was reduced by $1 billion, with an assumption that this would generate new employment and new petroleum revenues. The first case reflected the $1 billion tax revenue loss to the

state from the capital budget, a loss of 7,000 jobs. However, as the oil industry generated additional employment and revenue, which was collected by the state, this was spent on the capital budget in subsequent years. Over 25 years, this would generate a cumulative employment of 20,554 jobs, with a loss of 7,000 jobs.

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DR. GOLDSMITH, in response to Representative Saddler, stated that this was 20,554 man years over the 25 year period, the life of the hypothetical oil field. He expressed an assumption that the 7,000 jobs were lost immediately.

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REPRESENTATIVE SEATON opined that this assumption was all based on the idea of leverage, that the reduction of taxes would increase the investment in Alaska, whereas an increase in taxes would lead to investment elsewhere. He pointed out that, when taxes had been increased, investments had increased, and jobs had increased. He noted that the circumstances had allowed this to happen. He shared that other consultants had testified that it would be necessary to have a new 20,000 barrel per day field every year from 2017 onward just to break even with the stipulations under proposed HB 72. He questioned how both of these hypotheses worked in conjunction.

DR. GOLDSMITH replied that would not work if you believed that an increase to taxes would also increase investment activity.

REPRESENTATIVE SEATON said that was what had happened [under ACES].

DR. GOLDSMITH replied that he was referencing the trade-off currently under discussion which was that reduced state revenues from lower tax rates would increase employment. He suggested looking ahead for the industry response, which could be fairly significant. He stated that his assumptions, although conservative, indicated that the response could be quite significant. He expressed agreement that it was unclear whether there was any leverage, and noted that his depictions were merely a projection of what the response might look like.

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DR. GOLDSMITH moved to slide 27, "Cumulative Revenues Generated (Million 2012 $)," which depicted the same trade-off regarding state revenues with a leverage assumption of one to one, a $1 billion reduction in revenue with a $1 billion increase in investment. He pointed out that the cumulative increase was more than a $1 billion return.

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DR. GOLDSMITH moved on to slide 28, "Job Growth Since 2001," and shared that the government generated additional jobs. He pointed out that much of the job growth had been due to increases in government spending in the last 10 years.

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DR. GOLDSMITH turned to slide 29, "Progress Toward Fiscal Diversification," and stated that the past 40 years had demonstrated that there had not been a lot of progress for non-petroleum revenue. He reported that the dependence on petroleum revenue to the general fund, over 90 percent, was the highest it had ever been. He pointed out that a lot of the remaining 10 percent of revenue also relied on the oil industry. He surmised that the petroleum industry contributed closer to 94 percent of the Alaska economy.

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DR. GOLDSMITH discussed slide 30, "Non-Residents" and shared the list of high percentage non-resident worker share in many industries other than oil and gas, including construction, seafood processing and state government.

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DR. GOLDSMITH returned attention to slide 31, "Jobs Sensitivity to Leverage," and explained that leverage at higher levels had a greater positive effect on jobs.

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DR. GOLDSMITH referred to slides 32 - 34, "Revenues: Sensitivity to Leverage," and stated that the higher levels of leverage created more reinvestment, and in turn, greater revenue.

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DR. GOLDSMITH moved on to slide 35, "State Fiscal Plan," which depicted the revenue and expenditure forecast for the state through 2023. He pointed out that the expenditure forecast was based on an annual growth rate of 4 percent, although the general fund revenue was not keeping up with the expenditures. He noted that the shortfalls could be accommodated for a while, as Alaska had a substantial bank account.

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DR. GOLDSMITH continued on with slide 36, "Looking Beyond 10 Years," which depicted the use of cash reserves to fund the budget in the next 10 years. He pointed out that the projection after 10 years became direr without an alternative source of revenue to fund the increasing gap with expenditures. He declared that spending would have to come in line with actual revenues. He projected slide 37, "Move Towards Sustainability," which portrayed the expenditure of the money the state had in the bank for about 10 years, with a subsequent crash as the spending of the state revenue represented jobs, and this would be a crash in employment, as well. He offered his belief that a reduction in the current oil tax rate would reduce the current revenue but would generate additional revenue from additional production in the future, and could smooth out the projection for non-sustainable state spending and state employment. He noted that the state would need to reduce current spending in response to current tax revenues, and not increase spending until there was an increase to tax revenues.

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DR. GOLDSMITH indicated slide 38, "Continuous Spending for 25 Years: Jobs," which demonstrated that a strategy to reduce the current oil tax rate for an extended period would lead to an extended period of new oil industry investment. This, in turn, would lead to additional employment in future years for both oil industry and the state related jobs. He opined that this, as an alternative strategy, could offer more employment in the not too distant future, whereas maintaining the current operating budget would keep a static level of employment.

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DR. GOLDSMITH shared slide 39, "Continuous Spending for 25 Years: Revenue," and offered his belief that petroleum revenue would be greater in the long term with a reduction in current oil taxes than the petroleum revenue lost, although this was

dependent on the amount of leverage for future investment. He ended the PowerPoint presentation by displaying slide 26, "Cumulative Jobs Generated," and opined that this was the most demonstrative graphic in support of his hypothesis.

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REPRESENTATIVE TUCK asked to clarify that slide 26 was for man years.

DR. GOLDSMITH, in response to Representative Tuck, explained that slide 36, "Looking Beyond 10 Years," depicted the cost in billions.

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CO-CHAIR SADDLER asked for a better explanation to slide 26, "Cumulative Jobs Generated."

DR. GOLDSMITH explained that "capital for capital" signified a cut to the current state budget, and when oil revenue increased from additional production in the future, it was spent on the capital budget.

CO-CHAIR SADDLER asked if the time frame was important.

DR. GOLDSMITH, in response, opined that it was important to know that. He directed attention to the bar graph titled "Capital For Operating" on slide 26, which reflected a $1 billion cut from the capital budget with the hope for additional oil industry investment. If that investment generated production, and then additional tax revenue, this would happen in 5 or 10 years. He stated that this additional revenue would be needed to support the operating budget, as the state savings could have been exhausted. He reported that this reflected a cut in today's capital dollars, with support for operating dollars in the future, which he opined to be the biggest bang for the buck. He offered his belief that the first cuts are to the capital budget as budgets get tight.

CO-CHAIR FEIGE asked about the effect on the overall Alaska economy, and not just on state government.

DR. GOLDSMITH replied that many of the additional jobs would be in the private sector.

CO-CHAIR FEIGE asked to clarify that the bar graph represented all of the Alaska economy.

DR. GOLDSMITH agreed.

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REPRESENTATIVE TARR, addressing slide 40, "Non-Petroleum Strategies for Continuing Economic Prosperity," questioned whether there was a formula or a model for a percentage of diversification to the economy to relieve the heavy reliance on oil and gas revenue and give the state economy more stability.

DR. GOLDSMITH replied that he did not know what would be the optimal mix, comparing this to diversifying a portfolio. He noted that there was still substantial funding from the federal government, although Alaska would continue to be dependent on oil revenue for a long time. He declared that there had not been much progress in the strategies to create non-petroleum revenue, and that proper management of this would maintain a prosperous economy for at least another generation. He noted that this was the opposite of a diversification strategy, therefore, it was necessary to keep an eye on this investment.

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CO-CHAIR FEIGE requested that the committee members submit any additional questions to Dr. Goldsmith.

[HB 72 was held over.]

HB 99-ALASKA MINERALS COMMISSION

3:28:06 PM

CO-CHAIR FEIGE announced that the next order of business is HOUSE BILL NO. 99, "An Act extending the termination date of the Alaska Minerals Commission."

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CO-CHAIR SADDLER introduced HB 99 as the sponsor of the bill. He paraphrased from the following prepared sponsor statement [Included in members' packets]:

> House Bill 99 extends the Alaska Minerals Commission until February 1, 2024 and provides for terms and term limits for those who serve on the Commission. The

Commission is currently set to expire on February 1, 2014, and commissioners are not currently subject to terms or term limits.

The Commission was created in 1986 and charged with making recommendations to the Governor and the Legislature on ways to mitigate constraints on the development of minerals in Alaska.

The Commission consists of 11 members: five appointed by the Governor, three by the Speaker of the House, and three by the President of the Senate. Each member must have at least five years of experience in the minerals industry. At least one member must reside in a rural community. Current commissioners represent the placer, hard rock, and coal mining industries across the state.

The Commission annually reports its recommendations to the Governor and the Legislature during the first ten days of the legislative session.

Key recommendations made by the Commission and implemented by the Legislature since the Commission's last reauthorization in 2003 include:

- Funding infrastructure development under the Roads to Resources program
- Reforming state permitting processes to make them timelier and more efficient
- Gathering and publishing geological and geophysical data on Alaska's mineral potential
- Assuming state primacy of the National Pollutant Discharge Elimination System
- Accelerating state land entitlement conveyances in accordance with the Statehood Act
- Reestablishing the Citizens Advisory Commission on Federal Areas
- Asserting and defending public access to roads, trails, and navigable waterways
- Funding University of Alaska mineral engineering and geology programs

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CO-CHAIR SADDLER declared that the recommendations had helped to increase access, reduce permitting time, lower development

costs, and encourage value added development of Alaska's mineral resources. He noted that the commission had recommended term limits for commissioners and annual election of a chair and vice chair. He pointed out that there were still significant constraints on Alaska's mineral industry. He reported that there had been $3.8 billion of mineral revenue generated in Alaska in 2011. He noted that there were seven large mines operating in the state and that these mines directly employed 4,500 Alaskans, and an additional 9,000 indirect jobs, with a combined payroll of $620 million.

3:31:27 PM

CO-CHAIR SADDLER noted that the commission's focus emphasized mineral development and mining, which included oil and gas. He reported that oil and gas did share many of the same obstacles to development for which the minerals commission was seeking solutions.

3:31:58 PM

CO-CHAIR SADDLER moved to adopt the proposed committee substitute (CS) for HB 99, labeled 28-LS0430\N, Martin, 2/15/13, as the working draft. There being no objection, it was so ordered.

3:32:49 PM

TREVOR FULTON, Staff, Representative Dan Saddler, Alaska State Legislature, explained the changes in the CS, Version N, noting that the committee substitute would add three year staggered terms to the board, which would be limited to two consecutive terms, and it would provide for the election of a committee chair and vice chair.

3:33:46 PM

[HB 99 was held over.]

3:34:04 PM

ADJOURNMENT

There being no further business before the committee, the House Resources Standing Committee meeting was adjourned at 3:34 p.m.