

SENATE FINANCE COMMITTEE

April 19, 2014

4:03 p.m.

4:03:03 PM

CALL TO ORDER

Co-Chair Meyer called the Senate Finance Committee meeting to order at 4:03 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Edra Morledge, Staff, Senator Kevin Meyer; Robert Whicker, Director, Consortium for Digital Learning, Association of Alaska School Boards; Michael Hanley, Commissioner, Department of Education and Early Development; Kelly Cunningham, Fiscal Analyst, Legislative Finance Division; David Teal, Director, Legislative Finance Division; Representative Steve Thompson; Brodie Anderson, Staff Representative Steve Thompson; Patricia Hull, Member, Alaska Film Group, Juneau; Joe Mathis, Vice President, External Affairs, Nana Development Corporation; Joe Balash, Commissioner, Department of Natural Resources; Doug Chapados, President and Chief Executive Officer, Petro Star Inc., Juneau; Matt Gill, Senior Manager, External Affairs, Tesoro, Juneau; Rebecca Rooney, Staff, Representative Peggy Wilson; Tom Brice, Alaska Laborers Union, Juneau.

PRESENT VIA TELECONFERENCE

Stacey Boles, Program Director, Alaska New Media, Anchorage; Audra Henderson, Self, University of Alaska

Anchorage, Anchorage; Lawrence David Foldes, Member, Awards Executive Committee, Academy Motion Picture Arts & Sciences in Los Angeles, Anchorage; Deborah Schildt, Self, Anchorage; Bob Crocket, General Manager, Piksik LLC, Anchorage; Natalia Lamont, Self, Anchorage; Ron Holmsteron, Sag-Aftra, Anchorage; Sarah Saarloos, Self, Girdwood; Kent Scheler, Mountain Safety Logistics, Anchorage; Cedar Cussins, Gecko Services LLC, Anchorage; Richard Geiger, Self, Anchorage; Tess Weaver, Self, Anchorage; Kathy Robinson, Wheel Good Food, Anchorage; Lauren Trawyer, Self, Anchorage; DK Johnston, Tri Seven Pictures, Anchorage; Beth Skabar, Self, Anchorage.

SUMMARY

HJR 10 CONST. AM: TRANSPORTATION FUND

HJR 10 was HEARD and HELD in committee for further consideration.

CSHB 140(FIN) am

REGULATIONS: NOTICE, REVIEW, COMMENT

SCSCSHB 140(JUD) was REPORTED out of committee with "individual recommendations" and with a previously published fiscal impact note: FN4 (DNR), a new fiscal impact note from the Senate Finance Committee for the Department of Environmental Conservation, a new zero fiscal note from the Senate Finance Committee for the Office of the Governor, a new fiscal impact note from the Senate Finance Committee for the Department of Commerce, Community and Economic Development.

CSHB 278(FIN) am

EDUCATION

SCSCSHB 278(FIN) was REPORTED out of committee with a "do pass" recommendation and with a new fiscal impact note from the Department of Education and Early Development, a new fiscal impact note from the Department of Education and Early Development, a new zero fiscal note from Department of Education and Early Development, a new fiscal impact note from the Senate Finance Committee for the Legislature, a new fiscal

impact note from the University of Alaska, a new indeterminate fiscal note the Department of Revenue, a new fiscal impact note from the Senate Finance Committee for the Department of Labor and Workforce Development, a new fiscal impact note from the Department of Education and Early Development, a new fiscal impact note from the Department of Education and Early Development, a new zero fiscal note from the Department of Education and Early Development, and a new zero fiscal note from the Department of Education and Early Development.

CSHB 287(RLS) am

OIL ROYALTIES; TAX CREDIT

CSHB 287(RLS) am was HEARD and HELD in committee for further consideration.

CSHB 306(FIN)

EVAL. INDIRECT EXPENDITURES; TAX CREDITS

CSHB 306(FIN) was HEARD and HELD in committee for further consideration.

HB 384 am

ALASKA MINIMUM WAGE

HB 384 am was SCHEDULED but not HEARD.

#hb278

CS FOR HOUSE BILL NO. 278(FIN) am

"An Act increasing the base student allocation used in the formula for state funding of public education; relating to the exemption from jury service for certain teachers; relating to the powers of the Department of Education and Early Development; relating to high school course credit earned through assessment; relating to school performance reports; relating to assessments; establishing a public school and school district grading system; relating to charter schools and student transportation; relating to residential school applications; relating to tenure of public school teachers; relating to unemployment contributions for the Alaska technical and vocational education program; relating to earning high school

credit for completion of vocational education courses offered by institutions receiving technical and vocational education program funding; relating to schools operated by a federal agency; relating to a grant for school districts; relating to education tax credits; establishing an optional municipal tax exemption for privately owned real property rented or leased for use as a charter school; requiring the Department of Administration to provide a proposal for a salary and benefits schedule for school districts; making conforming amendments; and providing for an effective date."

4:04:00 PM

Vice-Chair Fairclough MOVED to ADOPT the proposed committee substitute for HB 278, Work Draft 28-GH2716\V (Mischel, 4/19/14). There being NO OBJECTION, it was so ordered.

Vice-Chair Fairclough wondered if the committee should take a brief AT EASE to distribute the CS. Co-Chair Meyer replied that there were very few changes in the CS.

EDRA MORLEDGE, STAFF, SENATOR KEVIN MEYER, related that there were 5 changes in the CS. She looked at Section 7, which involved the procurement for the Personalized Learning Opportunity Grants. The inserted language ensured that school districts would use competitive procedures, including seeking bulk purchase discounts for equipment, support, and training. The section also clarified that the procurement process would provide vendors with reasonable and equitable opportunities to participate in the program. The section required the Association of Alaska School Boards to evaluate the effectiveness of a sub grant under the program. The section also required an independent third party evaluation of the effectiveness of the entire grant program, and to provide a report to the legislature.

Co-Chair Meyer noted that there was discussion the previous day regarding the various types of electronic devices available, and the intent of the change to allow for equal opportunities for every company.

Vice-Chair Fairclough hoped that the Association of Alaska School Boards would testify before the committee, in order to ensure understanding of the new language and the legislature's intent. Co-Chair Meyer replied that they

would testify following the presentation of the bill changes.

Ms. Morledge looked at Section 20, which related to the bond debt reimbursement program through Department of Education and Early Development (DEED). The previous bill version's effective date was July 1, 2014, but there was some concern that it did not include the municipalities with fall elections. The effective date was changed to January 1, 2015. She explained that Section 24 outlined a change to the required local contribution of a city and borough to the school district, changing the mil tax levy from 2.65 to 2.80 mil rate.

Co-Chair Meyer recalled that the local contribution was changed two years prior. The mil rate was changed from 2.9 to 2.65, which took the education funding from the municipalities to the state. He stated that the change shifted the mil rate back to the municipality, so they could greater contribute to education.

[4:09:16 PM](#)

Ms. Morledge explained that the two teacher tenure provisions were removed from the bill.

Co-Chair Meyer surmised that the tenure status had returned to its original term of three years. Ms. Morledge responded in the affirmative.

Ms. Morledge stated that the last page of the bill had a change, which required the Department of Administration (DOA) to present a proposal for a statewide salaries and benefits schedule for school districts. The current version removed DOA from that obligation, and moved it into the LB&A committee to present a study on the salaries and benefits schedules statewide.

Vice-Chair Fairclough asked if there was an analysis on how the mil rate affected the local communities. Co-Chair Meyer replied in the affirmative, and wondered if there was a specific community that should be addressed.

Vice-Chair Fairclough queried the mil rate for the Aleutian Borough. Co-Chair Meyer replied that the Aleutian East Borough would be required to contribute \$34,831.

Vice-Chair Fairclough wondered if the \$34,831 was in addition to the current contribution. Co-Chair Meyer replied in the affirmative.

Vice-Chair Fairclough explained that there was a mil rate cap that was instituted a few years prior. She surmised that the bill's intent was to encourage communities to participate above the mil rate cap. Co-Chair Meyer replied that the state took \$9.2 million by moving the mil rate to 2.65. The legislation would change the mil rate to 2.8, so Anchorage would contribute an additional \$5.5 million to education.

Vice-Chair Fairclough asked if Anchorage could use its \$7 million to help the school district. She did not believe that the action could occur retroactively, so she wondered if there could be an effective date. Co-Chair Meyer replied that the communities would be equally affected.

Vice-Chair Fairclough requested that the document be posted in the backup documents attached to the bill. Ms. Morledge agreed to provide that information.

Vice-Chair Fairclough asked that Mr. Whicker address the procurement issues of the bill.

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AT EASE

[4:18:00 PM](#)

RECONVENED

Vice-Chair Fairclough remarked that the Association of Alaska School Boards (AASB) managed the One-on-one Education Learning opportunity. There was a concern regarding the type of technology that each school district would utilize, and the state management of technology. She wanted the lowest possible unit cost price to school districts to allow them to utilize their preferred platform.

ROBERT WHICKER, DIRECTOR, CONSORTIUM FOR DIGITAL LEARNING, ASSOCIATION OF ALASKA SCHOOL BOARDS, JUNEAU, announced that AASB would be soliciting vendors to seek the one-to-one solution set, and work with school districts on that platform.

Vice-Chair Fairclough looked at page 7, item C, and announced that, if passed, the law would read:

"Before making a sub grant to a school district, the Association of Alaska School Boards shall use a competitive process to solicit prices from vendors, including, where possible, seeking bulk purchase discounts for the technology, equipment, support, and training to be purchased with the funds from the grant program."

MICHAEL HANLEY, COMMISSIONER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, felt that Ms. Morledge accurately addressed the bill changes. He remarked that the changes were small, but significant, and would continue to have a positive impact on education.

Co-Chair Meyer remarked that the funding of the legislation had also changed from the original version. He stated that the fiscal notes would be discussed, and hoped that the conversation would bring clarity to the bill's funding. There had been some discussion about the funding for the upcoming three years. The \$25 million a year funding equated to a \$100 base student allocation (BSA). He stressed that the funding was outside of the current funding formula. He remarked that there were some other additions to the funding: broadband, standardized testing, middle school pilot program for Alaska Native Science and Engineering Program (ANSEP), the charter school startup, and the correspondence schools. He reiterated that the analysis of additional funding depending on the financial manipulation. He felt that there were substantial changes and additions to the education funding.

[4:25:32 PM](#)

KELLY CUNNINGHAM, FISCAL ANALYST, LEGISLATIVE FINANCE DIVISION, wondered if there would be a page by page discussion of the fiscal note packet. Co-Chair Meyer replied in the affirmative.

Co-Chair Meyer asked if there would be one fiscal note substitution. Ms. Cunningham replied in the affirmative.

Ms. Cunningham announced that the fiscal note from the Department of Labor and Workforce Development (DLWD), and

was an agency wide allocated appropriation. The fiscal note was only for TVEP, and was applied to eight entities.

Senator Dunleavy inquired the number of the fiscal note. Ms. Cunningham responded that the fiscal notes had not been numbered.

Co-Chair Meyer announced that the fiscal note was labeled, "Department of Labor and Workforce Development."

Ms. Cunningham restated that the fiscal note was agency wide and allocated, and related to eight entities.

Ms. Cunningham related that the next fiscal note was for DOA. She stated that the funding was originally intended for a study that the new CS directed LB&A as the overseer. The note should now be disregarded.

Senator Hoffman wondered if the funding would be applied to LB&A. Co-Chair Meyer responded that LB&A already had the funding to conduct the study.

Vice-Chair Fairclough announced that LB&A would attempt to use its existing funds to conduct the study.

Ms. Cunningham stated that there was a fiscal note from the Tax Division of the Department of Revenue (DOR), and was a zero fiscal note.

Ms. Cunningham explained the fiscal note for the DEED Boarding Home Grants for \$2.249 million. It increased the stipend ratio to the boarding schools. There was a partial increase the year prior, and the funding provided a slight increase to the grant.

Ms. Cunningham announced that the fiscal note for K-12 Support Foundation was zero, because the actual dollars were reflected in the public education fund note.

Ms. Cunningham explained that the fiscal note for the Alaska Library and Museums was \$7.3 million for internet support. She believed the funding would provide for a district at which one or more schools qualify for a discounted rate for internet services would be eligible to receive an amount to bring their download speed up to ten megabits per second.

Vice-Chair Fairclough asked if the fiscal note related to the "e rate", and whether it including matching money. Ms. Cunningham replied that the fiscal note was associated with Senator Olson's broadband legislation. The e-rate was mentioned, but she could not speak further on that topic.

4:30:08 PM

Senator Olson understood that the fiscal note related directly to matching e-rate funds. He stated that it also included the federal portion that would apply directly to the school districts.

Vice-Chair Fairclough did not see information regarding matching money in the backup for the note.

Senator Olson observed that one of the reasons that it was not in the note was because the money went directly to the school district, but was delivered at a four-to-one ratio.

Ms. Cunningham spoke to a zero fiscal note for debt service and school debt reimbursement. She stated that there was some reduced cost, so that was the reason for the zero note. The replacement note was for the DEED Student and School Achievement. The note added \$3 million for personalized learning grants.

Co-Chair Meyer wondered if the revised fiscal note also included a three-year pilot program for STEM. Ms. Cunningham replied in the affirmative.

Senator Dunleavy asked if the \$750,000 in Innovative Grants was contained in the revised fiscal note. Ms. Cunningham replied in the affirmative.

Senator Dunleavy announced that the funding was included in the DEED submitted budget. Ms. Cunningham responded that the funding would not be accepted at the Conference Committee.

Co-Chair Kelly announced that the adjustment would be addressed at the Conference Committee.

Ms. Cunningham

Vice-Chair Fairclough wondered if the fiscal note for \$1.794 million should be disregarded, and be replaced with

\$7.550 million should replace that note. Ms. Cunningham replied in the affirmative, and explained that the backup for the new fiscal note would be revised to reflect the changes.

Ms. Cunningham spoke to another fiscal note for the University of Alaska (UA), which included technical funding for the TVEP program.

Senator Bishop commented that the increase was a decrement of \$204,000 to UA, so it was less than what would appear under the percentage decrement.

Vice-Chair Fairclough wondered if the funding related to the penny increase. Senator Bishop replied that it was 0.16 of 1 percent increase.

Vice-Chair Fairclough asked if the funding was new money for UA, and if it was an addition of the expanded programs. Ms. Cunningham deferred to Mr. Teal.

[4:37:48 PM](#)

DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, stated that the change was negative, but there was an increase in total TVEP funding. He explained that UA had 50 percent of the funding, but 5 percent of the funding for UAS was removed, so UA received 45 percent of a larger portion, but was ultimately less money.

Ms. Cunningham explained that the public education fiscal note correlated with the K-12 foundation program. It included the correspondence multiplier change from 0.8 to 0.9, and amends the charter school funding by providing higher funding starting at the 75 ADM.

Mr. Teal pointed out that there was still a missing fiscal note from DEED.

Senator Dunleavy wondered if the change in the mil rate guaranteed that the schools within the municipality would receive that funding. Mr. Teal replied that the change did not guarantee funding for the municipality.

Senator Dunleavy queried the impact of the change in the mil rate. Mr. Teal responded that communities had to contribute another \$132 million to school districts.

Senator Dunleavy wondered if "communities" referred to recognized municipalities. Mr. Teal responded in the affirmative

Vice-Chair Fairclough stated that there was an additional fiscal note from LB&A Committee for FY 15 only for \$650,000 to implement a school district cost factor study; a school size factor study; and a study of the salaries and benefits that were paid through the State of Alaska.

Senator Dunleavy asked what the total package would be for each year of the proposed legislation. Ms. Cunningham replied that there was \$22.695 million in FY 15.

Senator Dunleavy asked that she be more specific by announcing specific dollars.

[4:42:33 PM](#)

AT EASE

[4:45:48 PM](#)

RECONVENED

[4:45:53 PM](#)

Ms. Cunningham stated that part 1 of the total package cost was \$100 million in FY 15, and the fiscal notes were an additional \$23 million, with a \$12 million savings from the change in the mil rate. The total extra cost in FY 15 was approximately \$11 million in addition to the \$100 million.

Senator Dunleavy surmised that the total cost for FY 15 was \$111 million. Ms. Cunningham agreed. She furthered that the cost would continue into FY 16 and FY 17, except for the \$650,000 the LB&A studies.

Co-Chair Meyer thought that the figure was pretty close to his own estimate. He felt that it was almost a \$500 BSA. He stated that a large portion of the funding was for broadband.

Senator Dunleavy announced that it \$111 million per year for the following three years and \$2 billion was appropriated for the Public Employees' Retirement System (PERS). He felt that the proposed legislation would stop

the argument that the state was not funding public education.

Co-Chair Meyer wondered if the legislation funding was in addition to the overall spending for \$1.2 billion to \$1.3 billion. Mr. Teal replied in the affirmative

Co-Chair Meyer asked if it was \$1.2 billion or \$1.3 billion. Mr. Teal replied that it was almost \$1.3 billion.

Vice-Chair Fairclough noted that there were a lot of public interest based on an expectation of an increase to the BSA. She commented that she was willing to participate with the organizations for three years to solve the schools issues in urban and rural Alaska.

[4:51:32 PM](#)

Co-Chair Kelly MOVED to REPORT SCSCSHB 278(FIN) as amended out of committee with individual recommendations and the accompanying and forthcoming fiscal notes. There being NO OBJECTION, it was so ordered.

SCSCSHB 278(FIN) was REPORTED out of committee with a "do pass" recommendation and with a new fiscal impact note from the Department of Education and Early Development, a new fiscal impact note from the Department of Education and Early Development, a new zero fiscal note from Department of Education and Early Development, a new fiscal impact note from the Senate Finance Committee for the Legislature, a new fiscal impact note from the University of Alaska, a new indeterminate fiscal note the Department of Revenue, a new fiscal impact note from the Senate Finance Committee for the Department of Labor and Workforce Development, a new fiscal impact note from the Department of Education and Early Development, a new fiscal impact note from the Department of Education and Early Development, a new zero fiscal note from the Department of Education and Early Development, and a new zero fiscal note from the Department of Education and Early Development.

[4:51:55 PM](#)

AT EASE

[5:19:41 PM](#)

RECONVINED

Co-Chair Meyer handed the gavel over to Vice-Chair Fairclough

#hb306

CS FOR HOUSE BILL NO. 306(FIN)

"An Act relating to the review and administration of tax credit programs; requiring the Department of Revenue to report indirect expenditures; relating to the duties of state agencies; requiring the legislative finance division to analyze certain indirect expenditures; relating to lapse dates for appropriations for capital projects; repealing the insurance tax education credit, the income tax education credit, the veteran employment tax credit, the oil or gas producer education credit, the property tax education credit, the mining business education credit, the fisheries business education credit, the fisheries business tax credit for scholarship contributions, the fisheries business salmon product development tax credit, the fisheries business salmon utilization tax credit, the fisheries business landing tax credit for scholarship contributions, the fisheries resource landing tax credit for the fisheries resource harvested under the community development quota, the fisheries resource landing tax education credit, and the film production tax credit; and providing for an effective date."

5:20:06 PM

REPRESENTATIVE STEVE THOMPSON, presented HB 306:

HB 306 is sound fiscal policy. HB 306 provides the legislature with an effective tool to identify and capture potential lost revenue. A Legislative Research report shows that over the past five years, the State has forgone almost half a billion dollars through identified indirect spending across all departments, inclusive of \$20 million in Department of Revenue tax credits not related to oil and gas.

HB 306 will provide a mechanism to help the legislature identify its spending by providing information on indirect expenditures, and capital grants to projects by bringing them back before the legislature for fiscal review.

HB 306 lapses grants to capital projects that have not begun substantial, ongoing work within five years of the effective date of the appropriation or allocation. Thereby, each capital project without action within a five-year period will lapse, if its ongoing existence is not justified for re-appropriation.

Secondly, HB 306 requires that before the start of the first regular session of each new Legislature, the Dept. of Revenue provide to the chairs of the Finance Committees, and the Legislative Finance Division, a report on indirect expenditures. An "indirect expenditure" is defined in HB 306 as a credit, exemption, deduction, deferral, discount, exclusion, or other differential allowance designed to encourage an activity to benefit the public by forgoing revenue to the state, an example being the credits used against corporate taxes.

Then, the Legislative Finance Division will take Department of Revenue's report and analyze the indirect expenditures for each department, as scheduled in the bill, with subsequent reviews every six years. The Legislative Finance will then issue a report to the legislature providing an estimate of forgone revenue due to the indirect expenditure, an estimate of monetary benefits, whether the legislative intent of the statute is being met, and a recommendation as to continuance of the indirect expenditure, its economic effect, and an explanation of the methodology used in preparing the report.

Lastly, the bill sunsets specific Department of Revenue Tax Credits, not related to gas or oil by the end of the Second Regular Session of the Twenty-Ninth Legislature. Bringing these credits back before future Legislatures for a review will continue to guarantee the effectiveness of the State's indirect spending.

[5:27:07 PM](#)

Vice-Chair Fairclough wondered if the legislation repealed the film tax credit. She surmised that the legislation generally examines all tax credits. Representative Thompson replied that the legislation gave the film tax credit a sunset date for the end of 2016, at which time the

legislature would review the tax credit. He explained that the film tax credit was developed with \$300 million, and there were already commitments for over \$100 million of that fund. He stated that the fund would need to recapitalize at the end of 2015.

Vice-Chair Fairclough wondered if there was any additional information.

BRODIE ANDERSON, STAFF REPRESENTATIVE STEVE THOMPSON, stated that Representative Thompson covered the major components of the legislation.

[5:28:58 PM](#)

PATRICIA HULL, MEMBER, ALASKA FILM GROUP, JUNEAU, spoke against HB 306. She related that film tax credit had built the industry in Alaska. She thought that eliminating the film production tax credit would kill the industry in Alaska.

Vice-Chair Fairclough noted that there was still confusion and requested an explanation of the inclusion of the film tax credit in the legislation. Mr. Anderson replied that legal aspect of the legislation dealt with a sunset and repeal the same way and that it was the legislature. He stated that the intent was to review the credits.

[5:35:07 PM](#)

STACEY BOLES, PROGRAM DIRECTOR, ALASKA NEW MEDIA, ANCHORAGE (via teleconference), testified against HB 306. She remarked that the film tax credits provided an increase to Alaska's economy.

[5:38:13 PM](#)

AUDRA HENDERSON, SELF, UNIVERSITY OF ALASKA ANCHORAGE, ANCHORAGE (via teleconference), spoke against HB 306. She explained that she had a career in film in television, which started at the David Letterman Show. She hoped to continue her career in the state. She felt that the film tax credits encouraged and strengthened Alaska's economy, and it needed more time to fully develop.

[5:39:50 PM](#)

LAWRENCE DAVID FOLDES, MEMBER, AWARDS EXECUTIVE COMMITTEE, ACADEMY MOTION PICTURE ARTS & SCIENCES IN LOS ANGELES, ANCHORAGE (via teleconference), testified against HB 306. He related that financing for the film industry was difficult, especially in Alaska. He remarked that the film tax credits helped to encourage the development of film and television in Alaska. He stressed that it was a new program, and needed much more time to be developed and become fully integrated and utilized.

[5:44:04 PM](#)

DEBORAH SCHILDT, SELF, ANCHORAGE (via teleconference), spoke against HB 306. She stated that Alaskans across the state supported the film tax credits, and the film industry. She stressed that the program gave Alaskans unique career opportunities, and exposed the state to much needed marketing.

[5:47:14 PM](#)

BOB CROCKET, GENERAL MANAGER, PIKSIK LLC, ANCHORAGE (via teleconference), testified against HB 306. He felt that there would be great ramifications of the film industry in Alaska. He felt that the jobs and businesses would have a great negative effect, and remarked that the film industry was growing in Alaska.

[5:50:16 PM](#)

NATALIA LAMONT, SELF, ANCHORAGE (via teleconference), spoke against HB 306. She stated that she was a part of the Alaska New Media program, and hoped to develop a script in order to make a successful screenplay. She felt that the film tax credits would make it possible to develop her screenplay.

[5:52:50 PM](#)

JOE MATHIS, VICE PRESIDENT, EXTERNAL AFFAIRS, NANA DEVELOPMENT CORPORATION, testified against HB 306. HE expressed concerns about the inclusion of the film tax credit in the bill. He stated that NANA had over \$40 million invested in Alaska's film industry, and hoped that the industry would continue to flourish. He discouraged the sunset of the film tax credit program.

[5:54:28 PM](#)

RON HOLMSTERON, SAG-AFTRA, ANCHORAGE (via teleconference), spoke against HB 306. He worked in the film industry, and knew many people working in the Alaska film industry. He felt that the legislation would have a great negative impact on his industry, his peers, and the state.

[5:56:02 PM](#)

SARAH SAARLOOS, SELF, GIRWOOD (via teleconference), testified against HB 306. She expressed concerns about the inclusion of the film tax credit in the legislation. She stated that the Alaska film industry supported her family. She witnessed the positive impacts of the film industry across the state.

KENT SCHELER, MOUNTAIN SAFETY LOGISTICS, ANCHORAGE (via teleconference), testified against HB 306. He stated that the film tax credits had encouraged the production of ski films in Alaska. He felt that the film industry provided a great support and infrastructure in Alaska.

[6:01:12 PM](#)

CEDAR CUSSINS, GECKO SERVICES LLC, ANCHORAGE (via teleconference), testified against the inclusion of the film tax credit in HB 306. She stated that her husband had worked on the production of the movie, "Big Miracle", which had a great positive impact on her company. She stated that his work on the film catapulted her company into a successful Alaskan business.

[6:02:39 PM](#)

RICHARD GEIGER, SELF, ANCHORAGE (via teleconference), spoke against the inclusion of the film tax credit in HB 306. He felt that sun setting the film tax credit program would destroy Alaska's film industry.

[6:04:03 PM](#)

TESS WEAVER, SELF, ANCHORAGE (via teleconference), testified against the inclusion of the film tax credit in HB 306.

[6:05:07 PM](#)

KATHY ROBINSON, WHEEL GOOD FOOD, ANCHORAGE (via teleconference), supported the removal of the film tax credit from HB 306.

[6:06:53 PM](#)

LAUREN TRAWYER, SELF, ANCHORAGE (via teleconference), testified in support of removing the film tax credit from HB 306.

[6:09:51 PM](#)

DK JOHNSTON, TRI SEVEN PICTURES, ANCHORAGE (via teleconference), requested the removal of the film tax credit sunset form the legislation.

[6:11:19 PM](#)

BETH SKABAR, SELF, ANCHORAGE (via teleconference), testified against the inclusion of the film tax credit in HB 306.

Vice-Chair Fairclough CLOSED public testimony.

CSHB 306(FIN) was HEARD and HELD in committee for further consideration.

#hb140

CS FOR HOUSE BILL NO. 140(FIN) am

"An Act relating to the proposed adoption, amendment, or repeal of a regulation; and relating to contact with agencies about regulations."

[6:13:44 PM](#)

AT EASE

[6:15:57 PM](#)

RECONVENED

[6:16:00 PM](#)

Vice-Chair Fairclough explained the fiscal notes attached to the legislation.

Co-Chair Meyer MOVED to REPORT SCS CSHB 140 (JUD) out of committee with individual recommendations and the accompanying fiscal notes.

SCSCSHB 140(JUD) was REPORTED out of committee with a "do pass" recommendation and with a previously published fiscal impact note: FN4 (DNR), a new fiscal impact note from the Senate Finance Committee for the Department of Environmental Conservation, a new zero fiscal note from the Senate Finance Committee for the Office of the Governor, a new fiscal impact note from the Senate Finance Committee for the Department of Commerce, Community and Economic Development.

[6:20:13 PM](#)

AT EASE

[6:23:24 PM](#)

RECONVENED

#hb287

CS FOR HOUSE BILL NO. 287(RLS) am

"An Act relating to the determination of the royalty received by the state on oil production refined or processed in the state; providing tax credits for qualified infrastructure expenditures for in-state refineries and hydrocarbon processing facilities; approving and ratifying the sale of royalty oil by the State of Alaska to Tesoro Corporation and Tesoro Refining and Marketing Company LLC; and providing for an effective date."

[6:23:41 PM](#)

Co-Chair Meyer MOVED to ADOPT the proposed committee substitute for HB 287, Work Draft 28-GH2862\0 (Nauman, 4/19/14). There being NO OBJECTION, it was so ordered.

JOE BALASH, COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES, explained the legislation and the changes to the bill:

New section 1 amends AS 38.05.180(cc) to include the DNR commissioner's ability to accept payment on a federal lease for the state's royalty share of oil production. Current law is limited to gas production.
New section 2 adds new subsections (hh) under AS 38.05.180 to allow the DNR commissioner to enter into

an agreement with the lessee to use or accept as a price for the royalty oil an amount not less than the contract price between the lessee and an in-state refiner. The price would not exceed the amount that would otherwise be due under the lease. Before entering into an agreement, the commissioner must make a written finding that the agreement is in the state's best interest; the in-state refiner meets certain criteria; and the contract price or prospective royalty receipts are balanced by employment opportunities or other tangible benefits to the state. The subsection defines how contract or purchase parties are affiliated through influence, interest, or action.

Subsection (ii) defines "in-state refiner", "price established in the contract between lessee and an in-state refiner", and "state's royalty share of oil production".

New section 3 adds a new section AS 43.20.053, which adds a new corporate income tax credit for a taxpayer that owns an in-state refinery or hydrocarbon processing facility and incurs "qualified infrastructure expenditures". The credit may not exceed the lesser of 40 percent of total qualifying expenditures or \$10 million per tax year and sunsets in 5 years. The taxpayer is required to apply the credit against any corporate income taxes owed to the state, and any unused portion can be refunded by the state.

New subsection (b) clarifies the credit may not be applied to an expenditure for the installation, modification, adjustment, or other alteration of tangible personal property primarily used for the manufacture or transport of liquefied natural gas, compressed natural gas, or to convert natural gas to liquids.

New subsection (h) defines "processed hydrocarbon products", "qualified infrastructure expenditure", "refined petroleum products" and "unpaid delinquent tax".

New section 4 amends AS 43.55.028(a) to include the qualified infrastructure expenditures as a credit that can be paid from the oil and gas tax credit fund.

New section 5 amends AS 43.55.028(g) to allow the Department of Revenue to adopt regulations to carry out purposes of this section for refunds and payments under the qualified infrastructure expenditure.

Section 6 (previously Section 1) provides legislative approval of an amendment of a royalty oil contract between the State of Alaska and Tesoro Corporation and Tesoro Refining & Marketing Company LLC, attached as Exhibit 1 to the final best interest finding and determination executed January 9, 2014.

Section 7 provides an effective date of January 1, 2015 for Sections 1-5.

Section 8 provides an immediate effective date for Section 6 related to the Tesoro royalty oil contract.

[6:34:02 PM](#)

DOUG CHAPADOS, PRESIDENT AND CHIEF EXECUTIVE OFFICER, PETRO STAR INC., JUNEAU, spoke in support of HB 287. He stated that there was a hard copy of a PowerPoint in the backup, which provided some information on Petro Star.

Senator Olson noted that the bill was integral to the survival of an important industry. He inquired about the negative effects of bill not passing. Mr. Chapados replied that the closure of the Petro Star would have ramifications all across Alaska. Petro Star's biggest customers were the airlines; it was also the sole supplier of military grade jet fuel for the military bases in the state.

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AT EASE

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Senator Olson asked many people and families would be affected by closing the refinery. Mr. Chapados responded that there was information in the backup, which outlined the economic impacts of the refinery closure.

[6:41:54 PM](#)

MATT GILL, SENIOR MANAGER, EXTERNAL AFFAIRS, TESORO, JUNEAU, spoke in support of HB 287. He stated that the contract extension outlined in the legislation would provide Tesoro with a stable supply of ANS crude oil, and give the flexibility to accommodate seasonal fluctuations in demand for refined products. The availability, flexibility, and stability of the contract would have a positive impact on Tesoro's ability to maintain ongoing operations at its Kenai refinery.

Vice-Chair Fairclough CLOSED public testimony.

Senator Dunleavy wondered how many individual facilities would qualify under the legislation. Commissioner Balash responded that the qualifying facilities included the Flint Hills facility in North Pole; the Petro Star facility in North Pole; the Petro Star facility in Valdez; and the Tesoro facility in Nikiski. He stated that the Petro Star facility in North Pole was slated to close, so there would only be three qualifying facilities once the credits become available.

Senator Dunleavy wondered if Agrium facility was qualified. Commissioner Balash replied in the affirmative.

Senator Dunleavy queried the total possible tax credit. Commissioner Balash responded that, if all four refineries plus the Agrium facility participated, it would be 50 multiplied by 5, which would equal \$250 million. He stressed that the facility provided a positive impact to the state treasury.

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Senator Bishop wondered if the major oil companies were still refining product on the North Slope. Commissioner Balash responded in the affirmative.

Senator Bishop asked if those companies were excluded from the legislation. Commissioner Balash replied that those companies were excluded from the legislation.

Vice-Chair Fairclough wondered if there was an analysis of the costs that were part of the advancement of the proposal. Commissioner Balash replied that DNR had

conducted best interest findings, and DNR had conducted a review of specific economics of the refining done in state.

Vice-Chair Fairclough queried whether there would be a further examination of the structural problems of the Alaskan refineries. Commissioner Balash stated that DNR did not intend to pursue that type of investigation. The department was aware of the impacts to the refineries costs. He explained that the quality bank and its charges were decided at the federal level and that the state had little ability in that regard to influence decision making. As commissioner, he intended to watch those companies closely as they were given the tax credits.

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Vice-Chair Fairclough wondered why the companies would not be investigated first, followed by offering credits. Commissioner Balash responded that there was an urgency to maintaining the operations of the facilities. He stressed that the revised legislation was much less generous than its original version.

Senator Olson asked what the state would do if the legislation failed. Commissioner Balash replied that Petro Star had renewed its annual contract and that the state expected. He stated that the impacts would be fairly widespread.

Senator Olson queried what other financial issues committee might should consider, if the legislation failed. Commissioner Balash expressed concerns that additional costs fuel prices would continue to increase.

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Senator Olson wondered if the airports would still need refineries after the ten-year period. Commissioner Balash replied that he was concerned that the number of landings in Ted Stevens International Airport would decrease.

Senator Bishop expressed additional concern that the availability of asphalt would be affected.

HB 287 was HEARD and HELD in committee for further consideration.

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AT EASE

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#hjr10

CS FOR HOUSE JOINT RESOLUTION NO. 10(FIN)

Proposing amendments to the Constitution of the State of Alaska creating a transportation infrastructure fund.

[7:06:56 PM](#)

REBECCA ROONEY, STAFF, REPRESENTATIVE PEGGY WILSON, presented HJR 10:

HJR 10 will put a constitutional amendment before voters to amend the Alaska constitution to reinstate a dedicated fund for transportation projects. If this change is passed by the voters, the Alaska Transportation Infrastructure Fund (ATIF) will dedicate transportation user fees and taxes, (motor fuel tax, vehicle rental tax, studded tire tax, driver's license and identification card fees, vehicle registration fees) to transportation projects.

The crafters of the constitution allowed for two dedicated transportation funds at the time of statehood, one for land transportation and one for sea transportation. They realized that some funds would be needed no matter the economic or political climate. They lasted for several years until they were eliminated. HJR 10 will reinstate a transportation fund.

In FY14, 79 percent of our capital transportation budget will come from the federal government. The Federal Government passed a new, two year highway program, MAP-21. The good news is that the overall federal-aid funding remains consistent with SAFETEA-LU, the previous program. However, the amount of funding for roads not on the National Highway System (NHS) has been cut by about 50 percent. We will see a lot less funding for our borough and city roads.

The categories of funding have been reduced and they are much more restrictive. Our own DC delegation have told the legislature that Alaska needs to rely less on the federal government and start shouldering some of the burden of improving our transportation infrastructure.

The roads, bridges, airports, ferries and transit systems that make up our state's transportation system are essential to mobility, commerce and economic development. This system enhances economic competitiveness, increases safety and enhances quality of life. There is a growing imbalance between system use and capacity as well as the need for new infrastructure to access our valuable resources. To insure Alaska has the infrastructure necessary to develop our resources as well as providing a quality of life for our citizens we must commit to funding transportation. Having a dependable revenue stream from year to year will allow Alaska to tackle today's congestion and maintenance projects as well as developing the needed access to resources and energy.

The latest version of HJR 10 updated the dates that the revenue would be directed into the ATIF and it also added tire taxes as another source of revenue.

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TOM BRICE, ALASKA LABORERS UNION, JUNEAU, spoke in support of HJR 10. He understood that the fund needed some time to increase in order to be used for actual large transportation projects. He felt that the taxes should be used for dedicated highway programs.

Vice-Chair Fairclough CLOSED public testimony.

Vice-Chair Fairclough noted that there were a number of letters in support of the bill.

HJR 10 was HEARD and HELD in committee for further consideration.

HB 384 am was SCHEDULED but not HEARD.

[7:12:29 PM](#)

RECESSED until 1 P.M. on 4/20/14.