

HOUSE FINANCE COMMITTEE

April 9, 2015

1:39 p.m.

1:39:53 PM

CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 1:39 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair
Representative Steve Thompson, Co-Chair
Representative Dan Saddler, Vice-Chair
Representative Bryce Edgmon
Representative Les Gara
Representative Lynn Gattis
Representative David Guttenberg
Representative Scott Kawasaki
Representative Tammie Wilson

MEMBERS ABSENT

Representative Cathy Munoz
Representative Lance Pruitt

ALSO PRESENT

Laura Stidolph, Staff, Representative Kurt Olson; Jane Pierson, Staff, Representative Steve Thompson; Tom Wright, Staff, Representative Mike Chenault; Representative Mike Chenault, Sponsor; Donald Bullock, House Majority Staff; Adam Diamond, Manager, Government Relations, Agrium Incorporated; Steve Wendt, Kenai Plant Manager, Agrium Incorporated; Paul Grossi, Representative, Plumbers and Pipefitters and Iron Workers; Representative Cathy Tilton, Sponsor; Daniel Bellerive, Staff, Representative Cathy Tilton.

PRESENT VIA TELECONFERENCE

Aeron Plikat, President, Building and Construction Trades Council of South Central Alaska, Anchorage; Paul Carr, Vice-President, Building and Construction Trades Council of South Central Alaska, Anchorage.

SUMMARY

HB 81 EXEMPTION: LICENSING OF CONTRACTORS

HB 81 was HEARD and HELD in committee for further consideration.

HB 100 UREA/AMMONIA FACILITY TAX CREDIT

CSHB 100(FIN) was REPORTED out of committee with a "do pass" recommendation and with a previously published zero fiscal note: FN1 (DOR).

HB 116 EXTEND ALCOHOLIC BEVERAGE CONTROL BOARD

HB 116 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.

HB 155 FEES; WAIVERS; CREDITS; DEDUCTIONS; TAXES

HB 155 was SCHEDULED but not HEARD.

#hb116

HOUSE BILL NO. 116

"An Act extending the termination date of the Alcoholic Beverage Control Board; and providing for an effective date."

1:40:54 PM

LAURA STIDOLPH, STAFF, REPRESENTATIVE KURT OLSON, presented HB 116. She explained that the legislation extended the termination date for the Alcoholic Beverage Control Board (ABC) through June 30, 2018. She informed the committee that the fiscal note (new FN (CED) included the estimated costs of regulating marijuana due to a stipulation in the voter initiative that legalized marijuana and tasked the board with regulation. However, if HB 123 (Establish Marijuana Control Board) was subsequently adopted the funding for regulating marijuana will be removed from the fiscal note.

There were no questions from committee members.

Co-Chair Thompson OPENED public testimony.

Co-Chair Thompson CLOSED public testimony.

Co-Chair Neuman MOVED to report HB 116 out of Committee with individual recommendations and the accompanying fiscal note.

There being NO OBJECTION, HB 116 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.

[1:43:38 PM](#)

AT EASE

[1:45:03 PM](#)

RECONVEYED

#hb100

HOUSE BILL NO. 100

"An Act establishing a credit against the net income tax for an in-state processing facility that manufactures urea or ammonia; and providing for an effective date."

[1:45:43 PM](#)

Co-Chair Neuman MOVED to ADOPT the proposed committee substitute for HB 100, Work Draft 29-ls0423\G, Nauman, 4/7/15.

There being NO OBJECTION, it was so ordered.

JANE PIERSON, STAFF, REPRESENTATIVE STEVE THOMPSON, explained the changes in the committee substitute (CS). She reported that on page 1, lines 2, 4, and 5 the CS included a credit for gas-to-liquid products were added. She continued that on page 2, lines 10 and 12 the addition of "gas-to-liquid" was added. Found on page 2, lines 18 through 20 contained the definition of "gas-to-liquid product" she read the following:

...in this subsection, "gas-to-liquid product" means a liquid produced by a processing facility that combines, breaks up, or rearranges atoms present in

natural gas, but does not include liquefied natural gas.

Ms. Pierson furthered that page 2, lines 25 and 26 and page 3, line 11 referenced gas to liquid products. The final change was included on page 3, line 20 and noted the length of the credit was changed to five years by inserting the date to January 1, 2022.

TOM WRIGHT, STAFF, REPRESENTATIVE MIKE CHENAULT, provided a brief synopsis of the bill. He voiced that the legislation created a new corporate income tax credit for owners of facilities that manufacture urea or ammonia, and gas to liquids. He referenced a study by the McDowell Group (titled, "Potential Impacts of Agrium's Operation on State of Alaska Revenues") (copy on file) that concluded that reopening the Agrium facility using a single train would require approximately 28 billion cubic feet (bcf) of gas per year with 21(bcf) derived from state leases. The anticipated royalty payment to the state was approximately \$15 million annually.

Co-Chair Neuman commented that he had been working on a gas-to-liquids scenario in an attempt to add value to Alaskan products, diversify the economy, and create jobs. He referenced that Alaska Industrial Development and Export Authority (AIDEA) released a report on November, 2014 published by a company called Nexant that provided gas-to-liquid advisory services. He detailed that the report provided the value of products and the amount of investment that was needed. He added the language in anticipation of a large end product user for an in-state gas pipeline which would help the economics of an in-state gas pipeline and would create jobs. He cited the reports figures of a total private industry investment of up to \$6.5 billion and the creation of 5000 permanent jobs. He liked that HB 100 was attributed to an industry that added value to Alaskan products. He emphasized that he added the gas-to-liquid products credit to HB 100 after discussions with the sponsor to endeavor to diversify the state's economy, help the economics of an in-state gas pipeline, and create jobs in the state.

Vice-Chair Saddler wanted a brief history of the Agrium plant.

Mr. Wright responded that he did not know all of the history. He reported that if the plant reopened, planned rehabilitation costs were \$275 million and would employ a temporary workforce of 440 workers with a payroll of approximately \$75 million over the two year rehabilitation timeframe. He continued that the reopened plant would employ 140 direct jobs and the payroll would amount to approximately \$14 million and approximately 340 "total" jobs that "included direct, indirect, and induced within the state with an approximate payroll of \$30 million.

Vice-Chair Saddler inquired further about the history of the plant. Mr. Wright deferred to representatives from the industry in the audience.

Vice-Chair Saddler asked who the gas-to-liquid provision might apply to. Mr. Wright answered that a temporary gas-to-liquid plant had been in operation on the Kenai Peninsula by BP. He alluded to "some interest" currently but did not know specific information.

Representative Kawasaki wondered about the amount of natural gas available in Cook Inlet Basin. He referred to the Interior Energy Project (IEP) slated for Fairbanks, which proposed utilizing a natural gas supply from Cook Inlet. He was wondering about the total amount of natural gas reserves available in Cook Inlet and whether enough Cook Inlet gas was available for the Agrium project.

REPRESENTATIVE MIKE CHENAULT, SPONSOR, responded that he did not know the total gas supply in Cook Inlet and expressed uncertainty that it was possible to determine with certainty. He emphasized the importance to "bring on more gas supply to fill the need of the gas market" whether in Fairbanks or for the Agrium plant.

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Representative Kawasaki commented that he could provide a transcript of discussions about an "abundance of fear" that there would not be enough gas supply in Cook Inlet for the Fairbanks IEP. He wanted assurances that an abundant natural gas supply existed in Cook Inlet for both projects. Representative Chenault responded that he never stated concerns over the Cook Inlet supply for the IEP. He believed that the more gas that was discovered in Cook Inlet meant increased opportunities to supply gas to

Alaskans. He added that more natural gas consumers whether in Fairbanks or for Donlin Creek or the Agrium facility meant more money being spent on exploration to fill the markets.

Vice-Chair Saddler reported that he was previously a member of the House Resources Committee and was familiar with a study from the Department of Natural Resources, Division of Geologic and Geophysical Sciences on the Cook Inlet Basin. He ascertained that the basin contained a large volume of gas but was complicated and necessitated much exploration and drilling. He agreed that increased market demand increased exploration and produced more gas. He asked whether the plant offered any ancillary benefits to the consumers in Southcentral Alaska.

Representative Chenault commented that the benefits of the facility would start with jobs and spread indirectly through the economy. He opined that more people working provided more dollars into the economy. He added that when the plant was in operation benefits spread throughout the state. He reported that the barley farmers located much farther north of the plant purchased urea for approximately \$199. per ton. When the facility shut down the cost increased by \$500 to \$700 per ton and increased costs to local consumers. He mentioned that the Department of Transportation and Public Facilities used urea to de-ice airport runways. He related that the closure of the Kenai facility had a large impact on the local community.

Vice-Chair Saddler hoped to hear more about how an anchor consumer like the Agrium plant could encourage more exploration in Cook Inlet and generate a more reliable heating supply for the Anchorage area.

Representative Chenault commented that Vice-Chair Saddler was correct. He shared that when in operation, the Agrium plant and the Conoco LNG (liquefied natural gas) facility had provided stability. He mentioned that in the summertime, Railbelt gas consumption dropped dramatically and in the wintertime demand increased. During extremely cold periods, both plants would back gas out of the facility to ensure enough gas supply for the consumer market. Both plants provided a relief valve and long-term stable demand that drove exploration.

[2:01:14 PM](#)

Vice-Chair Saddler understood that a storage facility in Cook Inlet reduced the need for a facility to back out gas. He wondered whether the Agrium plant was still willing to back out gas in periods of high demand.

Representative Chenault was unsure and could not speak for the company. He shared that Agrium had always been good neighbors in the past and reduced consumption in times of high demand.

Representative Gara referred to a time in 2008 when the Palin Administration proposed a small gasline north to Fairbanks and was told by many Anchorage legislators that the Cook Inlet gas supply was not sufficient for the project. He related that continued exploration in Cook Inlet would produce more gas but that exploration was not continuous. He argued that the argument kept shifting on whether enough gas existed in Cook Inlet. He referred to the credits for the gas-to-liquid products in the CS. He asked if any facilities currently existed in the state that would benefit from the tax credits and whether any were coming online. He didn't want "to give away money" to companies that were moving forward without the credit.

Representative Chenault mentioned that the BP gas-to-liquids facility was only a test facility and closed two years ago. He was not aware of any further use for the facility.

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Co-Chair Neuman did not think that the Agrium company would invest as large a sum of money as \$275 million in startup costs or that a company that wanted to operate a gas-to-liquid facility that needed \$6.5 billion to develop would invest that amount of money without a long-term stable gas supply. A gas-to-liquid facility would be dependent on an in-state gasline not anticipated until 2024. He also suggested that more demand would drive more exploration which would create more jobs and lower the cost of gas. He believed that Alaska exported most of its raw resources out of state at the expense of the state's economy. He felt that Alaska needed more legislation like HB 100 that drove exploration, added value to a resource, benefitted the economy, and created jobs. He relayed from testimony that Agrium would still pay the state \$15 million in taxes after the proposed \$3 million credit was deducted.

Representative Gara wondered if there was any other gas-to-liquid operations in the state other than the BP test facility. He also wanted to know if the credit would benefit Point Thompson. Co-Chair Neuman responded that no gas-to-liquid production existed in the state and that the credit could benefit Point Thompson.

Representative Guttenberg expressed incredulity that after \$300 million in credits per year for Cook Inlet the state did still not know whether there was enough gas in Cook Inlet Basin for Anchorage let alone Fairbanks or other projects. He was concerned about natural gas supply. He noted the addition of the gas-to-liquid products credit and wondered whether a gas-to-liquid facility was being considered by Agrium.

Co-Chair Thompson believed that it was a job of the state to encourage development and industry to Alaska and create a diversified economy and that the legislation was in concert in what the state should promote.

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Representative Guttenberg was in complete agreement. He wished that the state's agriculture was more developed to generate more need for the fertilizer. He requested that someone from DNR could testify in regards to how much gas was available in the Cook Inlet Basin.

Co-Chair Thompson deduced that a company would not invest the huge amounts of money needed for startup costs without a stable long-term gas supply.

Representative Gattis declared a conflict of interest with Agrium because as a farmer she would purchase fertilizer from the plant.

Vice-Chair Saddler asked how the royalty rate was re-established after the credits expired. Representative Chenault deferred to the House Majority Attorney.

DONALD BULLOCK, HOUSE MAJORITY STAFF, explained that the royalty rate was set in terms of the leases. Provisions in the oil and gas leasing statutes allowed for varying the rates at different times depending on the economics of production and when the leases were renewed. He detailed that the legislation took the contract price negotiated

between a producer lessee and the Agrium plant and used the plant as the value. Royalties were typically expressed as a percentage of value or a percentage of production depending on whether the state was receiving royalty in money or gas. The safety valve for DNR was to examine the contract and ensure that the contract and valuation was similar to the kind of contract and valuation that was based on issues in a subsequent royalty audit. Establishing the price in the contract provided stability to the buyer of the gas and for the producer who knew what the royalty was for the life of the contract.

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Representative Wilson thought the bill was about offering an incentive for a business to startup. Representative Chenault responded affirmatively. Representative Wilson asked whether one consequence of HB 100 was to encourage a gas-to-liquid development. Representative Chenault believed that was the intent of the new provision in the CS. Representative Wilson reminded the committee that the intent of the bill was pro-business.

Vice-Chair Saddler asked whether the state could owe the company more than the amount of the credit. Mr. Wright responded in the negative.

Co-Chair Thompson OPENED public testimony.

Co-Chair Thompson asked whether reducing the length of the credit from 10 to 5 years worked with Agrium's timeframe.

ADAM DIAMOND, MANAGER, GOVERNMENT RELATIONS, AGRIMUM INCORPORATED, answered that the company was seeking the most attractive offer for the project to measure against the company's other projects that were internally competing for the same pool of capital expenditure funding. Any reduction would impact the "attractiveness" of the project. He noted that the facility was tentatively scheduled to open in July, 2017, and Agrium would lose half of one year's credit.

Representative Gara commented that every startup business in the state would like to receive a 5 year tax credit. He wondered why the state would give Agrium the credit under the logic that the business might startup without the

credit but that a credit further impacted the decision to move forward.

Mr. Diamond responded that the bill contained provisions that protected the state and offered significant safeguards. He indicated that HB 100 generated revenue and contained significant safeguards for the state. Royalty revenue would be new revenue to the state and that the state was currently not collecting tax revenue from the plant and would not after the sunset date unless the plant reopened. He deemed that the bill was "set up to protect the state" and did not reduce an existing revenue stream, nor necessitated any upfront state obligations, commitments, or out-of-pocket expenses. Employing royalty revenues as a benchmark prevented a "revenue negative" scenario and actually "generated new revenue" for the state.

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Representative Gara referred to Mr. Diamond's previous testimony that the plant might reopen even without the tax credits. He surmised that the state would lose revenue if Agrium moved forward regardless of the tax credit. He contended that the royalty revenue the state would gain from new Cook Inlet gas generated by the facilities demand would eventually be generated by another project or increased consumer demand. The plant was not gaining the state royalty revenue that it would not eventually receive from demand; "it was just royalty revenue from a different project." He wondered how the state prospered under the scenario he described.

STEVE WENDT, KENAI PLANT MANAGER, AGRIMUM INCORPORATED, responded that the company was working with a number of producers who emphasized the need for a "steady and significant market" for their gas. He maintained that the inexpensive and easily produced gas in Cook Inlet was exhausted. He disagreed with Rep. Gara's statement that the gas would be produced without demand from Agrium. He maintained that new reserves were difficult to find and market demand needed to be steady, year-round, and with high returns to spur exploration investment. He furthered that Agrium was asking for a credit to offset the premium price they would be paying for gas in comparison with its competitors who purchased Nymex natural gas at \$2.60 per thousand cubic feet.

Co-Chair Neuman assumed that if opening up the Agrium plant was economically feasible the company already would have. He deduced that the legislation was enough of an incentive for Agrium to reconsider reopening the facility.

Mr. Diamond remarked that the tax credit would be a significant factor in the company's deliberations. However, he could not assure the committee that passage of the legislation would guarantee the plant's re-opening.

Co-Chair Neuman restated that the plant would be in operation if it was profitable for Agrium. Mr. Diamond agreed with the statement.

Co-Chair Thompson commented that with the tax credit benefit it was more likely that the facility would reopen and would signal that Alaska wanted to be a business friendly state.

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Representative Guttenberg asked how far the company had progressed with the design of the plant in context to the credit for gas-to-liquid products. He wondered whether it had an impact on the current plant design. Mr. Wendt responded that gas-to-liquid was a completely different process and had nothing to do with the Agrium facility. Representative Guttenberg asked if he knew of any other urea/ammonia plant planned in the state. Mr. Wendt responded in the negative. Representative Guttenberg concluded that the gas-to-liquid language in the CS applied to another type of plant.

Vice-Chair Saddler asked a technical question. He discerned that in the urea process the natural gas was used to capture nitrogen from the atmosphere and was not extracted from the gas. He asked for confirmation.

Mr. Wendt replied that three main "feed stocks" for the plant was air, which supplied nitrogen, water, which supplied hydrogen, and methane from natural gas.

Co-Chair Thompson continued with public testimony.

AERON PLIKAT, PRESIDENT, BUILDING AND CONSTRUCTION TRADES COUNCIL OF SOUTH CENTRAL ALASKA, ANCHORAGE (via teleconference), spoke in favor of HB 100. He referred to

the North Kenai area as the "rustbelt." He delineated that the first noticeable landmark when driving into Nikiski was the idle Agrium facility that had provided the community with 300 jobs. He viewed reopening the plant as a great opportunity for jobs in the area. Over 400 construction and restart jobs would be necessary and over 100 fulltime jobs would be brought back to the Kenai. He felt that the plant would spur opportunities for young people with workforce development.

PAUL CARR, VICE-PRESIDENT, BUILDING AND CONSTRUCTION TRADES COUNCIL OF SOUTH CENTRAL ALASKA, ANCHORAGE (via teleconference), related that he was also the business manager for the Iron Workers Local 751. He spoke in support of the legislation. He believed the project was appropriate and much needed in the current economic downturn. He was afraid of losing skilled Alaskan trade and construction workers due to the economic downturn similar to a situation in late 1980's. He was in the business of giving people in Alaska the opportunity to make a living. He believed that Agrium would provide "family-wage" jobs and offer diversification of the state's economy.

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PAUL GROSSI, REPRESENTATIVE, PLUMBERS AND PIPEFITTERS AND IRON WORKERS, spoke in favor of the bill. He concurred with the previous testimony that the plant would create much needed direct and indirect jobs for the Kenai. He believed that the plant had the potential to generate state revenue and bring in approximately \$345 million over the 20 year life of the plant. He was puzzled by any reluctance in member's support of the legislation. He thought the bill was positive for the state and urged support for the bill.

Representative Gara referred to previous testimony from Agrium that the plant might move forward without tax credits. He restated his concern over ceding state revenue under the current scenario.

Mr. Grossi shared personal experience as a metaphor. He had recently purchased a car. He purchased the car because the dealer offered some special incentives. He looked at the project in the same light.

Representative Gara reiterated previous testimony regarding the possibility of the plant moving forward without tax

credits. He inquired about the chances of the company moving forward without the tax credit. Co-Chair Thompson thought that the answer was a corporate board decision and was not appropriate to reveal.

Representative Gara asserted that if the state was going to be paying out over \$3 million per year in a time of billion dollar budget deficits he should be able to ask the question.

Mr. Diamond was uncertain how to answer the question; odds were not assigned. He reminded the committee of the "inherent hurdles" that the project faced and thought he could weigh the probabilities himself.

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Vice-Chair Saddler wondered about the rehabilitation costs of \$275 million over two years. He inquired about the present condition of the facility.

Mr. Wendt answered that the company installed vapor face corrosion inhibitors when the plant shut down in 2007 that kept the plant in good condition. He expounded that recently the plant was extensively inspected and the company was "pleased" with its condition.

Vice-Chair Saddler wanted to know about any potential interface with the AKLNG project. Mr. Wendt reported that Agrium was actively participating in the governor's task force and was "very interested" in seeing a gasline to Nikiski.

Co-Chair Thompson CLOSED public testimony.

[2:41:50 PM](#)

Representative Gara MOVED to ADOPT Amendment 1.

Representative Wilson OBJECTED for discussion.

Representative Gara reviewed Amendment 1:

Page 1, line 4, following "ammonia;"

Insert "providing an optional exemption from municipal property taxation for certain in-state

processing facilities that manufacture urea or ammonia;"

Page 1, following line 6:

Insert a new bill section to read:

"* Section 1.AS 29.45.050 is amended by adding a new subsection to read:

(x) A municipality may by ordinance approved by the voters exempt or partially exempt from taxation an in-state processing facility whose primary function is the manufacturing and sale of urea or ammonia to third parties in arm's length transactions. An exemption under this subsection may be of limited or unlimited duration."

Page 1, line 7:

Delete "Section 1"

Insert "Sec. 2"

Renumber the following bill sections accordingly.

Page 2, line 27, following "section.":

Insert "A credit under this section may not exceed \$2,000,000 for each in-state processing facility a year."

Page 3, line 11:

Delete "sec. 2"

Insert "sec. 3"

Page 3, line 14:

Delete "Sections 1, 2, and 4"

Insert "Sections 1 - 3 and 5"

Page 3, line 15:

Delete "Section 3"

Insert "Section 4"

Representative Gara explained the amendment. He stated that the potential Agrium tax credit was \$4 million per year. The amendment would offer a \$2 million tax credit from the state and allowed the municipality to offer, through a vote of its citizens, the ability to exempt or partially exempt the plant from local taxes. He offered that the state had a \$3.5 billion deficit and would lose needed revenue and thought the municipality that was benefitting from Agrium should share the burden. He was troubled that the corporate board members were not present to discuss whether the plant would reopen without a tax credit.

Representative Wilson voiced that the credits were reduced to five years and the amendment would add an additional "hurdle" on the project. She believed the bill would help to bring in new revenue during the economic tailspin and created jobs for the Kenai. She ascertained that Agrium determined it needed the credit to incentivize the project and that the plant's reopening would vitalize the economy and would help the state's deficit in the long run.

Representative Kawasaki supported the amendment. He suggested that due to the state's fiscal situation municipalities will need to pay for more of its operations with less support from the state. He added that the municipality should contribute to the credit incentives because it directly benefited from the plant. He supported limiting the credit in light of the state's budget crisis. He believed that the zero fiscal note was deceptive and that the credit could result in a greater revenue impact for the state.

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Mr. Wright stated that the sponsor opposed the amendment. He agreed that municipalities will need to take over more of its services. He believed the Agrium plant provided the opportunity for a municipality to increase its tax base and deliver more of its own services. He thought that the amendment removed incentives to increase gas production on state leases. The state wanted to increase gas usage to spur gas production on state leases, which provided royalty revenue. The amendment discouraged the goal.

Representative Guttenberg spoke in support of the amendment as an appropriate action to take in challenging fiscal times. He observed that the amendment did not

disincentivise the purpose of the bill. He thought that the borough (Kenai Peninsula Borough) should have "buy-in" as the main beneficiary through increased jobs, economic development, increased property tax, etc. The borough was a major player both in impacts and benefits. He commented that the borough could actually do more to incentivize the plant reopening than the amendment offered by waiving more property tax or other infrastructure incentives.

Representative Wilson maintained her objection. A roll call vote was taken on Amendment 1.

IN FAVOR: Gara, Guttenberg, Kawasaki

OPPOSED: Gattis, Saddler, Wilson, Thompson, Neuman

The MOTION FAILED (3/5). Amendment 1 failed.

[2:50:24 PM](#)

Co-Chair Thompson MOVED to ADOPT conceptual Amendment 2:

Page 3, line 22:

Delete "2022"

Insert "2024"

Representative Gara OBJECTED.

Co-Chair Thompson explained that the amendment increased the number of tax credit years to 7. In the event that Agrium was not operable by July 2017, the amendment gave the company more time for startup and maintained the full five years' worth of credits.

Representative Gara understood that the intent of the amendment was to ensure Agrium received the five full years of tax credits in case of a late start. He offered a conceptual amendment.

Representative Gara MOVED to AMEND conceptual Amendment 2:

Add language: "The Company may not use the tax credit for more than its first five years of operations."

Representative Wilson OBJECTED for discussion.

Representative Guttenberg asked for clarification. He surmised that the intent was to grant the company a tax credit for the first five full years of operation and not include a sunset date.

Representative Gara indicated that the original amendment 2 gave Agrium 7 years of tax credits if the plant started up immediately. The conceptual amendment offered 5 full years of tax credits for the first five years of operation from the date the facility opened.

Mr. Wright indicated that the original bill offered the tax credit for ten years.

A roll call vote was taken on the amendment to conceptual Amendment 2.

IN FAVOR: Guttenberg, Kawasaki, Saddler, Gara
OPPOSED: Gattis, Wilson, Edgmon, Thompson, Neuman

The MOTION FAILED (4/5).

Representative Gara WITHDREW his OBJECTION to conceptual Amendment 2.

There being NO OBJECTION, conceptual Amendment 2 passed.

Co-Chair Neuman responded to Representative Guttenberg's inquiry regarding the interest in the state for gas-to-liquids products. He relayed that in 2009 he attended a meeting with Senator Stevens and members of the Defense Logistics Agency part of the Department of Defense that purchased all of the fuel for the military worldwide. The agency via its Defense Energy Support Center (DESC) expressed interest in Alaska and in May 10 through 12, 2009 held a worldwide conference on the development of alternative fuels and alternative fuel production in Alaska. He reported that DESC spent a great deal of time and money in an attempt to start an alternative fuels program in Alaska, to the point of holding a worldwide conference. He added that "the state could not get a pipeline built for one reason or another." He declared that the CS for HB 100 was "a good bill." He shared that the sponsor permitted the addition of the gas-to-liquids product provision. He communicated that he did not want to hinder passage of the bill and wanted to revert to the House Resources Committee Substitute version of the bill

and would continue to work on gas-to-liquids but not via the legislation.

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Co-Chair Thompson requested that he make the changes in the House Rules Committee. Co-Chair Neuman agreed and restated that he wanted to avoid slowing down passage of the legislation.

Representative Chenault, in regards to comments made by Representative Guttenberg, elaborated that the small producer credit for Cook Inlet ended next year. He believed that the credits were successful and more gas was discovered which benefitted the state. He cited the testimony referring to North Kenai as the "rustbelt." He asserted that people from the community he represented were "proud" and wanted to work. The community was a rustbelt subsequent to the plant's closure due to lack of natural gas. He contended that currently his community [Nikiski] was "very prosperous" with new businesses opening up due to exploration tax credits that increased the [Cook Inlet] gas supply. He mentioned the plan to supply Fairbanks with excess Cook Inlet gas [Interior Energy Project]. He believed that "the outlook in his community was fairly bright" and if the state continued to help promote development the future would be brighter for Alaska.

Representative Wilson MOVED to REPORT CSHB 100(FIN) out of committee with individual recommendations and the accompanying fiscal note.

Representative Kawasaki OBJECTED.

Representative Wilson commented that she was an ardent supporter of the bill. She referenced the closing of the Flint Hills Refinery [North Pole] because of the lack of incentives and higher operating costs in the state. She believed that the community felt the repercussions of the refinery closure. She supported incentivizing new business.

Representative Kawasaki discussed his objection. He referred to the zero fiscal note (FN 1 REV) and surmised that it was deceptive to think that the credit would not cost the state anything. He stated that if the Agrium plant opened the state would lose approximately \$20 million to \$30 million dollars over 7 years. He felt that there was a

fiscal impact to the bill and that there were other state priorities like school funding and senior benefits that might be subject to budget cuts due to the economic crisis. He relayed from testimony that Agrium might move forward with the project regardless of the tax credit and commented that the credit was most likely unnecessary and frivolous.

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Vice-Chair Saddler was supportive of the bill. He believed that the opportunity to the state came at no cost and was a net gain for the state and to the community and would spur diversification of the economy and more Cook Inlet exploration.

Representative Gara opposed the bill. He felt that the bill was a giveaway of \$4 million a year to a company that might move forward on the project without a tax credit and was a "terrible way to negotiate" in light of a \$3.5 billion budget deficit. He commented that the legislature refrain was that "everybody had to feel the pain" of budget cuts but the legislature would cede \$4 million to big business. He thought the priorities were wrong. He disagreed with the argument that the state would gain additional royalties from the legislation and thought that it was misleading. He opined that if enough attainable gas was available in Cook Inlet the state was going to gain the royalties anyway because another entity would purchase the gas. He stated that no one was going to leave affordable and recoverable gas in Cook Inlet. He conveyed that the idea that the state could not ask the local community that would benefit the most through jobs and an expanded tax base was unfounded. He felt that the negotiations around HB 100 had been lacking and wondered why no one had asked the community to contribute.

Representative Kawasaki maintained his objection.

A roll call vote was taken on the motion.

IN FAVOR: Saddler, Wilson, Edgmon, Gattis, Thompson, Neuman
OPPOSED: Guttenberg, Kawasaki, Gara

The MOTION PASSED (6/3).

CSHB 100(FIN) was REPORTED out of committee with a "do pass" recommendation and with a previously published zero fiscal note: FN1 (DOR).

[3:09:13 PM](#)

AT EASE

[3:11:21 PM](#)

RECONVEYEND

Co-Chair Neuman MOVED to ADOPT the proposed committee substitute for HB 81, Work Draft 29-LS0346\E, Strasbaugh, 3/19/15.

There being NO OBJECTION, it was so ordered.

[3:12:10 PM](#)

AT EASE

[3:12:41 PM](#)

RECONVENED

#hb81

HOUSE BILL NO. 81

"An Act relating to an exemption from the regulation of construction contractors."

REPRESENTATIVE CATHY TILTON, SPONSOR, provided a brief summary of the bill. She explained that HB 81 related to the licensing of residential contractors. The bill did not prevent owner-built Alaskan housing, selling an owner-built home, or propose a new licensure. Due to a loophole in current law, the "owner-builder exemption" created a situation where unlicensed contractors had engaged in business while avoiding requirements for licensing, bonding, and insurance. She reported that the language change in the new committee substitute was developed through discussions between the Homebuilders Association, individual Alaskans, and the Department of Labor and Workforce Development. The bill "reasonably" included all individuals engaged in home construction as a regular course of business under the existing residential contracting licensure. She relayed personal experience of building her own home and stated that its common practice for people living in rural areas to construct their own home. She noted that according to existing statute an

owner-builder was allowed to sell their home after two years.

DANIEL BELLERIVE, STAFF, REPRESENTATIVE CATHY TILTON, reviewed the sectional analysis (copy on file) for the committee substitute (CS). He read the analysis from a prepared document:

Section 1 (Page 1, lines 3-8) - Section 1 adds a new section stating that the intent of this bill is not to limit the freedom and ability of a person to construct or sell their own home.

Section 2 (Page 1, lines 9-15) - Section 2 adds a new subsection directing that the department shall investigate and take action if the notice and circumstances of a sale under AS 08.18.161(11) indicate that the owner is operating a business that requires them to register as a contractor under this chapter.

Section 3 (Page line 1 through Page line 11) - Section 3 accomplishes three things.

1. Page 2, lines 23-25 adds clarification explicitly stating that AS 08.18.161(9) refers to existing structures.

2. Page 2, lines 30 and 31 expand the exemption in AS 08.18.161(11) to include owners acting as their own contractor, as well as hired workers or subcontractors. Previously this exemption strictly applied to workers hired on an hourly basis.

3. Page 3, lines 3-7 add a requirement for an owner-builder to provide notification if they advertise or sell their home build under AS 08.18.161(11) before the two year period in statute.

Section 4 clarifies that for the purposes of this section, construction begins when the owner begins the actual construction work or enters into an agreement labor, act as a subcontractor, or provide materials for the construction.

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Representative Gattis wanted clarification about when construction ended. She wondered whether an owner-builder could sell their house if it was not completed and the owner discontinued construction. Mr. Bellerive replied that regardless of the level of completeness if the construction was ceased then the period of construction was over and the owner could sell the house. Representative Gattis asked whether the owner had to fill out a form or notify government in order to sell the unfinished house. Mr. Bellerive responded in the negative.

Representative Guttenberg referenced the two year period provision and wanted to know the legal definition of the period of construction.

Mr. Bellerive answered that a specific definition for a period of construction did not exist in statute. He indicated that the two year period referred to the two year period after the construction ended. He added that regardless of the level of completion the house could be sold two years after construction had ceased.

Representative Guttenberg referred to page 3, line 5, the words, "...on forms provided by the department." He wondered how the home builder found out that a form had to be filled out in order to sell the house, especially if the owner was not using a bank or realtor. He asked how the state was going to monitor owner-built house sales by owner.

Mr. Bellerive replied that an owner-builder living in the house would qualify for exemption 9 and was further protected from any obligation to submit notice. He cited page 2, line 23 and read the following:

(9) [(10)] a person working on and existing structure on that person's own property, whether occupied by the person or not, and a person working on that person's own existing residence, whether owned by the person or not...

Mr. Bellerive detailed that the definition of a residence was "an existing home being a residence previously occupied as a residence." Regardless of what the subjective view of a completed home was, if the owner-builder was claiming the house as a residence exemption 9 applied instead of exemption 11.

Representative Guttenberg was still unclear about what the difference was between exemption 9 and exemption 11. He read page 3, lines 3 through 5:

...an owner who advertises the structure under construction for sale or sells the structure during the period of construction or within two years after the period of construction ends shall file, on forms provided by the department..

Co-Chair Thompson voiced that the bill was not moving out of committee today and he would help provide clarity at a later date.

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Representative Kawasaki referred to the new language under exemption 11. He deduced that the language seemed to place the obligation on the person selling the house to obtain the forms. He was uncertain about "the effect" of the language. Mr. Bellerive deferred to the department.

Representative Gara surmised that the provision only applied to an owner-builder and not someone assisting with the construction. He asked for confirmation. Representative Tilton confirmed the statement was correct.

Representative Gara provided a scenario where someone build a cabin and occupied it unfinished for a period of over 10 years then finally completed construction and sold it after two years. He wondered how that was allowed under the bill.

Mr. Bellerive commented that in the particular scenario the only requirement for the owner would be to notify the department. He reported that the department did not have the authority to prohibit someone from selling their own property and emphasized the use of the word notify, since permission was not required. The notification ensured that the sale was not viewed as a business transaction.

HB 81 was HEARD and HELD in committee for further consideration.

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Co-Chair Thompson reviewed the agenda for the following morning meeting.

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ADJOURNMENT

3:27:45 PM

The meeting was adjourned at 3:27 p.m.