

HOUSE FINANCE COMMITTEE

April 13, 2015

1:34 p.m.

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CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 1:34 p.m.

MEMBERS PRESENT

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 Cathy Munoz
Representative Lance Pruitt
Representative Tammie Wilson

MEMBERS ABSENT

Representative Mark Neuman, Co-Chair

ALSO PRESENT

Heather Shadduck, Staff, Senator Pete Kelly; Joe Michel, Staff, Representative Steve Thompson; Cynthia Franklin, Director, Alcoholic Beverage Control Board, Department of Commerce, Community and Economic Development; Nancy Meade, General Counsel, Alaska Court System; Denise Daniello, Executive Director, Alaska Commission on Aging; Tim Clark, Staff, Representative Bryce Edgmon; Jane Pierson, Staff, Representative Steve Thompson; Fred Parady, Deputy Commissioner, Department of Commerce, Community, and Economic Development; Nick Szymoniak, Finance Officer, Energy Development, Alaska Industrial Development and Export Authority; Gene Therriault, Deputy Director, Statewide Energy Policy Development, Alaska Energy Authority, Department of Commerce, Community and Economic Development.

PRESENT VIA TELECONFERENCE

Leif Able, Self, Kasilof; Patrick Reinhart, Governor's Council on Disabilities and Special Education, Anchorage; Nikole Nelson, Executive Director, Alaska Legal Services, Anchorage; Patrice Lee, Self, Fairbanks; Merrick Peirce, Self, Fairbanks; Pamela Throop, Self, Fairbanks; Jim Dodson, Fairbanks Economic Development Corporation, Fairbanks; Jomo Stewart, Fairbanks Economic Development Corporation, Fairbanks; Lisa Herbert, Executive Director, Greater Fairbanks Chamber of Commerce, Fairbanks; Derek Miller, Fairbanks Chamber of Commerce, Fairbanks; Luke Hopkins, Mayor, Fairbanks Northstar Borough.

SUMMARY

HB 105 AIDEA: BONDS;PROGRAMS;LOANS;LNG PROJECT

HB 105 was HEARD and HELD in committee for further consideration.

HB 123 ESTABLISH MARIJUANA CONTROL BOARD

CSHB 123(JUD) was REPORTED out of committee with a "do pass" recommendation and with two previously published fiscal impact notes: FN2 (ADM) and FN3 (CED).

HB 154 CIVIL LEGAL SERVICES FUND

HB 154 was REPORTED out of committee with a "do pass" recommendation and with one previously published zero fiscal note: FN1 (AJS).

HB 190 MEDICAID REFORM/FRAUD/ER USE/STUDIES

HB 190 was HEARD and HELD in committee for further consideration.

SB 26 BUDGET: CAPITAL

SB 26 was HEARD and HELD in committee for further consideration.

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#hb190

HOUSE BILL NO. 190

"An Act relating to a medical assistance reform program; relating to the duties of the Department of Health and Social Services; establishing medical assistance demonstration projects; relating to civil penalties for medical assistance fraud; relating to studies by the Department of Health and Social Services; relating to cost-containment measures for medical assistance; and providing for an effective date."

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HEATHER SHADDUCK, STAFF, SENATOR PETE KELLY, read from a prepared statement:

HB 190 begins the process of reform and cost containment needed to slow the growth of the Alaska Medicaid program. Medicaid has grown to \$1.8 Billion of the annual operating budget, and has accounted for 22% of the total UGF increases over the last ten years. The current and former administrations have testified the Medicaid program, as it stands, is not sustainable. Low oil prices and billions of dollars in revenue shortfalls have forced us to change how we do business. In July 2013, the Medicaid Budget Group of the Department of Health and Social Services reported the total spending on Medicaid services will reach \$6.3 billion in 2032, including \$2.8 billion in state matching funds. If we don't act now to bend the growth curve of Medicaid, many of our most venerable Alaskans will be without critical health care services they need.

Ms. Shadduck provided a sectional analysis (copy on file) of the bill. She read from the document:

Section 1: Adds new sections establishing civil penalties for false claims for medical assistance and authorizing the Department of Health and Social Services (the department) to assess civil penalties against medical assistance providers.

Ms. Shadduck noted that Section 1 was found on page 1, line 7 of the bill and commented that every dollar averted from fraud translated into more money available to serve the "most vulnerable" citizens.

Ms. Shadduck turned to Section 2 that began on page 3, line 5 of the legislation:

Section 2: Requires the Department of Health and Social Services (the department) to design, adopt, and implement a medical assistance (Medicaid) reform program. Requires the department to prepare and submit a report about reforms, savings, and costs related to the Medicaid program. Provides for a definition of "telemedicine."

Ms. Shadduck explained that subsection (a) mandated that the reform program must include ten items. She read number one from the legislation:

(1) referrals to community and social support services, including career and education training services available through the Department of Labor and Workforce Development under AS 23.15, the University of Alaska, or other sources;

Ms. Shadduck related that the state had a multitude of job training available through its job centers, vocational rehabilitation offices, Workforce Investment Act programs, vocational training programs, and support from non-profits.

Ms. Shadduck continued beginning with item two:

(2) distribution of an explanation of medical assistance benefits to recipients for health care services received under the program;

(3) expanding the use of telemedicine for primary care, behavioral health, and urgent care;

(4) enhancing fraud prevention, detection, and enforcement;

(5) reducing the cost of behavioral health, senior, and disabilities services provided to recipients of medical assistance under the state's home and community-based services waiver under AS 47.07.045;

Ms. Shadduck detailed that number five related to a 1915 "K" or "I" option [federal regulation related to the Community Choice Act] which was a way to enhance the

current federal match from 50 percent to 56 percent for option "K" and no federal match to a match of 50 percent for option "I". The options were eligible for telemedicine for individuals receiving home care.

Ms. Shadduck continued to read:

- (6) pharmacy initiatives;
- (7) enhanced care management;

Ms. Shadduck defined that enhanced care management were methods that taught individuals how to use the healthcare system. She noted that Medicaid recipients often needed guidance on how to approach healthcare. She added that enhanced care management did not detract from preventative care and included primary healthcare, vaccines, flu shots and all other appropriate care.

Ms. Shadduck moved to the next item on line 22:

- (8) redesigning the payment process by implementing fee agreements based on performance measures that include premium payments for centers of excellence according to nationally acceptable criteria and penalties for hospital acquired infections, readmissions, and failures of outcomes;

Ms. Shadduck related that the Department of Health and Social Services (DHSS) would study the use of bundled rates for physicians and diagnosis related groups for hospitals. She exemplified that the provision would foster a streamlined approach instead of the fee for service model resulting in one bundled rate for a procedure such as a knee replacement. Alaska was one of the only states not currently using the practice in its Medicaid program.

Ms. Shadduck turned to the following items:

- (9) stakeholder involvement in setting annual targets for quality and cost-effectiveness;
- (10) to the extent consistent with federal law, reducing travel costs by requiring a recipient to obtain medical services in the recipient's home community, to the extent appropriate services are available in the recipient's home community.

Ms. Shadduck stated that travel costs needed to be reduced where possible. She pointed to incidences of consolidating different needs within one family to make one trip to cover various appointments as one example. She addressed subsection (b) beginning on page 3, line 31 that related to the department's improvements in access to telemedicine. She related that the state's willingness to collaborate with the Alaska Native Tribal Health Consortium (ANTHC), which had an "extensive" network for telemedicine throughout the state to increase access. She moved to subsection c on page 7 of the bill. The subsection required that DHSS submit a report to the legislature on or before October 15 of each year that contained everything that legislators needed to monitor for continuing reform of the Medicaid system. She listed some of the required information: realized cost savings related to reform; realized cost savings undertaken by the department; a statement of whether DHSS had met annual targets for quality and cost-effectiveness; recommendations for legislative or budgetary changes; impacts from federal laws; and the results of demonstration projects. She noted that subsection (d) [page 5, line 10] provided a definition for telemedicine.

Ms. Shadduck cited Section 3 located on page 5, line 15 and read:

Section 3: Requires the department to design and implement a demonstration project to reduce nonurgent use of emergency departments by Medicaid recipients.

Ms. Shadduck remarked that the provision enhanced what the department had already done with its "super-utilizer program" for individuals using the ER for primary care. The program directed individuals to the appropriate type of care or provider. She noted that subsection (5) on page 6, line 1 delineated a process for referring a frequent emergency room user (or super-utilizer) to a primary care provider within 96 hours after an emergency room (ER) visit directed at. The program included strict guidelines for prescribing narcotics and a prescription drug monitoring program. She continued with Section 4 on page 6, line 12 and read:

Section 4: Requires the department and the attorney general to annually prepare a report regarding fraud

prevention, abuse, prosecution, and vulnerabilities in the Medicaid program.

Ms. Shadduck directed attention to Section 5 on page 7, line 6:

Section 5: Requires the department to develop one or more managed care or case management demonstration projects through a contract with a third party. The managed care program would be for individuals enrolled in all Medicaid programs.

Ms. Shadduck examined subsection (a) [page 7, line 9]. She shared that Alaska was one of seven states that did not utilize a "managed health plan" within Medicaid. Recipients would be managed by traditional insurance carriers, i.e. Aetna or Premera. Improved outcomes and more "one on one" care were cited as benefits of the managed health care model. The provision included comprehensive care management and care coordination. She exemplified a pregnant woman enrolled in the Denali Kidcare Program who would be assigned a primary care case manager and would check-in regularly with the manager, in order to build relationship and trust. The relationship enabled the manager to encourage healthy behavior for the most positive outcome. The program was focused on the whole person and also required individual and family support and referral to community and social support services, including career training.

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Ms. Shadduck noted subsection (b) starting on page 7, line 29 that required the department to enter into contracts with one or more third-party administrators for the managed care program. Subsection (c), on page 8, line 5 outlined the requirements for services and fees between the department and the third party administrator. She added that Subsection (d) [on page 8 line 12] mandated the department to include additional cost-saving measures that included innovations through a demonstration project by reducing travel through the expanded use of telemedicine for primary care. The subsection also "simplified administrative procedures for providers, including streamlined audit, payment, and stakeholder engagement procedures." She turned to Section 6 on page 8, line 20:

Section 6: Requires the department to conduct a study analyzing the feasibility of privatizing certain services.

Ms. Shadduck reminded the committee that before any state service can be privatized a feasibility study must be performed. The provision was aimed at the Alaska Pioneers' Homes, the Alaska Psychiatric Institute, and select facilities of the Division of Juvenile Justice (DJJ). She expounded that the studies would be tailored for the specific service. She exemplified that the division had an underutilized facility in Nome where the Norton Sound Health Corporation also operated. The state's facility could be handed over to Norton Sound to run as a residential psychiatric treatment center, thus avoiding forcing juveniles to leave their community and receive "culturally relevant care" paid for with a 50 percent Medicaid funding match instead of the 100 percent general fund costs incurred at DJJ facilities. She remarked that the three entities listed employed 1,192 state employees.

Ms. Shadduck continued with Sections 7, beginning on page 8 line 30:

Section 7: Requires the department to amend the state Medicaid plan and apply for any waivers necessary to implement the projects and programs described in the bill. Requires the Commissioner of Health and Social Services to certify to the reviser of statutes federal approval of specified measures.

Ms. Shadduck moved to Section 8 [page 9 line 10]:

Section 8: Allows the department to adopt regulations necessary to implement the changes made by the Act. The regulations may not take effect before the dates the relevant provision of the Act takes effect.

Ms. Shadduck cited Section 9 located on page 9, line 18:

Section 9: Conditional effects.

Ms. Shadduck explained that conditional effects protected the department from having to follow a law in the event that the federal government did not authorize a specific state plan or amendments or waiver needed for

implementation. She identified Sections 10 through 14 [beginning on page 10, line 7] and read:

Sections 10 - 14: Provides for effective dates for provisos that require waiver and state plan amendment approvals from the United States Department of Health and Human Services.

Ms. Shadduck cited the final section [page 10, line 22]:

Section 15: Provides an immediate effective date for sections 6, 7, and 8.

HB 190 was HEARD and HELD in committee for further consideration.

#sb26
CSSB 26(FIN)

"An Act making and amending appropriations, including capital appropriations, supplemental appropriations, reappropriations, and other appropriations; making appropriations to capitalize funds; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

JOE MICHEL, STAFF, REPRESENTATIVE STEVE THOMPSON, provided a brief summary of SB 26. He relayed that the bill included \$113.331 million in unrestricted general funds, \$56.325 million in designated general funds, \$62.733 million of other state funds, and \$1.275.642 billion in federal receipts.

SB 26 was HEARD and HELD in committee for further consideration.

#hb123
HOUSE BILL NO. 123

"An Act establishing the Marijuana Control Board; relating to the powers and duties of the Marijuana Control Board; relating to the appointment, removal, and duties of the director of the Marijuana Control Board; relating to the Alcoholic Beverage Control Board; and providing for an effective date."

CYNTHIA FRANKLIN, DIRECTOR, ALCOHOLIC BEVERAGE CONTROL BOARD, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, discussed the legislation. She reported that HB 123 created a five member volunteer board that would be housed under the same agency as the Alcoholic Beverage Control Board (ABC). Both boards would share one director and a staff of 16 employees statewide who were tasked with licensing, enforcement, and administrative duties.

Co-Chair Thompson OPENED public testimony.

Co-Chair Thompson CLOSED public testimony.

Representative Wilson questioned the fiscal note. She cited the \$756.4 thousand appropriation for services and wondered what services were included.

Ms. Franklin replied that the budget included an initial outlay of \$500,000 for technology to track both licensees and marijuana. She detailed that the services category included a database for licensees and software to track marijuana. Software called "Seed to Sale" was available and was designed to track marijuana sold in retail outlets to ensure it was legally grown. Once the software and required technology was implemented the costs in the out-years would be reduced.

Representative Wilson inquired about the remaining \$256 thousand.

Ms. Franklin answered that the remainder included expenses for enforcement vehicles, office lease costs, and costs associated with additional employees.

Representative Wilson asked whether eventually the board costs would be divided by the number of licensees and included in the licensing fees in 2017.

Ms. Franklin replied in the affirmative. She expected that the board costs would be "receipt supported."

Representative Wilson wondered what the estimated cost of a license would be based on other states with legalized marijuana.

Ms. Franklin answered that the closest comparison was the city of Denver, Colorado with a population of 650 thousand.

The city issued approximately 900 marijuana licenses. The city had 37 full-time employees at a total cost of \$5.9 million to regulate marijuana. The city had made \$14 million in tax revenue in 2014.

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Co-Chair Thompson OPENED public testimony.

LEIF ABLE, SELF, KASILOF (via teleconference), supported the bill. He believed that the regulatory structure set up in HB 123 was a "good idea" for regulating marijuana and associated costs to the state. He felt Ms. Franklin had done a good job educating herself about the topic and would perform her duties as Chair well.

Co-Chair Thompson CLOSED public testimony.

Representative Kawasaki related that the bill delineated the required background of potential Marijuana Control Board members and noted that the requirements for board membership were more extensive than the ABC board and asked why the difference existed.

Ms. Franklin answered that the composition of the ABC board was designated under Title 4 rules and was limited to two members from industry and three public member; one of whom must be from a rural area. A Title 4 stakeholders group met and discussed composition of the ABC board and recommended revisions that ABC board members reflected the composition and requirement of the Marijuana Control Board. The group responded to concerns from the public safety and public health partners of the ABC board to expand the requirements of board members. She noted that SB 99 (ALCOHOLIC BEVERAGE CONTROL; ALCOHOL REG) contained the revised ABC board designee requirements.

Vice-Chair Saddler asked how the board would determine the license fees.

Ms. Franklin answered that the bill contained a \$5000 cap on licensing fees. She added that other fee provisions required that half of the licensing fees must be refunded to municipalities if a licensed premise was located within a municipality. She detailed that fees for alcohol licensing varied from approximately \$1,250 to \$3500. on a biennial (renewed every other year) basis and

increases were recommended by the Title 4 group to reflect the work and time associated with regulation. She anticipated that the marijuana fees would cost close to the \$5000 cap based on sister states (Colorado and Washington) that had legalized marijuana, the state's alcohol liquor license, and the work involved in licensing and regulation in order for the board to be properly funded by program receipts.

Representative Guttenberg wondered about the ability to track marijuana as a new legal industry. He wondered how it was possible to track an industry that was not able to bank. He referred to a National Conference of State Legislatures (NCSL) conference that invited representatives from the banking industry and the state of Colorado that concluded that the marijuana industry was prohibited from banking. He wondered how the legalized states dealt with receiving money from an industry that the federal government considered an illegal source.

Ms. Franklin agreed that the banking industry issue was challenging. She shared that initially, the marijuana industry in the state would be "unbanked." She noted that Colorado had come up with banking solutions for 40 percent of the industry and was considered "underbanked." The state would analyze the Colorado solutions for possible resolutions in Alaska. The "Cole Memorandum" [federal guidance on marijuana enforcement issues] required a "strict enforcement scheme that lessens or minimizes criminal activity" for states with legal recreational or medical marijuana. The states of Washington and Colorado had dealt with the banking issue by collecting taxes in cash. The state was working with the tax division to ensure that if taxes were missed on growing operations the state had the statutory authority to collect taxes from any licensed establishment that obtained marijuana that had not been taxed. She conveyed that the statute prevented a black market or criminality in the "downstream" marijuana industry (retail shops). She indicated that the Seed to Sale software tracking system was an essential tool in Washington and Colorado to ensure that the marijuana sold was legally grown. She believed the task was formidable, but could be achieved.

Representative Guttenberg asked whether specific tracking software existed to meet Alaska's needs.

Ms. Franklin answered that there were several options for the software. She referred to software in use by Washington and Colorado called "Biotrack." Twenty-two other states had medical marijuana and used tracking systems. The board intended to research software best suited for Alaska's needs.

Representative Gattis wondered why dealing in cash was legal since cash money was issued by the federal government.

Ms. Franklin answered that the issue of using cash had not been legally challenged for use in the marijuana industry.

Vice-Chair Saddler wondered how other states tracked the sale of marijuana.

Ms. Franklin replied that other states utilized an ID tagging system. She explained that in legal states, marijuana was grown from cuttings from mother plants. When the plant reached 8 inches tall the plant was tagged. The tag remained with the product from bud, leaf, trim, and even THC extraction and followed it throughout its product life in any form via sales.

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Representative Pruitt referred to the license fees contained in the bill. He acknowledged that license fees were determined by the board but felt that the state should benefit from the value of the licenses.

Ms. Franklin responded that the ABC board had the statutory authority under AS 1738 to determine how to issue licenses or whether to issue population limits. The Marijuana Control Board would have the same authority. Alcohol regulation contained a population limited system with transferability. Discussion among the ABC board on the "concept of a secondary market value" had taken place. The board had considered the concept of going with a high-quality merit based matrix system where an applicant would receive points for meeting qualifications. Licenses would be issued to the highest quality applicants as opposed to a minimum qualification system chosen by lottery as employed in Washington State. The minimum qualification system potentially lead to businesses least likely to succeed or comply with regulations. The merit based matrix system did

not limit licenses on the front end. However, AS 17.38 clearly established municipalities' authority to set numerical limits on licenses. The combination of no population limits and a merit based system without transferability so that the licenses would transfer back to the state in the event of a business failure was being discussed among the preliminary regulations team and would be openly and publically debated in the actual regulation process.

Representative Pruitt wondered if the board had the authority to increase licensing fees based on the board's expenses if a merit based system was adopted.

Ms. Franklin replied that the license selection process and fee rate were intended to be set by regulation. She added that the \$5 thousand limit on license fees was placed in the referendum to limit the ability of the legislature or regulatory entity to institute extremely high fees as a way to discourage licensure.

Representative Pruitt asked for a definition of high fees.

Ms. Franklin indicated that in one state the initial fee was \$25 thousand and naturally limited the ability of applicants from entering the industry. She believed if fees were set "logically" reflecting the board's workload and services, the fee would be deemed reasonable. She believed the fee approach was supportable versus setting an arbitrarily high fee structure.

Representative Pruitt did not want a barrier to recovering licensing and regulatory costs because of the cap.

Ms. Franklin answered that the initiative stated that a regulatory body shall implement "reasonable" fees not to exceed \$5 thousand. She communicated that once the board and licensure was established and it became apparent that \$5 thousand would not cover the services required to issue the licenses the board would take appropriate action. She expressed confidence that a legal solution could be reached if the cap was inadequate to cover costs and the board maintained proof of insufficient funds. The division did not know the cost of regulation because marijuana licensure was entirely new. The fiscal note costs to establish the board were initially much higher and had been trimmed because of the state's fiscal situation. The division

attempted to implement the voter initiative in the safest way possible for the least amount of money and keep the second and third year costs conservative while implementing the will of the voter in a fiscally conservative way.

Representative Pruitt asked the division to keep the legislature apprised if the fee was not sufficient to cover costs.

Representative Wilson MOVED to REPORT CSHB 123(JUD) out of committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSHB 123(JUD) was REPORTED out of committee with a "do pass" recommendation and with two previously published fiscal impact notes: FN2 (ADM) and FN3 (CED).

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AT EASE

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RECONVENED

#hb154

HOUSE BILL NO. 154

"An Act allowing appropriations to the civil legal services fund from court filing fees."

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REPRESENTATIVE BRYCE EDGMON, SPONSOR, explained that the bill created a stable funding mechanism for the Alaska Legal Services Corporation (ALSC). He stated that the bill allowed up to 25 percent of the filing fees paid to the Alaska Court System from the previous fiscal year to be appropriated into the existing Civil Legal Services Fund. The corporation provided legal services to a growing number eligible applicants; the number doubled from 41,000 to over 100,000 within 30 years. The funding sources for ALSC was comprised of state funds, local funds, federal funds, from private donations, and native organizations. He noted that the bill established a stable source of state funding.

Representative Pruitt wondered how much money would be appropriated to the fund.

Representative Edgmon replied that in the past year, court filing fees amounted to \$2.2 million and 25 percent equated to \$563 thousand. He noted that the current year's budget for the corporation was cut to \$450 thousand.

Representative Wilson clarified that the legislation did not appropriate money it only authorized the appropriation into the fund.

Representative Edgmon replied in the affirmative. He offered that HB 154 created the receipt authority.

Vice-Chair Saddler asked how often court filing fees were adjusted or changed.

NANCY MEADE, GENERAL COUNSEL, ALASKA COURT SYSTEM, replied that the court system had not increased its filing fees in the past 10 to 12 years; the court system was in the process of implementing much higher fees effective July 1, 2015. She noted that last year's filing fees were \$2.2 million and would increase an additional \$1.2 million, which totaled \$3.4 million.

Co-Chair Thompson OPENED public testimony.

DENISE DANIELLO, EXECUTIVE DIRECTOR, ALASKA COMMISSION ON AGING, spoke in support of the legislation. She shared that the corporation served 850 seniors in the past year.

PATRICK REINHART, GOVERNOR'S COUNCIL ON DISABILITIES AND SPECIAL EDUCATION, ANCHORAGE (via teleconference), testified in support of the legislation. He believed the legislation would positively impact low income individuals with disabilities. He relayed that approximately 40 percent of the corporation's clients were disabled individuals. Typical services were provided for illegal eviction due to disability, assistance with civil protective orders to stop abuse, denial of federal healthcare coverage or benefits, and family caregivers in securing healthcare and other domestic services. He remarked that some clients had to be turned away due to lack of funds.

Vice-Chair Saddler understood that many of the council's clients used Alaska Legal Services and wondered whether it would be helpful if the legislature implemented a similar funding source for the Alaska Disability Law Center.

Mr. Reinhart responded that the agencies provided different types of legal services for the disabled. The Alaska Disability Law Center had a different revenue source and he did not know the answer.

NIKOLE NELSON, EXECUTIVE DIRECTOR, ALASKA LEGAL SERVICES, ANCHORAGE (via teleconference), spoke in favor of the legislation. She shared that the agency was a non-profit agency that provided free legal services to low income individuals for 45 years. The critical civil legal services provided helped to stabilize families, secure safety and self-sufficiency and provided access to the civil justice system. The agency assisted parents who had been in abusive relationships, families with domestic paperwork such as enrolling children in school, and veterans denied benefits for disabilities. She expounded that the corporation operated with staff attorneys, a network of pro bono attorney's, and its self-help and community education network. The corporation served over 2,500 Alaskans in 162 communities. Last year ALSC turned away hundreds of families due to lack of resources. Eight-six percent of ALSC client's cases had positive results and the corporation was remarkably cost efficient. Each case averaged \$600 due to resolving cases out of court 80 percent of the time. She furthered that ALSC attorneys were paid well below the market rate. Resources and services were leveraged in the amount of \$500 million. She voiced that ALSC helped achieve justice for all and urged support for the legislation.

Co-Chair Thompson CLOSED public testimony.

Representative Edgmon corrected that the bill did not create program receipt authority; it established language to authorize the appropriation of funds from the court filing fees from the previous year.

Representative Wilson thought the testimony was confusing. She believed that the legislature could appropriate as much money into the fund as the legislature wanted.

Representative Edgmon replied that the bill created a funding mechanism for 25 percent of court filing fees to be appropriated to the corporation. The legislature did not guarantee the money. It provided the legislature with the authority to appropriate the money into the fund.

Representative Wilson clarified that the bill did not limit the amount of money that could be appropriated into the fund above the 25 percent of court fees.

Representative Edgmon replied in the affirmative.

Representative Wilson clarified that the bill did not appropriate any money.

Vice-Chair Saddler asked whether the sponsor was aware of the court systems intent to increase its fees.

Representative Edgmon replied in the affirmative.

Co-Chair Thompson clarified that there was no guarantee that the court system would actually increase the fees.

Representative Pruitt declared that currently AS 09.17.020(j) required that 50 percent of awarded punitive damages were deposited into the general fund for use for the Civil Legal Services Fund. He wondered why the sponsor was creating another fund.

Representative Edgmon replied that the intent of the bill was to provide a more solid, stable funding source in the future given the state's current fiscal difficulties than the general fund appropriation. He expressed uncertainty regarding the level of future funding for the corporation from the general fund. He noted that ALSC received over \$1 million from the state in the 1980s and had to turn away hundreds of families due to the decline in state revenues.

TIM CLARK, STAFF, REPRESENTATIVE BRYCE EDGMON, elaborated that at the time the Alaska Legal Services Fund had been established the capitalization was designed to come from punitive damages. In the last three years, the state had collected zero punitive funds and the fund was empty.

Representative Pruitt identified that the legislation allowed for appropriations from both the punitive damages fund and the Civil Legal Services Fund. He wondered when the last deposit from punitive money was appropriated into the fund.

Mr. Clark replied in the affirmative to the first question. He elaborated that the legislation did not "concretely" appropriate money into the fund and only provided an authorization to appropriate. He felt that the existence of

the funds and appropriation authorization acknowledged the importance of the services the corporation provided to Alaskans.

Vice-Chair Saddler wondered whether there was more than one organization that provided civil legal services to Alaskans.

Mr. Clark was not aware of any other providers. He deferred the question to Alaska Legal Services.

Ms. Nelson addressed whether there had been any appropriations from the punitive damages fund authorization. She answered that there had been one appropriation of \$110,000 in 2011 from the years 2007 to 2011. Secondly, she replied that there were other organizations that provided free legal services in Alaska; however, Alaska Legal Services was the only statewide provider of comprehensive free legal services. She shared that other legal services providers delivered niche or restricted legal services.

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Vice-Chair Saddler asked whether other legal services providers received money from the legal services fund.

Ms. Nelson replied that to her knowledge the only appropriation was the \$110,000 to ALSC.

Representative Gara recalled that the constitution did not allow dedicated funds but pointed out that the legislature was inclined to "honor" accounts of this type when money was available. He thought that HB 154 "worked better" than existing law because determining 25 percent of court filing fees was easily calculated. He related that even though the state was entitled to 50 percent of punitive damages; when parties settled cases most of the awarded settlement was described as compensatory rather than punitive damages. The current mechanism was designed to incentivize underreporting of punitive damages. He stated that the bill provided a quantifiable amount of money for deposit into the fund.

Representative Wilson MOVED to REPORT HB 154 out of committee with individual recommendations and the accompanying fiscal note.

HB 154 was REPORTED out of committee with a "do pass" recommendation and with one previously published zero fiscal note: FN1 (AJS).

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AT EASE

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RECONVENED

#hb105

HOUSE BILL NO. 105

"An Act relating to the programs and bonds of the Alaska Industrial Development and Export Authority; related to the financing authorization through the Alaska Industrial Development and Export Authority of a liquefied natural gas production plant and natural gas energy projects and distribution systems in the state; amending and repealing bond authorizations granted to the Alaska Industrial Development and Export Authority; and providing for an effective date."

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Representative Wilson MOVED to ADOPT the proposed committee substitute for HB 105, Work Draft 29-GH1019\N (Shutts, 4/12/15). There being NO OBJECTION, it was so ordered.

JANE PIERSON, STAFF, REPRESENTATIVE STEVE THOMPSON, explained the changes in the Committee Substitute (CS). She read from an explanation of changes:

Sec 1: No change

Sec 2: Inserts new language into allowing an Interior Alaska utility that is owned and operated by a political subdivision of the state and receives financing from the sustainable energy transmission and supply development fund to exempt the utility from rate regulation, under AS 44.88.660, by resolution.

Sec 3: No change

Sec 4: No change

Sec 5: No change

Sec 6: No change

Sec 7: Removes subsection (1) regarding the AIDEA acquisition of gas reserves (discussion moved to section 8). Language in subsection (2) is incorporated into (c) and modified. The words "negotiate or" are removed. Language "to provide natural gas to the Interior Alaska as a primary market" are added on page 6, lines 29-30. The words "uses to serve customers in Interior Alaska" are added on page 7, lines 2-3.

Sec 8: Inserts new Section 8, amending AS 44.88.690(a), regarding the AIDEA sustainable energy transmission and supply development fund, to require AIDEA to obtain legislative approval before using the fund to purchase or acquire gas reserves or a gas lease or become a working interest owner of a natural gas lease.

Sec 9: Version E Section 8 renumbered as Section 9 in Version N.

Sec 10: New Section 10 inserted, providing AIDEA bonding authorization up to \$50,000,000 to finance the acquisition, design, and construction of a port facility and equipment related to the development and operation of a bulk commodity loading and shipping terminal, to be located at Point MacKenzie.

Sec 11: Version E Section 9 renumbered as Section 11 in Version N and "prepares a project plan and receives legislative approval of the plan" is replaced with "approves a project plan" on page 7, line 16.

Sec 12: Version E Section 10 renumbered as Section 12 in Version N.

Sec 13: Version E Section 11 renumbered as Section 13 in Version N is modified to remove the repeal of "Section 2, ch. 27, SLA 1993, as amended by sec. 19, ch. 111" pertaining to the Point MacKenzie bonding authorization.

Sec 14: Inserts a new Section 14 providing legislative authority for AIDEA to issue up to \$120,000,000 of bonds to finance the infrastructure and construction costs of Sweetheart Lake hydroelectric project.

Sec 15: Inserts a new Section 15 providing legislative authority for the Alaska Energy Authority to loan an amount up to \$3,000,000 from the power project fund to the City of King Cove for the Waterfall Creek hydroelectric project.

Sec 16: Version E Section 12 renumbered as Section 16 in Version N.

Sec 17: Inserts new Section 17 repealing Sections 14 and 15 of this act June 30, 2019.

Sec 18: Version E Section 13 renumbered as Section 18 in Version N.

FRED PARADY, DEPUTY COMMISSIONER, DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT, provided a PowerPoint presentation titled "Interior Energy Project" dated April 13, 2015 (copy on file). He addressed slide 2:

IEP: GOALS UNDER SB23

Supply natural gas to Interior Alaska:

- At the lowest cost possible
- As many Alaska customers as possible
- As soon as possible

IEP investments compliment eventual sources of gas supply from a natural gas pipe line

Lower PM2.5 in nonattainment areas of Interior

Mr. Parady emphasized that the Interior Energy Project (IEP) lowered the PM2.5 in nonattainment areas of the Interior, which was among the highest level of pollution in the United States. He reviewed slides 3:

IEP: OVERVIEW

Meet the goals set by the legislature to supply affordable energy to Interior Alaska

Project is complex, which is why the legislature took action

Now evaluating infrastructure to deliver natural gas from any source, including Cook Inlet

AIDEA financing the buildout of natural gas distribution in Fairbanks and North Pole

Mr. Parady moved to slide 4:

IEP: HB 105

HB 105 gives AIDEA flexibility to use SB 23 financing tools with a non-North Slope liquefaction location

-Current version of HB 105 also authorizes financing propane and small diameter pipeline (under 12" diameter) projects to meet the goals of the IEP

Mr. Parady highlighted slide 5, "North Slope Project Map" and slide 6, "Cook Inlet Project Map." He explained that the only project authorized under SB 23 (AIDEA: LNG PROJECT; DIVIDENDS; FINANCING) [Adopted May 30, 2013] was the North Slope Natural Gas Supply and Liquefied Natural Gas (LNG) Production plant. The legislation allowed the project to "flip" from north to south and consider a natural gas supply from Cook Inlet instead of the North Slope. He turned to the chart on slide 7, "Cook Inlet, North Slope, And Other Alternatives" that outlined the options for the project. He reviewed that the supply of natural gas from Cook Inlet was currently uncertain but indications for increased supply were "positive." On the North Slope, where some existing contracts were in place, natural gas was "abundant" and at low cost. Other alternatives that were considered for the project were propane from Canada or a small pipeline from Cook Inlet, which might be preferred over a rail or truck option. He relayed that in consideration of LNG plant costs, a Cook Inlet plant was cheaper to construct and operate as opposed to designing and constructing an LNG plant on the North Slope, which was expensive due to conditions. He added that construction and operation of an LNG plant was not necessary for Canadian Propane or a small pipeline from Cook Inlet.

Mr. Parady examined the LNG "transportation logistics of trucking and rail and concluded that Cook Inlet had lower trucking costs, large trailer potential, and rail options as opposed to the North Slope where trucking was feasible, but more expensive. He pointed to the recent closure of the Dalton Highway due to an ice jam as a drawback. He reported that a combination of "marine, rail, and trucking" were possible for propane. He indicated that storage and distribution was inherent to either Cook Inlet, North Slope, or alternative options.

NICK SZYMONIAK, FINANCE OFFICER, ENERGY DEVELOPMENT, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY, addressed slide 8, "North Slope LNG Project" and slide 9, "Cook Inlet LNG Alternative" and explained that the graphics on each slide compared the "value chain" for each option and the evaluative approach employed by the IEP team. He discussed

slide 8 and delineated that the North Slope project (SB 23) began with two existing gas supply agreements with North Slope producers and interior utilities. The LNG production plant third party developer had not been selected (subsequently a Concession Agreement with MWH Global was chosen) and a plan was in place to contract with a private trucking company for transportation needs. The LNG storage and regasification distribution systems were being negotiated with the Interior Gas Utility (IGU) and Fairbanks Natural Gas (FNG) entities with talks still continuing. He remarked that the LNG costs for a North Slope project under the concession agreement was deemed too high and subsequently terminated. The current legislation authorized the flexibility for consideration of alternative options.

Mr. Syzmoniak discussed slide 9 relating to the Cook Inlet alternative. He relayed that the difference in gas supply between both projects was an absence of existing agreements between Interior utility companies and Cook Inlet producers other than an existing .95/bcf agreement between FNG and Hilcorp. An LNG developer had not been chosen. The transportation plan remained the same but the project was also exploring Alaska Railroad options. The current version of HB 105 also allowed for a small diameter pipeline, which eliminated the need for an LNG plant or other transportation needs. A propane option was also under examination.

He moved to slide 10:

Project Execution Plan

Natural Gas supply: Facilitate commercial discussions between producers and utilities

Liquefaction: Competitive solicitation to select private partner to develop LNG capacity

Transportation: Private trucking, Alaska railroad, small diameter pipeline, propane

Storage, Regasification, and Distribution: Buildout of system continues Summer 2015PROJECT

Mr. Syzmoniak indicated that the Department of Commerce, Community and Economic Development (DCCED) was taking the

lead on discussions between producers and utilities. He added that Alaska Industrial Development and Export Authority (AIDEA) would not sign any contracts, buy reserves or retain any interests in a natural gas field in Cook Inlet nor enter into a contractual relationship in the LNG plant. He conveyed that the team was "open to and encouraging" alternatives to Cook Inlet.

[3:16:20 PM](#)

GENE THERRIAULT, DEPUTY DIRECTOR, STATEWIDE ENERGY POLICY DEVELOPMENT, ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, spoke to slide 11:

IEP SUMMARY

The goals remain as established by SB23

HB 105 authorizes the tool kit to best achieve goals of IEP

Market driven process

-Accomplishing IEP goals requires adaptation to current market and operating realities

Representative Gara related that he supported the original plan established in SB 23. He wondered whether the legislation allowed the IEP to revert to a North Slope natural gas supply if the supply became cheaper or more abundant than a Cook Inlet option.

Mr. Therriault answered that the language in the bill did not preclude a North Slope producer from submitting a complete bid and might even entice a bid from a North Slope entity.

Vice-Chair Saddler asked whether AIDEA would become a gas utility under the IEP.

Mr. Therriault replied that currently AIDEA was considering a purchase of Pentex [FNG parent company] assets that included a FNG distribution system. He elaborated that AIDEA intended to contractually operate the distribution system. Ownership by AIDEA facilitated the integration of FNG and the developing IGU distribution systems with the

future possibility of morphing into one system. The goal was to ultimately sell the asset to the IGU or a private utility.

Vice-Chair Saddler referred to the use of the term "market driven solution" related to the project. He deduced that the AIDEA involvement made the project a less market driven and more government driven solution.

Representative Munoz wondered what the fiscal note had been for the original gas trucking proposal [SB 23] and what the remaining balance of the fund was.

Mr. Parady answered that the original funding contained approximately \$150 million in bonds, \$125 million in the Sustainable Energy Transmission and Supply Fund (SETS) loans and \$57.5 million in grants. He shared that approximately \$55 million from the loan program was committed to the distribution systems.

Mr. Therriault interjected that the \$150 million bonding authorization and \$125 million in SETS funding was designated for loans expected to be "ultimately" repaid.

Representative Munoz requested further clarification.

Mr. Parady reported that out of the \$57.5 million in grants \$12.4 million was expended for the North Slope plant construction, design, engineering, and storage study. He added that \$52.78 million of the SETS funds were committed to two loans for the distribution system; a \$15 million loan to FNG and a \$37.78 million loan to IGU. He noted that \$72.2 million remained in the SETS fund.

Representative Pruitt asked what the project's expected daily volume of gas was.

Mr. Parady answered that at peak build out the Interior Alaska demand was expected to be 9.5/bcf per year and on a daily average was 26 million cubic feet (mcf) per day.

Representative Pruitt asked what impact the amount would have on the overall reserves in Cook Inlet.

Mr. Parady answered that demand was approximately less than 10 percent of Cook Inlet reserves. He shared that ten years

of Interior demand amounted to 80/bcf and Cook Inlet reserves were estimated in trillion board feet.

Representative Pruitt observed that there was a complex web of ownership throughout Cook Inlet and wondered whether the amount of Cook Inlet reserves were "realistically recoverable."

Mr. Szymoniak replied in the affirmative. He assured the committee that the figure represented developed reserves.

Representative Pruitt asked for verification that the agency felt comfortable going forward with a Cook Inlet gas supply. He maintained that the Cook Inlet gas supply until recently, was thought to be dwindling. He alluded to other demands on the Cook Inlet supply. He did not want the Southcentral energy crisis to turn into a Fairbanks crisis if Cook Inlet gas supply was not sustainable over the long-term.

Mr. Parady believed the question was germane and the amount of available Cook Inlet gas reserves were being assessed further by the Department of Natural Resources (DNR) and the IEP gas supply team. He expounded that the indications were favorable and pointed to "ample reserves." However, more analysis was needed. He engaged in a conversation with Enstar, who reported that its gas supply was firm through the first quarter of 2018. Enstar serviced 134,000 customers in Southcentral, Alaska. He disclosed that current data from DNR reported .4tcf [trillion cubic feet] increase in gas supply in Cook Inlet since 2009.

[3:28:06 PM](#)

Representative Pruitt queried whether HB 105 maintained the legislature's approval authority over AIDEA's decision on which gas supply to move the project forward with.

Mr. Therriault cited the CS, on page 7, lines 18 through 20:

- 1) identify the source of the natural gas or propane;
- 2 (2) include the estimated cost of the project; and
- 3 (3) include the estimated price of natural gas supplied to natural gas utilities..

Mr. Therriault communicated that the bill required the AIDEA board to approve a plan that included the required information. He voiced that the AIDEA board had the authority to make the determination like any other project AIDEA undertook.

Representative Pruitt asked for verification that approval authority was "out of the legislature's hands."

Mr. Therriault replied in the affirmative.

Representative Pruitt worried that the legislature would lose control over a "policy decision."

Vice-Chair Saddler asked what the Cook Inlet estimated reserve figure was based on.

Mr. Parady answered that the figure was based on a DNR evaluation and was "proven plus probable."

Vice-Chair Saddler asked how recent the figure was. He requested a copy of the report.

Mr. Parady responded that the data was from February 2015.

Mr. Therriault noted that the CS contained other hydroelectric projects. He delineated that a hydro project through AIDEA was subjected to the same "due diligence" process as the process the supply of natural gas will be based on. When AIDEA was "empowered" to make the decision it was based on whether the project had a sales agreement that "supported or "underpinned the financing.

PATRICE LEE, SELF, FAIRBANKS (via teleconference), spoke in favor of the legislation. She thanked AIDEA for recognizing the severity of the air pollution problem in Fairbanks. She shared two concerns on the CS version of the legislation. She believed that Section 8 restricted the options for a "free market" source of gas. She worried that the price of gas seemed high. She hoped the project would be expedited to serve the 100,000 citizens of the Interior. She felt that the project could be an asset to the Anchorage area if the Cook Inlet option was chosen by increasing the market share and bargaining power.

MERRICK PEIRCE, SELF, FAIRBANKS (via teleconference), supported the legislation. He stated concerns over the

health risks of the high particulate matter leading to poor air quality of Fairbanks. He referenced a study from the British Medical Journal that concluded exposure to high particulate matter was linked to mortality from strokes. He appreciated the various options being considered and thought a "phased approach" might be a part of the solution. He stated that propane had many advantages over LNG and stored well. He wanted affordable energy for the Interior for residential purposes and to attract new industry and job creation. He was troubled by Section 8 that prohibited AIDEA from directly entering into contracts with Cook Inlet suppliers.

PAMELA THROOP, SELF, FAIRBANKS (via teleconference), supported the legislation. She related that she worked as a commercial real estate broker and her biggest concern was the cost of living and doing business in Fairbanks directly related to high utility costs. She discerned that in the event the IEP initially utilized a Cook Inlet Source of gas via pipeline to Fairbanks and subsequently consumed natural gas via pipeline from the North Slope the two pipelines could be connected and natural gas could flow to Anchorage. She urged AIDEA and IEP to consider any kind of energy source for Fairbanks.

JIM DODSON, FAIRBANKS ECONOMIC DEVELOPMENT CORPORATION, FAIRBANKS (via teleconference), spoke in support of the legislation. He stressed that clean air was vital to the health of the community's children. He spoke to the need to build a "road map" starting in Fairbanks, to providing affordable energy to the entire state. He urged the legislature to support the legislation.

JOMO STEWART, FAIRBANKS ECONOMIC DEVELOPMENT CORPORATION, FAIRBANKS (via teleconference), echoed the testimony from Mr. Dodson. He urged the legislature to act "expeditiously" with passage of the bill to move the project forward.

[3:42:01 PM](#)

LISA HERBERT, EXECUTIVE DIRECTOR, GREATER FAIRBANKS CHAMBER OF COMMERCE, FAIRBANKS (via teleconference), spoke in favor of the legislation. She represented approximately 700 businesses as executive director and maintained that reducing the high cost of energy was the chambers highest priority. She specifically supported the CS. She supported the goals of the IEP to serve the greatest number of people

as possible, as affordable as possible, and as quickly as possible. She encouraged the legislature to remain committed to the goals.

DEREK MILLER, FAIRBANKS CHAMBER OF COMMERCE, FAIRBANKS (via teleconference), spoke in support of the legislation. He noted his previous work as a legislative aide and for the University of Alaska, Fairbanks. He stated his support for the original bill, SB 23 and the three major goals previously stated. He was opposed to various restrictive provisions in the House Resources Committee version. He appreciated the concerns raised about the Cook Inlet supply and expressed confidence that the CS accomplished the goals of the IEP.

LUKE HOPKINS, MAYOR, FAIRBANKS NORTHSTAR BOROUGH (via teleconference), favored the legislation. He believed the amendments in the CS addressed the three area mayors concerns and advanced the project without restricting AIDEA's decision making authority. He felt that the greatest issues were providing low cost energy for the community and businesses as quickly as possible.

Co-Chair Thompson CLOSED public testimony.

Representative Wilson reminded the committee that the gas industry in Cook Inlet received generous credits and subsidies from the state and that the gas belonged to everyone.

HB 105 was HEARD and HELD in committee for further consideration.

Co-Chair Thompson addressed the agenda for the following day.

#

ADJOURNMENT

[3:49:31 PM](#)

The meeting was adjourned at 3:49 p.m.