

SENATE FINANCE COMMITTEE
March 18, 2015
2:07 p.m.

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CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 2:07 p.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair
Senator Peter Micciche, Vice-Chair
Senator Click Bishop
Senator Mike Dunleavy
Senator Donny Olson

MEMBERS ABSENT

Senator Pete Kelly, Co-Chair
Senator Lyman Hoffman

PRESENT VIA TELECONFERENCE

William Roberts, Kodiak; Steve Van Sant, Palmer; Donald Stiles, Nome.

SUMMARY

CONFIRMATION HEARINGS:

FISHERMAN'S FUND ADVISORY BOARD
STATE ASSESSMENT REVIEW BOARD

^CONFIRMATION HEARING: FISHERMAN'S FUND ADVISORY BOARD

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Co-Chair MacKinnon stated that the Fishery's Fund Advisory and Appeals Council was located in AS 23.35.010. The council was composed of the commissioner of Department of Labor and Workforce Development (DLWD) or a person designated by the commissioner, and five members appointed by the governor for overlapping five-year terms. The governor shall appoint one member from each of the

following districts: District 5, areas north of New Hammond, including the Kuskokwim, Yukon, Kotzebue, and Arctic. The duties of the commissioner and council include that there shall be a review all denials and benefits made by the persons responsible for the administration of the fund, and make an initial determination regarding the claims for the benefits under AS 23.35.140.

Vice-Chair Micciche remarked that the nominee's resume seemed very uninformative. He felt that there should be more information for a confirmation hearing.

Co-Chair MacKinnon stated that the nominee was currently online from Nome. She wondered if Mr. Styles had any information regarding his nomination.

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AT EASE

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RECONVENED

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Co-Chair MacKinnon stated that she hold the discussion at a later time.

^CONFIRMATION HEARING: STATE ASSESSMENT REVIEW BOARD

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Co-Chair MacKinnon explained that the State Assessment and Review Board was located in AS 43.56.040. The State Assessment Review Board was created within the department. The board consisted of five persons appointed by the governor to serve at the pleasure of the governor, each of whom must be knowledgeable of assessment procedures. The department shall assess property for the tax levy under AS 43.56.010(b) and AS 29.45.080 on the property used or committed by contract or other agreement for the use for the pipeline transportation of gas or unrefined oil, or for the production of gas or unrefined oil at its full and true value as of January 1 of the assessment year. Taxable property used or committed by contract or other agreement for the pipeline transportation of gas or unrefined oil, or for production of gas or refined oil to be transported by the pipeline.

Co-Chair MacKinnon requested opening comments from Mr. Roberts for the committee's consideration.

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WILLIAM ROBERTS, KODIAK (via teleconference), shared that he was a resident of Alaska for 39 years, and was a Navy veteran. He had worked on assessment and appraisals for approximately 32 years. He was currently the assessor for the Kodiak Island Borough. He shared that he had worked on fee assessments for approximately 22 years, which included various properties including residential, commercial, and industrial properties. He felt that he was qualified for review work on the board, and he would be fair and equitable. He remarked that he did not have an interest in the taxes from the oil companies, because Kodiak was mostly a fishing community.

Co-Chair MacKinnon queried the role of the State Assessment and Review Board in assessing Alaska's oil and gas property. Mr. Roberts replied that the role would be to review the assessment that would be delivered by the State Assessors, and probably the appraisals from those people who may disagree with the assessment. It was the board's job to review the appraisals and assessments to ensure proper methodology; ensure the data was proper; and to ensure that the value conclusions were reasonable based on the data and methodology.

Co-Chair MacKinnon wondered if there was an inherent conflict between the state, producers, and municipalities with regard to assessments. Mr. Roberts responded that the industry may feel that their tax rates were too high. He shared that he received many calls from various businesses to decrease their assessment fees. He understood why those entities would want lower rates and taxes, as that was how businesses functioned. He felt that it was the job of the review board to not be swayed by unreasonable information.

Co-Chair MacKinnon wondered how a board member would balance the conflicts. She felt that some municipalities might decide to challenge an assessment based on the need in their communities versus the actual value of the property. Mr. Roberts responded that it was his job to evaluate the assessed value from the assessor. The board must look at

the assessment as if the assessment was correct, until the burden of proof was shifted by the individual who had issued a repeal. He stressed that the law stated that the assessment was correct, until proven wrong.

Co-Chair MacKinnon queried Mr. Roberts' goals on the board. Mr. Roberts replied that he hoped to be fair and reasonable.

Co-Chair MacKinnon wondered if Mr. Roberts had any recommendations or proposed changes to the current assessment process, and if he was familiar with the current process. Mr. Roberts responded that he was somewhat familiar with the process. He had reviewed some past committee findings. He felt that there was current sound assessment methodology.

Co-Chair MacKinnon announced that the board issued determinations the losing parties' appeals to courts, rather than the Office of Administrative Hearings. She remarked that it was the only judicial process that did not go to the Office of Administrative Hearings. She wondered if that practice should continue, or should the Department of Revenue (DOR) remove itself from the assessment process. Mr. Roberts responded that a disagreement with the assessment allowed for an appeal to the board. He furthered that a disagreement with the board's findings allowed for a court finding. He felt that it was a proper process.

Co-Chair MacKinnon surmised that there was no recommended change. Mr. Roberts agreed.

Vice-Chair Micciche queried the most important components of oil and gas property assessment. Mr. Roberts replied that the typical assessment of oil and gas property was done based on depreciation. He stressed that the most important component was considering what would occur in the future, in particular the amount of oil that would be in TAPS. He stated that the superior court had already stated what was believed to be the reserves in the North Slope area.

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Vice-Chair Micciche wondered what proportionate was applied like throughput and potential increased investment that would affect pipeline valuations. Mr. Roberts responded

that the state assessor would take the factors into consideration in the assessments. He shared that there was a presentation from the state assessor, and he felt that the considerations were thorough. He stressed that it was his job to evaluate the state assessor's determination to consider whether it reflected a fair market reflection.

Vice-Chair Micciche noted that there were challenges which had increased the value of TAPS over time. He wondered what kind of independent review was conducted on the results. Mr. Roberts replied that it was not his job to prove the valuation of the assessor. The statute was written to assume that the assessor was assumed to be correct until the burden of proof was applied to prove incorrectness. He shared that oil companies and municipalities would often provide their own experts, so it was the responsibility of the board to determine if the same data was used by the state assessor. He stressed that it was his duty to determine whether a value was reasonable.

Co-Chair MacKinnon remarked that TAPS had aged, so noted that there would be depreciation. She noted that throughput was decreased, so she queried the components of determining the value of TAPS. Mr. Roberts replied that the components would be based on the economic benefit of TAPS.

Co-Chair MacKinnon encouraged an examination of the price per barrel of oil when determining an assessed property valuation.

Vice-Chair Micciche wondered if the cost approach was the proper strategy, when looking at aging infrastructure that was not fully utilized. Mr. Roberts responded that the cost approach for a unique property like TAPS is incomparable.

Vice-Chair Micciche understood that it was a careful relationship between the property owner and the sovereign. He stated that it was the company's responsibility to keep costs down, and it was the state's responsibility to collect the highest and most fair tax. He looked at the appeals and rulings on the 2006 assessments, and wondered if there may be some methodology that may reduce the constant friction between the property owner and the state. Mr. Roberts did not believe the friction would be alleviated. He stated that the sales approach would not apply. The income approach would not work, because there may be an issue of discounted cash flow.

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Senator Bishop wondered if the education portion of his resume had an education requirement to keep current certification. Mr. Roberts replied that 28 hours of continuing education was required. He stated that 300 hours was required, and biannual education was required to maintain the license.

Senator Bishop asked for more information regarding the membership with the International Right-of-Way Association. Mr. Roberts replied that the right-of-way appraisals were slightly different when acquiring land from people that do not want to submit their land. He shared that he took some courses with the association, and conducted some appraisals in the state. The members were certified.

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STEVE VAN SANT, PALMER (via teleconference), outlined his experience in the appraisal and assessment business. He was currently retired, but was in the appraisal and assessment business in Alaska for 46. He had worked as the state assessor, which was different than the state petroleum assessor. The state assessor worked on the property values of the state, for mostly educational purposes. He had taught courses for the International Association of Assessing Officers; instructor for the International Right-of-Way Association; and presented courses for the Alaska Association of Assessing Officers.

Co-Chair MacKinnon queried the role of the review board in the assessment of oil and gas property. Mr. Van Sant echoed the remarks of Mr. Roberts. The board would review the appraisal by the state petroleum assessor. The major appeals were related to TAPS, and there were some appeals with drilling rigs. The greatest issue with the TAPS appraisal, was the value based on the various proven reserves.

Co-Chair MacKinnon remarked that, until 2007, the board gave preference to the DOR assessment. The cost of the transportation as a deductible expense became important when the state adjusted to a net profit system. The change increased the friction between the producers and the municipalities. She queried more information about that

conflict between the three entities. Mr. Van Sant replied that he could not speak specifically to the transportation costs. The valuation in the 2006 assessment repeal, when the owners advocated the cost approach, which paid for the transportation costs. The problem was that the shippers and owners of the oil were often the same entity. He stressed that the conflict could not be resolved. The cost approach did not pay for the cost of shipping. He remarked that depreciation was determined with regards to the proven reserves, so the economic factors were the most important factors in the valuation.

Co-Chair MacKinnon asked if Mr. Van Sant desired any changes or specific goals for the board. Mr. Van Sant responded that timing was difficult for the board. The time frame for the board to consider the valuation and appeal was limited. He added that he would like to see the owners and state to determine the proven reserves in the North Slope.

Vice-Chair Micciche wondered why there was no defined term for the board. Mr. Van Sant replied that it was difficult to find qualified and confident individuals to sit on the board.

Vice-Chair Micciche asked if Mr. Van Sant worked independently or whether he worked for the state. Mr. Van Sant replied that the board did not act independently in determining an evaluation. He stressed that there would be a burden of proof for the state.

Vice-Chair Micciche thanked Mr. Van Sant for his 30 years of service.

Vice-Chair Micciche MOVED to ADVANCE the names: William Roberts and Steve Van Sant to a joint session for consideration. There being NO OBJECTION, it was so ordered.

^CONFIRMATION HEARING: FISHERMAN'S FUND ADVISORY BOARD

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DONALD STILES, NOME (via teleconference), outlined his credentials. He was a commercial fisherman since 1975, with the exception of a few years of military service. He currently served on the Board of Directors for the Norton

Sound Economic Development Corporation, and served with the Fisherman's Repeals and Advisory Committee.

Vice-Chair Micciche wondered if this would be the first term on the council. Mr. Stiles replied that it would be his second term.

Vice-Chair Micciche queried the essential duties on the council, and the reason for continued council membership. Mr. Stiles responded that some duties included reviewing injury claims. He wanted to continue to volunteer and participate in the process.

Co-Chair MacKinnon ADVANCED the name of Donald Stiles to a joint session for consideration. There being NO OBJECTION, it was so ordered.

Co-Chair MacKinnon announced the following day's agenda.

#

ADJOURNMENT

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The meeting was adjourned at 2:45 p.m.