

SENATE FINANCE COMMITTEE
March 10, 2014
9:12 a.m.

9:12:06 AM

CALL TO ORDER

Co-Chair Kelly called the Senate Finance Committee meeting to order at 9:12 a.m.

MEMBERS PRESENT

Senator Pete Kelly, Co-Chair
Senator Kevin Meyer, Co-Chair
Senator Anna Fairclough, Vice-Chair
Senator Click Bishop (via teleconference)
Senator Mike Dunleavy
Senator Lyman Hoffman
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Larry Persily, Federal Coordinator, Alaska Natural Gas Transportation Projects; Angela Rodell, Commissioner, Department of Revenue; Michael Pawlowski, Deputy Commissioner, Strategic Finance, Department of Revenue; Representative Mike Chenault; Sharon Kelly, Staff, Representative Mike Chenault; Kris Curtis, Auditor, Legislative Budget and Audit; Brittany Hutchison, Staff, Senator Click Bishop.

PRESENT VIA TELECONFERENCE

Robert Scher, Chair, Alaska Seismic Hazard Safety Commission, Anchorage.

SUMMARY

SB 137 EXTEND SEISMIC HAZARDS SAFETY COMMISSION

SB 137 was REPORTED out of committee with a "do pass" recommendation and with previously published fiscal note: FN:1 (DNR).

SB 138 GAS PIPELINE; AGDC; OIL & GAS PROD. TAX

SB 138 was HEARD and HELD in committee for further consideration.

HB 298 CONFIDENTIALITY OF PERFORMANCE REVIEWS

SCS HB 298 (FIN) was REPORTED out of committee with a "do pass" recommendation and with previously published zero fiscal note: FN1: LEG.

#sb138

SENATE BILL NO. 138

"An Act relating to the purposes of the Alaska Gasline Development Corporation to advance to develop a large-diameter natural gas pipeline project, including treatment and liquefaction facilities; establishing the large-diameter natural gas pipeline project fund; creating a subsidiary related to a large-diameter natural gas pipeline project, including treatment and liquefaction facilities; relating to the authority of the commissioner of natural resources to negotiate contracts related to North Slope natural gas projects, to enter into confidentiality agreements in support of contract negotiations and implementation, and to take custody of gas delivered to the state under an election to pay the oil and gas production tax in kind; relating to the sale, exchange, or disposal of gas delivered to the state under an election to pay the oil and gas production tax in kind; relating to the duties of the commissioner of revenue to direct the disposition of revenues received from gas delivered to the state in kind and to consult with the commissioner of natural resources on the custody and disposition of gas delivered to the state in kind; relating to the authority of the commissioner of natural resources to propose modifications to existing state oil and gas leases; making certain information provided to the Department of Natural Resources and the Department of Revenue exempt from inspection as a public record; making certain tax information related to an election to pay the oil and gas production tax

in kind exempt from tax confidentiality provisions; relating to establishing under the oil and gas production tax a gross tax rate for gas after 2021; making the alternate minimum tax on oil and gas produced north of 68 degrees North latitude after 2021 apply only to oil; relating to apportionment factors of the Alaska Net Income Tax Act; authorizing a producer's election to pay the oil and gas production tax in kind for certain gas and relating to the authorization; relating to monthly installment payments of the oil and gas production tax; relating to interest payments on monthly installment payments of the oil and gas production tax; relating to settlements between producers and royalty owners for oil and gas production tax; relating to annual statements by producers and explorers; relating to annual production tax values; relating to lease expenditures; amending the definition of gross value at the 'point of production' for gas for purposes of the oil and gas production tax; adding definitions related to natural gas terms; clarifying that credit may not be taken against the in-kind levy of the oil and gas production tax for gas for purposes of the exploration incentive credit, the oil or gas producer education credit, and the film production tax credit; making conforming amendments; and providing for an effective date."

[9:13:46 AM](#)

LARRY PERSILY, FEDERAL COORDINATOR, ALASKA NATURAL GAS TRANSPORTATION PROJECTS, discussed the PowerPoint presentation, "Alaska gas pipeline project. What's different this time?" (copy on file).

Mr. Persily looked at slide 1, "The world changed, not us."

Global LNG trade has quadrupled since 1995

Asian LNG demand alone could double by 2025

China demand growing double-digit annual rate

Europe looking for alternatives to Russian gas

Worldwide concerns over coal, nuclear plants

Alaska LNG could be the victor of circumstances

Mr. Persily highlighted slide 2, "Global gas prices diverge." The divergence in price between U.S., European, and Asian LNG prices has recently changed over the years. He stressed that the gap would not continue to grow as rapidly as the graph indicated. The supply and demand on commodities would shift that gap. The market realizes that it is expensive to liquefy and move gas into the Asia-Pacific market, and prices would acknowledge that realization.

Mr. Persily discussed slide 3, "China's domestic gas supply deficit." The real growth in demand for imported natural gas was China. The red bars on the graph represented the deficit of what they could produce versus their need. From an exporter's perspective, there was a definite growth market.

Mr. Persily addressed slide 4, "Price is everything."

Japan paid \$70-plus billion for LNG in 2013

Energy a big reason for \$112 billion trade gap

Third year in a row of trade deficit in Japan after more than 30 years of a trade surplus

Japan leading the charge for new suppliers, more competition and lower LNG pricing regime

Alaska could be price competitive in the market

Mr. Persily displayed slide 5, "No project has it easy."

BG Group says 525-mile natural gas pipeline to Prince Rupert could cost up to \$10 billion

LNG tax debate under way in British Columbia

Dredging, harbor, berthing costs estimated at \$1.5 billion for Australia's Wheatstone LNG

Russian politics out ahead of project economics

Buyers hold back, wait to see LNG pricing trend

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Mr. Persily addressed slide 6, "Alaska has changed, too."

Prudhoe Bay growing older, economics look better as an oil and gas play rather than oil only

Point Thomson under development and would supply 25 percent of the gas for the LNG project

Major North Slope producers willing to spend significant money to advance the gas project

Alaskans appear willing to consider investing significant state money into the LNG project

Mr. Persily highlighted slide 7, "Patience is a virtue."

Patience is a must for state LNG investment

Long wait for the first check – but long payback

Norway invested billions in oil and gas and then waited years for any return; it took a decade before real investment payback started to roll in

If it wants to act like an oil and gas business, Alaska must think like one – and think long term

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Co-Chair Kelly wondered if the challenge of a successful LNG business was to ensure there were no massive cost overruns. Mr. Persily replied in the affirmative. He stressed that there was no return on investment in the early years of a project's inception, but the long term investment was inevitable.

Co-Chair Kelly understood that there would already be an outline of an investment return, to lure investors. Mr. Persily agreed, and stressed that the costs should be limited and carefully managed.

Co-Chair Kelly shared that he had recently had a conversation with a constituent. That constituent pointed out that there was too much competition across the world, so they felt that Alaska's LNG would not sell, because it

was too difficult to bring it to market. He queried the problems of the competing projects. Mr. Persily responded that the closest competition was Canada. There were 12 or 13 LNG proposed projects for British Columbia (BC), but he stressed that none of those projects had embarked on final investment decision; had any permits in hand; and announced customers. The BC government had announced a new tax rate, but did not expect the legislation and the details on the fiscal regimes until much later. He stressed that companies were reluctant to embark on final investment decisions until those details were outlined. He stated that consultations with First Nations was an issue in BC, and there were some air quality issues in certain regions. Many of the proposed shale fields had substantial development fields. The U.S. Gulf Coast had an advantage, because there was mostly a conversion of existing import terminals into export terminals. The politics in the Lower 48 for getting the export licenses approved was a major issue.

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Mr. Persily explained slide 8, "What's changed since 2002."

DOR 2002 report looked at pipeline, not LNG

Different markets, sales, risks and regulations

State is in a better cash position today (\$17 billion in savings) than 2002 (\$2 billion)

State equity investment in 2002 might have needed assistance from the Permanent Fund

100 percent state ownership was on the table in 2002

Mr. Persily discussed slide 9, "Some things haven't changed."

DOR 2002 report recommended the state match pipeline capacity with its share of the gas

Report said conflicts as an owner and regulator are real, but state-owned corporation could provide a partial barrier to minimize the conflicts

Minority ownership doesn't give state control

Report warned: Keep politics out of the business

Co-Chair Kelly felt that the cost of Pre FEED and FEED was extremely expensive to the state.

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Mr. Persily stated that the expense was worth ensuring a sound investment, in order to engineer the best solutions for the problems.

Co-Chair Kelly queried Mr. Persily's thoughts on the proposed business arrangement with TransCanada. Mr. Persily responded that the \$17 billion was not a "bottomless pit", but by partnering with TransCanada the state would reduce its initial financial investment. He felt that it was a smart business arrangement. If the state took its 25 percent equity share in the entire project, it was probably more than the state could afford.

Co-Chair Kelly stated that it was the largest proposed pipeline, so the state probably should not invest money it does not already have.

Senator Dunleavy wondered if the state should invest in Pre FEED. Mr. Persily replied in the affirmative.

Senator Dunleavy asked if there were any negative indicators that the state should focus on, especially issues that the state could not alter after Pre FEED. Mr. Persily joked that the federal government was only considered with 35 percent corporate income tax. He stressed that the chart should not be drafted at high prices. He felt that the analysis should be run at the lowest possible price of LNG.

Senator Olson wondered how Alaska could regulate itself as a sovereign being as part owners of the project. He specifically asked if there was a consideration of the federal government inhibiting Alaska's opportunity to make a profit. Mr. Persily replied that the Federal Energy Regulatory Commission (FERC) did not currently regulate the tariffs on liquefaction plants.

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AT EASE

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RECONVENED

ANGELA RODELL, COMMISSIONER, DEPARTMENT OF REVENUE, discussed the PowerPoint, "AK LNG: Potential State Revenues and Debt Capacity" (copy on file). She explained that the date was incorrect on the first page of the presentation.

Commissioner Rodell discussed slide 2, "Fiscal Impact Analysis." She explained that the presentation aimed to tie together several different sources of analysis, to provide a comprehensive overview of the Alaska LNG project fiscal impacts to the state.

Commissioner Rodell addressed slide 3, "A note on uncertainty."

Goal: To give a reasonable view of how the AKLNG project could impact Alaska's financial position both over the:

short term (next few years),
mid term (next decade), and
long term (to 2040 and beyond)

Analysis presented represent a set of scenarios taken from a range of possible outcomes
Different assumptions may produce significantly different results.

Department of Revenue and consultants are in the process of refining this analysis. As a result, future analysis could have different results.

Commissioner Rodell looked at slide 4, "AKLNG - Long term potential: assumptions."

Incremental analysis: Gas revenues forecasted independent of oil

Long-term forecast assumes the following trends for oil and gas related revenues

Oil revenues - GFUR mid/high case through 2024, then trend from 2020-2024 projected forward (decline of ~2 percent/yr)

Gas revenues - AKLNG Project revenues assumed to begin in 2024
Assumptions underlying gas revenues

AKLNG project comes online in 2024

Export volume of 2.5 Bcf/d and in-state volume of 0.25 Bcf/d
Oil price = \$90/bbl in 2013\$ growing at 2.5 percent a year; LNG Price = 13.5 percent*Oil Price + \$1
GFUR is assumed to include 75 percent of royalties, 25 percent of property tax, 100 percent of state corporate income tax, production tax and return on equity on AKLNG project investment

Three different scenarios for State equity participation:

Go it alone - State holds 20 percent equity stake in GTP, Pipeline and LNG Plant
TC with no buy back - TC holds 20 percent equity stake in GTP and Pipeline, State holds 20 percent equity stake in LNG Plant
TC with buy back - initially, TC holds 20 percent equity stake in GTP and Pipeline, State holds 20 percent equity stake in LNG Plant. State buys back 30 percent of TC's stake at beginning of FEED

Commissioner Rodell highlighted slide 5, "North Slope Production Forecast." She stated that the production forecast baseline was the top line along the GVR eligible (new oil), which was the starting point. She explained that DOR assumed a mid-high, which was 50 percent of the upside potential, in order to consider the potential of additional oil revenue over the next 10 years going into when the gas would be flowing.

Commissioner Rodell addressed slide 6, "Revenue Forecast - Official, and Mid/ High Case." She stated that the slide represented the impact on UGF revenue. The black line was the fall 2013 forecast, and the blue line was the mid-high case, which was a slightly higher revenue forecast than in the fall 2013.

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Commissioner Rodell looked at slide 7, "Revenue Forecast vs. AKLNG Obligations and 20 percent State Ownership in Millions of Dollars." She stated that the slide showed the revenue forecast at 20 percent state ownership. She explained the graph:

Solid green line: GFUR - fall 2013 official forecast
Dotted green line: GFUR - fall 2013 forecast, Mid/High case
Grey line: AK LNG obligation - 20 percent equity, no TC
Blue line: AK LNG obligation - 20 percent equity, TC, no buyback
Red line: AK LNG obligation - 20 percent equity, TC, with buyback

Commissioner Rodell addressed slide 8, "AKLNG Obligations vs. GFUR Forecast at 20 percent State Ownership." She explained the graph on the slide:

Grey line: 20 percent equity, no TC
Blue line: 20 percent equity, TC, no buyback
Red line: 20 percent equity, TC, with buyback

Commissioner Rodell explained slide 9, "AKLNG Obligations vs. GFUR Forecast at 20 percent State Ownership in Millions of Dollars." She stated that the actual numbers were represented on the graph. She noted that in FY 20, the base case official forecast was \$4.8 billion in UGF revenue. The mid/high case showed additional revenues of approximately \$400 million, so there would be \$5.2 billion in revenue. The obligation with 20 percent equity with no partnership would be to outlay \$2.5 billion, so it would take 53 percent of the UGF revenue if there was a pay-as-you-go appropriation of UGF revenue. This would decline significantly if partnering with TC to 27 percent.

Commissioner Rodell addressed slide 10, "AKLNG Obligations vs. GFUR Forecast at 20 percent State Ownership in Billions of Dollars." The slide was the same as slide 9, but moved from 20 percent to 25 percent equity. The slide was showcased in billions of dollars, and the previous slide was millions of dollars.

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AT EASE

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RECONVENED

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Commissioner Rodell explained that the left hand side of the slide 10 should read "20 percent equity."

Commissioner Rodell discussed slide 11, "AKLNG - Long Term Potential." She stated that the slide showed an upside to the state investing without TC. She noted that the cash outlay was significant, but produced approximately \$300 million in additional revenue cash flow to the state on an annual basis, as evidenced by the blue line at the top of the graph. She remarked that there was a difference of about \$100 million, depending on the option of a TC partnership.

Commissioner Rodell explained slide 12, "AKLNG - Long Term Potential - 20 percent equity in Millions of Dollars." The slide showed the details related to slide 11.

Co-Chair Kelly wondered if the "20 percent" was meant to read "25 percent." Commissioner Rodell replied that the slide was correct, and should read "20 percent."

Commissioner Rodell continued to discuss slide 12. She explained that the net cash flow ranged from \$3.1 billion to \$3.5 billion, depending on the option. The slide gave the details of the majority of the revenue sources.

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AT EASE

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RECONVENED

Commissioner Rodell addressed slide 13, "Revenue Forecast vs. AKLNG Obligations at 25 percent State Ownership in Millions of Dollars." She explained the slide:

Green line: GFUR - fall 2013 official forecast
Dotted green line: GFUR - fall 2013 forecast, Mid/High case

Grey line: AK LNG obligation - 25 percent equity, no TC
Blue line: AK LNG obligation - 25 percent equity, TC, no buyback
Red line: AK LNG obligation - 25 percent equity, TC, with buyback

Commissioner Rodell highlighted slide 14, "AKLNG Obligations vs. GFUR Forecast at 25 percent State Ownership." She explained the lines on the graph:

Grey line: 25 percent equity, no TC
Blue line: 25 percent equity, TC, no buyback
Red line: 25 percent equity, TC, with buyback

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Commissioner Rodell discussed slide 15, "AKLNG Obligations vs. GFUR Forecast at 25 percent state ownership in millions of dollars." She remarked that there would be revenues of between \$4.8 billion and \$5.2 billion in 2020, and an obligation under AK LNG of \$3.2 billion, which would be 67 percent of the unrestricted revenue.

Commissioner Rodell displayed slide 16, "AKLNG Obligations vs. GFUR Forecast at 25 percent State Ownership in Billions of Dollars." She stated that the slide converted the million dollars into billion dollars.

Commissioner Rodell highlighted slide 17, "AKLNG - Long Term Potential." The blue line represented the "Go It Alone", which would generate more revenue to the state at approximately \$400 million versus having TransCanada as a partner.

Commissioner Rodell addressed slide 18, "AKLNG - Long Term Potential - 25 percent equity in Millions of Dollars." The slide showed that the revenues to the state were generated between \$4 billion down to \$3.7 billion over the initial year. The slide outlined the royalty production tax, state corporate income tax, property tax, and ownership receipts. She reiterated that the cash flows would be required out of general unrestricted revenue.

Commissioner Rodell discussed slide 20, "Debt Capacity: Current Debt Outstanding." She stated that the first step in the analysis was to examine the state's outstanding

debt. The slide was previously presented to the committee when the debt manager had reviewed the state debt. The majority of debt in 2014 was either in general obligation or state supported debt. There was also some collateralized and moral obligation debt.

Commissioner Rodell looked at slide 21, "Debt capacity: Historically, debt service has been low relative to revenue." She explained that, historically, debt service was kept at a lower percentage. The ten-year average was 1.5 percent of unrestricted revenues.

Co-Chair Kelly wondered if the debt capacity was at 3.5 percent. Commissioner Rodell responded that the State Bond Committee had a debt capacity policy of 8 percent. She stated that there was a projection to go to 5 percent debt capacity. Historically, the state remained at approximately 1.5 percent for the 10 year average.

Commissioner Rodell explained slide 22, "Debt Capacity: Projected debt service." The slide showed that the highest state supported debt was in 1987 at 9.3 percent, but including school debt, it was 15.8 percent.

Commissioner Rodell discussed slide 23, "Financial Management and Debt Metrics."

G.O. bonds carry pledge of full faith, credit and resources of the State

State policy limits debt service to less than 8 percent of General Fund unrestricted revenue

Debt service as a percentage of unrestricted

General Fund revenues has remained low for 15 years

10-year average 1.5 percent; FY2013 was 1.7 percent (3.3 percent including school debt reimbursements)

Use of executive power to control expenses

Historical Preference for utilizing pay-as-you-go funding versus debt

Current and Future borrowing:

2012 G.O. Authorization for State transportation projects (up to \$453 million)

Issued \$149.6 million Bond Anticipation Note in March 2013

Anticipate issuing up to \$230 million Bond Anticipation Note in March 2014 and \$35 million Certificate of Participation in April 2014

State financial support has been discussed for a number of strategic capital initiatives

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Commissioner Rodell addressed slide 24, "Can the State go it Alone?"

Financing the State's share of the AKLNG Project on the State's balance sheet - key issues:

At what cost of debt?

Debt servicing as what percent of general fund unrestricted revenue

Scenario 1
(lower interest)

SOA Debt at 4.6 percent
Debt Service limited to 3 percent of GFUR

Scenario 2

SOA Debt at 4.9 percent
Debt Service limited to 5 percent of GFUR

Scenario 3
(higher interest)

SOA Debt at 5.6 percent
Debt Service limited to 6 percent of GFUR

Co-Chair Meyer wondered if the debt capacity would remain at 8 percent. Commissioner Rodell replied that the policy was to keep the capacity at 8 percent, which was a good

financial metric for an AAA state. She stressed that the legislation would exceed 8 percent, but it would be structured to a lower rating, so the state could take more debt. She explained that taking less unrestricted revenue would not generate as much debt. She also explained that a higher interest rate would not generate as much debt, but targeting more revenue toward the debt at a lower rating would have a smaller impact.

Co-Chair Meyer remarked that much of the debt was out of the state's control, and wondered if that was a concern. Commissioner Rodell replied in the affirmative. She explained that it was an opportunity for the state to examine opportunities to participate in the program and exercise certain control.

Co-Chair Meyer felt that all the scenarios would put Alaska into significant debt.

Co-Chair Kelly felt that the following slide outlined a positive scenario for the state.

Commissioner Rodell explained slide 25, "Can the State go it Alone? - State's Debt Capacity at 20 percent Ownership." The slide showed the total required investment under the three different scenarios: Go It Alone; TC with 30 percent Buy Back; and TC No Buy Back. It assumed the 20 percent option as previously discussed, under each scenario. The higher interest rate could be assumed under each scenario, because there was a target of more unrestricted revenues toward the repayment of debt.

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Co-Chair Kelly surmised that the \$2 billion in Scenario 3 was the amount that the state was required to contribute. Commissioner Rodell replied in the affirmative.

Commissioner Rodell discussed slide 26, "Can the State Go It Alone? - State's Debt Capacity at 25 percent Ownership." The 25 percent ownership scenario showed that the state was required to contribute more cash, because of the limited debt capacity. The difference between the 20 and 25 percent ownership was in the form of equity and cash that must be paid in to take on the additional ownership interest.

Commissioner Rodell clarified that the TC Buy Back percentage should be labeled "TC 40 Buy Back."

[10:12:32 AM](#)

Senator Hoffman wondered if the numbers represented the average construction cost of \$55 billion. Commissioner Rodell agreed to provide that information.

MICHAEL PAWLOWSKI, DEPUTY COMMISSIONER, STRATEGIC FINANCE, DEPARTMENT OF REVENUE, replied to Senator Hoffman's question. He stated that analysis was based on taking 13.7 multiplied by 4, and would be \$54 billion.

Senator Dunleavy noted that there had been some presentations that declared that, if nothing changes by 2024, there would be three areas of the budget that would consume the entire budget: education; debt reimbursement; and retirement and health care benefits. He stressed that the legislation would cause more debt to the state. He wondered what the model would look like, if there was no additional income for the state. Commissioner Rodell replied that there would cause a significant challenge to the state. She explained that the legislation would require modifications to the operating budget to service the debt. She stressed that the partnership would create agreements where the state may not have to make the immediate financial decisions.

Co-Chair Kelly stressed that the presentation assumed the revenue at the final investment stage. He felt that there would be a gap between the issuing of debt, payment, and startup of the project. He felt that Senator Dunleavy was focused on no revenue from the project.

Senator Dunleavy explained that he was curious about what would occur from a "worst case scenario."

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Co-Chair Kelly felt that the "worst case scenario" could not be projected until the FEED or final investment decision occurred. Commissioner Rodell agreed. She understood that there would be no debt issued, unless the state could guarantee the sale of gas. There would be contracts for the sale of gas up front. The debt would be sold three or four years in advance of revenue at the final

investment decision. The sale of debt could be structured to capitalize the cost of the debt over the time period, knowing that the revenue would flow based on the contract agreements.

Senator Dunleavy wondered what the model would look like if there were no reserves in 2024. Commissioner Rodell replied that the presentation outlined that concern. She stressed that the contracts were not yet written, so the presentation outlined the effects from 2018 to 2023, and the outlying revenue of \$4 billion.

SB 138 was HEARD and HELD in committee for further consideration.

[10:20:52 AM](#)

AT EASE

[10:25:20 AM](#)

RECONVENED

Co-Chair Kelly handed the gavel to Co-Chair Meyer.

#hb298

HOUSE BILL NO. 298

"An Act relating to confidentiality of performance review records and reports of the legislature audit division."

[10:25:53 AM](#)

SHARON KELLY, STAFF, REPRESENTATIVE MIKE CHENAULT, explained HB 298. She explained that the previous legislature had enacted a law to set up an effective and regular system of conducting performance reviews of departments. During the course of the first review, Legislative Audit discovered a slight difference between the confidentiality requirements for performance review and audits. This technical amendment makes the reviews and audits the same and protects both Legislative Audit and the department during the course of the reviews.

Vice-Chair Fairclough MOVED to ADOPT the proposed committee substitute for SCS HB 298 (FIN) Work Draft 28-LS1380\U (Gardner, 3/6/14). There being NO OBJECTION, it was so ordered.

KRIS CURTIS, AUDITOR, LEGISLATIVE BUDGET AND AUDIT, (LB&A) explained that the bill made a technical change related to the performance review records. It would align the statutory language to ensure that performance review records were treated in the same manner as the audit records.

Co-Chair Meyer CLOSED public testimony.

Vice-Chair Fairclough MOVED to REPORT SCS HB 298 (FIN) out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

SCS HB 298 (FIN) was REPORTED out of committee with a "do pass" recommendation and with previously published zero fiscal note: FN1: LEG.

#sb137

SENATE BILL NO. 137

"An Act extending the termination date of the Alaska Seismic Hazards Safety Commission; and providing for an effective date."

[10:29:41 AM](#)

BRITTANY HUTCHISON, STAFF, SENATOR CLICK BISHOP, explained SB 137. She stated that Alaska had more earthquakes than any other region in the U.S. and was one of the most seismically active areas in the world. Given the historical record and inevitable potential of future earthquake activity, Alaska needed the Alaska Seismic Hazards Safety Commission (ASHSC). The legislation would extend the ASHSC termination date from June 30 2014 to June 30, 2020. The public need is proven and the public interest is served in the following ways:

- 1) The commission assists with seismic hazard safety training efforts. For example, in 2011 and 2012, the ASHSC coordinated with the Department of Military and Veterans Affairs to facilitate training workshops for volunteer first responders who would respond after a severe earthquake.

2) They hope to significantly improve school safety by collaborating with the Department of Education and Early Development on seismic issues concerning school construction and renovations. Seismic hazard mitigation efforts for schools are an important commission priority, as schools are critical infrastructure.

3) The ASHSC served the public's interest by making seismic hazards mitigation recommendations to the governor, legislature and private entities through annual reports.

4) The commission helps facilitate collaboration amongst agencies with related missions and private sector entities on seismic hazard mitigation.

Vice-Chair Fairclough asked to hear from the commission about the absenteeism of board members, and the efforts to replace members who were chronically absent from board meetings.

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Ms. Curtis stated that LB&A conducted a sunset review of the commission dated September 2013. The previous sunset review was conducted in 2011, at which LB&A recommended a four-year extension. The legislature only approved a two-year extension, so they reviewed the commission again in 2013. She announced that LB&A concluded that the commission was operating in the public's interest, and requested extending the commission for six years. The audit had four recommendations, which were outlined in the audit (copy on file).

FINDINGS AND RECOMMENDATIONS

1. The commission should improve prioritization and accountability within its strategic planning documents.

2. The commission should recommend replacing habitually absent members in a timely manner.

3. The Office of the Governor and the commission should work together to fill all commission vacancies in a timely manner.

4. The commission should ensure recommendations clearly identify the organization responsible for implementing an action and the action to be performed.

10:37:07 AM

ROBERT SCHER, CHAIR, ALASKA SEISMIC HAZARD SAFETY COMMISSION, ANCHORAGE (via teleconference), explained that the commission was considered an advisory body that provided recommendations having to do with mitigating seismic hazards. He stated that the duties were not directly shared by any other state department or commission. The commission was comprised of several geologists; several civil and structural engineers; emergency response planners and managers; and a representative from the insurance industry. The commission covered a broad range of experiences and knowledge relative to the effects of how to manage mitigating seismic hazards. The commission believed that it functioned in the state and public's best interests.

In response to a question from Vice-Chair Fairclough, Mr. Scher explained that there were two of the four recommendations from LB&A that were related to board meeting attendance. He stressed that meeting attendance did not necessarily correlated with commission activity. The commission met roughly seven times a year, mostly by teleconference. He stressed that the board meetings, at which business was conducted, always contained a quorum. He agreed that there were some times with habitually absent members. The commission had recently updated its rules of procedure for the commission, to be clearer to the members of their duties and responsibilities.

10:45:55 AM

Co-Chair Meyer CLOSED public testimony.

Co-Chair Meyer looked at the fiscal note for \$10,000 from DNR.

Co-Chair Kelly MOVED to REPORT SB 137 out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

SB 137 was REPORTED out of committee with a "do pass" recommendation and with previously published fiscal note: FN:1 (DNR).

#

ADJOURNMENT

10:47:15 AM

The meeting was adjourned at 10:47 a.m.