

SENATE FINANCE COMMITTEE

March 6, 2013

9:09 a.m.

9:09:04 AM

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 9:09 a.m.

MEMBERS PRESENT

Senator Pete Kelly, Co-Chair
Senator Anna Fairclough, Vice-Chair
Senator Click Bishop
Senator Mike Dunleavy
Senator Donny Olson
Senator Lyman Hoffman

MEMBERS ABSENT

Senator Kevin Meyer, Co-Chair

ALSO PRESENT

Margaret Dowling, Staff, Senator Cathy Giessel; Sarah Fisher-Goad, Executive Director, Alaska Energy Authority, Department of Commerce, Community and Economic Development; Ted Leonard, Executive Director, Alaska Industrial Development and Export Authority; David Teal, Director, Legislative Finance Division

PRESENT VIA TELECONFERENCE

Don Habegar, Director, Division of Corporations, Business and Professional Licensing, Department of Commerce, Community and Economic Development; Harley Hightower, Architect, Anchorage; Colin Maynard, Civil Engineer, AELS Board, Anchorage; Janet M. Matheson, Architect, American Institute of Architects, Fairbanks; Dale Nelson, Civil Engineer, Chair of Alaska Professional Design Council Legislative Committee, Palmer; David Messier, Tanana Chiefs Conference, Fairbanks; Bob Shefchik, Chair, Fairbanks Energy Council, Fairbanks

SUMMARY

SB 16 BD OF ARCHITECTS, ENGINEERS, SURVEYORS

SB 16 was REPORTED out of committee with a "do pass" recommendation and with a new fiscal impact note from the Department of Commerce, Community and Economic Development.

SB 21 OIL AND GAS PRODUCTION TAX

SB 21 was SCHEDULED but not HEARD.

SB 23 AIDEA: LNG PROJECT; DIVIDENDS; FINANCING

SB 16 was REPORTED out of committee with a "do pass" recommendation and with a new fiscal impact note from the Department of Commerce, Community and Economic Development.

#sb16

SENATE BILL NO. 16

"An Act relating to the Board of Registration for Architects, Engineers, and Land Surveyors and to the Department of Commerce, Community, and Economic Development."

9:10:10 AM

MARGARET DOWLING, STAFF, SENATOR CATHY GIESSEL, explained SB 16. She referred to the Sponsor Statement.

SB 16 revises statutes governing architects, engineers, and land surveyors in Alaska, designating a full-time investigator specifically for the State Board of Registration for Architects, Engineers, and Land Surveyors (AELS).

The AELS Board's mission, as defined in statute, is to protect public health, safety and welfare by ensuring that those entering the practices of architecture, engineering, and land surveying meet minimum standards of competency, and maintain those standards during their practice, by requiring licensure to practice in the state. The Board enforces the licensure and competency requirements and responds to complaints brought by the public.

Currently, the AELS Board shares one part-time investigator with six other boards that oversee a total of 18,095 licensees, of which 6,439 licensees are under the AELS Board.

According to the board, because of the negative economic conditions in various parts of the United States, a significant number of corporations and individuals are relocating to Alaska and many are practicing without proper licensure or knowledge of applicable statutes and regulations. In 2012 alone, the AELS Board added 490 new licensees to its oversight.

In addition to the already growing workload for the part-time AELS Board investigator, pressure on the investigator to spend time on the other six boards to which he is also assigned is increasing. The efficiency and effectiveness of the State's licensing investigation process is further reduced by only having a single shared investigator who must maintain knowledge of the various statutes and regulations of seven different boards.

SB 16 also removes the constraint that examinations for licensure be written. With advancements in technology, examinations are moving to an electronic format which will further increase efficiency.

SB 16 will better equip the AELS Board to maintain proper oversight of its licensees, thereby uphold the reputation and integrity of the disciplines within its purview, and ultimately ensure its ability to protect public health, safety, and welfare.

Ms. Dowling explained the fiscal note. She stressed that regulatory boards must be self-supporting through licensing fees. She pointed out that the board had sufficient carry-forward program receipts to cover the initial cost. The new influx of revenue would be generated in November and December of 2013, as the license fees become due. She noted that, currently, the license fees were \$125 for a two-year license. She remarked that the fee could be increased if needed, but stressed that an anticipated fee-increase would be minimal.

Senator Dunleavy surmised that the fee would pay for the extra position. Ms. Dowling agreed, and stressed that the fee must pay for it.

Senator Dunleavy wondered if the position would be eliminated, if the fees were not able to pay for the position. Ms. Dowling deferred to Mr. Habegar.

DON HABEGAR, DIRECTOR, DIVISION OF CORPORATIONS, BUSINESS AND PROFESSIONAL LICENSING, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT (DCCED) (via teleconference), replied that there was a mechanism by statute whereby a board's revenue and expenses were annually reviewed. He added that every two years the professional licensing groups renewed their licenses. He stressed that the annual and biannual reviews allowed the division the ability to adjust fees according to statute; and could increase or decrease fees based on the equilibrium between revenues and expenses.

Senator Dunleavy surmised that the license fees would pay for the new position. Mr. Habeger responded that the license fees would pay for the position.

[9:16:30 AM](#)

Senator Dunleavy asked if the position would be eliminated, if the license fees were not available to cover the cost of the position. Mr. Habeger responded that the statute required the division to collect revenues that were approximately equal to the fee; however there may be less revenue, which would cause a fee adjustment to backfill unanticipated cost. He stressed that the fees were collected two years in advance of expenses.

Senator Dunleavy remarked that he was interested in monitoring the growth of the operating budget.

Senator Bishop wondered if the revenue adjustment requirement was written in statute or regulation. Mr. Habeger responded that the statute required DCCED to collect revenues that approximately equaled expenses, followed by adjusting the fees through the regulatory process. He stated that there was an analysis; followed a presentation to the board; the board gives their approval or feedback; the regulatory package is released, and open to comments; resulting in adjustments or adoption.

Senator Bishop noted an increase in the workload by 116 cases, and wondered if there were more fraud cases since the onset of the recession. Mr. Habeger replied that he was unsure of the types of cases in review, and deferred to a board member to reply to that inquiry.

Senator Bishop agreed to receive a response at a later date.

HARLEY HIGHTOWER, ARCHITECT, ANCHORAGE (via teleconference), explained that the board was very large and complex; and stressed that it was difficult for an investigator to keep current on all the statutes and regulations. He stated that he had been a practicing architect since 1974. He specifically stated that the registration fee was very reasonable.

[9:21:05 AM](#)

COLIN MAYNARD, CIVIL ENGINEER, AELS BOARD, ANCHORAGE (via teleconference), testified in support of SB 16. He pointed out that there were currently 15 engineering licenses which included landscape architects and land surveyors. He explained that there were roughly 2.5 investigators for the board four years prior, but the investigators were now shared between six different boards. He stressed that there were so many cases, so the investigations were difficult to complete in a timely manner. He stressed that SB 16 would provide a more even investigation and enforcement of the licensing laws. He remarked that the fees fluctuate from year to year, and stressed that oil money was not used to support the board.

JANET M. MATHESON, ARCHITECT, AMERICAN INSTITUTE OF ARCHITECTS, FAIRBANKS (via teleconference), testified in support of SB 16. She stressed that the bill provided a necessary change to enforce professional practice in the state for public safety reasons, because the geographic disparity of enforcement was currently difficult. She reiterated that the change would be funded by professional licensing fees.

DALE NELSON, CIVIL ENGINEER, CHAIR OF ALASKA PROFESSIONAL DESIGN COUNCIL LEGISLATIVE COMMITTEE, PALMER (via teleconference), testified in support of SB 16. He explained that the Alaska Professional Design Council

(APDC) represented many different types of licensed professions. He remarked that details of the bill had been published in the APDC newsletter, and presented to the APDC Legislative Committee. He stressed that APDC had received only positive responses to the proposals outlined in the bill. He stated that he had been a practicing civil engineer since 1973, and had personally experienced fluctuating licensing fees.

[9:26:49 AM](#)

Senator Bishop wondered if the proposed position was an exempt position. Ms. Dowling deferred to Mr. Habeger responded that the position was not an exempt position.

Vice-Chair Fairclough queried who would be responsible for the supervising responsibility of the secretary and the investigator. She noted that the line of command for the investigator was placed with the board, and wondered if the board would conduct an annual performance review. Mr. Habeger responded that there was administrative activity with human resource support and evaluations. He stressed that the division had the ability to discipline, but the board was focused on directing where investigations should occur in the state.

Vice-Chair Fairclough stressed that the fiscal note reflected a range 18 position to conduct investigations into alleged violations, and would be directly responsible and accountable to the board. She wondered if the board would be responsible for performance reviews. Mr. Habeger replied that the board had an annual review process that was presented to the division, and was used as additional guidance.

Vice-Chair Fairclough wondered if the secretary was a shared position. Mr. Habeger responded that the secretary position was dedicated to the board.

Vice-Chair Fairclough surmised that there would be two dedicated positions. Mr. Habeger agreed that there would be two dedicated positions, if the bill were passed.

[9:30:08 AM](#)

Vice-Chair Fairclough MOVED to REPORT SB 16 out of committee with individual recommendations and the

accompanying fiscal note. There being NO OBJECTION, it was so ordered.

SB 16 was REPORTED out of committee with a "do pass" recommendation and with a new fiscal impact note from the Department of Commerce, Community and Economic Development.

#sb23

SENATE BILL NO. 23

"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."

[9:31:17 AM](#)

SARAH FISHER-GOAD, EXECUTIVE DIRECTOR, ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, introduced herself.

TED LEONARD, EXECUTIVE DIRECTOR, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY, introduced himself.

Ms. Fisher-Goad explained that there was new information in response to questions that were offered the week prior. She pointed out that the fiscal notes were recently revised. One fiscal note was in respect to the Alaska Industrial Development and Export Authority (AIDEA) operations. She noted that the original fiscal note showed revenues to AIDEA, but it was determined that the revenue should show revenue to the State of Alaska. The new fiscal note showed revenues to the State of Alaska through dividend payments from AIDEA. She pointed out the two-year lag, with respect to how the AIDEA dividend was calculated. She looked at the comprehensive spreadsheet that was attached to the fiscal note, which showed the various pieces of the legislation; the interior energy plan; the other aspects of the legislation that were independent of the interior energy plan; and showed a comprehensive look at the different aspects of the legislation and other issues in the operating and capital budgets. She addressed the new fiscal

note which showed the FY 14 governor's request to capitalize the Sustainable Energy Transmission and Supply Development Fund (SETS). She concluded that both fiscal notes reflected the \$50 million to AIDEA for the power plant.

[9:33:55 AM](#)

DAVID MESSIER, TANANA CHIEFS CONFERENCE, FAIRBANKS (via teleconference), spoke in support of SB 23. He remarked that the total economic effect of Natural Gas on the rural communities was unclear; but the hub would result in lower energy costs in Fairbanks and the surrounding communities. He pointed out that roughly half of the Tanana Chiefs Conference members lived in and around Fairbanks, and he believed that the project would have a positive benefit on the local economy. He remarked that access to low-cost energy had led to increased economic activity and opportunity, and believed that access to lower cost energy in Fairbanks would produce similar results. He stressed that the legislation would only augment, but not replace other alternative energy and weatherization funding.

[9:36:47 AM](#)

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, explained that the analysis was a way of separating the gas project from other impacts of the fiscal note. He stated that the fiscal notes included use of other financing mechanisms, so the analysis looked at the gas project in isolation to compare the cost to the state versus the benefits to consumers. He pointed out the top of the analysis, which was \$50 million in cash from the general fund; \$30 million in tax credits; and \$125 million from additional state expenditures. The total state contribution to the legislation was \$205 million. He stated that the money could earn \$8.2 million at 4 percent earnings, if the \$205 million were not spent. He stressed that the \$8.2 million loss in revenue was the opportunity cost. He pointed out that the \$125 million in the SETS fund would be loaned by AIDEA to the participants in the project, and approximately 3 percent interest that would generate \$3.5 million interest earnings of which AIDEA could pay back to the state in dividends. He looked at the 7800 customers of AIDEA that would save an average of about \$3000 per year in fuel, giving a customer benefit of approximately \$3 million, resulting in a benefit-cost ratio of \$3.50. He

remarked that more sophisticated benefit-cost ratio analysis was required for past energy projects, and many of those projects resulted in a benefit-cost ratio that was less than one dollar. He furthered that consumers would incur some costs, because they needed to pay to convert to a natural gas system. He pointed out that if a consumer borrowed a 4 percent to pay for a \$10,000 system, the loan would cost \$1200 a year over ten years. He stressed that he did not have a position on the bill, but he was merely sharing his analysis. He pointed out that the analysis did not include secondary impacts like propane, or the potential for the gas to be used by the utilities to lower the cost of electricity.

[9:42:22 AM](#)

Senator Olson wondered if there the propane availability in rural communities would materialize. Mr. Teal responded that the question was beyond his level of expertise.

Senator Olson specifically queried the cost-benefit ratio to the rural communities. Mr. Fisher-Goad responded that AIDEA was examining that issue through the Rural Energy Program. She pointed out that the AEA intended to ensure a positive impact wherever propane would be available. She specifically remarked that the Northwest Arctic Borough had worked extensively on ensuring that propane had a positive impact on rural communities for consumers. She furthered that liquid natural gas (LNG) should also be made available to the rural communities.

Senator Olson wondered if there was input from the refiners in Fairbanks regarding LNG. Ms. Fisher-Goad replied that there AIDEA had conversations with LNG refiners. She stated that the Golden Valley Electric Association in Flint Hills had partnered to potentially develop the mechanism that the bill would contain. She furthered that the association was no longer a partner as a project proponent, but felt that Flint Hills was expected to be a viable customer. She stressed that the LNG availability to rural areas would benefit Flint Hills' operational costs. She added that the LNG proposal was a part of the due diligence process that the AIDEA technical team was examining to ensure that there would be customers to fulfill the industrial load.

[9:48:13 AM](#)

Senator Olson wondered what efforts were being made to ensure that the refineries remained viable. Ms. Fisher-Goad replied that this issue was currently under examination. She pointed out that the high cost of diesel fuel had eroded the market share and customers. She stressed that the purpose of SB 23 was to impact as many people as possible. She felt that the alternative-doing nothing-would impact the overall economics in Alaska, including the LNG refineries and customers.

Senator Olson specifically looked at the heating oil distributors, and wondered how the administration would deal with out of work, skilled employees being unemployed due to a competitive product. Ms. Fisher-Goad responded that the package addressed the operational cost of the refiners. She stressed that the intention of the refiner to be a customer would lower their costs. She felt that the erosion of the heating oil industry in interior Alaska was a concern, regardless of LNG availability.

[9:52:17 AM](#)

Senator Olson stressed that he was not opposed to making energy prices more economical in interior Alaska, but felt that there were many people who could not have access to the LNG. He wondered if there was a consideration for those individuals and businesses that could not access LNG, and would potentially suffer as a result. Ms. Fisher-Goad responded that legislation addressed the current individuals and businesses that did not have access to LNG. She stated that the rural energy programs would address those that could not have access to lower heating options.

Senator Olson commented that he had not seen any effort from the administration to mitigate the circumstances of the unintended consequences of the bill.

BOB SHEFCHIK, CHAIR, FAIRBANKS ENERGY COUNCIL, FAIRBANKS (via teleconference), stated that the Flint Hills refinery's main product was jet fuel. He stressed that the bill would benefit them, more than harming them. He explained that the Petro Star refinery was more complicated, because they provided jet fuel to Eielson Air Force Base and heating fuel in Fairbanks; but the availability of LNG should assist the economics of their refineries. He shared that Petro Star had not indicated a position saying that the bill would harm their business. He

shared that the gas utility was currently working toward a wide LNG distribution network. He concluded that the perception that there would be a negative impact on delivery jobs and distribution was accurate, but would be offset by a large number of trucking jobs bringing trucks to and from town.

[9:57:44 AM](#)

AT EASE

[9:59:37 AM](#)

RECONVENED

Vice-Chair Fairclough wondered how the dividend was affected inside the bill, and would change in description net income. Ms. Fisher-Goad replied that it was a technical change, and the dividend calculation would not change.

Mr. Leonard explained reiterated Ms. Fisher-Goad's statement.

Vice-Chair Fairclough commented that there was no conversation regarding capital costs related to transportation costs, and wondered if there was anticipation to increase capital maintenance of the road from the North Slope. Mr. Leonard responded that the initial projection was approximately 20 to 25 trucks per day, and the capitalization was built into cost of the trucks. He furthered that there was work with the Department of Transportation and Public Facilities (DOT/PF), and DOT/PF felt that the proposal would not have a significant impact on the capital.

Senator Bishop shared that he had conversations with distributors that felt that LNG could "save Fairbanks." He stressed that many distributors had large sums on their books that had still not been collected from consumers, because the consumers were unable to pay the cost of fuel. He wondered if there would be due-diligence to determine if the bill was economical. Mr. Leonard agreed, and furthered that it was important for the bill to be economically viable to the community and would pay for the investment from AIDEA.

[10:06:56 AM](#)

Senator Bishop commented that one of his constituents had and \$8000 a week fuel bill, others were desperate for lower heating costs.

Vice-Chair Fairclough MOVED to REPORT CS SB 23 (FIN) out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

SB 23 was REPORTED out of committee with a "do pass" recommendation and with two new fiscal impact notes from the Department of Commerce, Community and Economic Development.

#sb21

SENATE BILL NO. 21

"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."

SB 21 was SCHEDULED but not HEARD.

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ADJOURNMENT

10:11:16 AM

The meeting was adjourned at 10:11 a.m.