

HOUSE FINANCE COMMITTEE
THIRD SPECIAL SESSION
November 3, 2015
1:36 p.m.

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CALL TO ORDER

Co-Chair Neuman called the House Finance Committee meeting to order at 1:36 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 Cathy Munoz
Representative Lance Pruitt
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Pete Ecklund, Staff, Representative Mark Neuman;
Representative Paul Seaton.

SUMMARY

HB 3001 APPROP: LNG PROJECT & FUND/AGDC/SUPP.

HB 3001 was SCHEDULED but not HEARD.

SB 3001 APPROP: LNG PROJECT & FUND/AGDC/SUPP.
CSSB 3001 (FIN) was HEARD and HELD in committee
for further consideration.

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#hb3001
HOUSE BILL NO. 3001

"An Act making supplemental appropriations; making appropriations to capitalize funds; making appropriations to the general fund from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) in accordance with sec. 12(c), ch. 1, SSSLA 2015; and providing for an effective date."

Co-Chair Neuman indicated that CSSB 3001 would be taken up in the current meeting. The Senate bill was virtually the same committee substitute as the version in the House; CSHB 3001. On behalf of the public he wanted his staff to review the current piece of legislation.

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#sb3001
CS FOR SENATE BILL NO. 3001(FIN)

"An Act making supplemental appropriations; making appropriations to capitalize funds; and providing for an effective date."

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PETE ECKLUND, STAFF, REPRESENTATIVE MARK NEUMAN, reviewed the sectional analysis of the bill. He explained that the bill was an exact match to the House Committee Substitute version adopted on November 1, 2015. He read from the sectional analysis:

Section 1 Legislative Intent

(a) that the supplemental appropriations for the Departments of Law, Natural Resources, and Revenue be accounted for separately

Mr. Ecklund indicated that the Legislative Finance Division established a separate accounting code for tracking purposes. He continued to read from the sectional analysis:

(b) that the administration carry out the TransCanada interest acquisition in an expedited manner

Section 2 Supplemental appropriation request for the Department of Law for \$10,100,000 for outside legal counsel contracts and internal agency costs for work completed during FY16

Mr. Ecklund added that the bill explicitly identified the Department of Natural Resources as the lead in seeking out and directing outside legal counsel; a provision established in statute as a result of SB 138. He continued to read the sectional analysis:

Section 3 Supplemental appropriation request for the Department of Natural Resources for \$1,849,500 for marketing, contractual services, and personal services for work completed during FY16

Section 4 Supplemental appropriation request for the Department of Revenue for \$1,045,500 for personal services and travel and contractual services for work completed during FY16

Section 5 Fund Capitalization

(a) the amount necessary, estimated to be \$68,455,000 is appropriated from the General Fund to the Alaska Liquefied Natural Gas (AK LNG) Project Fund to acquire the interest currently held by TransCanada Alaska Midstream Limited Partnership

(b) \$75,600,000 is appropriated from the General Fund to the Alaska Liquefied Natural Gas Project Fund for the state's share of Preliminary Front-End Engineering and Design (Pre-FEED) work for the AK LNG Project

(c) Statutory designated program receipts, estimated to be \$2.9 million, received for reimbursement for costs of field work from the AK LNG Project Fund are appropriated to the AK LNG Project Fund

(d) Statutory designated program receipts, estimated to be \$1.3 million, received for reimbursement for costs of field work from the In-State Natural Gas Pipeline Fund are appropriated to the In-State Natural Gas Pipeline Fund

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Mr. Ecklund elaborated that Alaska Gasline Development Corporation (AGDC) paid for work in the amount of \$2.9 million from the Alaska Liquefied Natural Gas (AKLNG) fund and \$1.3 million out of the in-state gas pipeline fund. The same amounts were supposed to be reimbursed to AGDC and needed the statutory designated program receipt authority.

Section 6 Lapse of Appropriations

The appropriations made in Sections 5 do not lapse

Mr. Ecklund reaffirmed the fund capitalization amounts of \$68.455 million and \$75.6 million that did not lapse.

Section 7 Retroactivity

If sections 2-5 take effect after November 15, 2015, sections 2-5 are retroactive to November 15, 2015

Section 8 Contingency

The appropriations made in sections 2-4 (the supplemental appropriations to the three departments) and in section 5(b) for Pre-FEED work, are contingent on adoption of a work program and budget for the AK LNG Project by December 31, 2015

Section 9 Immediate effective date

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Vice-Chair Saddler commented on the date that had been mentioned in previous discussions, December 4, 2015, for the work program and budget. He referred to the December

31, 2015 date [referred to in Section 8: Contingency] and wondered about the different dates.

Mr. Ecklund explained that the vote for the work program and budget was scheduled for December 4, 2015. Technically, however, as Mr. Butt stated in his testimony it needed to be approved by the end of the calendar year 2015 so that funds could be expended January 1, 2016.

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Vice-Chair Saddler referred to page 2, line 23-24. He asked about the reference to the TransCanada Alaska Midstream Limited Partnership. He wanted to make sure it was the proper identification of the entity inside TransCanada's family of companies that it currently owned. There was some confusion earlier about Trans Alaska Development Corporation.

Mr. Ecklund stated that he had talked to people that had assured him of the accuracy of the name. He suggested that the TransCanada representatives in the back of the room correct the committee if a name correction was needed.

Vice-Chair Saddler acknowledged the head nods in the back of the room from TransCanada representatives affirming the correctness of the name.

Co-Chair Neuman elaborated that it was technically the work program and budget rather than the work plan and budget.

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Representative Guttenberg suggested that if for some reason when the four partners met to cast their votes on December 4, 2014, and one or more of the partners decided to delay the implementation for three months what would be the effect. He expressed his concerns about not having enough funding available and potentially micromanaging the project.

Mr. Ecklund responded that as he understood from testimony and private conversations if a work program and budget for the following calendar year beginning January 1, 2016 was not approved by the end of December 2015, there would be no money from any of the partners to continue to do anything.

Representative Guttenberg understood but suggested that they [the other partners] had much more flexibility than the state. He emphasized the project driven decision-making process and expressed his concerns with micromanaging the project. He wondered what AGDC would say.

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Co-Chair Neuman indicated that Mr. Ecklund was a staffer and was doing his best to explain.

Representative Guttenberg asked if an appropriation would be available.

Mr. Ecklund responded, "No." He informed Representative Guttenberg that the way the bill was designed there had to be a vote by December 31, 2015. He understood that the full intent of all of the partners was to have a vote in place by the end of the current year. The partners had worked very diligently to put forth the work program and budget for approval to all of the necessary boards.

Co-Chair Neuman also heard testimony that the purpose of the amendment, approved by all parties for the work program and budget, was to change the date.

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Co-Chair Thompson thought that a work program and budget needed to be approved on December 4, 2015 for possibly only three months. The entities would have all voted, allowing for carry forward. Something had to be approved by December 4, 2015 and would likely cover Representative Guttenberg's concerns.

Co-Chair Neuman told members he would be bringing the bill up again at 9:00 am the following day. He asked members to review the bill and submit any amendments in writing to his office by 5:00pm on the current day or amendments would not be taken.

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Representative Pruitt referred to Section 2 of the bill stating that money could be expended from the appropriation made only for work during the fiscal year. He wondered if the language meant that all of the \$10.1 million had to be

spent by June 30, 2016. He wondered if the state could sign a contract for two years-worth of work obligating some of the money into the future or if all of it had to be spent by June 30th.

Mr. Ecklund suggested the language was added specifically to prohibit the situation that Representative Pruitt described. For example the Department of Law could not sign a two-year contract or a contract beyond the end of the fiscal year in 2016. It was crafted such that the department would have to come back to the legislature in the FY 17 budget process for additional funding for continued work in FY 17.

Representative Pruitt asked if the initial intent was for \$10.1 million to be used by June 30, 2016 or by a different time.

Mr. Ecklund stated that there was testimony by the attorney general in another committee that if the funds were not expended by June 30, 2016 they would be returned to the general fund. The added language reinforced the point that if the Department of Law felt it needed additional outside counsel beyond June 30, 2016 the department would need to ask for the funds in the FY 17 budget process.

Representative Pruitt agreed with the bill. He wanted to ensure that the department was not asking for \$10 million when it only needed \$7 million through June 30, 2016 in order to extend the use of the funds through September 30, 2016. He wanted to make sure the legislature was only appropriating the necessary amount.

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Co-Chair Neuman mentioned that first, the department did not have to use all of the funds appropriated. Secondly, last year when there was a \$30 million unallocated deduction the legislature requested that the Department of Natural Resources did not use the funds to backfill the requested reductions in the previous year's budget.

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Representative Pruitt explained he had just wanted confirmation.

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Representative Gara referred to page two. He wondered if for some reason one of the other parties (ExxonMobil, British Petroleum, or Conoco Phillips) decided not to sign the work plan until January 1 [2016] and the state was ready to sign the plan on January 1 [2016], would the appropriations in the bill be null and void.

Mr. Ecklund responded that the bill read that there had to be an affirmative vote by all parties by December 31, 2015 approving the work program and budget. Without such a vote the state would not move forward with the project. He furthered that from Mr. Butt's testimony there needed to be an affirmative vote by all partners by December 31, 2015. Otherwise, there would be no money available on January 1, 2016 to do anything.

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Co-Chair Neuman clarified that the financing would not go forward. As for the rest of the project, he was unsure.

Representative Gara commented that he had no idea the happenings inside of any company's board room currently. He conveyed that he thought it would be a mistake for the state to stop the project because one of the other parties did not sign. He did not know whether Section 8 was currently a smart policy.

Co-Chair Neuman remarked that the parties were all aware of the risks.

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Co-Chair Thompson clarified that Mr. Butt testified in a previous hearing that he had to have an affirmative vote by December 4, 2015. If not, demobilization would begin on December 5th in order to finish up by the end of the current year.

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Representative Wilson asked that if the funds were not spent by June 30, 2016, could they be spent, for example, on July 5th.

Mr. Ecklund stated that the normal course of practice was that all appropriations be spent in the year appropriated. There was extra protection outlined in the bill that in a special situation of contracting, contracts could not go beyond the fiscal year with money from the current fiscal year.

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Representative Wilson suggested that the state could not obligate funds into subsequent years. She wanted to ensure that the bill stayed within the confines of the normal course of practice having to do with the state budget.

Mr. Ecklund relayed that the language added in the bill was not in the regular bill. It was additional language to better ensure that no obligation of funds on the part of the Department of Law extended beyond June 30, 2016. The department would have to return to the legislature for funds needed after July 1st.

Co-Chair Neuman believed that representatives from the departments had testified before the Senate that they approved or at least understood the language in the bill.

Mr. Ecklund furthered that it was normal practice that any monies remaining at the end of a fiscal year lapsed. It was a special situation with contracts. Approving money for contractual services was a little different than the norm.

Representative Wilson suggested adopting such a practice when reviewing the regular budget. She wanted to better understand the distinction between what was done as a normal course of practice versus an exception to the rule.

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Representative Gattis spoke about the comment made by Co-Chair Neuman concerning different agencies addressing the other body. She was interested in his remarks about the agencies possibly not liking the language in the bill.

Co-Chair Neuman corrected Representative Gattis. He clarified that he was not sure if the departments truly liked the language in the bill.

Representative Gattis wondered if there were things Co-Chair Neuman knew for certain that the departments did not like. From a business perspective she believed the state had hampered itself from acting like a business. She wondered if Co-Chair Neuman was aware of anything the departments did not like.

Co-Chair Neuman responded that the departments have indicated that they could work within the boundaries of the bill.

Representative Gattis asked, "Contractually?"

Co-Chair Neuman responded, "Yes." He clarified the intent of what he had said earlier in the meeting.

HB 3001 was SCHEDULED but not HEARD.

CSSB 3001 (FIN) was HEARD and HELD in committee for further consideration.

ADJOURNMENT

2:00:20 PM

The meeting was adjourned at 2:00 p.m.